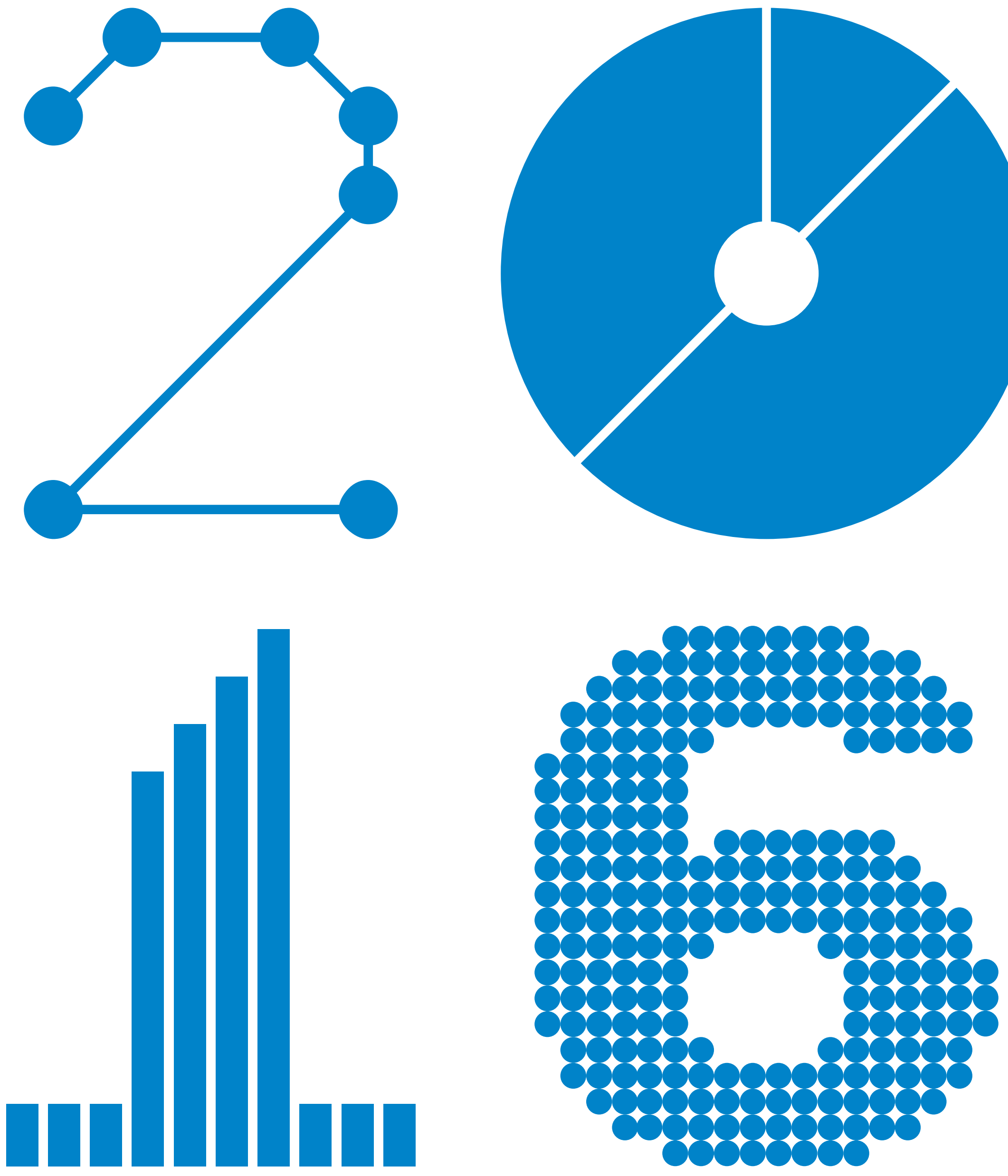
Banco Sabadell
Annual Report 2016
135th year



Banco Sabadell
Annual Report 2016
135th year

Sabadell

Banco Sabadell
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Contents

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Attributed income

710.4€mn

+0.3%
2016/2015

Increase in net interest income

+19.8%

NPL ratio down to

6.1%

Increase in outstanding lending

+0.1%

Decline in problem asset exposure since 2013

7.4€bn

Customers

Million customers

11.9

+4.4%
2016/2015

Branches

2,767

-3.8%

Service quality

Net promoter score
Sabadell quality index performance vs. banking industry

	2016	Ranking	Since 2013 ↑
Large corporates (revenues > €5mn)	29%	1st	+14pp
SMEs (revenues < €5mn)	16%	1st	+13pp
Personal Banking	29%	2nd	+33pp
Retail Banking	4%	3rd	+26pp

Banco Sabadell maintained its lead over the industry in terms of quality and retained number-one position in the ranking for large corporates and SMEs.

Triple Plan 2014–2016: a very positive outcome.

Shareholders

260,948

Dividend yield
3.8%

0.05€
In cash

Proposed dividend 100% in cash

Employees

25,945

98%
received training

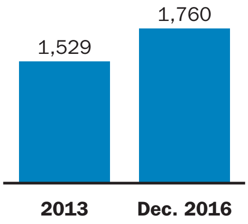
55.9% 44.1%

Digital transformation

Commitment to transformation and leaders in customer experience

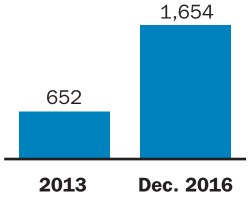
Active users–Web
'000

+15%



Active users–Mobile
'000

×2.5



Sabadell Wallet and Bizum — new mobile payment platforms

Significant impacts

86% Transactions via distance means

18% Sales via digital channels

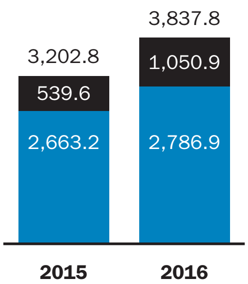
Financial data

Stable earnings

Sound capital position

Balance sheet	**€ million**	**2016/2015**
Total on-balance sheet assets	212,508	1.9
Customer loans	150,095	-2.2
On-balance sheet customer funds	133,457	1.5
Own funds	12,926	5.3
Earnings (solid results)		
Net interest income	3,838	19.8
Attributable income	710.4	0.3
Doubtful exposures		
Doubtful exposures	9,746	-22.4
Coverage ratio (%)	51.5	-3.7
Capital adequacy (comfortable) (%)		
CET1 phase-in above regulatory requirements	12.0 (>9.25)	
CET1 fully loaded	12.0	
Liquidity (%)		
Loan-to-deposit (LtD) ratio	105.1	

Net interest income
(€ million)

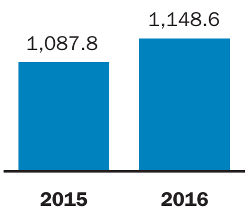


+TSB

+19.8% BS Group

+4.6% Sabadell excl. TSB

Fee revenues
(€ million)



+5.6% BS Group

+1.4% Sabadell excl. TSB

Solid growth in core banking revenues

Chairman's message

Josep Oliu Creus, Chairman of Banco Sabadell

Dear shareholder,

In 2016, Banco Sabadell concluded the Triple Plan, which commenced in 2014, with a very positive outcome, having attained satisfactory results in the three main areas of action: profitability, transformation of the balance sheet, of the commercial model and of the production model, and internationalisation.

As for profitability, the results evidence strong net interest income in a context of low rates and an economic background that was more adverse than we projected when designing the plan. The customer spread expanded from 1,86% in 2013 to 2.69% in 2016; we are the financial institution with the best customer spread in Spain and the one that has expanded it the most in the last three years.

In the process of transforming the balance sheet, the volume of doubtful and problem assets has been reduced significantly, in excess of the targets; we are the financial institution that has decreased its NPL ratio the most in Spain, and rank second in terms of the reduction in problem assets.

As for commercial transformation, new technology capabilities have enabled us to continue improving the customer experience, placing us in a leading position in terms of quality of service among large corporations and SMEs.

We also made significant progress in transforming the production model: efficiency has improved as a scalable platform made it possible to absorb a major increase in size, business volume and customer numbers while containing costs.

As for internationalisation, the main developments were the acquisition of UK bank TSB and the move into the Mexican market after obtaining a commercial banking licence. Our goal was to expand the group's international business from 5% to 10% of the total; upon conclusion of the Triple Plan, fully one-third of our lending was outside Spain.

In 2016, group net attributable profit amounted to €710.4 million, a 0.3% increase on 2015, and net interest income totalled €3,837.8 million, a 19.8% increase with respect to the previous year. Outstanding loans expanded in a context of growing competition, and problem assets were reduced by much more than expected. The NPL ratio had declined to 6.1% at 2016 year-end.

These results were achieved against a complex backdrop characterised by moderate economic growth, episodes of instability in the financial markets, particularly in the early part of the year, and a considerable and growing level of political activity.

The UK's decision to abandon the European Union in the June 2016 referendum created a climate of great uncertainty, and this was heightened by the election of Donald Trump in the US presidential elections in November on a programme of interventionist and protectionist political and economic policies.

In spite of the Brexit vote, the UK economy continued to perform well, achieving close to 2.0% growth in the year. The US economy picked up steam as the year advanced, and the labour market performed positively, with unemployment at its lowest since 2007.

In 2016, the Spanish economy again displayed its resilience. GDP achieved 3.2% growth, the same as in 2015, while unemployment was at its lowest level since 2009. Economic activity continues to benefit from exogenous factors such as low oil prices and favourable funding conditions. Long-term Spanish government bond yields reached record lows in a context in which German government bond yields entered negative territory.

It was the first full year in which the first two pillars of Banking Union, the Single Supervisory Mechanism and the Single Resolution Mechanism, were in force, and the

European banking system proved resilient in the face of several episodes of volatility in the financial markets. Banks' capital and leverage ratios showed an improvement on 2015.

Banco Sabadell ended the year with a sound capital position; its Common Equity Tier 1 ratio, in both phase-in and fully-loaded terms, was 12,0% as of 31 December 2016, well above the level required by the European Central Bank. That was an improvement on the ratio as of 31 December 2015, when the fully loaded Common Equity Tier 1 ratio was 11.4%.

The bank achieved solid growth in core banking revenues, i.e. net interest income plus fees and commissions, of 3.7% excluding TSB and 17.9% in the full group, at constant exchange rates, reflecting the franchise's strong position in the market. Fees and commissions increased by 5.6% year-on-year to €1,148.6 million, driven particularly by good performance by asset management fees.

Recurring costs were cut by 1.2% in Spain and 1.1% in the UK. Provisions for loan losses and other impairments amounted to €1,427.1 million, 38.8% less than in 2015 (€2,333.2 million).

Commercial performance in the year was satisfactory, and the volume of outstanding loans expanded despite fierce competition. Gross outstanding loans and advances amounted to €140,557.3 million at 2016 year-end, a 3.9% increase year-on-year in constant exchange rate terms. Customer funds on the balance sheet performed well; in particular, the balance in demand accounts increased by 5.4% Group-wide at constant exchange rates, to €133,456.6 million. Additionally, banks acquired in previous years continued their contribution to expanding market share, improving our position in a range of banking products for both companies and consumers.

Banco Sabadell's focus on the quality of customer service has enabled it to maintain its quality lead over other banks.

At the same time, progress was made with the commercial transformation process by adding new digital capabilities, enhancing commercial procedures, and adapting the branch network to customer needs, the goal being to enhance efficiency and improve the value proposition in order to make Banco Sabadell the leader in customer experience in all segments.

As for transforming the balance sheet, a record €2,961 million of problem assets were shed in 2016 and the strategy of selling assets at an accelerated pace is continuing successfully. During the period covered by the Triple Plan, exposure to problem assets was reduced by €7,411 million, far exceeding the objectives. By the end of 2016, both doubtful exposures and problem assets had been reduced by far more than the Triple Plan objectives, which had been revised in 2015 following two years of faster-than-expected sales.

The loan loss ratio was reduced to 6.1% at 31 December 2016, less than half the figure of 13.6% at the end of 2013, and down from 7.8% at 2015 year-end. The doubtful asset coverage ratio was 51.5% at the end of 2016, and coverage of problem assets had increased to 49.6%.

In this context, the General Meeting of Shareholders is being asked to approve a dividend of €0.05 per share out of 2016 earnings; that includes the interim dividend of €0.02 paid in December 2016 and a supplementary dividend of €0.03 per share to be paid once the General Meeting approves.

In the United Kingdom, TSB is implementing its strategy successfully. Earnings before taxes and extraordinary items increased by 68% year-on-year, and net interest income was 10.9% higher than in 2015. The franchise continues to increase lending, driven by growth in mortgage brokerage and supported by a steady increase in deposits, reflecting UK customers' trust in TSB.

The process of integrating TSB with Sabadell's technology platform is advancing on schedule and is due to be completed in late 2017. This new technology will enable TSB to offer new products and services to the market more quickly and efficiently.

Business in Mexico, both corporate and business banking, is outstripping the projections made when this project commenced, and the bank is developing a platform to move into personal banking.

Following the success of the Triple Plan, 2017 is a transition year towards a new master plan covering 2018-2020; TSB will be migrated to the Banco Sabadell IT platform this year. This marks a turning point for the development of the UK subsidiary, in terms of both reaping synergies and achieving greater commercial power and operational autonomy for TSB.

The year 2017 will lay solid foundations for a new business plan ranging up to 2020 that can address the challenges and opportunities currently existing in the industry. This plan will provide growth in existing markets, accelerate normalisation of the balance sheet, optimise efficiency, and strengthen the necessary commercial and digital capabilities while maintaining the high quality of service that is a hallmark of Banco Sabadell.

To achieve these goals in the coming years, we can rely on our employees, whose hard work, dedication and professionalism on a daily basis put the Bank in a position to successfully face the challenges that the future may bring.

Josep Oliu Creus
Chairman

Banco Sabadell Group

G

Banking since 1881

Banco Sabadell is today one of Spain's leading banks and occupies a pre-eminent position in personal and business banking. The year 2016 saw the completion of Triple Plan, the strategic plan for 2014-2016, which played a decisive role in the Bank's transformation and internationalisation.

With a young, highly qualified workforce equipped with IT and sales resources to meet the needs of today's market, our business model is geared to making Banco Sabadell its customers' main bank through relationships based on quality and commitment.

By building lasting, profitable relationships, Banco Sabadell works with its customers throughout their financial life cycle, offering solutions and distribution channels to meet their needs and a comprehensive range of products and services that favour long-term relationships based on the principles of professionalism, ethics and transparency.*

Adaptation to market needs is achieved through differentiated brands and businesses that represent distinctive value propositions, can be clearly identified by the markets and are reflected internally in organisational and management differences.

Banco Sabadell's strategic aims have traditionally been set out in three-year business plans. The year 2016 saw the completion of the current plan. This 3-year Triple plan covered the years 2014-2016 and centred on (i) transforming our balance sheet and business model; (ii) leveraging our customer base and generating increased margins from our new scale and enhanced capabilities, while (iii) laying the foundations for internationalisation.

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* The corporate values can be consulted on the website, under "CSR - Code of conduct".

In 2016, Banco Sabadell consolidated the increase in size of recent years and benefited from its extensive geographical diversification.

G1 Banco Sabadell landmark developments

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

1965
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 (USA). 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.

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

2014
Commencement of operations in Mexico

2015
TSB acquisition.

Bank licence in Mexico.

T1 Key figures of Banco Sabadell group

€ million

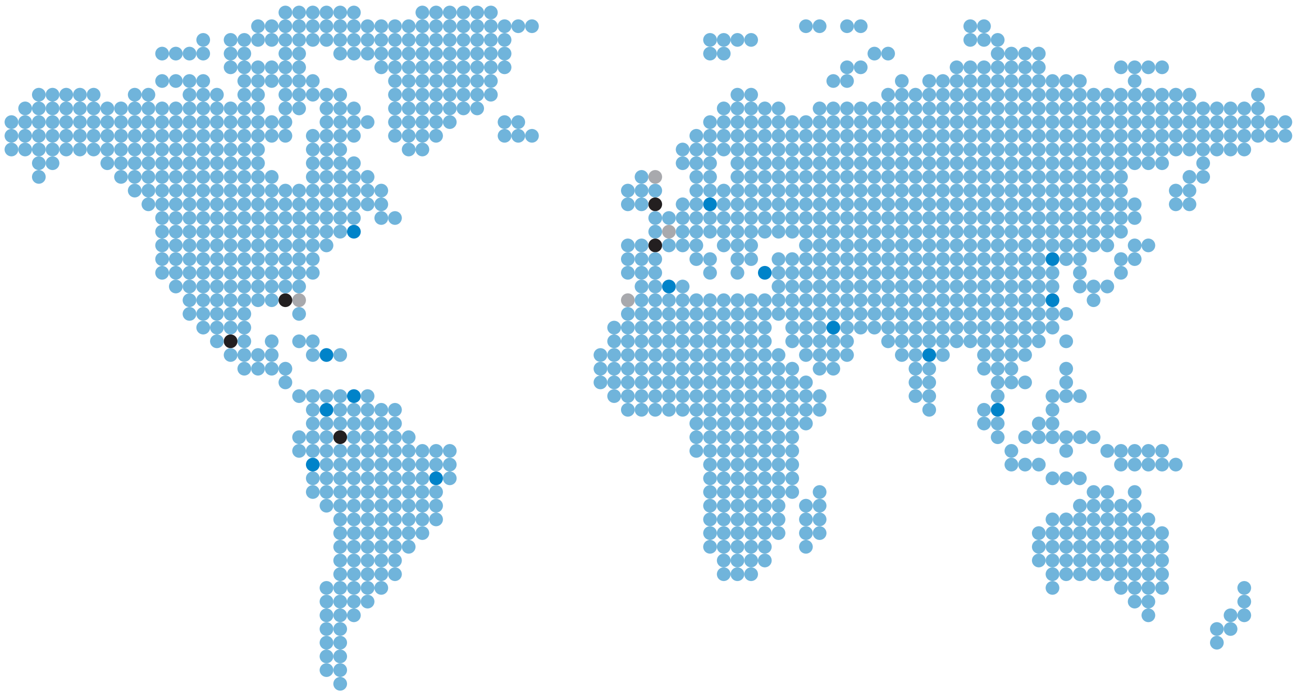
	2007	2010	2016	2016/2007
Assets	76,776	97,099	212,508	**X 2.8**
Lending (*)	63,165	73,058	150,087	**X 2.4**
Deposits (**)	34,717	49,374	133,457	**X 3.8**
Branches	1,249	1,467	2,767	**X 2.2**
Employees	10,234	10,777	25,945	**X 2.5**

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

In the three years of the Triple plan (2014-2016), the Bank extended its international operations and now does one-third of its business outside Spain, where key developments included: the acquisition of TSB, a UK bank, and the start of business in the Mexican market after obtaining a licence to operate there as a commercial bank.As of December 2016, 68% of Group lending was generated in Spain, with 24% originating in the United Kingdom and 8% in the Americas, well above the 10% goal for lending in overseas markets set for the end of the Triple plan.

Banco Sabadell is now operating in 18 countries through branches, representative offices, subsidiaries and investees (G2).

G2 Banco Sabadell - foreign market presence



● **Subsidiaries, investees and associated banks**
Andorra
Bogota (Colombia)
Miami (USA)
Mexico City (Mexico)
London (United Kingdom)

● **Branches**
Miami (USA)
Paris (France)
Casablanca (Morocco)
London (United Kingdom)

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

Corporate governance and Senior Management

Jaime Guardiola Romojaro, Managing Director

Board of Directors

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

Board committees

Executive Committee
Josep Oliu Creus (C)
José Javier Echenique Landiribar
Jaime Guardiola Romojaro
José Manuel Martínez Martínez
José Luis Negro Rodríguez
María José García Beato (S)

Audit and Control Committee
M. Teresa Garcia-Milà Lloveras (C)
Joan Llonch Andreu
José Ramón Martínez Sufrategui
Miquel Roca i Junyent (S)

Appointments Committee
Aurora Catá Sala (C)
Joaquín Folch-Rusiñol Corachán
Joan Llonch Andreu
Miquel Roca i Junyent (S)

Remuneration Committee
Aurora Catá Sala (C)
Joaquín Folch-Rusiñol Corachán
M. Teresa Garcia-Milà Lloveras
María José García Beato (S)

Risk Committee
David Vegara Figueras (C)
Joan Llonch Andreu
M. Teresa Garcia-Milà Lloveras
María José García Beato (S)

Senior Management

Management Committee

Chairman
Josep Oliu Creus
Managing Director
Jaime Guardiola Romojaro
Director – General Manager
José Luis Negro Rodríguez
General Secretary
María José García Beato
General Manager (CFO)
Tomás Varela Muiña
General Manager – People, Operations and Corporate Development
Miguel Montes Güell
General Manager – Commercial Banking
Carlos Ventura Santamans
General Manager – America & Global Corporate Banking
Fernando Pérez-Hickman
Deputy General Manager – Markets and Private Banking
Ramón de la Riva Reina
Deputy General Manager – Asset Transformation and Industrial and Real Estate Investees
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
Risk Control
Joaquín Pascual Cañero
Risk Management
Rafael José García Nauffal
Legal
Gonzalo Barettino Coloma
Financial Management
Sergio Palavecino Tomé
Global Financial Controller
Anna Bach Portero
Human Resources
Javier Vela Hernández
Organisation and Services
Federico Rodríguez Castillo
Global IT and Operations
Rüdiger Schmidt

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

Markets and Private Banking
Asset Management
Cirus Andreu Cabot
Saving and Investment Business Strategy
Alfonso Ayuso Calle

(E) Executive / (LI) Lead independent / (I) Independent / (P) Proprietary / (NE) Non-executive / (C) Chairman / (S) Secretary

Board Committees

At present there are five committees to which the Board of Directors delegates functions in accordance with its powers under the Articles of Association; committee meetings may also be attended by members of senior management.

Executive Committee

The Executive Committee is composed of five Directors and is chaired by the Chairman of the Board; in its composition, the Committee preserves a balance of member categories similar to that of the Board. The Committee is responsible for adopting any resolutions and decisions falling within the scope of the powers granted to it by the Board of Directors, and for overseeing the Bank's ordinary activities; it must report all decisions adopted at its meetings to the Board of Directors, without prejudice to any other functions assigned to it under the Articles of Association and the rules of procedure of the Board of Directors.

Name	Position	Category
Josep Oliu Creus	Chairman	Executive
José Javier Echenique Landiribar	Director	Independent
Jaime Guardiola Romojaro	Director	Executive
José Manuel Martínez Martínez	Director	Independent
José Luis Negro Rodríguez	Director	Executive
María José García Beato	Secretary (non-director)	

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 annual and interim financial statements, liaise with the external auditor, and ensure that suitable measures are taken to address any conduct or methods that could be inappropriate. It is also a watchdog, ensuring that the measures, polices and strategies determined by the Board are duly implemented.

Name	Position	Category
María Teresa Garcia-Milà Lloveras	Chair	Independent
Joan Llonch Andreu	Director	Independent
José Ramón Martínez Sufrategui	Director	Independent
Miquel Roca i Junyent	Secretary (non-director)	

Appointments Committee

The main functions of the Appointments Committee, which comprises three non-executive directors, two of whom are independent, are to ensure that the quality requirements for members of the Board of Directors are fulfilled, 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. The Committee also sets a representation target for the gender that is less represented on the Board of Directors and draws up guidelines on how the target should be achieved; it advises on proposals for the appointment and removal of senior executives and persons

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Joaquín Folch-Rusiñol Corachán	Director	External
Joan Llonch Andreu	Director	Independent
Miquel Roca i Junyent	Secretary (non-director)	

in the under-represented group, as well as on the basic contractual conditions for executive directors and senior executives.

Remuneration Committee

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Joaquín Folch-Rusiñol Corachán	Director	External
María Teresa Garcia-Milà Lloveras	Director	Independent
María José García Beato	Secretary (non-director)	

The main functions of the Remuneration Committee, which comprises four non-executive directors, three of whom are independent, are to make recommendations to the Board of Directors on policy for the remuneration of Directors and General Managers and on remuneration and other contractual conditions for individual Executive Directors, and to ensure compliance with existing policies. The Committee advises on remuneration in the form of shares and/or options for the annual report on Directors' remuneration; it also reviews the general principles governing remuneration and the arrangements for the remuneration of all employees, ensuring that transparency is maintained.

Risk Committee

Name	Position	Category
David Vegara Figueras	Chairman	Independent
Joan Llonch Andreu	Director	Independent
María Teresa Garcia-Milà Lloveras	Director	Independent
María José García Beato	Secretary (non-director)	

The functions of the Risk Committee, which comprises three independent Directors, are to supervise and ensure good practice in the acceptance, control and management of all risks assumed by the Bank and the Group, and to report to the full Board of Directors on the performance of its duties as required by law, the Articles of Association and the rules of procedure of the Board of Directors.

The Bank has published its Annual Report on Corporate Governance, which is attached to the Annual Report and Financial Statements for 2016, and its Report on Director Remuneration, on the CNMV and Banco Sabadell websites.*

The Board of Directors conducted a self-assessment of its own membership and performance in 2016 and that of all Board Committees, finding them to be satisfactory.**

*** See Annual Corporate Governance Report and Report on Director Remuneration on the Bank's website.**
**** See reports of the Board committees on their performance and activities in 2016 on the Bank's website.**

Senior 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 - People, Operations and Corporate Development
Miguel Montes Güell
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Deputy General Manager Transformation of Assets and Investees (Industrial and Real Estate)
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Juan Krauel Alonso

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Triple Plan

After concluding a period of organic growth in 2013, evolving from a specialised bank to a universal bank and building a franchise in Florida, Banco Sabadell faced the following challenges (G3):

a) The amount of problematic assets had increased significantly.
b) Profitability was affected by, among other factors, the absorption of banks with low margins, deleveraging by companies and individuals, and falling interest rates.
c) Assets were concentrated mainly in Spain.

In this context, a new business plan was developed to address these challenges, supported by three pillars (G4).

The Triple Plan focused firstly on transforming the balance sheet, the commercial model and the production model. Balance sheet transformation focused on reducing the volume of non-performing loans and foreclosed real estate. Additionally, in order to enhance the commitment to long-term relationships with customers, Banco Sabadell decided to deploy a new commercial and production model that would enable it to increase productivity and efficiency while enhancing the customer experience in all segments, but without impairing the quality of service that has always been the Bank's hallmark.

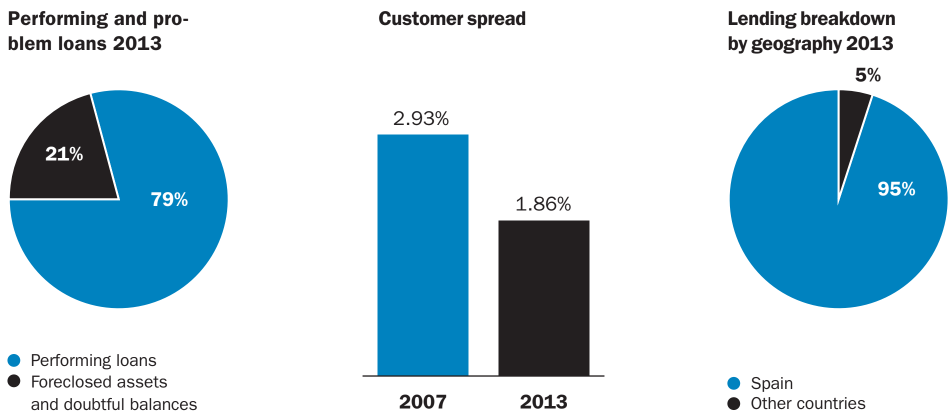
The second goal of the business plan was to improve productivity. After making a leap in size in recent years, from 1.9mn customers in 2007 to 6.4mn in 2013, Banco Sabadell decided to focus on consolidating the domestic business and making the acquired businesses more profitable.

The third focus of the Triple Plan was internationalisation, laying the foundations for entering new markets.

G3

2013

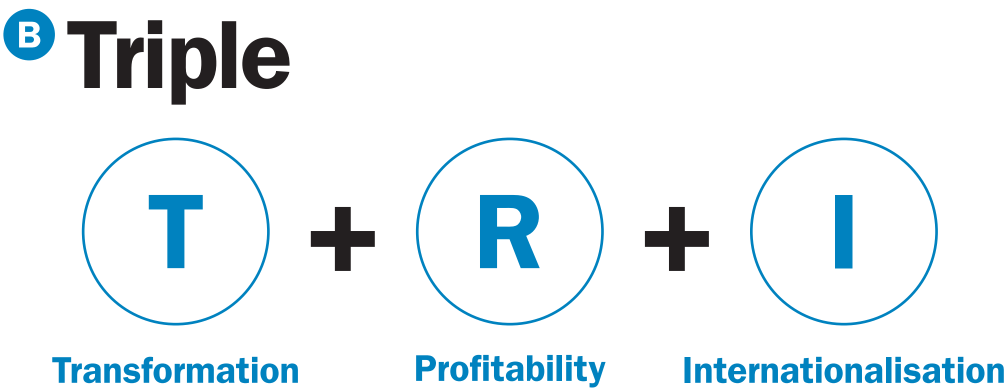
In 2013, the bank's increased size and the difficult economic situation posed a number of challenges



G4 Axes of the Triple Plan

2014 2016

The Triple Plan 2014-2016 was our response to these challenges



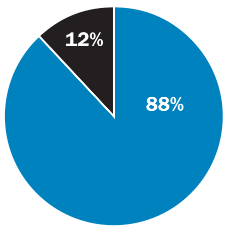
1 Balance sheet
2 Production model
3 Commercial

Results of the Triple Plan (2014-2016)

G5

2016

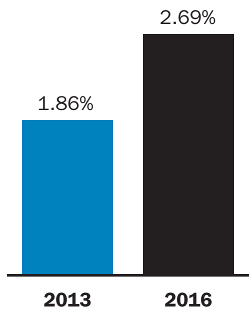
Performing and problem loans 2016



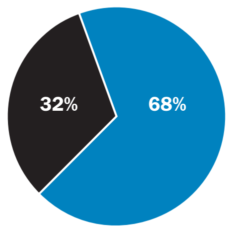
- Performing loans
- Foreclosed assets and doubtful balances

Problematic assets cut by €7.4bn since 2013, amply exceeding the Triple Plan goal

Customer spread



Lending breakdown by geography 2016



- Spain
- Other countries

Note: Foreclosed assets and doubtful exposures include 20% of the problem exposures covered by the APS. That risk is assumed by Sabadell under the APS protocol. Includes contingent risks.

The challenges have been met, the achievements recognised.

- Reflected in the supervisor's capital requirements (SREP)
- In rating upgrades
- The NPS rates customer experience
- TSB was named the UK's "Best high-street bank"

Transformation

As for transformation, the business plan focused on three axes:balance sheet transformation, operational transformation and commercial transformation.

Balance sheet transformation

In the process of transforming the balance sheet, the volume of doubtful and problematic assets has been reduced significantly, amply exceeding the targets set by the Triple Plan, and non-performing loans are down to single digits: 6.1%.This was achieved through active management, which proved to be a good approach since Banco Sabadell is the bank that achieved the greatest improvement in the NPL ratio since 2013, ranking second in the reduction of problematic assets.

The Bank designed management programmes combining timely action (to reduce new loan defaults) with recovery (faster debt recoveries). To reduce its real estate holdings, the Bank continues to leverage the expertise of its asset transformation division and Solvia's leading position, while benefiting from an improving real estate market (G6 and G7).

G6 Reduction in doubtful and problematic assets, excl. TSB

NPL ratio 13.6% ➔ NPL ratio 6.1%

Reduction in doubtful balances, excl. TSB
€ billion

7.7 Original objective — 2013 ➔ **8.0** Revised objective — 2015 ➔ **8.4** Reduction during Triple Plan — 2016

At the end of 2015, after two years of faster-than-expected revenue growth, the Triple Plan targets for the reduction in doubtful balances and for total problem assets were increased.

Reduction in problem asset exposure, excl. TSB
€ billion

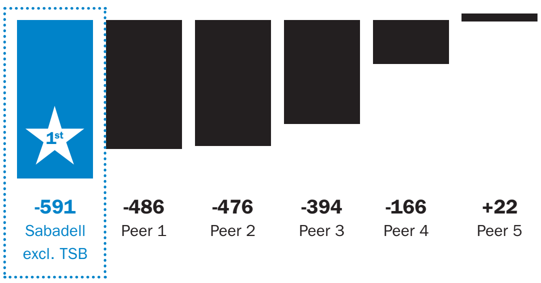
4.4 Original objective — 2013 ➔ **>6.5** Revised objective — 2015 ➔ **7.4** Reduction during the Triple Plan — 2016

At 2016 year-end, the reduction in doubtful exposures and in problem assets amply exceeded the revised targets of the Triple Plan.

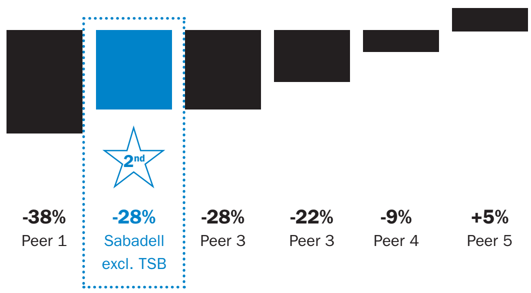
Banco Sabadell is the bank that improved its NPL ratio the most and ranks second in terms of the reduction in problematic assets since 2013.

G7

Comparison of reduction in NPL ratio, excl. TSB
Basis points



Comparison of reduction in problem asset exposure, excl. TSB
%



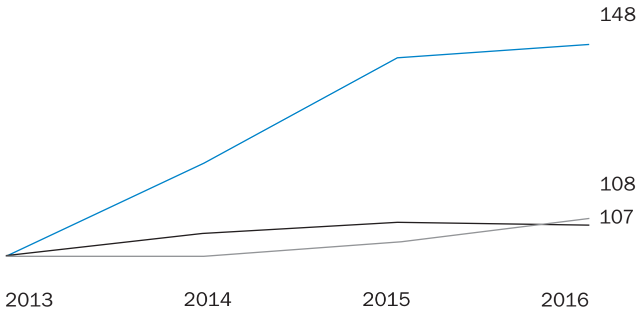
Note: Information from Spanish banks' earnings reports between December 2013 and December 2016.

Transformation of production

The production model transformation process improved the cost/income ratio, in like-for-like terms, and it is now one of the best among Spanish banks. Optimisation of the operational model and the branch network's very dynamic performance produced synergies after the rapid increase in size in recent years (G8).

This transformation involves industrialising administrative activities, enabling staff to devote more time to value-generating tasks and critical business processes, leaving non-core activities to operational factories. Synergies resulting from mergers are helping to achieve shorter average turnaround times, greater responsiveness and amalgamation of processes, as well as the possibility of implementing further improvements for increased traceability and oversight.

G8 Customer numbers, expenses and revenues



↑ **Net interest income and fees and commissions**

↑ **Customers**

↓ **Administration expenses**

Baseline 2013 = 100

Acquisition synergies + Reduction in unit costs + Productivity improvements

Commercial transformation

The digital transformation developed new technology capabilities that gave visible results and enable us to continue improving the customer experience (trust, service delivery, transparency and convenience) (G9).

Sales processes were improved and the branch network was adapted to customer needs.

In the area of customer experience, Banco Sabadell tops the Net Promoter Score (NPS) league table among both SMEs and large companies and has significantly improved its position among individuals (G11).

G9 Five tangible initiatives to improve efficiency and become leaders in customer experience, and the outcome

Initiative	Objective	Some examples of how we achieve this
1 Distribution model	Adapt the distribution model to our customers' needs, improving satisfaction and efficiency	— Hub and spoke branches — Active account management (remote) — Simplify the branch network organisation structure
2 Digital capabilities	Offer our customers the best in digital capabilities	— Sabadell Móvil — Sabadell Wallet — Digital signature — Instant Money — Touch ID — Sabadell Chat
3 Sales intelligence	Make a personalised offer and launch value-added products for our customers	— Impact customers via pull events — Kelvin Retail
4 Value proposition	Improve our value proposition	— Proteo Mobile (takes our services to wherever the customer is) — Companies commitment
5 Simplification	Simplify our customers' interactions with the bank	— The number of contracts for all types of diposits has been reduced from 7 to 1 — 48-hour turnaround for consumer loan applications — New customer sign-up Customers

Kelvin Retail
A business analytics service that identifies information of interest for sales.

2.2mn
Digital customers
41% of customers

1.7mn
Mobile customers
32% of customers
Top-rated app

230mn
Customers under active management
159 distance account managers

3,500
Tablets distributed to account managers

19%
of sales are via digital platforms

86%
of transactions are via distance means

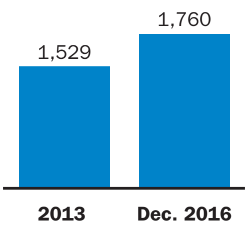
863
New branch design
41% of the network

One Click
Digital user

G10

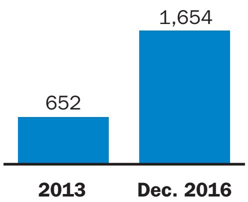
Active users–Web
'000

+15%



Active users–Mobile
'000

×2.5



G11 Net Promoter Score

Sabadell quality index performance vs. banking industry

	2016	Ranking	Since 2013 ↑
Large corporates (revenues > €5mn)	29%	1st	+14pp
SMEs (revenues < €5mn)	16%	1st	+13pp
Personal Banking	29%	2nd	+33pp
Retail Banking	4%	3rd	+26pp

*Source: Accenture NPS benchmark report.
Includes peer institutions. Latest available data.

Profitability

The results evidence solid growth in the domestic business with a significant improvement in customer margins. This was achieved through proactive pricing (both interest rates and fees) and an improvement in market share, while maintaining a high level of service quality at all times. The Bank increased net interest income and it was the Spanish bank that achieved the greatest increase in the customer spread. Capital and liquidity are also sound (G12).

G12

Net interest income %16/15

Sabadell excl. TSB
+4.6%

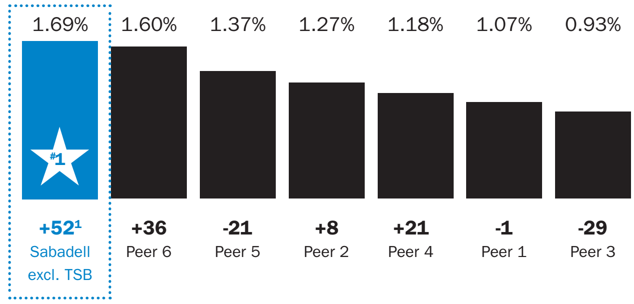
Group
+19.8%

Fee revenues 16/15 (%)

Sabadell excl. TSB
+1.4%

Group
+5.6%

Net interest income performance was the best in the sector.



G13 Comparison of net interest income/average total assets, excl. TSB
% Data for 4Q2016

Change since Triple
Basis points

Data from bank earnings presentations.
Figures from December 2013 to December 2016.

The main domestic commercial growth targets have been achieved.

G14

	Property and casualty insurance margin	Consumer finance margin	Treasury distribution revenues	Mutual fund fees and commissions	Pension funds and saving insurance margins	Private banking margin
Triple Objective	**+72%**	**+32%**	**+43%**	**+94%**	**+17%**	**+41%**
2016 earnings	**+96%** ↑	**+84%** ↑	**+72%** ↑	**+100%** ↑	**+24%** ↑	**+45%** ↑
	PST turnover share	Card turnover share	Mutual fund share	Transactional share	Total share of exports	*Ranking* in securities trading
Triple Objective	**× 1.3**	**× 1.3**	**× 1.6**	**× 1.3**	**× 1.3**	**Top 5**
2016 earnings	**× 1.4** ↑	**× 1.3** =	**× 1.5** ↓	**× 1.2** ↓	**× 1.3** =	**Top 3** ↑

Most of the Triple Plan's financial objectives have been attained.

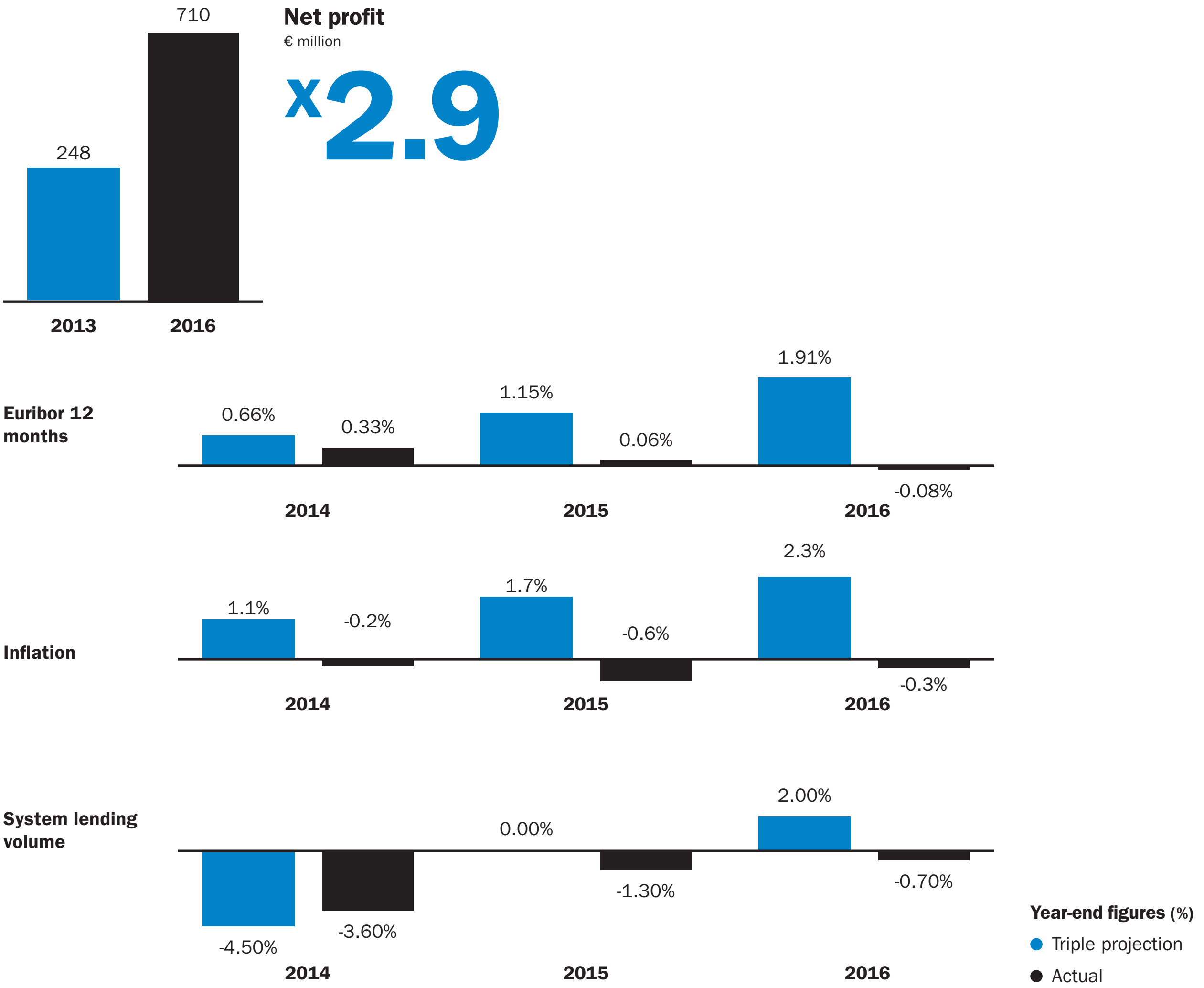
G15

	Triple Plan objective	Banco Sabadell Group 2016	Banco Sabadell excl. TSB 2016
Net interest income	€3bn	€3.8bn ✓	€2.8bn !
Fees and commissions	€1bn	€1.1bn ✓	€1.0bn ✓
Reduction of NPLs	€7.7bn	€8.2bn ✓	€8.4bn ✓
Reduction of problem asset exposure	€4.4bn	€7.2bn ✓	€7.4bn ✓
Capital (phase-in)	11.9%	12.0% ✓	12.0% ✓
Capital (fully loaded)	11.2%	12.0% ✓	12.0% ✓
Net interest income / Average total assets	1.76%	1.86% ✓	1.71% !

All despite operating in a complex environment

In this three-year period, the Bank tripled earnings against a macroeconomic and industry background that was more adverse than had been expected.

G16



Other factors: New regulatory requirements with an impact on capital and provisions

Internationalisation

The Triple Plan was a major leap in Banco Sabadell's internationalisation. The main achievements include the acquisition of UK bank TSB and the entrance into the Mexican market after obtaining a commercial banking licence. Two new representative offices were opened in the period, in Colombia and Peru, with the goal of originating corporate banking business.

At present, over 30% of the Group's lending is generated outside Spain (24% in the UK and 8% in the Americas and elsewhere), amply exceeding the 10% goal set for the end of the Triple Plan (G17).

Triple Plan milestones

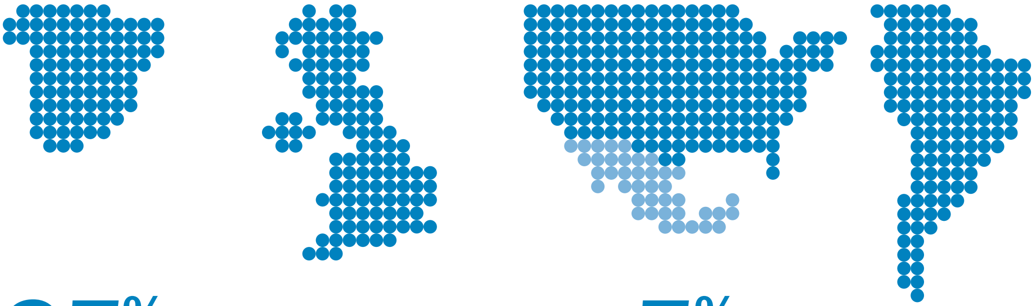
G17 Banco Sabadell Group loan distribution
%
Data for 4Q2016

TSB acquisition

Creation of a commercial bank in Mexico

Growth of Sabadell United Bank and Sabadell's Branch in the USA

New representative offices in Colombia and Peru



	Spain	United Kingdom	America
Dec. 2013	95%	—	5%
Dec. 2016	68%	24%	8%

TSB is a major step forward in the Group's internationalisation.

G18

TSB

Share of current accounts	Net Promoter Score[2]	Growth in mortgages year-on-year
6.4%	+23.4%	+50%
Growth in lending year-on-year[1]	**Growth in deposits year-on-year**	**The most recommended high-street bank[3] in the UK**
+19%	+14%	1st

[1] Data refer only to franchise.
[2] NPS: Net Promoter Score (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.
[3] Independent benchmarking survey (covering most banks) by BDRC Continental (sampling 15,000 consumers in the United Kingdom, March 2016).

Business plan update

Banco Sabadell presented an update of its business plan. The year 2017, in which the migration of TSB to Banco Sabadell's technology platform will be completed, is a transition year prior to the new Business Plan for 2018-2020.

A business plan fully in line with the industry's current challenges and opportunities.

G19

2020

Business growth, profitability and leader in customer experience

2008 – 2010	>	Óptima	Capacity-building
2011 – 2013	>	Crea	Growing organically and through acquisitions
2014 – 2016	>	Triple	Transforming size into business performance
2017	>	**Transition year**	
2018 – 2020	>	**New business plan**	— Growth in existing markets — Normalisation of the balance sheet — Optimisation of the cost:income ratio — Strengthening digital and commercial capabilities

2017

Successfully complete migration of TSB's technology platform

Continue reducing problem assets (objective for the year: €2 billion)

Commercial activity while protecting margins and increasing fees and commissions

Accelerate the commercial transformation (remote management and digital offering)

Cost containment (Spain and the UK)

Priorities for 2017

In 2017, the Bank will focus on concluding the TSB migration.A newly-developed free-standing platform will enable TSB to significantly improve time-to-market for new products, achieve synergies, cut costs and, in short, enhance the customer experience, which is the lever for differentiation from the competition.

The Bank will also focus on protecting its bottom line in 2017. To this end, it will concentrate on generating commercial activity, protecting margins and increasing fees and commissions, containing costs and prioritising investments. It will also continue to reduce non-productive assets.

In parallel, we will continue to lead the digital and commercial transformation with the goal of enhancing the already-excellent customer experience that has always been our hallmark.

The year 2017 will lay solid foundations for a new business plan ranging up to 2020.

2020 vision

For 2020, Banco Sabadell will adapt is business plan to the maturity of the markets in which it operates (Spain, the UK and the Americas) (G20).

In Spain, the vision for 2020 is to expand market share in both individuals and companies, defend margins, and strengthen the brand and digital capabilities in a more pull-oriented market, and transform our sales approach with a focus on improving efficiency.

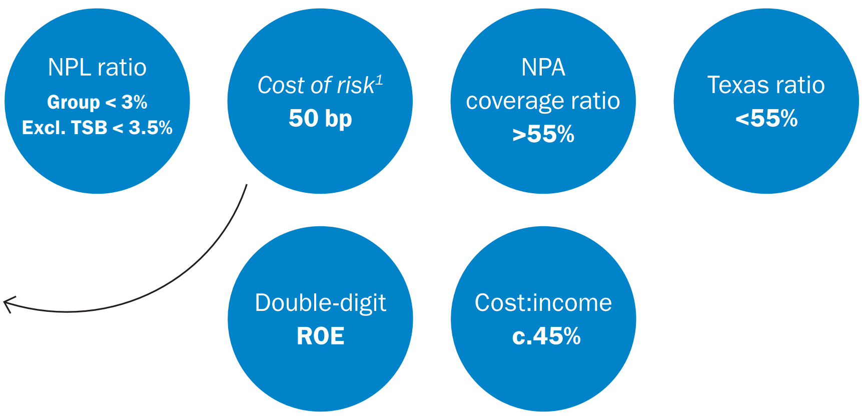
The focus in Spain is on managing non-productive assets to achieve a normalised cost of risk by 2020. For this purpose, the Bank focuses on early action in the face of delinquency, and a segmented approach to problematic assets.

In the UK, Banco Sabadell will focus on expanding business significantly, taking advantage of technological autonomy as a distinguishing feature, improving efficiency while maintaining the focus on managing costs and leveraging Group know-how and leadership in SMEs to move into this area in the UK.

Efforts in America will focus on expanding the Mexican subsidiary. An ambitious growth plan has been designed for business and corporate banking, given the positive track record and the solid initial work that has been done in this area. The Mexican subsidiary will also begin providing banking services for individuals based on an innovative digital proposition.

Given their importance for the Group, the three markets share the focus on effective and efficient management using the necessary technology to develop digital business, as well as leading the cultural transformation within the company and developing talent in-house.

G20 2020 objectives



[1] Including cost of risk of doubtful assets and foreclosed properties

Share performance and the shareholders

During the year 2016 worries over weakening global growth, political risks and their potential impact on the economy, plus central banks' monetary policy decisions, were key areas occupying the attention of the markets.*

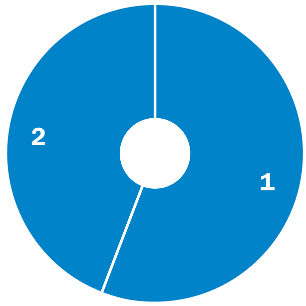
Share performance during the year was split into two phases separated by the results of the UK referendum held in late June to decide whether the country should remain in the European Union.

In the first half of the year, despite pressure on the banking industry from a negative interest rate environment, improving macroeconomic indicators and the stimulus measures announced by the European Central Bank, plus the positive reaction to the results unveiled by the Bank, combined to send our share price up to a position among those of the top-performing European banks. In fact, the share price reached its highest level of the year on the day on which the Bank presented its first quarter results.

In the second half of the year, the share price was adversely affected by uncertainty over the political and economic fall-out from the results of the UK referendum, as well as by investors' concerns surrounding credit quality in the banking sector (G21).

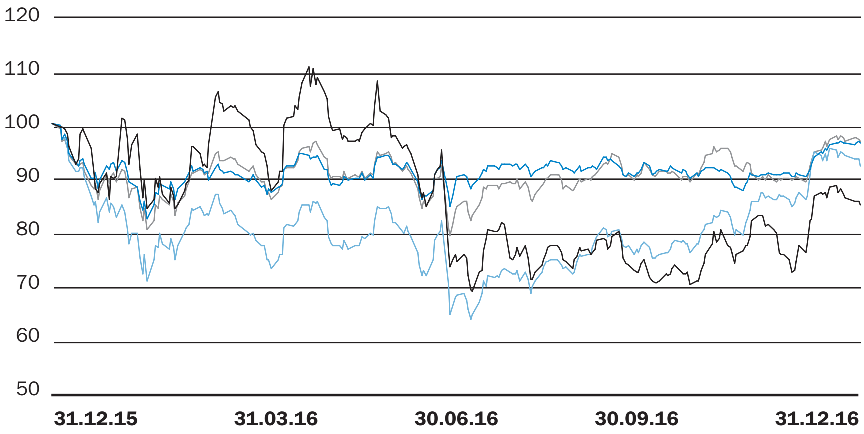
As 2016 came to an end, close to 80% of analysts covering Banco Sabadell were recommending overweight or market-weight positions in the stock.

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



G22
Ownership structure
31.12.2016 (%)

1	Retail investors	56.1
2	Institutional investors	43.9



G21 Performance compared with SAB share price

- EuroStoxx 50
- SAB
- IBEX 35
- EuroStoxx 600 Banks

* For further information see the "Macroeconomic environment" chapter

T2 Analysis of shareholdings at 31 December 2016

Number of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	210,724	637,613,634	11.35%
12,001 to 120,000	47,192	1,434,418,837	25.54%
120,001 to 240,000	1,815	298,083,930	5.31%
240,001 to 1,200,000	1,016	447,346,950	7.97%
1,200,001 to 15,000,000	165	465,697,498	8.29%
More than 15,000,000	36	2,332,990,347	41.54%
TOTAL	**260,948**	**5,616,151,196**	**100.00%**

T3 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%**

T4 Earnings and book value per share 2014-2016

	Million	€ million	€	€ million	€
	Number of shares	**Attributed income**	**Atributed income per share**	**Own funds**	**Book value per share**
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
2016	5,616	710	0.126	12,926	2.30
2016 (***)	5,624	710	0.126	12,926	2.30

(*) Including 265.27 million share dilution effect of convertible bonds.
(**) Including 33.01 million share dilution effect of convertible bonds.
(***) Including 7.52 million share dilution effect of convertible bonds.

In the course of the year, individual investors increased their share of Banco Sabadell's equity capital from 54.7% in December 2015 to 56.1% in December 2016 (G22, T2 and T3).*

As part of the efforts made by the Bank in recent years to ensure a degree of transparency and communication appropriate to the increased scale of the Group, Banco Sabadell management continued to maintain a high level of interaction with institutional investors. In 2016, this intensified activity saw Bank representatives attending 19 international conferences and holding meetings with some 500 investors in more than 12 countries.

Moreover, the Bank moved to step up communication and enhance transparency even further by steadily improving the information it releases to investors at regular intervals.

At the end of the year Banco Sabadell's market capitalisation stood at €7,430 million, with a price-to-book ratio of 0.57.

The Board of Directors will recommend that the Annual General Meeting approve the distribution of a gross dividend for the year 2016 of €0.05 per share in cash.

On 27 October 2016, the Board of Directors declared an interim dividend of €111,281 thousand on account of earnings for 2016 (€0.02 gross per share), to be paid on 30 December 2016.

*** The Bank's policy on communication with investors may be consulted on the Bank's website.**

The customer

In the Banco Sabadell business model the customer is always the primary concern. The relationship model, based on personalised attention and high standards of quality and service, ensures that the Bank is able to create value for customers and be wherever they are.

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

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

In a constantly changing environment in which technology plays an ever more vital role and customers have an increased power to take decisions, Banco Sabadell's ambition is to be a leader in the customer experience in all customer segments.

To meet this challenge the Bank is engaged in a far-reaching transformation of its sales and marketing model and its offering of digital capabilities.

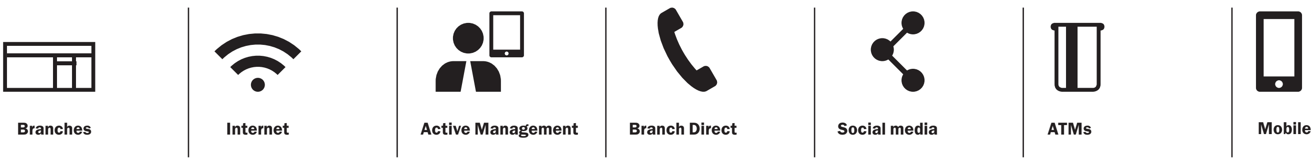
A multi-channel strategy that combines the human touch with the best of the digital world, and one that will enable Banco Sabadell to build relationships based ontrust and designed to meet the real needs of each and every customer.

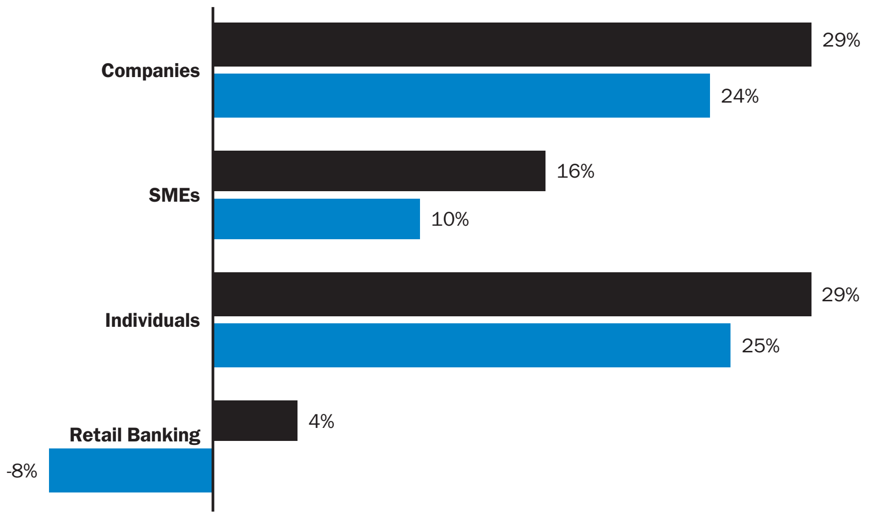
Banco Sabadell has chosen the NPS (Net Promoter Score) index to track and measure the customer experience, this being the most widely recognised and a standard reference in the market, and to benchmark itself against its competitors and also against companies in other sectors, both domestic and foreign. It also conducts regular surveys and internal audits to gather in-depth knowledge of how satisfied its customers really are and to identify areas for improvement at any given moment, both generally and for each customer relationship channel. For each of these surveys and audits the Bank sets itself quality targets and keeps the results under constant scrutiny.

The results obtained from these studies testify to the Bank's prioritisation of a quality service to the customer, with all indicators showing a continuous improvement (G24).

These excellent NPS scores confirm our position as first among our peers in the business customer segment and in the top three for the individual customer segment.

G23





G24 Customer NPS levels, by Banco Sabadell segment

* Source: Accenture NPS benchmarking survey - customers who see Banco Sabadell as their main bank, 2016. The score is the ratio of clients who rate the Bank 9 or 10 out of 10 with respect to those who rate it between 0 and 6 out of 10.

In 2016, this commitment to improving the customer experience was further strengthened by the inclusion of customer experience as a factor in determining staff pay at all levels of the organisation. We are also carrying out an ambitious programme of internal training and communication whose aim is to raise awareness throughout the organisation of the key objective of putting the customer at the centre of each employee's daily work. The practice has been introduced of proactively contacting customers who have expressed dissatisfaction with the Bank in the course of an interview; these approaches have become a key priority for business development personnel.

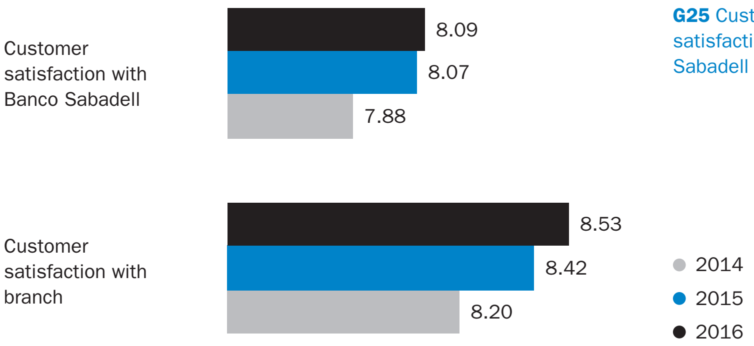
Focus groups and in-depth customer surveys are routinely carried out so that customers can give us detailed accounts of how particular Bank processes have affected them, making it possible to gain insights into how the customer experience can be improved.

Banco Sabadell seeks to protect the interests of its customers and has control mechanisms in place to review the products and services it offers. Before a product or service is launched an assessment is made of its suitability and branches provide customers with product factsheets before any commitment is made. Where a complex financial product is to be marketed, the Bank conducts a test of its appropriateness and suitability as required by the Markets in Financial Instruments Directive (MiFID.)

Banco Sabadell performs regular surveys to identify areas of improvement. The results of these surveys reflect the Bank's focus on customer service quality in the form of a steady improvement in all indicators (G25).

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 unit 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 branches and other units.

In 2016, the CSD handled 22,131 complaints and claims, 12.63% less than in the previous year.The CSD also provides assistance and information to customers and users with regard to other issues. In 2016, it handled 1,057 requests for assistance and information, compared with 408 the previous year.*



G25 Customer satisfaction with Banco Sabadell

* Source: STIGA customer satisfaction surveys The data reported are as at December 2014, December 2015 and December 2016.

*** Further information can be found in note 46 of the 2016 notes to financial statements.**

BS strengths

The strengths of the Banco Sabadell Group are described in different chapters of the annual report, except for those detailed below, marked with an *:

- **Organisation by businesses***
- **Multi-brand and multi-channel structure***
- **Leading-edge technology and innovation***
- **Service quality***
- **Focus on business and personal banking**
- **A leading player on the international stage**
- **Strict management of capital and risk**
- **Defined, transparent corporate governance**

Organisation by business

The banking business is divided into the following business units:

Commercial Banking

Commercial Banking provides a range of financial products and services for large and medium-sized companies, SMEs, retail and other businesses; private individuals (i.e. private banking, personal banking and retail banking); non-residents and professional/occupational groups. Commercial Banking's specialised service ensures that customers receive the personalised attention they need, whether from the knowledgeable staff assigned to its branches or via channels designed to offer ease of access to a wide range of remote banking services.

It offers products for both borrowers and savers. Its products for borrowers include mortgage and other loans, credit facilities and working capital finance. For savers, the product range includes demand and term deposit accounts, mutual funds, endowment policies and pension plans.

Other key business areas are general insurance products and payment means such as credit cards and money transfer services.

Markets and Private Banking

Savings and investment products are designed and sold through a multi-channel distribution approach. A high value-added service of recognised excellence whose offerings range from investment analysis and execution of market trades to active portfolio management and custodian services, with the aim of securing good returns for investors and thus helping to grow and diversify our customer base.

UK banking business (TSB)

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

Americas & Global Corporate Banking

It provides banking and financial services of all kinds, including highly complex and specialised products for large corporate and institutional clients (such as project finance and treasury services) with a focus on a comprehensive range of transaction banking products and services likely to be required by business and professional firms of any size, along with products specially designed for individual and private banking clients in any of the geographies covered.

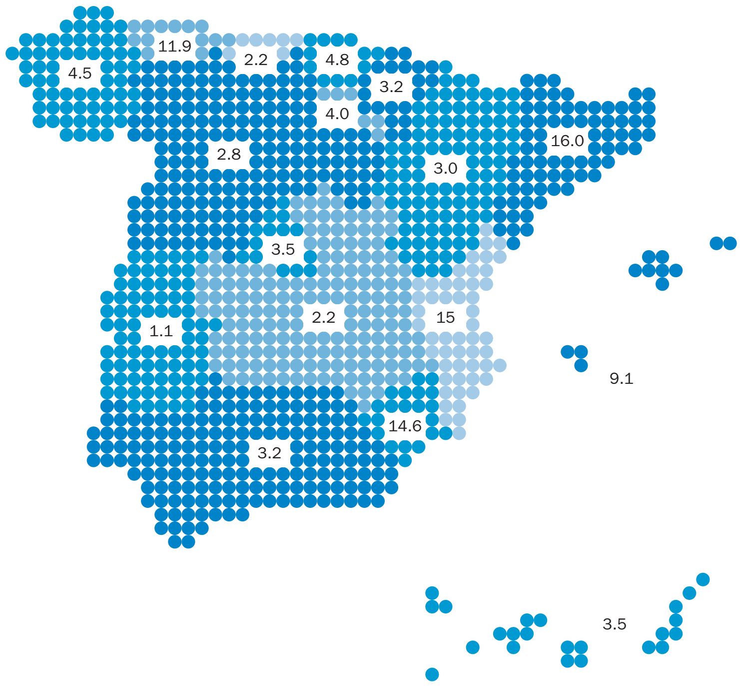
Asset Transformation

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.

G26 Market share by autonomous region

Banco Sabadell market share in Spain

7.2%



%, June 2016 figures.
Note: The figure shown for the Asturias region includes the province of León.

Multibrand strategy

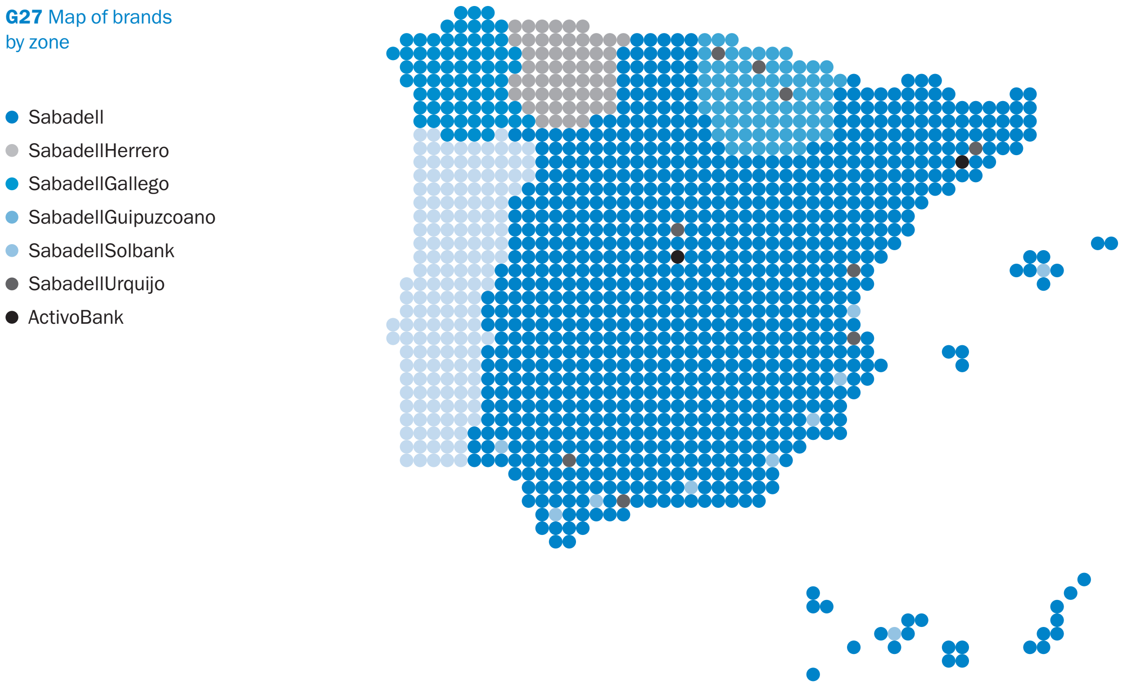
The bank operates under the Sabadell brand, coupled with a distinctive local brand in some territories (T5).

Banco Sabadell is a leading player on the international stage. 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 (G27).

T5 Brands used by Banco Sabadell in Spain

Sabadell	— Commercial banking, business banking — Coverage: all of Spain except for areas served by other brands
SabadellGuipuzcoano	— Commercial banking, business banking — Coverage: Basque Country, Navarra and La Rioja
SabadellHerrero	— Commercial banking, business banking — Coverage: Asturias and León
SabadellSolbank	— Commercial banking for European residents in Spain's tourist zones — Coverage: Mediterranean coastal areas and islands
SabadellUrquijo Banca privada	— Private banking. A merger of Sabadell Banca Privada with Banco Urquijo — Coverage: commercial banking and business banking throughout Spain
SabadellGallego	— Commercial banking, business banking — Coverage: Galicia
Activobank	— Commercial banking — Offices in Madrid and Barcelona

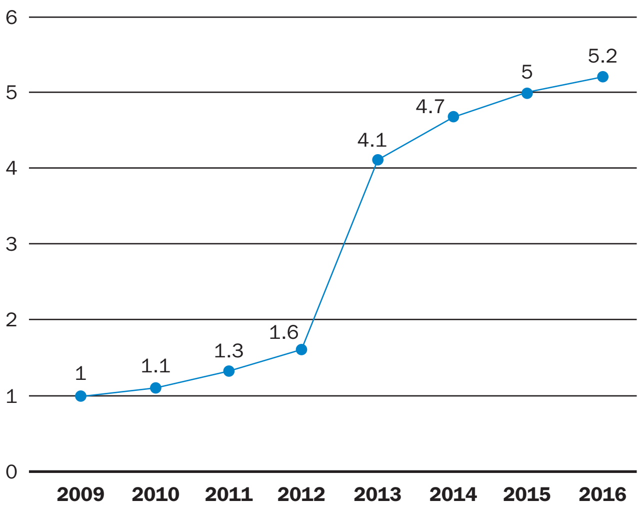
G27 Map of brands by zone



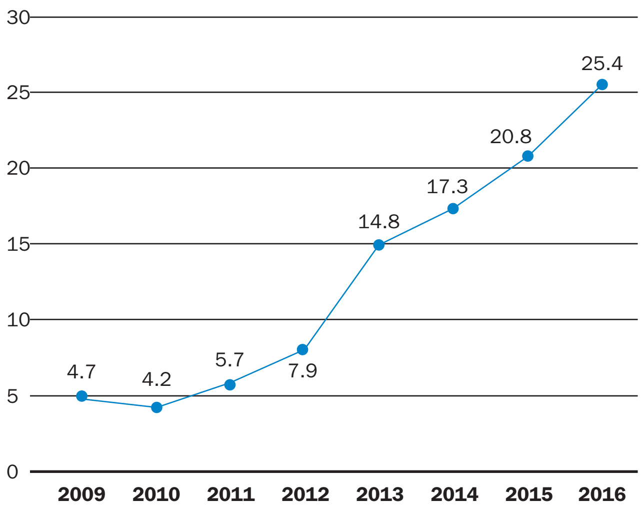
BS brand perception indicators

During 2016 the Bank continued its successful policy of raising awareness of its brand, key to increasing its capacity for growth in the retail market in Spain, where it aims to match the brand recognition achieved by our main competitors.In the course of the last six years "top of mind" awareness of the Sabadell brand has increased from 1.3% to 5.2% (up 325%) and total brand awareness from 5.7% to 25.4% (up 446%), putting the brand in fifth place among Spanish financial institutions according to data from the FRS Inmark annual survey, a key industry benchmarking tool (G28 and G29).

G28 Top of mind brand awareness



G29 Total brand awareness



Advertising campaigns and actions to enhance the Bank's image in 2016

The Bank's advertising in 2016 continued to exhibit the marked personal character that distinguishes it from other banking sector advertisers and seeks to emphasise the qualities of professionalism, reliability, modernity and innovation in customer service and its entrepreneurial flair.

The first quarter of the year saw the launch of the "Old Times" themed campaign that talked about time-honoured banking notions as if they were a thing of the past. This enabled the Bank to highlight its responsiveness in a changing environment and to put across the key competitive advantages of the "Cuenta Expansión" account and emphasise its selling points and brand leadership.

The "One Hundred Immediate Responses" campaign in April transmitted the message that BS is improving customer support in two ways: responding to loan applications immediately, and in the right place - wherever the business customer happens to be. This benefit not only improves the brand image but also creates more opportunities to evaluate and win new business. Therefore, the Bank concentrated on capitalising on these differentiating service benefits, which further enhanced its image as a developing business enterprise.

In the last campaign of the year, "More Immediate Responses", we developed the concept behind the previous campaign to carry over our competitive position as a lender equipped to meet borrowers' needs into the individual customer market with "Préstamo Expansión", a fast, flexible, practical, convenient loan product.

Multi-channel strategy

2016 was the last year of the Triple plan, the three-year Master Plan whose primary aim was to complete the transformation of the organisation, both internally and externally. The transformation process focused on digitalisation, business transformation, a better experience for customers in their relationships with the Bank, and the transformation of internal processes and of the organisation itself.

Digital transformation is a response to consumers' changing habits; for this reason Banco Sabadell adopted a new approach to customer relationships and new ways of getting close to customers, wherever they might be, that they will find convenient. The goal was to improve the Group's value proposition and its services by putting in the right sales methodology and the right systems, adapting to the requirements of different customer segments and making the customer relationship available as and when it was needed.

In the course of 2016 a new distribution system was put in place, including a change in branch network organisation and a new branch concept (hub and spoke branches) designed to satisfy customers' requirements. A total of 863 branches, handling approximately 2.9 million customers, were converted to the new system.

The year also saw the development of "Active Management", a new sales/distribution model which lets customers do their banking through multi-channel interactions, with the account manager continuing to bring added value to the customer relationship via computer-assisted management. This innovative approach is supplemented by customer self-service using online and/or mobile communications. The means that customers can do their banking using multi-channel (telephone or email) interactions, for a longer period of the day, without having to go to their branch.

Some 3,500 tablets were distributed to branches to enable account managers to visit customers in their homes and do business that would previously have had to be done in-branch; this enables them to be more effective and efficient, and results in a more satisfying business experience for both parties.

To facilitate interactions between customers and Bank and deliver a better service and customer experience, we invested in process optimisation by simplifying the product range to make it more accessible to customers, and reducing the time taken to complete business transactions.

Further progress was also made in moving towards a new, more proactive type of digital experience to eliminate limits imposed by space, time and equipment, and to become more "digital". Digital channels were enhanced to ensure that customers would be able to operate any time, anywhere, in signing up for products and services remotely through a variety of channels and benefit from a better customer experience. During the year we launched new versions of our online and mobile applications with added functionality, as well as new payment apps such as Sabadell Wallet y Bizum.

Over 42% of our active customers are digital (more than 2% up on the figure for 2015) and are doing over 86% of their business on digital channels. For business customers, the proportion using digital channels is over 80%.

Rafa Nadal — *Tennis player*

What's the first thing you
do when you get up
in the morning?

Switch off
the alarm clock.

What would you be willing
to sacrifice for success?

I'd never sacrifice
the people I love.

What is your
favourite word?

Actually,
I don't have a favourite word.

What do you value most
in a friend?

Trust.

What do you prefer:
clay, grass or water?

Water.

***More* Answers Immediately.**
Because you need agility to book the perfect trip,
now with our Expansion Loan, we will respond to your

Branch network

Table T6 presents details of the domestic branch network. Including the 648 overseas branches, the Group had 2,767 branches at the end of 2016.

T6 Distribution of branches by region

Region	Branches	Region	Branches
Andalusia	142	Valencia	381
Aragón	34	Extremadura	7
Asturias	134	Galicia	123
Balearic Islands	62	La Rioja	8
Canary Islands	30	Madrid	201
Cantabria	6	Murcia	141
Castilla-La Mancha	23	Navarra	18
Castilla y León	64	Basque Country	105
Catalonia	638	Ceuta and Melilla	2

ATM network

At the close of 2016 the Group's network of self-service tills in Spain totalled 3,123 ATMs and 371 passbook updating machines. This number is slightly lower than at the close of 2015 (3,603 machines).

The number of ATM transactions continues to increase year by year. In 2016 it increased by around 6% to a total of 110 million transactions. The proportions of transactions done using credit/debit cards and passbooks were similar to the previous year: 65% were done with credit/debit cards and 35% with passbooks.

The transactions done most frequently were cash withdrawals (more than 60% of the total), followed by passbook updates and account balance and payment enquiries.

The year 2016 saw the completion of a renovation programme on 800 ATMs in Spain, initiated the year before; the programme resulted in significant gains in service availability and in transaction execution times, with a corresponding increase in customer satisfaction.

One novel development during the year was the launch of the Instant Money service associated with the "Sabadell Móvil" and "Sabadell Wallet" applications, which let users send money to any mobile phone by text message. The code embedded in the message enables the money to be withdrawn without a card from any of the Bank's ATMs. This free service is of great value in emergency situations where users find themselves with neither cash nor card.

BS Online

Registered users of our online banking services were more than 8% up on 2015, with close to 4 million users now able to access the service. Active customers on BS Online increased by more than 12%, twice as much as in the previous year, rising to almost 34% of the Group's active customers.

The number of transactions (payments and enquiries) carried out on BS Online continued to increase, rising by 19% in 2016 to more than 1,800,000 transactions.

The year saw the completion of the roll-out of digital signatures for all individual customers and an increased capability for remote sign-ups for products and services, including mutual funds. Processes for applying for products on remote channels are being upgraded. This is an important step in the consolidation of self-service banking and remote servicing of customer requirements. New features included the addition of Bizum to the list of services available on BS Online and improvements to a number of website usability features that optimise interaction and digital documentation handling by customers.

Kelvin Retail, an information service for small and mid-sized retailers, was launched in April. The aim of this new service is to make information held by the Bank available to retailers concerning the performance of their businesses, their customers and their industry. The service has been improving and expanding and has since November been available on mobile phones.

Sabadell Móvil

The number of Sabadell Móvil users grew significantly over the year and there were 43% more active Sabadell Móvil users than at the end of 2015. This growth was spurred by the launch of new versions during the year offering ever greater capabilities, better usability and also a link-up with Digital Signature. Significant growth was also seen in the number of customers active on mobile phone only, which increased from 300,000 to more than 425,000 during the year. These users account for almost 20% of the Bank's active digital customers.

New developments during 2016, "the year of the app", included the addition of commercial information on products offered by Banco Sabadell to its customers and a feature letting users sign up for accounts, pension plans, investment funds, deposits and loans from within the app. Other major enhancements included the development of a new alerts management function to improve interaction with customers, fingerprint access for users of Samsung terminals, and the addition of fund transaction reports.

Sabadell Wallet

Another novelty in 2016 was the launch of Sabadell Wallet, which allows users to make payments using their mobile phones, manage credit and debit card transactions, and apply for the "stickers" needed to make payments on the iOS system; it also includes Bizum, a new app for making payments immediately between individuals using only the mobile number of the payee.

The Bizum service is a project sponsored by Spanish banks as part of an initiative to promote innovation in digital technology and meet the needs of bank customers. The app was launched in October and will in time let users make online purchases and pay for goods in retail outlets.

There are 68,000 registered Sabadell Wallet users, 39,000 of whom are also registered for Bizum. Of the total number of registered users, approximately 40% are active users of both Wallet and Bizum. Banco Sabadell users account make up 13.4% of the total number of Bizum users and account for 20.2% of transactions by number and 17.5% by amount.

Branch Direct

Branch Direct logged over 3,500,000 contacts in 2016, an increase of over 24% compared with the 2015 figure.

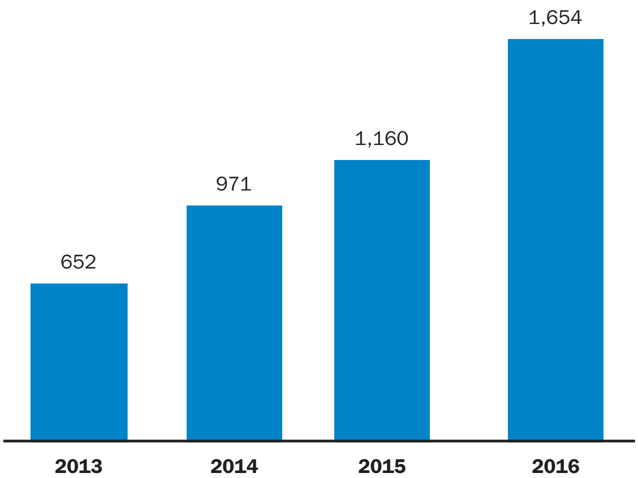
Telephone enquiries were the dominant method (76%), far exceeding contacts by email, chat and on social media, despite the very rapid growth of these channels during the year.

There was growth in all channels in 2016; however, the most well-established channels were those that showed the lowest rates of increase. Telephone calls were up 17% on 2015; inbound emails increased by 43%. Contacts on social media increased by 95% and web chat conversations rose by 214% over the twelve month period (G31).

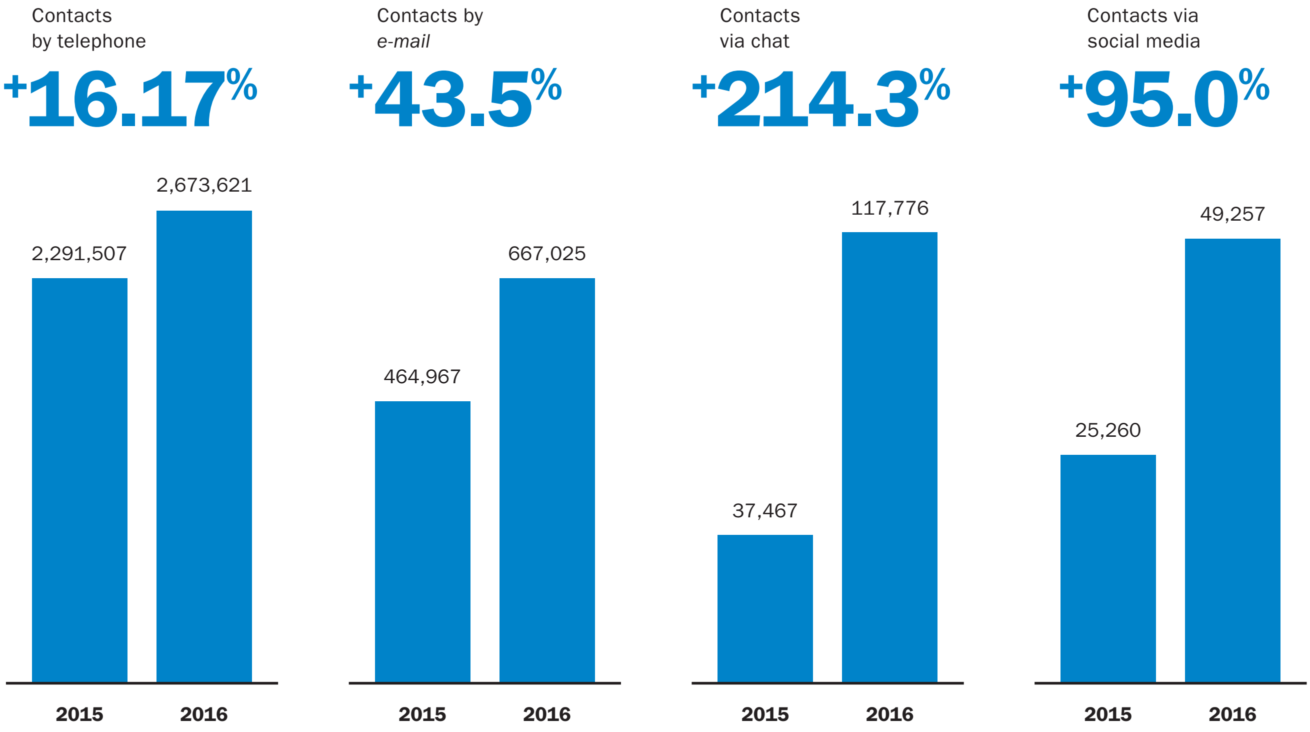
G30 Customers who are active users of Sabadell Móvil

x 2.5 in 3 years

#active Sabadell Móvil users



G31



In the area of service levels, the SLA (Service Level Agreement) ratio for telephone enquiries was again in the region of 96%, followed by web chat with 95% in the final quarter of the year, and 91% for email. The service was mentioned 527,000 times on social media (2015: 460,000 times) and the number of social media interactions was 49,000, with an SLA ratio of 96%.

The volume increases in 2016 were due to continual improvements in the various channels and initiatives undertaken to promote them:

— Improvements in the telephone channel included incorporation of the Digital Signature into customer transactions, redesigned routings through Virtual Agent, which means improved call management and a better customer experience, and the optimisation of platform resources.
— A new supplier was brought in to handle Office Direct traffic.
— Improvements were made in the extraction and analysis of social media data with the help of a new data management tool.

Social media

Social media are one of the main channels through which customer relationships are realised, both in managing transaction activity and in the broadcasting of corporate and business-related messages and marketing campaigns. Their use is growing exponentially and the Bank sets a high priority on raising its social media profile. As a channel social media have been used to publicise numerous events of a corporate nature or in which the Bank was a participant. Examples of this include presentations of trading results or Shareholders' Meetings, both of which could be followed on Twitter, or the Barcelona Open Banc Sabadell Conde de Godó tennis tournament, conversations with Rafael Nadal or the 4YFN Summit for start-ups at the Mobile World Congress.

Banco Sabadell increased its presence on social media during 2016 by opening Twitter accounts for the Banco Sabadell Foundation (@FBSabadell) and Banco Sabadell Mexico (@BancoSabadellMX).

The number of followers on social media now stands at over 300,000 for all the channels on which the Bank maintains a presence: Twitter, Facebook, YouTube, LinkedIn and Google+ not only in Spain but also in the UK and the Americas. The production of our own content continued without interruption in 2016, with blog posts and videos. The broadcasting of live events by streaming on Banc Sabadell TV, with the aim of bringing the Bank's activities to our customers, potential customers and employees in real time, continued at a high level.

Cutting-edge technology and innovation

In the area of pure innovation, the Bank continues to launch innovative services that enrich the customer relationship and accelerate the processes of digitalisation and creation of digital technology-based businesses for the Bank, based on a long-term vision of the future of banking.

Sabadell Digital & Agile Lab

2016 was the year in which Sabadell Digital & Agile Lab, started in late 2015, showed its full potential. The "Lab" operates in an area of the Bank's central services building in Sant Cugat, Barcelona and uses co-creation strategies and Design Thinking and Agile methodologies to help the Bank to progress the implementation of its policy of technological and business transformation.

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

In 2016 the average occupancy of Lab spaces was 88%, providing a base for more than 500 internal and customer-focused activities in which more than 700 people took part.

Big Data - Kelvin Retail

In March 2016 a new service, Kelvin Retail, was launched, the first commercial Big Data-based service. There were 1,500 access in the first two weeks that followed the launch, and usage increased by 376% in the second half of 2016.

Kelvin Retail is an information service for small and mid-size retail businesses and sole proprietors that provides information held by the Bank concerning their trading performance, their customers and their industry. It consists of a private website in "responsive" mode (i.e. accessible on all devices and via BS Online and BS Móvil), supplemented by an activity report sent each month by email. It also provides comparative data on competitors according to location. All the information is first anonymised and aggregated, and is always presented in the form of statistics. All this information can be helpful to those managing the business with the decisions they have to take on a daily basis.

Open API & Sabadell Developers Portal

Open API is a library of methods where third parties can access and interact with some of the main functions 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 setting up its own API, Banco Sabadell has been able:

— To facilitate experimentation and development of new services by third parties.
— To increase the number of interactions with customers and potential customers.
— To attract talent and identify new business opportunities.

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

Banco Sabadell does not expect the API to be used solely for the design, development and optimisation of applications to make it easy to perform banking tasks and expedite day-to-day bank transactions for its customers; rather, intention is to build new links with the fintech world, such as integrating banking services with cutting-edge devices (e.g. smartwatches, VR goggles, etc.).

In 2016 more than 180 independent developers worked on the Bank's Open API and 30 apps are currently in development.

Collaborative innovation

The Innovation Team, in conjunction with BStartup and Sabadell Venture Capital, has set up a project for collaborative innovation and building relationships with start-ups. The project's aim is to systematise awareness of and communication with the entrepreneurial ecosystem to ensure a sound approach is applied across the Bank.

The protocol ensures that all the business start-ups receive a customised service through the appointment of an agent who examines the project being undertaken. Start-ups are also informed of the Bank's various entrepreneurship and open innovation initiatives. A CRM has been put in place to centralise the management of relations with the entrepreneurs and ensure the observance of timescales, excellence in service provision, and the recording and implementation of start-ups' suggestions.

Quality of service

For Banco Sabadell, quality is not just a strategic option; rather, it is a whole approach to doing business, whether in the delivery of value to stakeholders or in the execution of each and every process forming part of that business. This natural a nity 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.

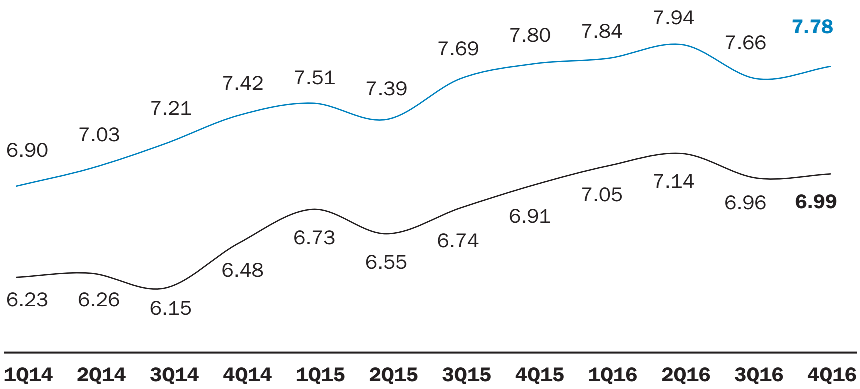
A key benchmark against which to measure and improve management practices is the European Foundation for Quality Management (EFQM) excellence model, against which the Bank is independently assessed every two years. The assessment carried out in November 2016 resulted in the Bank’s EFQM Gold Seal (over 500 points) being renewed, with a score of over 700 points being awarded according to EFQM’s very demanding standard. This means that the very high standards measured in 2014 were maintained, a truly extraordinary achievement.

Banco Sabadell continues to show a clear lead in quality over the rest of the industry.

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 2016.

The Bank's "Madrid Excelente" quality mark was also renewed in 2015 for another three years after successfully coming through 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.
The optimised model makes it possible to keep track of costs in great detail, which is essential to the achievement of cost reduction goals, considering the increases in capacity resulting from acquisitions in recent years.



G32 Service quality[1]. Sabadell quality index with respect to the sector

[1] Source: STIGA, EQUOS (Estudio de Calidad Objetiva Sectorial, 4Q 2016).

Accolades

BANK OBJECTIVE QUALITY SURVEY

MADRID EXCELENTE

ISO 14001 CERTIFICATION

ISO 9001 CERTIFICATION

EUROPEAN EXCELLENCE EFQM

Human resources

The Bank has a young, qualified and gender-diverse workforce. It has a clear strategy on human resources which is based on four key principles which ensure that its goals are achieved (G33).

Four essential premises underpin the group's human resources management approach:

— The Bank has human resources policies and procedures in place that apply throughout the organisation.
— People are a differentiating asset and a critical success factor for Banco Sabadell.
— People are part of the whole organisation and make up a single team: Banco Sabadell.
— The Bank believes it is necessary to constantly strengthen the emotional bond between the Bank and its people.*

Human resources strategy under the "Triple" Plan - key action areas in 2016

The capabilities built up in the first year of the "Triple" Plan saw further development in 2016. Talent and human capital management increased in importance as a key component of the plan.

This led to a strengthening of three new roles that had been created in 2015: HR Business Partners (HRBP), Centres of Excellence and the Shared Services Centre, all of which saw a gradual extension of their remit and their organisational role.

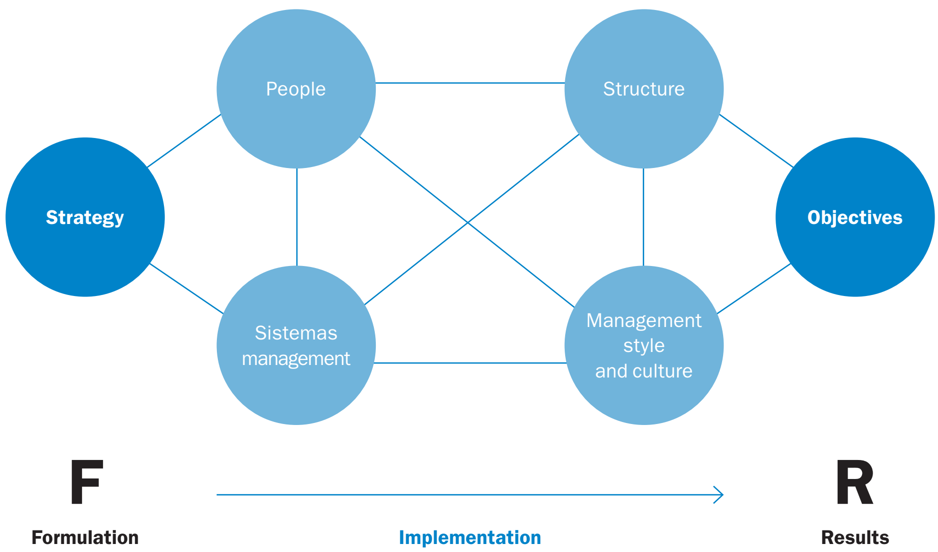
In addition, two further units were set up to with similarly important functions:

— Organisational Climate Improvement Office:
Tasked with coordinating corporate and local actions to make Banco Sabadell "an excellent place to work" according to the Great Place to Work Institute's workplace excellence standards.
— Sabadell Campus:
A project to bring about a transformation in training which will, it is hoped, be the seed of what will one day become the Group's corporate university.

This transformation will be supported by technology tools of the type required for human resources management processes.

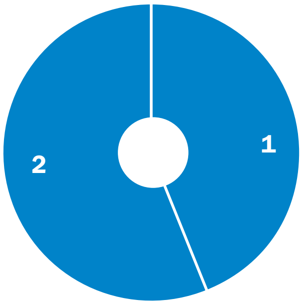
To carry out this transformation five core initiatives were drawn up and implemented almost in their entirety: integrated talent management, an unemployment management scheme, segmented people management, an employer brand and transformation in training.

G33



* See our human resources policies and principles in the "Report of the Directors" section of the financial statements.

These initiatives answer the question "how", but no less important was the question "who". To provide an answer, three additional initiatives were put in hand, centred on human resources capabilities in key areas of the organisation: management quality, multi-generational management of talent and flexibility, and an international HR model. These were also implemented to a considerable degree and, in the case of multi-generational talent management, became a model of best practice at national level.



G34 Employee breakdown by gender 31.12.2016 (%)

1	Men	44.1
2	Women	55.9

The Bank has adopted a multi-generational approach to talent management.

Composition of Group employees

At the end of 2016 the Banco Sabadell Group was employing a total of 25,945 people, a decrease of 145 compared with the previous year. The average age of employees was 42.72 years and the average length of service was 16.09 years. The gender split was 44.1% men and 55.9% women (G34).

More than 6,000 people completed training itineraries within the new Sabadell Campus digital space.

Projects in the Human Resources area

Training and development A new approach to training

In view of the challenges faced by the organisation and the industry, in 2016 Banco Sabadell decided to take a major step in implementing its new approach to learning by setting up Sabadell Campus, together with its own schools and learning spaces. The project incorporates the main features of the Bank's training model based on innovation, personalised training, efficiency and alignment with business goals.

The Digital Space

Sabadell Campus provided employees with a space for the development of digital skills which it is hoped will help all Banco Sabadell employees to be part of Banco Sabadell's digital transformation programme. 2016 saw two training itineraries being launched and achieving high success rates and levels of participation: Get digitalised with Google and Get digitalised with LinkedIn, which were completed by more than 6,000 people.

A "Commercial School" for branches

The launch of the "Commercial School" can be seen as training focused entirely on the challenge of meeting branch sales targets.

This involved developing online content designed specially to meet sales targets across the branch network and setting up attendance-based workshops in selling skills. The result was a training programme more complete, more focused and more adaptable to the needs of each trainee.

New School of Management and redesign of the Corporate Management Programme (CMP)

The Bank's new School of Management was set up to provide Group employees with content to enable them to develop their skills and to realise their personal and business objectives.

New online training formats such as videos, games, case studies, etc. were introduced and programmes were redesigned to incorporate informal learning, networking, gamification and other innovative teaching and learning techniques, all of which should strengthen the transformation effect for both trainees and the Group as a whole.

We also started a revamped PCM programme to enable a greater number of our people to benefit and to make it possible for trainees' projects to have a greater impact on the organisation.

New Finance School

A final initiative was to set up a Finance School whose mission would be to raise the level of financial awareness in the Group by offering specialist training to all employees and providing them with an attractive range of content and learning methodologies.

Arrangements for the School included a new Risk Management Programme organised by Pompeu Fabra University for the Bank's risk analysts.

Thanks to the School, all employees have access to exclusive financial content created by expert teachers working with the Open University of Catalonia, specially adapted to suit the kind of challenges faced by our employees in their daily practice.

New Language Area

In pursuit of its goal of improving language skills within the Group, a new Language Area was created and disseminated as part of the Sabadell Campus programme. The Language Area is a space in which any employee can find out about the language training opportunities offered by the Bank based on employee profile and specific need.

In-house trainer project

A key element in Banco Sabadell's new approach to training is undoubtedly its in-house training personnel, who play a vital role in knowledge and talent management and make it possible to provide training in any part of the world as and when the need arises.

Banco Sabadell applied programmes aimed at attracting young talent with potential.

Banco Sabadell makes its first appearance in the top 20 of the highly regarded "Merco Personas" index.

Strategic Talent Division

The newly formed Strategic Talent Division, whose primary aim in 2016 was to develop a new approach to senior leader and pre-leadership talent management, was put on a more solid footing. To this end, all HR information was integrated and structured interviews were held to identify higher management potential, the results of which were analysed with the help of well-tried psychometric tools. The information so obtained was used to form "people committees" within each division to identify and develop talent in the light of the Bank's present and future requirements. People committees were held in all the Bank's divisions —19 in all— and a total of 285 higher managers and pre-managers were discussed.

When all the people committees had been completed, a feedback and career development planning stage was initiated for all employees who had been considered. The purpose of the exercise was to build a career development culture to maximise employees' future performance, under the guidance of their own superiors and with support from an HRBP to further the process of identifying, developing and fostering talent.

Mobility

To vitalise the Bank's internal recruitment process, create opportunities for professional development and encourage internal mobility for Group employees, the following actions were put in hand:

- Making internal recruitment (and transfer) procedures more flexible to attract existing in-house talent.
- Approving a procedure for conducting active internal employee searches.
- The internal selection policy was extended to all the regions where the Group operates in pursuit of efficiency in staff transfers.

In external recruitment, 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.

For this reason a service unit has been set up to design and manage programmes to attract young talent showing the potential to be developed as a talent pool to support the Group's expansion.

- Internship Programme
- Young Talents
- Talent Graduate Programme

Human Resources management

To give extra support to management, in 2016 a new unit, the Human Resources Middle Office, was set up with a brief to provide specialist support to the work of HRBPs. The contribution of the Middle Office, which has been set up within the HR Operations Division, completes the circle of HR processes and provides a sharper focus and greater effectiveness in people management across the Bank's corporate divisions.

Prizes and distinctions

Merco personas

Banco Sabadell made its first appearance in the Top 20 of this respected index, entering at No. 17 in the league table of the 100 Spanish companies most highly rated as employers.

Universum

In the first ever Universum World's Most Attractive Employers survey for well-qualified young professionals, Banco Sabadell ranked as the 16th most attractive employer to work for in Spain for a young person having recently completed a degree course in business studies and humanities.

It also was also ranked 46th most attractive for young people with degrees in engineering, IT and health sciences, appearing for the first time as an employer in a ranking for people with such qualifications.

Corporate Social Responsibility

Banco Sabadell does business in an ethical and responsible way and shows its commitment to society by ensuring that its actions have a positive impact on people and the environment. Each and every person in the organisation has a part to play in observing and applying the principles and policies that underlie corporate social responsibility, as well as in assuring quality and transparency in customer service.

In the area of regulatory compliance, in addition to observing the law, Banco Sabadell has put in place a set of policies, procedures and codes of conduct to provide a guarantee of ethical and responsible conduct at all levels of the organisation and in all Group operations.

Responsibility for oversight and monitoring of these policies, procedures and codes of conduct lies with the Corporate Ethics Committee, whose members are appointed by the Board of Directors. In 2016 a Corporate Social Responsibility Committee was set up, chaired by the Group Secretary-General, to drive and coordinate Group strategy, policy and projects in the area of CSR.

At Banco Sabadell, corporate social responsibility is also manifest in the support given to international initiatives and in the certifications and accreditations it has received.

The year 2016 saw continued implementation of planned corporate social responsibility initiatives linked to Banco Sabadell's commitment to customers, employees, the environment and the wider community.

Doing business responsibly (commitment to customers)

Social and environmental risk assessments are included in investment and financing products

Since 2011 Banco Sabadell has applied the Equator Principles, as embodied in International Finance Corporation (IFC) policies, standards and guidelines, for new structured finance deals amounting to 10 million dollars or more and for corporate loans amounting to 100 million dollars or more. Under the standards developed by the IFC, foreseeable impacts are subjected to a social and environmental impact assessment which is reviewed by an independent expert. During the year Banco Sabadell concluded 14 project finance deals incorporating the Equator Principles, 64% of which related to renewable energy schemes.

All Group branches have access to information to assist them in assessing any environmental risk associated with the industry or business of the company to be assessed. The assessment is included in the project finance dossier and has an influence on the decision.

In the area of investment, both BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the Principles for Responsible Investment in the "investment manager" category. These principles cover social, environmental and governance criteria in management policies and practices.

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

- Fondo de Inversión Sabadell Inversión Ética y Solidaria, F.I., a mutual fund
- Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A.
- Plan de Pensiones BS Ético y Solidario, P.P., a pension plan.
- Plan de Pensiones BanSabadell 21 F.P., a pension fund.

It also makes this option available to employees through a pension fund, G.M. PENSIONES, F.P.

Transparency and simplification of contract wordings

In 2016 the Bank continued the process of simplifying contract workings by redrafting in simpler, less technical language but without any loss of the legal security or the information on which customers rely. This included changes to the Bank's current account and remote banking agreements. The simplification exercise affected more than 100,000 new agreements.

Commitment to employees

Equal opportunities and work-life balance

Banco Sabadell guarantees equality of opportunity in all areas of employee relations: recruitment, training, promotion and working conditions. Our commitment, in each of these areas of the employee relationship, is set out in our Equality Plan, our human resources policy and our Code of Conduct.

In 2016 we renewed our 2010 Equality Plan to outlaw all forms of discrimination among employees based on sex. As part of this policy of non-discrimination, we set new targets for 2020 to further the aim of promoting 450 women reaching a certain level of responsibility in the organisation.

To increase the number of women in senior executive posts and on management committees, in 2014 Banco Sabadell signed a Cooperation Agreement with the Spanish Ministry of Health, Social Services and Equality setting a target of 18% for women in senior management roles by

2018. This target has now been reached, and well within the agreed time limit.

The Bank also has measures in place to support a better work-life balance which applies to all employees in the organisation. Available benefits include reduced working times, leave of absence, paid or unpaid, or for breastfeeding; time off work for reasons such as maternity or to care for a relative; special leave, paternity leave; and various forms of flexitime working.

Professional and personal development

Each year Banco Sabadell employees are offered a full programme of online continuous training via the Group intranet and have the option of undertaking any of a wide variety of attendance-based courses to help increase their skills. In 2016 this included the ongoing "Laude" programme, in which the completion of in-house training courses can be validated with the award of formal university qualifications. In 2016 the programme saw a total of 231 employees gaining qualifications in fields such as banking products and services, financial consultancy and commercial banking.

In other areas of professional and personal development Banco Sabadell offers programmes to attract and engage talented young people. The first Talent Graduate Programme (TGP), whose purpose is to develop transferable workplace skills, was brought to a successful conclusion in 2016 and a second round of the programme was initiated. The TGP is a genuine offer by Banco Sabadell which, in addition to the training given, provides opportunities to work in the organisation. The first programme, which started in 2015, brought 40 young trainees into the organisation and 39 trainees are participating in the current programme.

Commitment to the environment

Banco Sabadell has an environmental policy which sets out its commitment to the environment and the fight against climate change. The policy's key aims are to minimise the potential impacts of processes, facilities and services, to effectively manage business-related environmental threats and opportunities, and to promote commitment to the environment by all persons with whom the Bank comes into contact. The Bank also supports a number of global initiatives such as the Equator Principles and the Carbon Disclosure Project (CDP).

Related businesses

As part of its business operations, Banco Sabadell promotes the development of sustainable energy through direct investment in renewable energy projects. In 2016, for example, through its Sínia Renovables subsidiary, it launched a new €150 million programme of equity investment in renewable energy projects, which will continue until 2019. In line with the Bank's internationalisation strategy, the Sinia programme will include investments in Spain, Mexico, the UK and a number of Latin American countries.

The Bank also funded renewable energy investments amounting to €720 million.

Another environment-related area of the Bank's business is financing energy-efficient equipment and facilities by means of special-purpose leasing products; these are being used to finance projects in such areas as public lighting, biomass-fired boilers and cogeneration. Another development was an increase in the Bank's range of leasing products for sustainable vehicles; in 2016 these accounted for 76% of all company-leased vehicles.

Group's own infrastructure and suppliers

Banco Sabadell has an environmental management system for its own infrastructure which is compliant with the ISO 14001 standard and has been used to certify six Group central service facilities. To reduce energy consumption the Group undertakes continual initiatives to make its facilities and processes more eco-efficient. The contract with Nexus Renovables was maintained in 2016; it covers 99.84% of the Group's electricity supplies, and was able to achieve a 94.77% reduction in CO2 emissions (scope 1 and 2, taking 2014 as the baseline year).

Banco Sabadell involves its suppliers in the Group's environmental policy by incorporating social and environmental responsibility into its supply chain. Its 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.

Social commitment

Banco Sabadell shows its commitment to society wherever it operates by carrying on a permanent dialogue with the community and sharing its concerns. Caring about vulnerable people and groups, financial education and community support work are the three key elements of that commitment, which is expressed through the corporate volunteer programme and initiatives by divisions of the Bank and by the Banco Sabadell Foundation.

Assistance in cases of mortgage default

Banco Sabadell continued its SOGEVISO (Solvia Gestora de Vivienda Social) social housing programme as part of its policy of taking a sensitive and responsible approach to social exclusion.

In the course of the year it not only offered housing solutions by providing affordable rented accommodation to customers judged to be in positions of vulnerability, but made an engagement, or "social contract", which is overseen by a dedicated manager and in which local government and community organisations are also involved. Banco Sabadell is also an active participant in a number of working groups sponsored by Spanish regional governments or municipalities to address social emergencies in housing.

Another SOGEVISO policy initiative in 2016 consisted of schemes to help people find work, with a view to tackling the problem at its root: providing an occupation and obtaining an income. At the end of the year some 598 people had joined a scheme and employment had been arranged for 103 of them, or 17% of the total.

As 2016 came to an end a total of 6,479 homes were being let out at reduced rents to customers facing financial hardship as a result of mortgage foreclosure, repossession in lieu of payment, or living in substandard or insecure accommodation. Of these, 30% were let under a "social contract".

To mitigate the effects of indebtedness and facilitate the rehabilitation of debtors at risk of social exclusion, in 2016 the Bank confirmed its support for the Code of Good Banking Practice and approved 418 mortgage restructuring arrangements and 5 repossessions in lieu of payment.

In 2013 Banco Sabadell became a member of the Social Housing Fund (Spanish initials: FSV), to which it contributed 400 homes, most of them for the use of customers whose properties had been repossessed in or after January 2008.

The Bank also assigned 95 properties to 48 charitable and not-for-profit organisations with a mandate to assist and support the underprivileged and the needy.

Financial education

The Bank is sponsoring and providing assistance for a number of financial education initiatives to meet the needs of different social groups and communities. These include:

— For children: "What's money for?", a drawing competition for which the Bank provides educational material and, for each drawing received, it makes a donation to a charitable cause. A total of 5,213 children took part in the 2016 event.
— For young people: providing support for the Catalan Schools Financial Education programme for young people aged 15 -16 and, in partnership with the Spanish Banking Association (AEB) and the Junior Achievement Foundation, the "Your finances, your future" programme in more than 100 schools all over Spain. In 2016 this support was provided by a total of 198 volunteers made up of current and former (retired) employees of the Bank.
— For SMEs: the "Export for Growth" programme to help small and medium-sized firms develop their business in foreign markets, was supported by Banco Sabadell in conjunction with organisations such as AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues. In 2016 nine 1-day exporting workshops took place and attracted more than 500 attendees.

The Bank is also party to an agreement with the AEB, the CNMV and the Bank of Spain to promote the National Financial Education Plan. The Plan, which follows the recommendations of the European Commission and the OECD, is designed to improve public understanding of financial matters by providing people with basic skills and tools to manage their financial affairs in a well-informed, responsible way.

Corporate volunteer programme

Banco Sabadell is providing its employees with the means to satisfy their desire to make a contribution to, and do volunteer work in, the community.

In 2016 an in-house website, Sabadell Life, was set up to bring together a number of community and volunteer initiatives as well as ideas and suggestions put forward and carried out by employees.

The initiatives with the highest numbers of volunteers were:

— Projects supporting people at risk or facing social exclusion (Fundación Magone, the Fundación Exit "Coach" project, BCN Superhero(in)es Day and Food Bank).
— Contributing to/participating in solidarity campaigns (Trailwalker, Sant Jordi Solidari).
— Programmes making use of the knowledge and experience of current and former employees (Financial Education, the B-Ready Programme, and the Fundación Ship2b community start-up acceleration programme).

Action in the community

Since 1994 Banco Sabadell has carried on some of its community support work through its charitable foundation, the Fundación Banco Sabadell, whose work is organised around talent, culture and the sciences. Key initiatives by the Foundation include a Prize for Biomedical Research and a Prize for Research in Economics, both of which aim to give recognition and support to the achievements of young Spanish researchers in those disciplines.

In addition, by organising initiatives on a cross-divisional basis, Banco Sabadell seeks to contribute to social welfare using business ventures of its own. This was the case with an alliance made in 2016 between Banco Sabadell and Worldcoo, a start-up in which the Bank invested through its BStartup 10 programme, to use its online banking system to raise money from customers to support social welfare campaigns.

Principles and policies

— Code of Conduct: applies generally to all persons directly involved with the Group, whether as employees or as members of its ruling bodies.
— Internal Code of Conduct in connection with the Securities Markets.
— Suppliers' Code of Conduct.
— Ethical and human rights policy.
— Policy on Corporate Social Responsibility.
— Policies related to stakeholders (shareholders and investors, customers, suppliers, employees, the environment and the community).
— A plan to foster genuine equality between women and men at Banco Sabadell.
— Code of conduct governing the use of social media.
— Member of Autocontrol, an advertising standards body.
— Adopter of the Code of Good Banking Practice.

Agreements and commitments

— Adoption of the 10 principles of the United Nations Global Compact in the areas of human rights, labour, the environment and the fight against corruption.
— A signatory of the Equator Principles requiring it to take account of social and environmental issues in the financing of major projects and in large corporate loans.
— Integration of CSR policies into business practice in accordance with ISO 26000 guidelines.
— 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.
— Inclusion in the FTSE4Good, FTSE4Good IBEX and Euronext Vigeo Eurozone 120 sustainability indices.
— Awarded the European Foundation for Quality Management (EFQM) Gold Seal of Excellence.
— Currently certified to ISO 9001 for 100% of the Group's processes and for its financial operations in Spain.
— A signatory of the Carbon Disclosure Project (CDP) for action against climate change and its Water Disclosure programme*.

For more details of the Group'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 policy and Financial markets
Banking sector
Regulatory environment
Outlook for 2017

The global economy continued to show modest growth as the role of political factors increased.

In the political arena, the United Kingdom's decision to leave the EU and Trump's victory in the US presidential election were key developments.

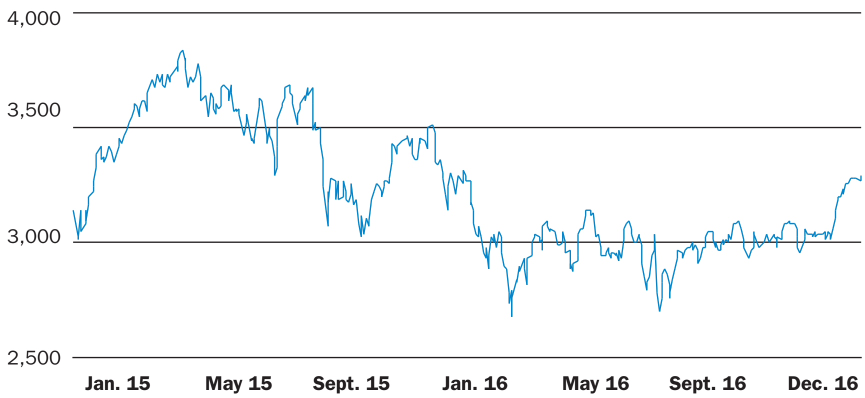
Once again the Spanish economy outperformed, growing at over 3.0% per annum.

Global economic environment

The start of 2016 was marked by severe financial market turbulence as oil prices sank to their lowest levels in more than a decade and uncertainty grew over the state of China and the world economy generally. Subsequent actions by central banks were able to calm the situation. Financial markets were, in fact, relatively successful in overcoming the effects of the major, and sometimes unforeseeable, political developments that occurred in the course of the year (G1).

Politics played an ever-increasing role and became a major factor affecting financial asset performance. Of particular significance were the holding and the result of the UK referendum on whether to leave or remain in the European Union, the surprise victory of Trump and the Republicans in the US, and the Italian referendum on the reform of the Senate.

In the UK referendum, held on 23 June, the leave option prevailed with 51.9% of the votes. This result led to the resignation of David Cameron as Prime Minister and the appointment of Theresa May as his successor. The British Government stated its intention to invoke article 50, which gives formal notification of a country's intention to leave the European Union, by the end of March 2017. The UK has announced that a key priority in the negotiations will be to control immigration and, at the same time, maintain full access to the European market.



G1 EURO STOXX 50
Source: Reuters

In the US, the Republican candidate Donald Trump won the presidential election of 8 November, with the Republican party retaining control of both the House of Representatives and the Senate. Trump has proposed interventionist and protectionist policies. On the fiscal front, his intention is to adopt expansionary measures such as tax cuts and increased expenditure on defence and infrastructure.

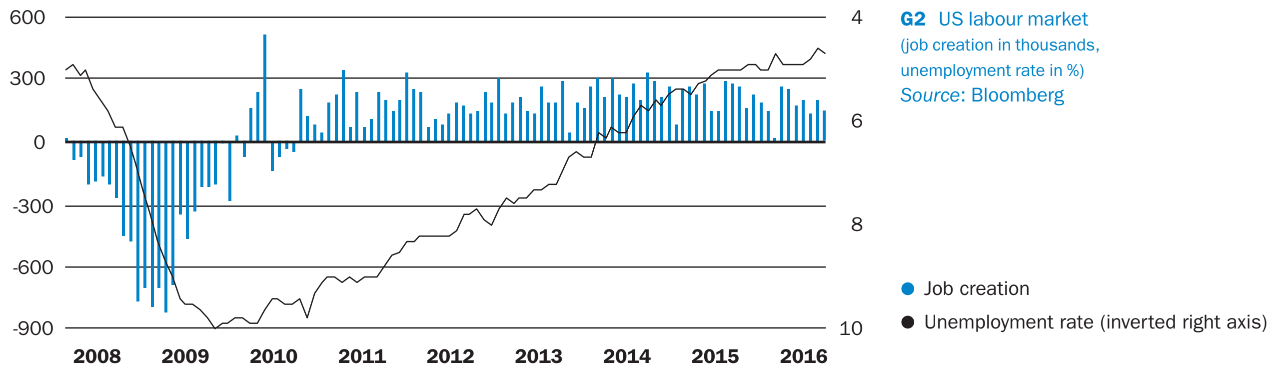
In the Italian referendum on 4 December, a majority voted against a reform of the Senate with 59.1% of the votes. Following this outcome, Matteo Renzi announced his resignation as Prime Minister and a new government was formed under the leadership of a former Minister of Foreign Affairs, Paolo Gentiloni.

On the economic front, global growth remained relatively sluggish, with potential growth rates falling below those seen before the global financial crisis. The Euro area has so far shown little sign of any impact from the UK referendum and growth has continued to be led by domestic demand. In the United Kingdom the impact of the referendum on economic activity was limited and fell mainly on construction and, to a lesser extent, manufacturing. In the US activity gained momentum as the year progressed and labour market data improved. Growth in the Japanese economy remained relatively weak despite a further round of fiscal stimulus measures (G2).

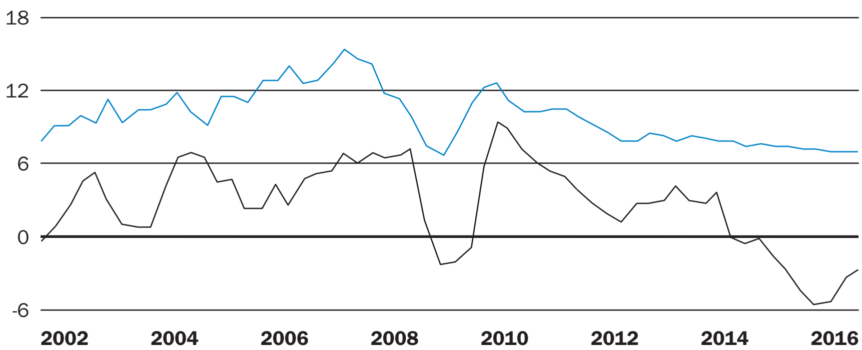
In the emerging markets growth in the main countries remained weak or was down on the previous year as the deleveraging process continued. Initially, doubts over the economic and financial situation in China and Brazil caused a significant increase in risk aversion with capital outflows from emerging markets reaching a very high level. Later in the year, however, the situation became calmer; this was helped by: the more accommodative stance shown by central banks in developed countries; (ii) stimulus policies adopted by China to support growth, and (iii) optimism sparked by the change of government in Brazil. As a result, deleveraging in the emerging markets proceeded at a more orderly pace. Trump's victory in the United States towards the end of the year forced a downgrade of economic prospects for Mexico inasmuch as it could signify a reversal of the integration process in which the two economies have been engaged for several decades (G3).

Spanish economy

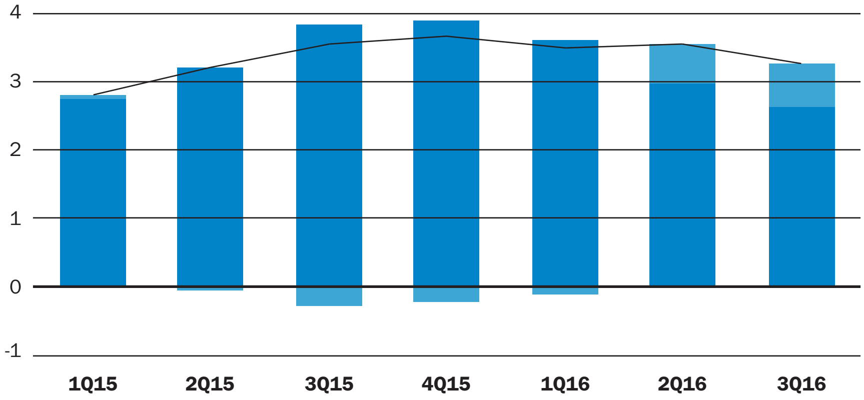
The Spanish economy continued to perform strongly, with GDP growing at more than 3.0% and unemployment falling to its lowest point since the end of 2009 (G4). The property market showed an improvment and housing prices continued their upward movement. On the balance of payments front, the country ended the year with a current account surplus for the fourth year in succession. In the political arena, the failure of parties to form a government following the December 2015 general election forced the holding of a further election on 26 June. In this second election the Popular Party was again the victor, winning a larger number of votes and deputies than in December, but was still unable to achieve an absolute majority.



G2 US labour market
(job creation in thousands, unemployment rate in %)
Source: Bloomberg



G3 China and Brazil GDP
(year-on-year change, %)
Source: Bloomberg



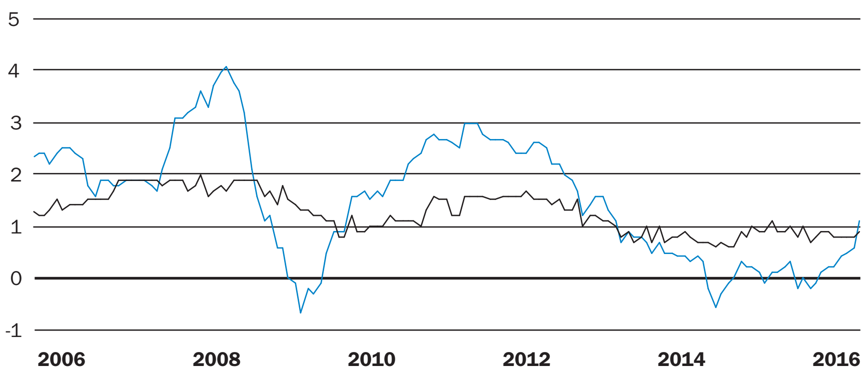
G4 Spain GDP
(year-on-year change and contributions, %)
Source: INE

- Domestic demand
- External demand
- GDP

Monetary policy and financial markets

Inflation remained below the target levels set by monetary policy in the major developed economies. In the Euro area inflation moved back into negative territory early in the year, depressed by falling oil prices. Later in the year it returned to positive territory as oil prices recovered. In the UK the depreciation of sterling on the back of the referendum result put upward pressure on prices. As for the US, core inflation (excluding food and energy) rose to its highest level since 2012 as the amount of slack in the economy was taken up (G5).

As the year began the world's financial markets were severely depressed by low oil prices, unstemmed outflows of capital from China and the uncertainty surrounding the US economy. The situation improved later on as fears of global recession receded, oil prices strengthened, China and the European Central Bank (ECB) adopted measures for monetary easing and the US Federal Reserve took a more accommodative stance. Global markets suffered further sharp movements following the referendum in the United Kingdom at the end of June and Trump's election as president of the United States in November. These events, however, did not threaten to cause any malfunction or loss of liquidity on the financial markets (G6).



G5 Euro area HCPI
(year-on-year change, %)
Source: Eurostat

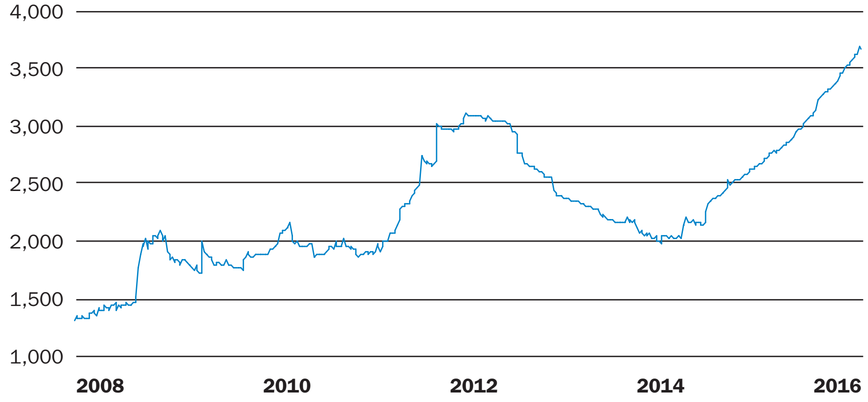
- HCPI
- Core

Central banks in the major developed economies generally maintained an accommodative stance, although a move away from this was initiated in some regions. The ECB was announcing fresh monetary stimulus actions throughout the year. In March it cut its deposit rate to -0.40% and its base rate to 0.00%. In addition, it announced an increase (to €80 billion per month) in its monthly asset purchase programme and the addition of corporate bonds as eligible assets under the programme. In December the ECB announced that the asset purchase programme would be extended from March 2017 until the end of 2017, with a reduction in purchases (to €60 billion) from April onwards. It also made technical changes to the programme to facilitate implementation; these included the possibility of purchasing government bonds yielding below the marginal deposit rate. A further change in 2016 was the introduction of new longer-term financing operations as an incentive to banks to increase lending to the private sector. In the United Kingdom, the Bank of England announced a major stimulus package in August to combat the possible adverse effects of Brexit. In particular, it announced a 0.25% reduction in base rates, a reactivated programme of asset purchases (government and corporate bonds) and a new programme to encourage lending to the real economy. Subsequently, following an upward revision of inflation forecasts, it returned to a neutral stance and stated that monetary policy response could go in either direction. In the US, the Fed increased its benchmark rate in December, raising it to a range of 0.50% to 0.75%, a year after the previous rate increase. In September the Bank of Japan, having set its marginal deposit rate at a negative figure (-0.10%) in January for the first time, announced a major change in the way monetary policy was implemented. In particular, it set a target level in the region of 0.00% for the yield on long-term Japanese government debt (G7).

Long-term government bond yields in the major developed countries remained at low levels. In the course of the year yields sank to record lows. The yield on the German 10-year bond, for example, moved into negative territory for the first time ever. In the first half of the year bond yields were depressed, first by global market turbulence, and then by the uncertainty surrounding the result of the referendum in the United Kingdom. In the case of Germany, the decline in inflation expectations and the ECB's asset purchase programme combined to exert a downward pressure on yields. The summer months were followed by a general upturn in yields, driven by expectations of a rate increase by the Fed, the smaller than expected impact of Brexit, the election of Trump as president of the United States and expectations of a reduction in ECB asset purchases (G8).

Risk premiums in the peripheral European countries ended the year at levels similar to or above those of the year before. Risk premiums were pushed upwards by such factors as financial instability in the first quarter and

G6 Oil price
(dollars per barrel)
Source: Bloomberg

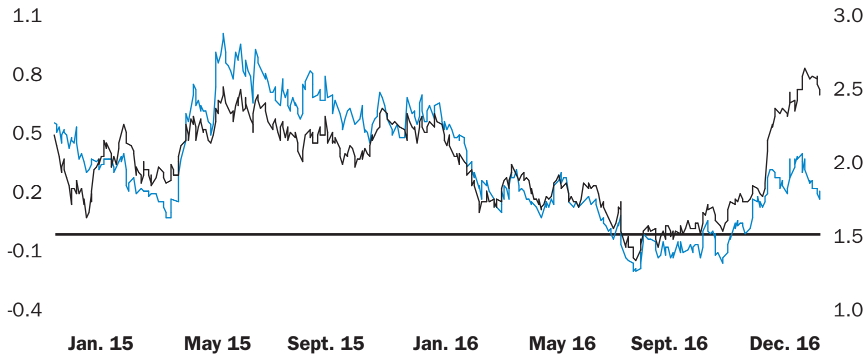


G7 ECB balance sheet
(€ billion)
Source: Bloomberg

the outcome of the US election. There were significant differences among the various countries. Spanish debt, for example, spreads on which hardly increased at all, performed much better than that of Italy or Portugal. The risk premium in Italy was affected by concerns over the country's financial system and uncertainty surrounding the referendum on reforms to the Senate. Portugal's risk premium, apart from being affected by political events and the state of the banking industry, was vulnerable to fears that the DBRS rating agency would remove its investment grade classification from Portuguese government debt (G9).

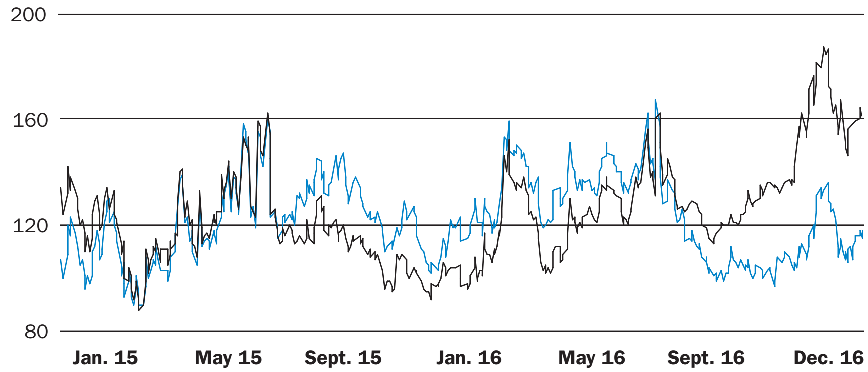
In the emerging economies, financial markets suffered bouts of volatility throughout the year. Emerging market risk premiums, after rising sharply in January and February, fell back and reached levels in August that were the lowest recorded since 2014, against a backdrop of rising global liquidity thanks to monetary easing in the developed countries. In Mexico the markets suffered a major setback as a result of Trump's victory in the US election. Turkish debt was another underperformer in the latter part of the year, as uncertainty grew over the country's political situation and the management of its economy (G10).

On the currency markets, the most significant movement was seen in the pound sterling, which fell sharply against a variety of benchmarks as a result of the uncertainty associated first with the holding, and then with the result, of the referendum on whether the United Kingdom should remain in the EU (G11). Elsewhere, the dollar appreciated against the euro; this is largely accounted for by the dollar's surge in latter part of the year when it found support in growing expectations of rate increases by the Fed (G12). Finally, the yen followed an upward path until



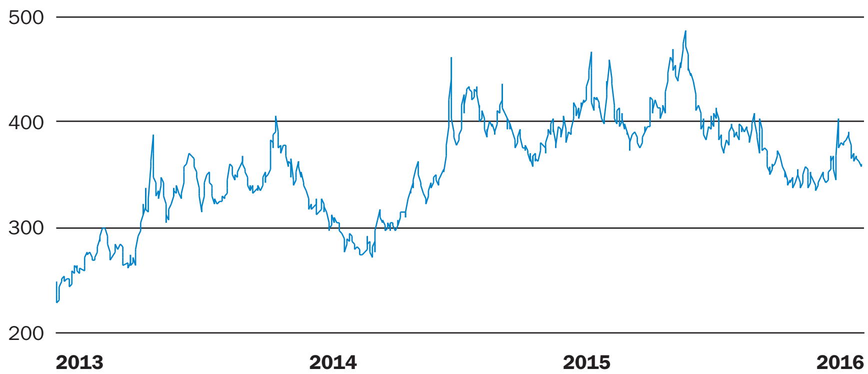
G8 German and US 10-year government bond yields
(%)
Source: Reuters

Germany
USA (right axis)



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

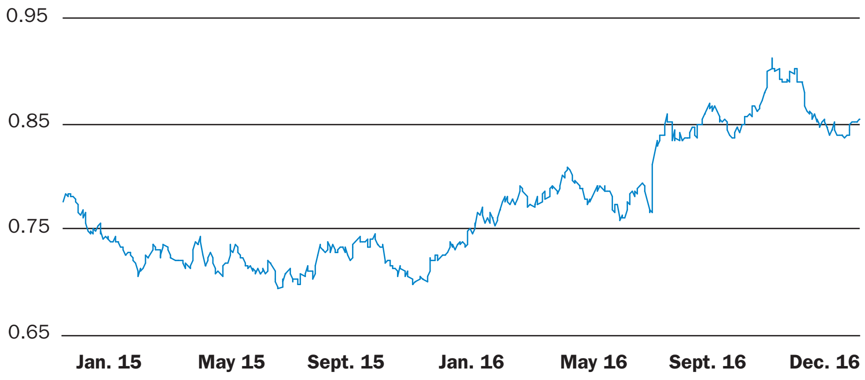
Spain
Italy



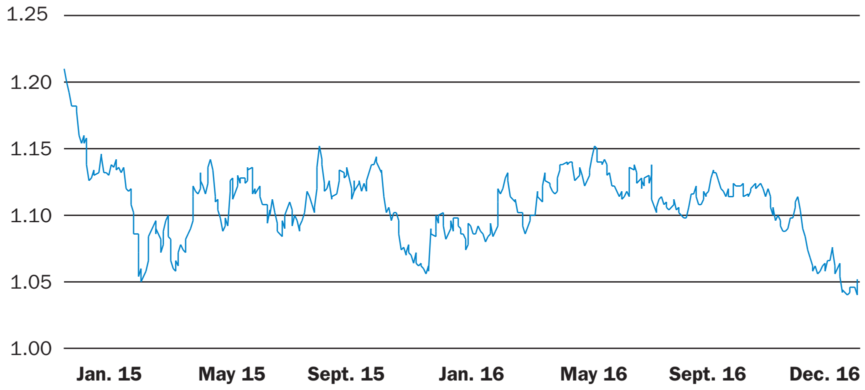
G10 Emerging market risk premium
(EMBI+ index, basis points)
Source: Bloomberg

the summer, supported by financial instability earlier in the year and the heightened uncertainty aroused by Brexit; this despite the setting of negative deposit rates by the Bank of Japan. Towards the end of the year, however, the yen managed to reverse practically all the gains it had made, thanks to the Fed's predisposition to raising its benchmark rate.

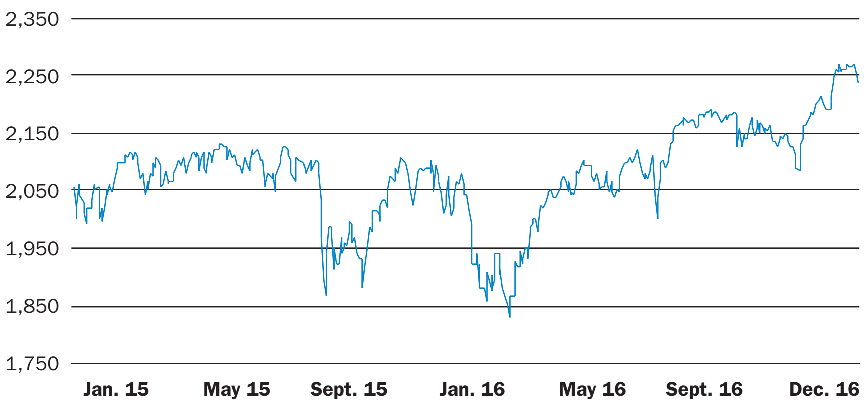
In the equity markets returns in Europe varied widely from one country to another. The gains made by German or French stock indices were in sharp contrast to the falling returns in Spain and, especially, Italy. Generally speaking, after the falls seen early in the year, European stock indices showed no movement in any particular direction apart from the upward movements late in the year. Stock indices were untroubled by events such as the result of the referendum in the United Kingdom. This was helped by ample supplies of liquidity from the main central banks. The S&P index in the US and the FTSE100 in the UK ended the year with significant gains. The British index, however, was down slightly in euro terms as a result of the depreciation of sterling (G13).



G11 Sterling/euro exchange rate
(pounds per euro)
Source: Bloomberg



G12 Dollar/euro exchange rate
(dollars per euro)
Source: Reuters



G13 S&P 500
Source: Reuters

Banking sector

The banking system in the Euro area showed itself to be resilient throughout the many bouts of financial market volatility that occurred in 2016. Banks' capital and leverage ratios showed an improvement on 2015. In late July the European Banking Authority (EBA) published the results of the stress tests carried out on the European banking sector. For all the banks that were tested, the results showed an average CET1 (highest quality) capital ratio of 13.2%, well above the level demanded by regulators. In the worst of the scenarios for which the test was carried out, the average ratio would fall to 9.4% in 2018, with just one bank showing a negative CET1 ratio.

— European banks proved to be resilient in the face of repeated episodes of volatility in the financial markets. Bank profitability continues to face major challenges related to weak economic recovery, persistent low interest rates, asset quality issues and a heavy regulatory burden.

Regulatory environment

Banking Union

2016 was the first year in which the first two pillars of Banking Union were in full operation at the same time.

— The Single Supervisory Mechanism (which seeks to ensure uniform supervision across all Euro area banks;

— The Single Resolution Mechanism (which seeks the effective conduct of resolution processes for failing banks).

Full Banking Union is, however, not complete and a third pillar remains to be added: a European Deposit Insurance Scheme (EDIS).

In its 2015 proposal, the European Commission (EC) recommended that the new EDIS should be introduced gradually. This would begin in 2017 with a Europe-wide reinsurance system for national deposit guarantee schemes, followed by a gradually increasing mutualisation of deposit protection until full mutualisation was reached in 2024. There would in practice be no advance in the sharing of risks until 2020, when the co-insurance phase would begin. In April 2016 the ECB showed its support for the proposal. During the year, however, a number of EU member states expressed a reluctance to embark on any form of risk mutualisation under a deposit guarantee scheme unless the risks still present in domestic banking systems had first been reduced. In response to these reservations, in November the European Parliament's Economic and Monetary Affairs Committee published a draft report in which it modified the Commission's proposal and replaced it with a reinsurance system to be launched in 2019 with little or no mutualisation. The demands of certain key countries and the European political calendar make it unlikely that the European Deposit Insurance Scheme can be in full operation by the time or in the form proposed by the EC.

The Capital Markets Union - an action plan

In mid-September the EC put forward further measures to accelerate the completion of the Capital Markets Union (CMU). The aim of the CMU is to establish a genuine single capital market among EU member states, with a view to providing finance for companies, especially SMEs and start-ups, and thus boosting investment and job creation.

Among the most significant measures proposed by the EC was the early introduction of the package of rules on asset securitisation, which has the potential to rapidly increase the availability of funds in the real economy. In particular, the European Parliament and the Council have adopted a securitisation package that is simple, transparent and standardised (STS). STS securitisations should, it is hoped, free up capacity on bank balance sheets and provide investment opportunities, stimulate the economy and increase financial stability. An agreement has also been reached on modernising the rules governing prospectuses. This will ensure greater ease of access to capital markets, especially for smaller companies. The EC also called on the European Parliament and the Council to finalise a proposal to strengthen venture capital markets and social investments. This will boost investment in venture capital and social projects and make it easier for investors to fund small and medium-sized innovative companies. In addition, the Commission stated its intention to take forward a programme to support the development of national and regional capital markets in member states.

The Commission has also proposed a series of measures to take forward the next phase of CMU actions in the short term. These measures include support for the development of personal pensions; drawing up a comprehensive European strategy on sustainable finance; and a coordinated policy approach that supports the development of FinTech in an appropriate regulatory environment. Finally, the Commission promised to consider, in close consultation with the European Parliament and the Council, the further steps in relation to the supervisory framework that are necessary to reap the full potential of CMU.

Macro-prudential policy

Macroprudential policies (such as rules requiring banks to build additional capital buffers and measures to limit risks in certain sectors) continued to play an important role in 2016.

In August the European Commission started on a consultation process to review the EU's macroprudential framework, having come to the conclusion that macro-prudential regulation had developed incrementally over the years and that the existing fragmentary approach had created deficiencies in the system. The aim of the review is to bring the different elements of the macroprudential framework into alignment to make the system more effective in operation, and to strike the right balance between flexibility at national level and harmonised regulation at EU level. It should be emphasised here that macroprudential policy is a vital complement to monetary policy and microprudential policy, having the capability to address national or sectoral imbalances and thus be a further aid in overcoming disparities in the financial and business cycles of different EU member states.

Regulatory framework

In 2016 the authorities stated their intention to complete the unfinished part of their programme of regulatory reform without significantly increasing overall capital requirements, and at the same time ensuring the integrity of the capital framework. However, the considerable number of legislative reforms in the pipeline (especially in relation to the calculation of risk-weighted assets) and further changes to follow in the gradual implementation (or "phase-in") period continued to weigh on banks' business operations as investors priced in the prevailing regulatory uncertainty in the markets.

Some of this uncertainty was removed by the Commission in late November, when it presented a set of proposals for the reform of bank regulation in the EU with a view to boosting financial stability and strengthen the resilience of the region's banks. This addresses some of the weaknesses in the existing regulations and moves towards the definitive implementation of a more harmonised regulatory framwork within the EU, including regulatory elements that have recently been agreed at international level, while taking account of the specificities of EU institutions and the EU economy.

The EC proposes amendments to the following pieces of legislation:

— The Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism Regulation (SRMR) which were adopted in 2014 and which set out rules on the recovery and resolution of credit institutions and establish the Single Resolution Mechanism, one of the three pillars of the Banking Union.

— The Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) which were adopted in 2013 and set out a regulatory framework of prudential requirements for credit institutions and investment firms, as well as rules on governance and on the supervision of these requirements.

The Commission's proposals include the following:

— Greater harmonisation of national insolvency legislation on the ranking of creditors in the event of insolvency. A new "senior non-preferred" category of senior debt is proposed, which will satisfy the subordination requirements for eligibility as cover for the requirements known as TLAC ("total loss absorbing capacity") and MREL ("minimum requirement for own funds and eligible liabilities"). The MREL applies to all European banks and the TLAC to global systemically important institutions (G-SIIs).

— The introduction of the TLAC into European legislation and the integration of TLAC requirements within the MREL rules, thus avoiding duplication and two sets of requirements side-by-side.

— A binding minimum Leverage Ratio (LR) of 3%.

— A binding minimum Net Stable Funding Ratio (NSFR) of 100%.

— Increased capital requirements for market risk (trading portfolio-related operations).

— Measures to enhance lending to particular sectors (SMEs and infrastructure).

The Commission has submitted this legislative package to tri-partite negotiations with the European Council and the European Parliament (the so-called "Trilogue" meetings) before the final drafts can be adopted as part of European law. Subsequently the directives will need to be transposed into the national laws of the different member states, whereas the regulations are directly applicable and do not require transposition.

In 2016, banking regulation in Spain focused on transposing EU legislation into Spanish law.
Notable new regulations included Bank of Spain Circular 2/2016, of 2 February, on supervision and solvency, which completed adaptation to the Capital Requirements Directive and Regulation (CRD and CRR); Bank of Spain Circular 5/2016, of 27 May, determining the bases and methods for calculating contributions to the Deposit Guarantee Fund; and the adoption by the Bank of Spain, on 27 July 2016, of the Guidelines on sound remuneration policies for credit institutions (EBA/GL/2015/22).

Outlook for 2017

The global economy is expected to maintain a modest growth rate, with politics continuing to play a dominant role. In the political domain the main focus is likely to be on: (i) the negotiations over Brexit and how the UK's external deficit is to be financed; (ii) the various elections due to take place in Europe; and (iii) how Trump's policies are realised and implemented in practice.

We expect fiscal policy to be supportive of economic activity in the developed countries for the first time in several years, with inflation rising from its current low levels and financial risks seeing a change of focus. This last development is likely to take place in a context of further deleveraging in emerging markets and financial market infrastructures proving resistent to negative shocks.

It is therefore likely that central banks will be contemplating a withdrawal of monetary stimulus measures and that there will be upward pressure on yields on core government debt and a tightening of borrowing costs worldwide. On the currency markets, interest rate increases by the Fed will support a strengthening dollar. Elsewhere, the Brexit negotiations and Trump's policies will leave the pound sterling and the Mexican peso looking vulnerable.

At individual country level, US growth will be somewhat above potential thanks to an improved investment performance and a shift in policy towards fiscal easing. In the Euro area, we expect that growth will continue to be led by domestic demand. In Spain, the economy is expected to remain on a positive growth path, albeit at a slower pace than in recent years given the decreasing effect of some of the positive factors that have been driving economic activity. In the United Kingdom the economy is likely to be affected by uncertainty linked to the start of the proccess of leaving the EU.

Finally, the emerging markets are forecast to show some stabilisation of their economic growth. In the major countries, in fact, GDP growth rates are likely to be similar to or slightly above those seen in 2016. This growth will take place against a background in which progress has been made in reducing external and internal imbalances and China continues to take economic stimulus measures to support economic growth. This situation will give scope for reductions in official interest rates in some South American countries. However, the overall economic outlook is expected to remain fragile inasmuch as fiscal and financial conditions continue to look delicate in countries such as China and Brazil.

The European banking sector will continue to adapt to a highly challenging regulatory and operating environment. Banks should benefit from an upturn in inflation, a change in the tenor of monetary policy, and higher long-term returns on assets. However, banking sector profitability will continue to face numerous challenges due to the weak economic recovery, the prolonged low interest rate environment, asset quality issues and a high regulatory burden.

Banco Sabadell Group financial information

Key figures in 2016
Profit performance
Balance sheet management
Liquidity management
Capital management

F

Key figures in 2016

		2015	2016	% 16/15
Balance sheet (€ million)	**(A)**			
Total assets		208,627.8	212,507.7	1.9
Gross loans and advances to customers, excluding repos		152,696.8	150,087.3	(1.7)
Loans and advances to customers - gross		153,425.3	150,095.2	(2.2)
Funds on the balance sheet		162,974.0	160,982.9	(1.2)
Of which: On-balance sheet customer funds		131,489.2	133,456.6	1.5
Mutual funds		21,427.3	22,594.2	5.4
Pension funds and insurance brokerage		11,951.9	14,360.4	20.2
Funds under management		200,355.1	201,588.8	0.6
Shareholders' equity		12,274.9	12,926.2	5.3
Income statement (€ million)	**(B)**			
Net interest income		3,202.8	3,837.8	19.8
Gross income		5,478.4	5,470.7	(0.1)
Profit before impairment and other provisions		2,863.0	2,411.5	(15.8)
Profit attributed to the group		708.4	710.4	0.3
Ratios (%)	**(C)**			
ROA		0.38%	0.35%	
ROE		6.34%	5.84%	
ROTE		7.58%	7.01%	
Cost:income		48.96%	48.68%	
Core capital / Common equity		11.5%	12.0%	
Tier I		11.5%	12.0%	
BIS Ratio		12.9%	13.8%	
Risk management	**(D)**			
Doubtful exposures (€ million)		12,560.8	9,746.0	
NPL ratio (%)		7.79	6.14	
Reserves for NPLs and real estate (€ million)		11,344.0	9,873.1	
Coverage ratio (%)		53.6	51.5	
Share data (period end)	**(E)**			
Number of shareholders		265,935	260,948	
Number of shares		5,439,244,992	5,616,151,196	
Share price (€)		1,635	1.323	
Market capitalisation (€ million)		8,893.2	7,430.2	
Earnings per share (EPS) (€)		0.130	0.130	
Book value per share (€)		2.26	2.30	
Price /Book value (times)		0.72	0.57	
Price /earnings ratio (P/E) (times)		12.55	10.46	
Other information				
Branches		2,873	2,767	
Employees		26,090	25,945	
Number of customers (million)		11.4	11.9	

T1

(A) This table of key figures provides an overview of year-on-year changes in the main items in the group's consolidated balance sheet, focusing particularly on data related to loans and advances and customer funds.
(B) This section sets out key margins from the income statement for the last two years.
(C) The ratios in this section of the table have been included to give a meaningful picture 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.

See list, definition and purpose of the APMs used by the Banco Sabadell Group at:www.grupbancsabadell.com/INFORMACION_ACCIONISTAS_E_INVERSORES/INFORMACION_FINANCIERA/MEDIDAS_ALTERNATIVAS_DEL_RENDIMIENTO

Profit, including provisions and impairments, was stable, with solid growth in banking revenues (net interest income and net fees and commissions).

Net interest income increased in a prolonged period of low interest rates.

Fees and commissions continue to grow, particularly asset management fees.

T2 Income statement

€ million

	2015	2016	% 16/15	Excl. TSB 2015	Ex-TSB 2016	% 16/15
Interest and related income	4,842.4	5,170.1	6.8	4,158.1	3,820.5	(8.1)
Interest and related charges	(1,639.5)	(1,332.3)	(18.7)	(1,494.9)	(1,033.6)	(30.9)
Net interest income	**3,202.8**	**3,837.8**	**19.8**	**2,663.2**	**2,786.9**	**4.6**
Dividend income	2.9	10.0	244.7	2.9	10.0	244.7
Share of income and expense of entities accounted for using the equity method	48.8	74.6	52.8	48.8	74.6	52.8
Fees and commissions (net)	1,003.3	1,148.6	14.5	924.5	1,022.8	10.6
Results from financial transactions (net)	1,208.2	609.7	(49.5)	1,207.1	556.2	(53.9)
Foreign exchange (net)	137.9	16.9	(87.7)	137.9	16.9	(87.7)
Other operating income/expense	(125.6)	(226.9)	80.6	(123.4)	(209.1)	69.4
Gross income	**5,478.4**	**5,470.7**	**(0.1)**	**4,861.1**	**4,258.3**	**(12.4)**
Personnel expenses	(1,457.3)	(1,663.1)	14.1	(1,219.3)	(1,235.6)	1.3
Recurrent	(1,417.5)	(1,595.1)	12.5	(1,183.8)	(1,186.4)	0.2
Non-recurrent	(39.8)	(68.0)	70.6	(35.5)	(49.3)	38.7
Other general expenses	(829.2)	(1,000.3)	20.6	(588.4)	(581.0)	(1.3)
Recurrent	(805.2)	(981.2)	21.9	(579.6)	(581.0)	0.2
Non-recurrent	(24.0)	(19.1)	(20.4)	(8.8)	—	(100.0)
Depreciation and amortization	(328.9)	(395.9)	20.4	(289.6)	(323.2)	11.6
Profit before impairment and other provisions	**2,863.0**	**2,411.5**	**(15.8)**	**2,763.8**	**2,118.4**	**(23.4)**
Provisions for NPLs and others impairments	(2,333.2)	(1,427.1)	(38.8)	(2,333.2)	(1,399.0)	(40.0)
Capital gains on asset disposals	(17.0)	35.1	—	(17.0)	39.5	—
Negative goodwill	231.9	—	(100.0)	231.9	—	(100.0)
Net result from discontinued transactions	—	—	—	—	—	—
Profit/loss before tax	**744.8**	**1,019.4**	**36.9**	**645.5**	**758.9**	**17.6**
Income tax	(32.5)	(303.6)	—	(55.3)	(222.4)	301.9
Consolidated net profit	**712.2**	**715.9**	**0.5**	**590.2**	**536.5**	**(9.1)**
Minority interest	3.8	5.4	42.5	3.8	5.4	42.5
Profit attributed to the group	**708.4**	**710.4**	**0.3**	**586.4**	**531.1**	**(9.4)**
Pro memoria:						
Average total assets	186,538.4	206,265.2	10.6	165,826.8	163,325.7	(1.5)
Earnings per share (€)	0.13	0.13		0.11	0.09	

The EURGBP exchange rate used for the income statement is 0.8166 as of 31.12.16.
Note: The Group acquired control of TSB on 30 June 2015. Consequently, the profit and loss in 2016 are not comparable with those of the preceding year.

Net interest income

Net interest income amounted to €3,837.8 million in 2016, 19.8% more than in 2015. Excluding TSB, net interest income amounted to €2,786.9 million in 2016, an increase of 4.6% compared with the previous year (T2 and T3).

The margin over average total assets was 1.86% (1.72% in 2015). The increase in the average return on average total assets was due to a number of factors, mainly higher customer spreads (due mainly to the lower cost of customer deposits), the lower cost of capital market funding, the reduction in the volume of problematic assets and the improvement in the profitability of the acquired businesses (G1 and G2).

Banco Sabadell (excl. TSB)

+4.6%

Group

+19.8%

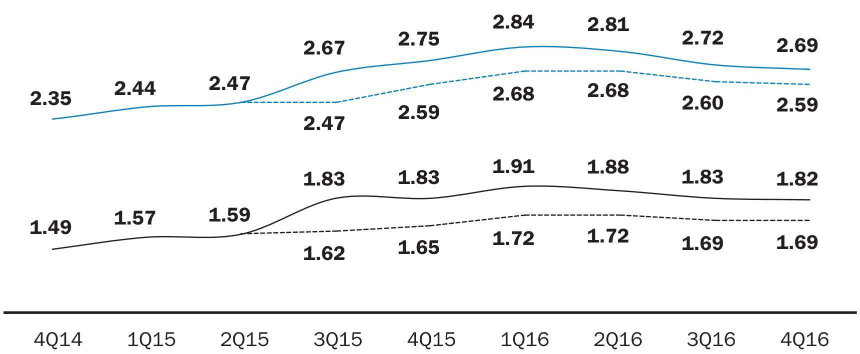
T3 Revenues and expenses

€ million

	2015			2016			16/15		Effect		
	Average balance	**Results**	**Rate %**	**Average balance**	**Results**	**Rate %**	**Average balance**	**Results**	**Rate**	**Volume**	**Days**
Cash on hand and at central banks and credit institutions	7,363.3	42.2	0.57	9,900.2	29.9	0.30	2,537.0	(12.3)	17.3	(29.7)	105
Loans to customers	121,382.9	3,973.8	3.27	138,202.2	4,361.3	3.16	16,819.3	387.5	712.1	(329.9)	5,251
Fixed-income securities	27,388.3	763.5	2.79	27,772.2	658.4	2.37	383.9	(105.1)	4.1	(110.6)	1,381
Subtotal	**156,134.4**	**4,779.6**	**3.06**	**175,874.6**	**5,049.6**	**2.87**	**19,740.2**	**270.1**	**733.5**	**(470.2)**	**6,737**
Equity securities	1,431.5	—	—	1,004.4	—	—	(427.1)	—	—	—	—
Property, plant and equipment and intangible assets	4,228.3	—	—	5,096.6	—	—	868.2	—	—	—	—
Other assets	24,744.1	62.8	0.25	24,289.6	84.2	0.35	(454.5)	21.5	—	21.5	—
Total capital employed	**186,538.4**	**4,842.4**	**2.60**	**206,265.2**	**5,133.9**	**2.49**	**19,726.8**	**291.5**	**733.5**	**(448.8)**	**6,737**
Credit institutions	17,508.8	(140.6)	(0.80)	18,046.2	(78.4)	(0.43)	537.4	(62.2)	18.1	44.6	(408)
Customer deposits	110,217.2	(739.0)	(0.67)	127,985.1	(499.6)	(0.39)	17,767.9	(239.3)	(37.1)	277.0	(587)
Capital market	26,792.2	(660.4)	(2.46)	30,214.3	(585.8)	(1.94)	3,422.1	(74.6)	(110.7)	187.1	(1,682)
Fixed-income repos	9,623.2	(41.6)	(0.43)	6,807.2	(25.4)	(0.37)	(2,816.1)	(16.2)	11.4	4.9	(128)
Subtotal	**164,141.4**	**(1,581.6)**	**(0.96)**	**183,052.7**	**(1,189.2)**	**(0.65)**	**18,911.3**	**(392)**	**(118.4)**	**513.6**	**(2,805)**
Other liabilities	10,148.3	(58.0)	(0.57)	10,280.2	(107.0)	(1.04)	131.9	(49.0)	—	(49.0)	—
Own funds	12,248.6	—	—	12,932.3	—	—	683.7	—	—	—	—
Total funds	**186,538.4**	**(1,639.5)**	**(0.88)**	**206,265.2**	**(1,296.1)**	**(0.63)**	**19,726.8**	**(343.4)**	**(118.4)**	**464.6**	**(2,806)**
Average total assets	**186,538.4**	**3,202.8**	**1.72**	**206,265.2**	**3,837.8**	**1.86**	**19,726.8**	**634.9**	**615.2**	**15.8**	**3,932**

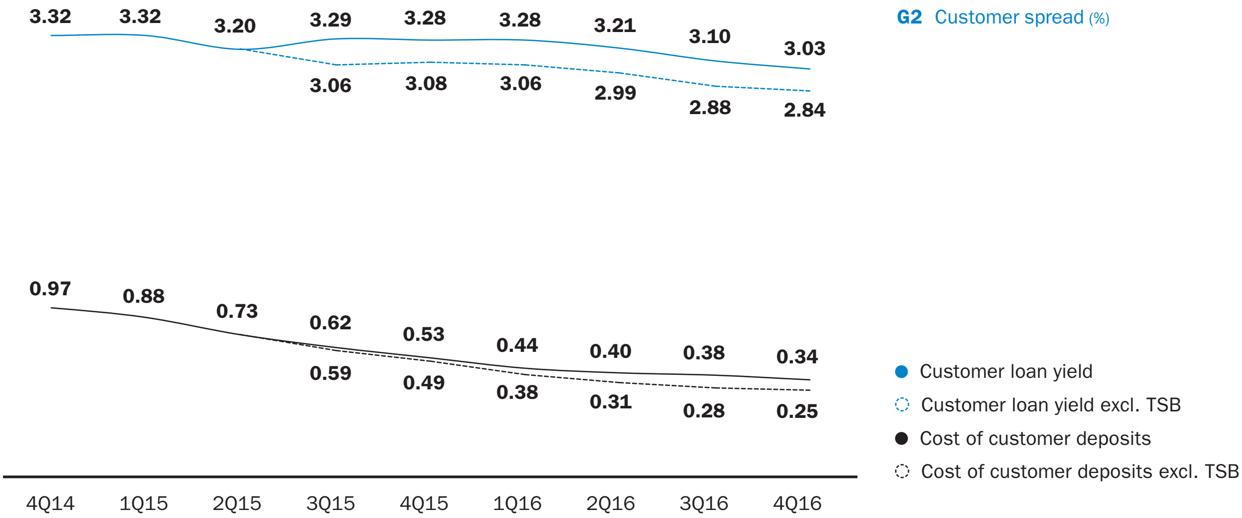
Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most significant item being the revenues from TLTRO II.

The cost of deposits with agreed maturity continues to decline, as does the cost of wholesale funding.



G1 Evolution of net interest income (%)

- Customer spread
- Customer spread, excluding TSB
- Net interest income / Average total assets
- Net interest income / Average total assets excl. TSB



G2 Customer spread (%)

Gross income

Dividends received and income from equity-accounted undertakings together amounted to €84.6 million, compared with €51.7 million in 2015. Those revenues are due mainly to the insurance and pension fund business.

Net fees and commissions amounted to €1,148.6 million (€1,022.8 million excluding TSB), a year-on-year increase of 14.5% (10.6% excluding TSB) (T4). This increase was attributable mainly to positive performance by fees on third-party pension funds and insurance products, which increased by 48.9% year-on-year.

Bank of Spain Circular 5/2014 resulted in income from currency transactions in 2015 being reclassified from exchange gains to net fees and commissions. Adjusting for this reclassification, net fees and commissions in 2016 increased by 5.6% year-on-year (+1.4% excl. TSB).

Fees and commissions (net)

Banco Sabadell (excl. TSB)

+10.6%

Group

+14.5%

€ million

	2015	2016	% 16/15	Excl. TSB 2015	Excl. TSB 2016	% 16/15
Asset transactions	169.7	215.7	27.1	113.1	119.8	5.9
Guarantees	104.0	101.0	(2.9)	104.0	101.0	(2.9)
Commissions from risk transactions	**273.7**	**316.7**	**15.7**	**217.1**	**220.8**	**1.7**
Cards	172.3	191.2	11.0	151.5	156.1	3.0
Payment orders	48.3	50.4	4.3	48.3	50.4	4.3
Securities	52.8	50.4	(4.5)	52.8	50.4	(4.5)
Demand accounts	91.7	89.9	(2.0)	80.8	76.0	(5.9)
Rest	90.4	138.2	52.8	99.8	157.2	57.5
Commissions for services	**455.5**	**520.0**	**14.2**	**433.2**	**490.1**	**13.1**
Mutual funds	146.9	145.7	(0.8)	146.9	145.7	(0.8)
Pension funds and insurance brokerage	94.6	140.9	48.9	94.6	140.9	48.9
Managed accounts	32.6	25.3	(22.4)	32.6	25.3	(22.4)
Asset management fees and commissions	**274.1**	**311.9**	**13.8**	**274.1**	**311.9**	**13.8**
Total	**1,003.3**	**1,148.6**	**14.5**	**924.5**	**1,022.8**	**10.6**

T4 Fees and commissions

Income from financial transactions amounted to €609.7 million (€556.2 million excluding TSB), including €382.5 million in capital gains on the sale of available-for-sale fixed-income financial assets, €109.5 million on the sale of the entire stake in Visa Europe, and -€8.3 million on the sale of the shares in BCP. In 2015, income from financial transactions amounted to €1,208.2 million (€1,207.1 million excluding TSB), including notably €1,045.5 million from the sale of available-for-sale fixed-income financial assets and €150.4 million of gains on the trading portfolio. Sizeable income from financial transactions was obtained on the ALCO portfolio in the first half of 2015, which enabled the bank to enhance coverage levels.

Other operating revenues and expenses amounted to -€226.9 million (-€209.1 million excluding TSB), compared with -€125.6 million in 2015 (-€123.4 million excluding TSB). Notable components of this item include the contribution to the Spanish Deposit Insurance Scheme (-€87.3 million), the contribution to the National Resolution Fund (-€47.7 million) and TSB's contribution to the Financial Services Compensation Scheme (-€7.6 million), the levy on deposits at credit institutions (-€27.6 million) and the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-€57.0 million).

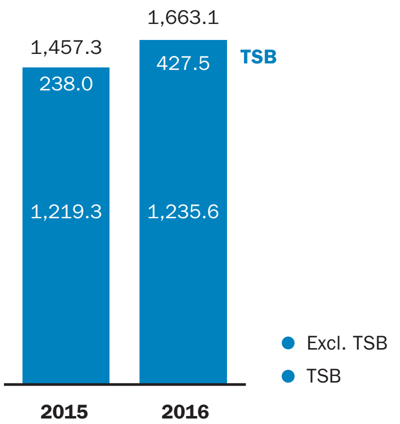
Profit before impairment and other provisions

Operating expenses (personnel and general) amounted to €2,663.3 million in 2016 (€1,816.7 million excluding TSB), of which €87.1 million are non-recurrent items (i.e. connected with the new structure and commercial transformation, and consisting mainly of personnel indemnities);in 2015, operating expenses amounted to €2,286.5 million (€1,807.7 million excluding TSB), including €63.8 million in non-recurrent expenses (G3 and T5).

Personnel expenses
€ million

Group
+14.1%

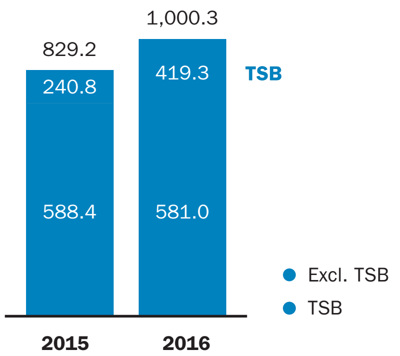
Excl. TSB
+1.3%



Administration expenses G3
€ million

Group
+20.6%

Excl. TSB
-1.3%



Continuous improvement of the costs-to-income ratio due to a digital transformation strategy and successful sales efforts.

The increase in gross income in 2016 combined with the policies to contain operating expenses resulted in an improvement in the cost/income ratio to 48.68% at 2016 year-end (42.66% excluding TSB) compared with 48.96% (44.59% excluding TSB) at the end of 2015. The ratio for 2015 was calculated including €400 million in recurring income from financial transactions.

As a result, profit pre-provisions amounted to €2,411.5 million in 2016 (€2,118.4 million excluding TSB), compared with €2,863.0 million (€2,763.8 million excluding TSB) in 2015.

Provisions for loan losses and other impairments (mainly real estate and financial assets) amounted to €1,427.1 million (€2,333.2 million in 2015). In particular, a provision amounting to €92.3 million was recognised in 2016 for the stake in BCP, the impact of the new Bank of Spain circular on reserves, and the impact of provisions for interest rate floor clauses. At 31 December 2016, Banco Sabadell had recognised €410 million in impairment for adverse outcomes in connection with interest rate floors.

Capital gains on asset sales amounted to €35.1 million, including mainly a €52 million capital gain on the sale of the stake in Dexia Sabadell.

Efficiency ratio

Banco Sabadell (excl. TSB)

42.66%

Group

48.68%

T5 Operating expenses

€ million

	2015	2016	% 16/15	Excl. TSB 2015	Excl. TSB 2016	% 16/15
Recurrent	(1,417.5)	(1,595.1)	12.5	(1,183.8)	(1,186.4)	0.2
Non-recurrent	(39.8)	(68.0)	70.9	(35.5)	(49.3)	38.9
Personnel expenses	**(1,457.3)**	**(1,663.1)**	**14.1**	**(1,219.3)**	**(1,235.7)**	**1.3**
Technology and communications	(224.6)	(293.6)	30.7	(136.5)	(151.2)	10.8
Advertising	(87.5)	(111.1)	27.0	(45.0)	(38.7)	(14.0)
Property, fittings and office material	(211.0)	(249.7)	18.3	(150.9)	(145.7)	(3.4)
Taxes other than income tax	(101.1)	(95.7)	(5.3)	(101.0)	(95.7)	(5.2)
Other	(180.9)	(231.1)	27.8	(146.3)	(149.6)	2.3
Total recurrent	**(805.1)**	**(981.2)**	**21.9**	**(579.7)**	**(580.9)**	**0.2**
Non-recurrent	(24.0)	(19.1)	(20.4)	(8.8)	—	(100.0)
Other general expenses	**(829.1)**	**(1,000.3)**	**20.6**	**(588.5)**	**(580.9)**	**(1.3)**
Total	**(2,286.4)**	**2,663.3**	**16.5**	**(1,807.8)**	**1,816.7**	**0.5**

Profit attributed to the Group

Profit before taxes increased by 36.9% with respect to 2015 (17.6% excluding TSB).

After deducting income tax and the share of profit attributed to non-controlling interests, net profit attributed to the group for 2016 was €710.4 million, a 0.3% increase compared with the previous year. Excluding TSB, attributed net profit would have amounted to €531.1 million in 2016, 9.4% lower than in 2015 due to the fact that the 2015 figure included negative goodwill (net of taxes) on the TSB acquisition.

Attributable net profit

710.4 €mn

16/15

+0.3%

ROTE

7.01%

Balance sheet management

Outstanding loan volumes increased in a context of growing competition.

Good performance by customer funds on the balance sheet, particularly demand accounts.

Exposure to problematic assets has been reduced by €7,400 million over the last three years, amply exceeding the goals of the Triple Plan.

€ million

T6 Balance sheet

	2015	2016	% 16/15
Cash and cash balances at central banks	7,343.5	11,688.3	59.2
Financial assets held for trading	2,312.1	3,484.2	50.7
Financial assets designated at fair value through profit or loss	77.3	34.8	(55.0)
Available-for-sale financial assets	23,460.4	18,718.3	(20.2)
Loans and receivables	153,550.3	150,384.4	(2.1)
Debt securities	1,732.5	918.6	(47.0)
Loans and advances	151,817.8	149,465.9	(1.5)
Held-to-maturity investments	—	4,598.2	—
Investments in joint ventures and associates	341.0	380.7	11.6
Tangible assets	4,188.5	4,475.6	6.9
Intangible assets	2,080.6	2,135.2	2.6
Other assets	15,274.1	16,608.0	8.7
Total assets	**208,627.8**	**212,507.7**	**1.9**
Financial liabilities held for trading	1,636.8	1,975.8	20.7
Financial liabilities measured at amortised cost	189,468.7	192,011.0	1.3
Deposits	159,182.1	162,909.1	2.3
Central banks	11,566.1	11,827.6	2.3
Credit institutions	14,724.7	16,666.9	13.2
Customers	132,891.3	134,414.5	1.1
Debt securities issued	27,864.4	26,533.5	(4.8)
Other financial liabilities	2,422.2	2,568.4	6.0
Liabilities under insurance and reinsurance contracts	2,218.3	34.8	(98.4)
Provisions	346.2	306.2	(11.6)
Other liabilities	2,190.1	5,096.9	132.7
Total liabilities	**195,860.1**	**199,424.7**	**1.8**
Shareholders' equity	12,274.9	12,926.2	5.3
Accumulated other comprehensive income	455.6	107.1	(76.5)
Minority interests (Non-controlling interests)	37.1	49.7	33.8
Equity	**12,767.7**	**13,083.0**	**2.5**
Total equity and total liabilities	**208,627.8**	**212,507.7**	**1.9**
Guarantees given	8,356.2	8,529.4	2.1
Contingent liabilities given	21,130.6	25,208.7	19.3
Total memorandum accounts	**29,486.8**	**33,738.0**	**14.4**

The EURGBP exchange rate used for the balance sheet is 0.8562 as of 31.12.2016.

Assets

At the end of 2016, the total assets of Banco Sabadell and its Group had increased by 1.9% to €212,507.7 million (€168,787.3 million excluding TSB), compared with €208,627.8 million (€165,249.6 million excluding TSB) at the end of 2015.

Outstanding gross loans and advances amounted to €140,557.3 million at year-end (€106,304.6 million excluding TSB). This item increased by 0.1% year-on-year (1.7% excluding TSB), while the balance of doubtful assets was reduced by -22.7% (the same excluding TSB) (T7).

T7

€ million

	2015	2016	% 16/15	Excl. TSB 2015	Excl. TSB 2016	%16/15
Mortgage loans & credit	90,538.6	88,430.6	(2.3)	57,835.9	56,692.3	(2.0)
Other secured loans & credit	2,201.3	2,262.9	2.8	2,201.3	2,262.9	2.8
Commercial loans	5,665.1	5,530.0	(2.4)	5,410.5	5,530.0	2.2
Leasing	2,070.0	2,168.8	4.8	2,070.0	2,168.8	4.8
Overdrafts and sundry accounts	39,892.8	42,164.9	5.7	37,018.9	39,650.5	7.1
Outstanding gross lending	**140,368**	**140,557**	**0.1**	**104,537**	**106,305**	**1.7**
Non performing loans	12,470.4	9,641.5	(22.7)	12,253.8	9,478.0	(22.7)
Accruals	(141.4)	(111.5)	(21.1)	(155.7)	(142.3)	(8.6)
Gross loans and advances to customers, excluding repos	**152,697**	**150,087**	**(1.7)**	**116,635**	**115,640**	**(0.9)**
Repos	728.5	7.9	(98.9)	728.5	7.9	(98.9)
Loans and advances to customers - gross	**153,425**	**150,095**	**(2.2)**	**117,363**	**115,648**	**(1.5)**
NPL and country-risk provisions	(6,609.6)	(4,921.3)	(25.5)	(6,426.0)	(4,835.2)	(24.8)
Loans and advances to customers	**146,816**	**145,174**	**(1.1)**	**110,937**	**110,813**	**(0.1)**

Sound growth in performing loans, driven by companies and SMEs.

The ratio of non-performing loans continues to fall, having reached 6.14% (7.72% excluding TSB), from 13.6% at the end of December 2013.

The largest component of gross loans and receivables was mortgage loans, whose balance was €88,430.6 million as of 31 December 2016 and accounted for close to 60% of total gross loans and receivables (G4 and G5).

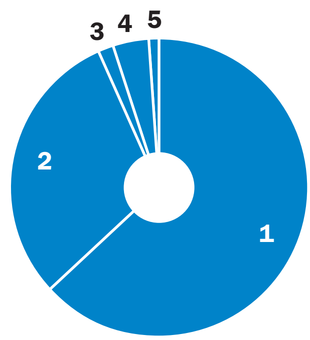
The Group's ratio of non-performing loans (G6 and T8) continues to decline due to the steady reduction in problematic assets (doubtful risks and foreclosed properties) as a result of successful efforts to accelerate asset sales. The doubtful asset coverage level is comfortable, as the coverage of real estate stood at 47.6% at 2016 year-end.

At the end of 2016, the Banco Sabadell Group's balance of doubtful risks amounted to €9,582.5 million, having declined by €2,761.7 million in aggregate during the year.

The balance of problematic assets (which include doubtful risks and foreclosed properties) declined by a notable €2,961.4 million during the year. At 2016 year-end, the Banco Sabadell Group's balance of problematic assets amounted to €18,617.1 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.

The trend in the Group's coverage ratios is shown in table T10.



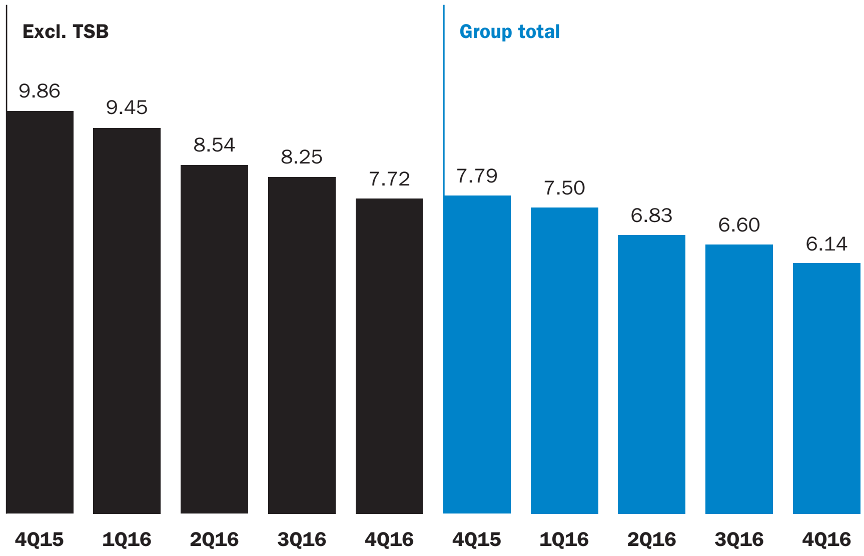
G4
Customer loans, by product type
31.12.2016 (%) (*)

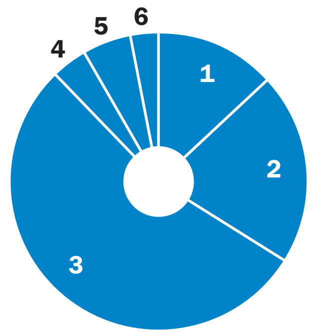
1	Mortgage loans & credit	62.9
2	Overdrafts and sundry accounts	30.0
3	Other secured loans & credit	1.6
4	Commercial loans	3.9
5	Leasing	1.0

(*) Excluding doubtful assets and accrual adjustments.

Pro-active selling of real estate has proved to be a successful strategy.

G6 NPL ratio (%)





G5
Customer loans, by customer profile
31.12.2016 (%) (*)

1	Companies	13.4
2	SMEs	20.8
3	Individuals	54.1
4	General government	4.0
5	Real estate developers	5.2
6	Other	3.0

(*) Excluding doubtful assets and accrual adjustments.

T8 Loan loss ratio by segment

%

Excl. TSB	**4Q15**	**1Q16**	**2Q16**	**3Q16**	**4Q16**
Real estate development and construction	38.81	37.01	33.29	31.99	29.05
Non-real-estate construction	14.36	12.18	11.76	11.62	9.68
Companies	4.62	4.58	3.89	3.84	3.82
SMEs and self-employed workers	10.83	10.23	9.39	8.71	8.47
Mortgage loans to individuals	7.83	7.82	7.47	7.43	7.25
Loan loss ratio	**9.86**	**9.45**	**8.54**	**8.25**	**7.72**

Calculated with contingent risks and 20% of APS balance.

T9 Doubtful exposures and real estate excl. TSB

€ million

	2015				**2016**			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Inflows	755	740	735	729	654	660	547	700*
Recoveries on loans previously written off	(1,557)	(1,471)	(1,275)	(1,273)	(1,111)	(1,629)	(880)	(1,174)
Ordinary net increase in doubtful assets	**(802)**	**(731)**	**(540)**	**(544)**	**(457)**	**(969)**	**(333)**	**(474)**
Assets classified as doubtful in the year	412	710	243	487	364	362	248	384
Sold or otherwise derecognised	(201)	(543)	(242)	(480)	(404)	(290)	(406)	(457)
Change in real estate	**211**	**167**	**1**	**7**	**(41)**	**71**	**(158)**	**(73)**
Net increase in doubtful assets plus real estate	**(591)**	**(564)**	**(539)**	**(537)**	**(498)**	**(898)**	**(491)**	**(547)**
Defaults	245	170	300	234	213	70	144	101
Quarterly change in doubtful balances and real estate	**(836)**	**(734)**	**(839)**	**(771)**	**(711)**	**(968)**	**(635)**	**(648)**

(*) Includes €184 million impact of new Bank of Spain Circular on reserves.

Problematic assets coverage ratio

49.6%

€ million

T10 Group coverage ratios

	2015				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Doubtful exposures	14,863	14,215	13,345	12,561	11,870	10,812	10,328	9,746
Provisions	7,637	7,627	7,385	6,738	6,488	5,847	5,468	5,024
Coverage ratio (%) (*)	**51.38**	**53.65**	**55.34**	**53.64**	**54.66**	**54.08**	**52.95**	**51.55**
Real estate assets	9,059	9,227	9,228	9,234	9,193	9,265	9,107	9,035
Provisions	4,043	3,995	4,071	4,045	3,928	3,997	3,911	4,297
Real estate coverage ratio (%)	**44.62**	**43.30**	**44.12**	**43.80**	**42.73**	**43.14**	**42.95**	**47.56**
Total problematic assets	23,922	23,442	22,572	21,795	21,064	20,077	19,435	18,781
Provisions	11,679	11,622	11,457	10,783	10,417	9,845	9,380	9,321
Problematic assets coverage ratio (%) (**)	**48.82**	**49.58**	**50.75**	**49.47**	**49.45**	**49.03**	**48.26**	**49.63**

NOTE: Includes contingent risks. Figures include 20% of APS.
(*) The coverage ratio of doubtful loans without adjusting for the impairment of interest-rate floors is 47.25% excl. TSB and 47.34% for the entire Group.
(**) The coverage ratio of problematic assets without adjusting for the impairment of interest-rate floors is 47.40% excl. TSB and 47.45% for the entire Group.

On-balance sheet customer funds

+1.5%

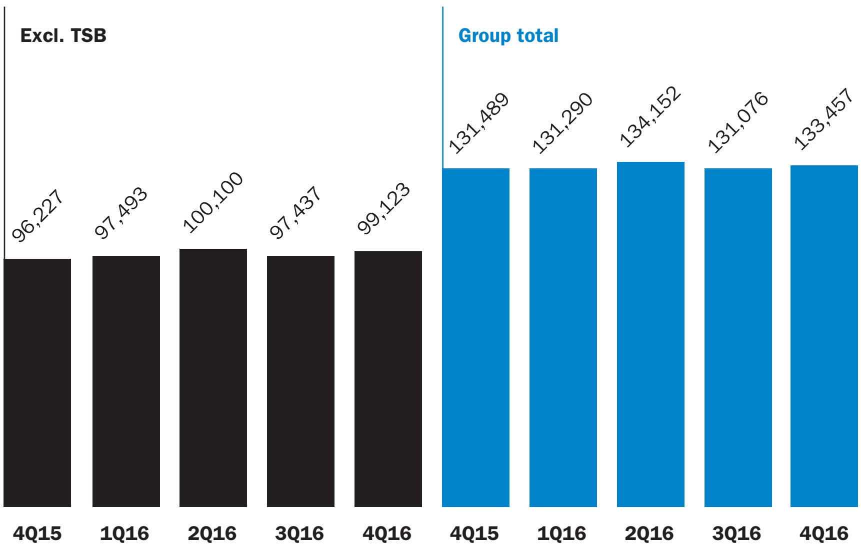
Off-balance sheet customer funds

+8.6%

Liabilities

Customer funds on the balance sheet increased by 1.5% in 2016 to €133,456.6 million (€99,123.0 million excluding TSB), up from €131,489.2 million a year earlier (€96,227.0 million excluding TSB) (T11 and G7).

Demand account balances totalled €92,010.6 million (€62,624.0 million excluding TSB), an 8.8% increase year-on-year (16.3% excluding TSB). Deposits with agreed maturity amounted to €40,154.0 million (€35,206.9 million excluding TSB), a 13.4% decline compared with the previous year (a 15.8% decline excluding TSB) (G8).



G7 Customer-based funding on balance sheet (€ millions)

T11 Customer funds

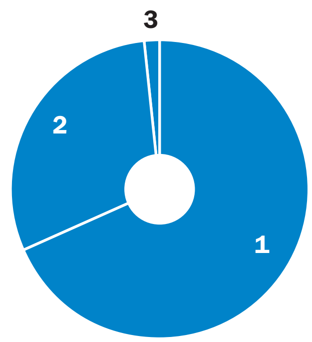
€ million

	2015	2016	% 16/15	Excl. TSB 2015	Excl. TSB 2016	Excl. TSB % 16/15
On-balance sheet customer funds (*)	**131,489.2**	**133,456.6**	**1.5**	**96,227.0**	**99,123.0**	**3.0**
Customer deposits	132,891.3	134,414.5	1.1	97,640.1	99,325.7	1.7
Current and savings accounts	84,536.1	92,010.6	8.8	53,849.5	62,624.0	16.3
Deposits with agreed maturity	46,391.3	40,154.0	(13.4)	41,815.8	35,206.9	(15.8)
Repos	1,950.6	2,072.2	6.2	1,950.6	1,303.0	(33.2)
Adjustments for accruals and hedges with derivatives.	13.3	177.9	—	24.2	191.8	—
Debt and other tradable securities	26,406.6	24,987.5	(5.4)	22,455.9	21,555.2	(4.0)
Subordinated liabilities	1,457.8	1,546.0	6.1	909.8	1,063.3	16.9
Insurance contract liabilities (**)	2,218.3	34.8	(98.4)	2,218.3	34.8	(98.4)
Funds on the balance sheet	**162,974.0**	**160,982.9**	**(1.2)**	**123,224.2**	**121,979.0**	**(1.0)**
Mutual funds	21,427.3	22,594.2	5.4	21,427.3	22,594.2	5.4
Equity funds	1,417.6	1,313.0	(7.4)	1,417.6	1,313.0	(7.4)
Balanced funds	4,271.9	4,253.4	(0.4)	4,271.9	4,253.4	(0.4)
Fixed-income funds	4,327.7	4,773.2	10.3	4,327.7	4,773.2	10.3
Guaranteed return funds	3,380.2	4,057.2	20.0	3,380.2	4,057.2	20.0
Real estate funds	67.4	88.3	31.0	67.4	88.3	31.0
Dedicated investment companies	1,994.2	2,065.4	3.6	1,994.2	2,065.4	3.6
Venture capital funds	—	21.4	—	—	21.4	—
Third-party funds	5,968.3	6,022.3	0.9	5,968.3	6,022.3	0.9
Managed accounts	4,001.9	3,651.3	(8.8)	4,001.9	3,651.3	(8.8)
Pension funds	4,305.1	4,117.0	(4.4)	4,305.1	4,117.0	(4.4)
Individual	2,759.8	2,621.0	(5.0)	2,759.8	2,621.0	(5.0)
Companies	1,529.6	1,481.4	(3.1)	1,529.6	1,481.4	(3.1)
Group	15.8	14.6	(7.2)	15.8	14.6	(7.2)
Third-party insurance products	7,646.8	10,243.4	34.0	7,646.8	10,243.4	34.0
Funds under management	**200,355.1**	**201,588.8**	**0.6**	**160,605.2**	**162,584.9**	**1.2**

(*) 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.
(**) The reduction is due mainly to €2,159 million at Mediterráneo Vida, classified as non-current liabilities in disposable groups that are classified as available for sale.
The EURGBP exchange rate used for the balance sheet is 0.8562 as of 31.12.2016.

Total off-balance sheet customer funds amounted to €40,605.9 million, an 8.6% increase year-on-year. Within this item, the balance of assets in collective investment institutions increased steadily, to €22,594.2 million as of 31 December 2016, i.e. a 5.4% increase year-on-year, while insurance premiums amounted to €10,243.4 million, a 34.0% increase year-on-year.

Total funds under management amounted to €201,588.8 million as of 31 December 2016 (€162,584.9 million excluding TSB), an increase of 0.6% with respect to the balance of €200,355.1 million (€160,605.2 million excluding TSB) as of 31 December 2015 (+1.2% excluding TSB).



G8
Customer deposits
31.12.2016 (%) (*)

1	Demand accounts	68.5
2	Deposits with agreed maturity	29.9
3	Repos	1.5

(*) Excluding adjustments for accruals and hedging derivatives.

Equity

At 2016 year-end, shareholders' equity amounted to €13,083.0 million (T12).

€ million

T12

	2015	2016	% 16/15
Shareholders' equity	12,274.9	12,926.2	5.3
Capital	679.9	702.0	3.3
Reserves	11,110.7	11,688.0	5.2
Other equity	14.3	38.4	168.2
Less: treasury shares	(238.5)	(101.4)	(57.5)
Profit attributed to the group	708.4	710.4	0.3
Less: acciones propias	—	(111.3)	—
Accumulated other comprehensive income	455.6	107.1	(76.5)
Minority interest	37.1	49.7	33.8
Equity	**12,767.7**	**13,083.0**	**2.5**

Liquidity management

The adjusted loan-to-deposits ratio was 105.1% as of 31 December 2016, with a balanced retail funding structure.

The Liquidity Coverage Ratio (LCR) was above 100% as of 31 December 2016.

The bank's funding policy focuses on maintaining a balanced funding structure based mainly on customer deposits base (principally demand accounts and deposits with agreed maturity, collected through the branch network), complemented by financing through the interbank and capital markets, where the entity has various short and long-term funding 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 Eurosystem credit transactions.

Customer funds on the balance sheet amounted to €133,457 million at 2016 year-end, 1.5% higher than the year-ago figure (€131,489 million). In 2016, balances continued to move from deposits with agreed maturities to demand accounts and mutual funds as a result of the downward trend in interest rates. At 31 December 2016, the balance of demand accounts had increased by 8.8% to €92,011 million, whereas deposits with agreed maturity had declined by 13.3%.

€ million

T13

	Excl. TSB 2015	Excl. TSB 2016	Group total 2015	Group total 2016
Gross loans and advances to customers, excluding repos	116,635	115,640	152,697	150,087
NPL and country-risk provisions	(6,426)	(4,835)	(6,610)	(4,921)
Credit mediation	(6,069)	(4,900)	(6,069)	(4,900)
Adjusted net loans and advances	**104,140**	**105,905**	**140,018**	**140,266**
On-balance sheet customer funds	96,227	99,123	131,489	133,457
Loan to deposit ratio (%)	**108.2**	**106.8**	**106.5**	**105.1**

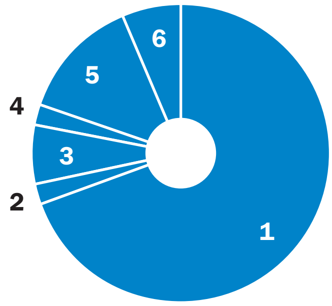
The EURGBP exchange rate used for the balance sheet is 0.8562 as of 31.12.2016 and 0.7340 as of 31.12.15.

During 2016, the funding gap continued to widen, as it had in previous years, which enabled the bank to continue its policy of partially refinancing maturities in the capital markets and, at the same time, the downward trend in the loan to deposits (LtD) ratio (from 147% at 2010 year-end to 105.1% at 2016 year-end). To calculate the loan to deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) is taken as the numerator, and retail funding as the denominator (T13).

The volume of funding obtained in the capital markets has declined in recent years. €4,420 million in capital market funding matured in 2016. In contrast, Banco Sabadell issued €7,658.5 million under its various shelf registrations. Specifically, Banco Sabadell made two public issues of mortgage covered bonds in June (eight years) and October (seven years) amounting to €1,000 million; a €100 million tap of an existing mortgage covered bond in March; three issues of 8-year mortgage covered bonds amounting to a combined €850 million, which were subscribed fully entirely by the European Investment Bank (EIB); a 10-year issue of subordinated bonds amounting to €500 million in May; eight issues of non-convertible bonds at terms of between 1 and 3.25 years for a total amount of €2,488 million, and eleven issues of structured bonds for a total of €220.6 million at terms between 1 and 5 years. In the first half of 2016, TSB placed a securitisation issue for the equivalent of €664 million. (G9 and G10).

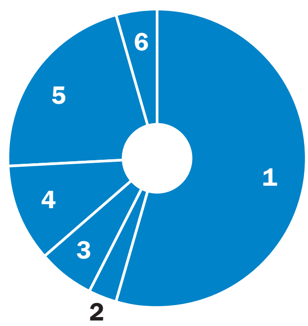
Banco Sabadell participated in the ECB's targeted long-term refinancing operation II (TLTRO II) in 2016 for a total amount at year-end of €10,000 million; at the same time, it repaid €11,000 million that it had borrowed under the TLTRO transactions in late 2014.

The group has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs. The Liquidity Coverage Ratio (LCR) entered into force on 1 October 2015 and will be phased in until 2019. The required ratio was 70% in 2016. All the bank's Liquidity Management Units (LMUs) comfortably surpass that minimum requirement. At the group level, the LCR remained well above 100% at all times. With regard to the Net Stable Funding Ratio (NSFR), which is expected to come into force in January 2018, the group has maintained stable levels above 100%.*



G9
Funding structure
31.12.2016 (%)

1	Deposits	69.4
2	Retail issues	2.3
3	Repos	6.4
4	ICO funding	2.2
5	Wholesale market	13.3
6	ECB	6.3



G10
Breakdown of institutional issues
31.12.2016 (%)

1	Mortgage covered bonds	54.7
2	Senior debt	2.8
3	Preference shares and subordinated debt	6.2
4	ECP + institutional commercial paper	10.5
5	Securitisation	21.5
6	GGB	4.3

* For more details regarding the Group's liquidity management, the liquidity strategy and changes in liquidity, see the chapter on "Liquidity risk management"

Rating upgrades.

Credit ratings

In 2016, the three rating agencies that assess Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS (T14). Below are details of the current ratings and the last date on which they were affirmed.

On 2 August 2016, DBRS Ratings Limited confirmed Banco Sabadell's long-term rating at BBB (high) and its short-term rating at R-1 (low). The agency highlighted the bank's strong franchise in Spain, good integration of TSB, and the capacity to reduce problematic assets faster than its rivals. The outlook remained stable.

On 2 November 2016, S&P Global Ratings improved the outlook on Banco Sabadell's rating to positive (from stable) and affirmed the BB+ long-term rating and the B short-term rating. The positive outlook was based mainly on the significant improvement in asset quality, stronger capital and consolidation of the market position in Spain, as well as geographical diversification of revenue sources.

On 1 December 2016, Moody's Investor Service announced an upgrade of Banco Sabadell's deposit rating to Baa2/Prime-2 (from Baa3/Prime-3) and its senior debt rating to Baa3 (from Ba1). The outlook on both the long-term deposit and senior debt rating is stable. Moody's said the rating action reflected the improvement in Banco Sabadell's fundamentals, mainly in terms of risk, due to substantial decline in problematic assets tending to continue in the following year.

Banco Sabadell met with the three agencies in 2016. These visits or conference calls discussed the Bank's strategy, TSB's performance, results, capital, liquidity, risks and credit quality, and problematic asset management (T14).

T14

Agency	Date	Long term	Short term	Outlook
DBRS	02.08.2016	BBB (high)	R-1 (low)	Stable
S&P Global Rating (*)	02.11.2016	BB+	B	Positive
Moody's (**)	01.12.2016	Baa3 / Baa2	P-3 / P-2	Stable

(*) Copyright by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. With the permission of Standard & Poor's.
(**) Refers to senior debt and deposits, respectively.

Capital strength: The Group had a CET1 capital ratio of 12% at 31 December 2016.

The stress test performed by the European Banking Authority confirmed the group's strong capital position and its ability to withstand very adverse economic scenarios.

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 2016 year-end is shown in Table T15. 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

%

T15

	2016
Credit risk	82
Structural risk	4
Operational risk	8
Market risk	1
Other	5
Total	**100**

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 (New Basel Capital Accord), 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.

Capital level and quality are metrics used in the Risk Appetite Statement within the Group's Risk Appetite Framework, as set out in the chapter on "Risk management".

For further information on capital management, refer to the annual Basel 2 - Pillar 3 Disclosures, available on the bank's website under the section Shareholder and Investor Information/Financial Information.

Qualifying capital and capital ratios

Regulations

The new regulatory framework under which the European Union implemented the Basel III capital accords of the Basel Committee on Banking Supervision (BCBS) known as Basel III came into force on 1 January 2014 and will be phased in until 1 January 2019.

This new framework, which is made up of Directive 2013/36/EU, generally known as CRD-IV, and Regulation (EU) 575/2013, generally known as the CRR, structured in three pillars, 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 (Pillar I), as well as capital self-assessment process (Pillar II), and the public information to be disclosed to the market (Pillar III).

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 2016).

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.

The stress test performed in July 2016 by the European Banking Authority in cooperation with the European Central Bank concluded that, in the most adverse scenario considered, the Banco Sabadell Group would have a Common

Equity Tier 1 (CET1) capital ratio of 8.19% on a phased-in basis and 8.04% fully loaded in 2018, evidencing the Group's capital strength and its resilience in the face of very adverse economic circumstances.

Additionally, in November 2016, the bank also received notice from the European Central Bank with regard to its decision on prudential minimum capital requirements for the bank in 2017, following the Supervisory Review and Evaluation Process (SREP): the Banco Sabadell Group is required to maintain a CET1 ratio of 7.375% on a consolidated basis, measured with respect to the phased-in regulatory capital. This includes the minimum required under Pillar 1 (4.50%) and Pillar 2 (1.50%), the capital conservation buffer (1.25%) and the requirement deriving from the bank being classified as systemic (0.125%). This is the level of consolidated CET1 below which the Group would be required to calculate the Maximum Distributable Amount (MDA), which would constitute a limit on the payment of dividends, variable remuneration and coupons to holders of additional Tier 1 capital instruments.

Additionally, on the basis of the note published by the Bank of Spain on 14 December 2016 in which it identified the systemic institutions for 2017 and established their capital buffers in line with the European Banking Authority Guidelines on the criteria to identify other systemically important institutions (O-SIIs) (EBA/GL/2014/10), as set out in Standard 14 and Annex 1 of Bank of Spain Circular 2/2016, Banco Sabadell was designated as an O-SII; as a result, its countercyclical capital buffer was set at 0% and its prudential capital buffer a 0.125% for 2017.

At 31 December 2016, the Group had a CET1 capital ratio of 12%. Therefore, those capital requirements do not trigger any of the aforementioned limitations.

Ratios

At 31 December 2016, the group's qualifying capital amounted to €11,852 million, entailing a surplus of €4,966 million, as shown in table T16.

Common Equity Tier 1 (CET1) accounts for 87.2% of qualifying capital.

Under Basel III, Tier 1 comprises CET1, convertible bonds and deductions of intangible assets of the same value.

Tier 2 funds, which contribute 12.8% 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.
Risk-weighted assets (RWA) are broken down by risk type, as shown in graphic G11; the largest single component is credit risk.

The distribution of own funds requirements for this risk class (credit risk), by segment, location and economic segment, is shown in figures G12 y G13.
To calculate risk-weighted assets, the Bank has authorisation from the supervisor to use an internal-ratings based (IRB) method for certain portfolios that represent 52.12% of the total.

Graphics G14, G15, G16, G17, G18 and G19 show the distribution of EAD (exposure at default) and RWA (risk-weighted assets) by segment, and the same information detailed by calculation method.

In addition to the capital ratio, the leverage ratio seeks to enhance capital requirements with a supplementary metric unrelated to the level of risk. It is defined as the quotient between qualifying Tier 1 capital and the exposure calculated from the adjusted balance sheet.

The CRR defines a leverage ratio which will be binding from 1 January 2018. Before that, there is a definition and calibration period from 2014 to 2017 in which institutions are obliged to publish information about the ratio and file it with the supervisor; as a function of the outcome, the latter will make the necessary changes to bring it into force. The ratio is currently reported to the regulator on a quarterly basis, based on a benchmark value of 3%.

The exposure metric is calculated in accordance with the definition in

BIS Ratio

12.8%

Qualifying capital

87.2%

Commission Delegated Regulation 62/2015. Table T17 shows the leverage ratio at 31 December 2016 and 2015; it is evident that the institution amply exceeds the minimum required by the supervisor.

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 €6,600 million. These include a rights issue amounting to €1,607 million carried out in April 2015, as a result of the acquisition of TSB (T18).

In 2016, the total amount of the Serie III/2013 issue of mandatory convertible bonds and 25% of the nominal amount of the Serie IV/2013 issue of mandatory convertible bonds were converted mandatorily upon maturity, with no impact on the capital ratios. Additionally, a €500 million subordinated debt issue was placed in 2016, which raised qualifying Tier 2 assets to €1,519 million.

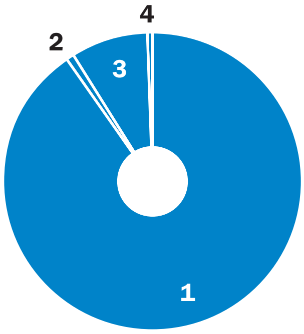
The change in phased-in common equity tier 1 (CET1) for 2015 (€10,209 million) and 2016 (€10,332 million) is mainly due to retained earnings, higher deductions and full inclusion of impairments (including impairment of sovereign debt instruments).

Risk weighted assets (RWA) for the year amount to €86,070 million, a 3.04% decrease compared with the previous year that was attributable principally to sterling's depreciation against the euro in the year.
All of these capital-raising issues and events enabled Banco Sabadell to reach a phased-in common equity tier 1 (CET1) of 12.0% in December 2016, and a total capital ratio of 13.8%, amply exceeding the standards required by the regulatory framework.

€ million

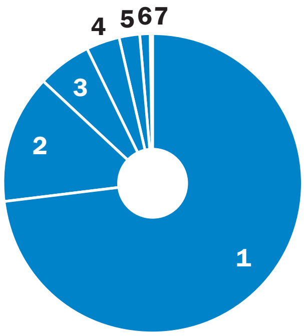
T16

	2015	2016	% 16/15
Capital	679.9	702.0	3.3
Reserves	11,428.7	11,874.2	3.9
Convertible bonds	—	—	—
Minority interest	24.3	21.5	(11.6)
Deductions	(1,923.5)	(2,265.4)	17.8
Common equity Tier 1	**10,209.5**	**10,332.4**	**1.2**
Core capital (Common equity Tier 1) (%)	11.5	12.0	—
Preference shares, convertible bonds and deductions	—	—	—
Primary capital	**10,209.5**	**10,332.4**	**1.2**
Tier I (%)	11.5	12.0	—
Secondary capital	**1,207.9**	**1,519.2**	**25.8**
Tier II (%)	1.4	1.8	—
Total capital	**11,417.4**	**11,851.6**	**3.8**
Minimum capital requirement	7,101.5	6,885.6	(3.0)
Capital surplus	**4,315.9**	**4,966.0**	**15.1**
Total capital ratio (BIS ratio) (%)	**12.9**	**13.8**	**7.06**
Risk weighted assets (RWA)	**88,768.7**	**86,070.0**	**(3.0)**



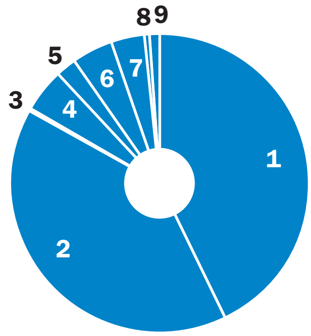
G11
Breakdown of capital requirements by exposure type
31.12.2016 (%)

1	Credit risk	90.54
2	Market risk	0.82
3	Operational risk	8.35
4	Credit impairment risk	0.3



G12
Own resources requirements per geography
31.12.2016 (%)

1	Spain	73.29
2	UK	13.81
3	North America	5.87
4	Rest of EU	3.49
5	Latin America	2.32
6	Rest of the world	1.05
7	Rest of OECD	0.16



G13
Finance, commerce and other services
31.12.2016 (%)

1	Finance, commerce and other services	42.83
2	Individuals	40.33
3	Extractive industries	0.35
4	Manufacturing industries	4.68
5	Energy production and distribution	2.14
6	Real estate development	4.46
7	Transport, distribution and hospitality	3.77
8	Agriculture, livestock, hunting and fishing	0.53
9	Construction	0.89

T17

€ million

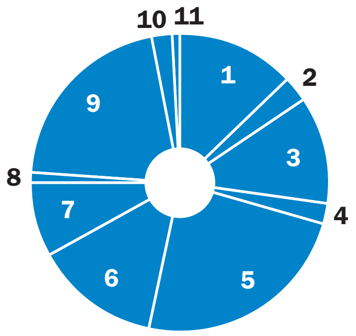
	2016	2015
Tier 1 capital	10,332.0	10,209.0
Exposition	217,919.0	210,370.0
Leverage ratio	**4.74%**	**4.85%**

T18

€ million

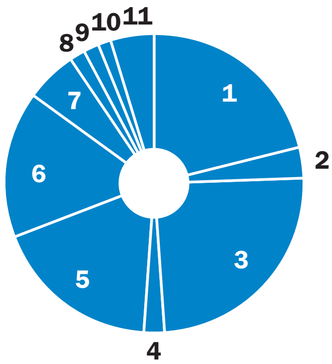
		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and repurchase of preferential and subordinated shares)	411	+68 bp of Core Tier 1
February 2012	Preferential shares swapped for ordinary shares	785	+131 bp of Core Tier 1
March 2012	Capital increase	903	+161 bp of Core Tier 1
July 2012	Preferential debt instruments and Banco CAM subordinated shares swapped for ordinary shares	1,404	+186 bp of Core Tier 1
September 2013	Accelerated bookbuilding and rights issue	1,383	+178 bp of Core Tier 1
October 2013	Mandatorily convertible bonds issued and exchanged for B. Gallego hybrids	122	+17 bp of Core Tier 1
April 2015	Rights issue - TSB	1,607	+181 bp of Core Tier 1

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 Group's consolidation scope in the last few years.



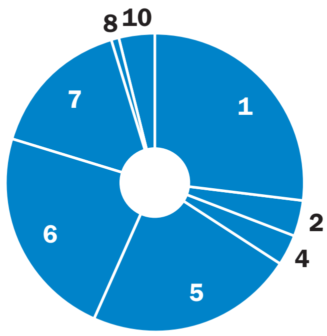
G14
EAD by segment
31.12.2016 (%)

1	Companies	13.03
2	Financial institutions	2.74
3	Other	11.49
4	Loans	2.27
5	Mortgage loans	23.93
6	Retail SME	13.51
7	Corporate SME	8.23
8	Other retail	1.15
9	Public sector	20.77
10	Retailers and sole proprietors	2.03
11	Equities	0.83



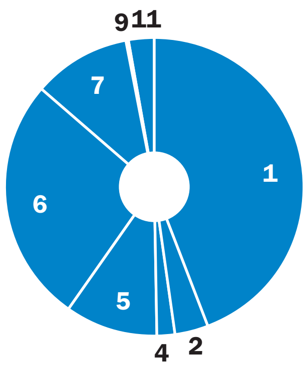
G15
RWA by segment
31.12.2016 (%)

1	Companies	21.36
2	Financial institutions	3.12
3	Other	24.64
4	Loans	2.20
5	Mortgage loans	18.03
6	Retail SME	15.85
7	Corporate SME	5.50
8	Other retail	1.66
9	Public sector	1.69
10	Retailers and sole proprietors	1.45
11	Equities	4.51



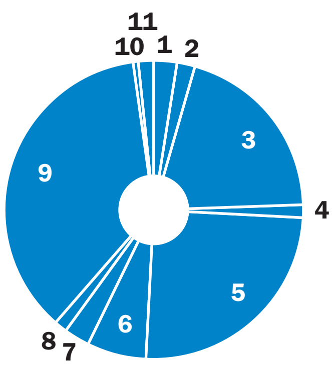
G16
EAD by segment, using IRB method
31.12.2016 (%)

1	Companies	27.18
2	Financial institutions	3.70
3	Other	—
4	Loans	3.41
5	Mortgage loans	22.61
6	Retail SME	22.95
7	Corporate SME	15.65
8	Other retail	0.77
9	Public sector	—
10	Retailers and sole proprietors	3.73
11	Equities	—



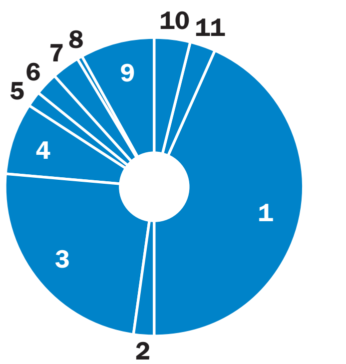
G17
RWA by segment, using IRB method
31.12.2016 (%)

1	Companies	44.18
2	Financial institutions	3.71
3	Other	—
4	Loans	1.97
5	Mortgage loans	10.02
6	Retail SME	26.58
7	Corporate SME	10.50
8	Other retail	—
9	Public sector	0.51
10	Retailers and sole proprietors	—
11	Equities	2.52



G18
EAD by segment, using standard method
31.12.2016 (%)

1	Companies	2.52
2	Financial institutions	2.03
3	Other	20.04
4	Loans	1.42
5	Mortgage loans	24.92
6	Retail SME	6.50
7	Corporate SME	2.71
8	Other retail	1.43
9	Public sector	36.21
10	Retailers and sole proprietors	0.77
11	Equities	1.45



G19
RWA by segment, using standard method
31.12.2016 (%)

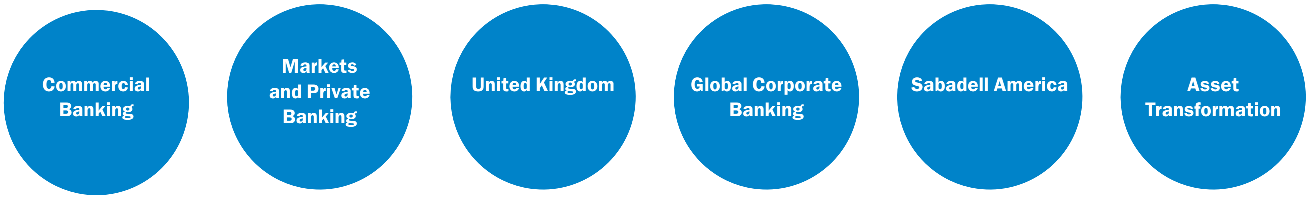
1	Companies	4.05
2	Financial institutions	2.67
3	Other	43.33
4	Loans	2.38
5	Mortgage loans	24.10
6	Retail SME	7.70
7	Corporate SME	1.71
8	Other retail	2.53
9	Public sector	2.97
10	Retailers and sole proprietors	0.64
11	Equities	7.93

Businesses

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

B

The Group is organized into the following business areas and has six autonomous regional divisions:



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 specialisation ensures that customers receive a top-quality, personalised 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 for 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; Asset Management 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. It encompasses Corporate Banking, Structured Finance, Trade Finance and International Financial Institutions (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 specialised 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 by Sabadell Capital SOFOM and Banco Sabadell Institución de Banca Múltiple in Mexico.

Asset Transformation

Asset Transformation is responsible for managing nonperforming 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.

Commercial Banking

Key developments in 2016

Noteworthy developments in 2016 were a rise in net interest income, deeper customer relationships, substantial growth in the insurance business, especially insurance linked to pensions, increased increased home and consumer loan and strong growth in current accounts and mutual fund assets.

Key priorities for 2016, the last year of the Group's Triple business plan, were increased profitability and transformation of the business model with the aim of securing higher returns and getting greater productivity from new capacity added as a result of recent acquisitions.

In the business customer segment its efforts were focused on two key aims: attracting customers and growing its loan portfolio. The result was another year of increased growth, both in customers and in market shares.

Improvements in both productivity and customer experience were achieved thanks, in part, to the introduction of tablets as an aid for the use of sales personnel during visits to potential customers, especially in the business and retailer segments of the market. To meet its lending targets and to further its aim of giving access to credit to any business requiring it, the Group continued its policy of reaching agreements with regional, national and European official bodies, and of reaffirming its commitment to the customer.

The Bank continued to be an acknowledged domestic leader in the franchising market and was able to position itself as a major player in the agricultural and holiday/tourist markets, and to do so barely three years after setting up special units to develop its business with these customer segments.

In the individual customer segment its efforts were directed towards two aims: maintaining the high levels of new customer enrolment achieved in earlier years and becoming the main bank for all its customers by developing durable customer relationships and providing a quality service and a better customer experience.

In fulfilling its customer enrolment target, a key product was the "Cuenta Expansión" account in its different variants, enabling us to initiate relationships with customers based on their needs.

Banco Sabadell continues to emphasise customer experience as the main differentiating factor in gaining a competitive edge that is sustainable over time, and has set itself the goal of becoming a leader in customer experience ratings in every market segment by the end of 2020.

To realise this aim the Bank brought about a change in the way it interacted with the customer. In 2016 it introduced a new concept of "multi-location" branch banking and rolled out "Active Management" for Retail Banking customers, whose purpose is to "be where the customer is". The Bank provides each customer with an account manager equipped with tools and capabilities to interact with the customer in a closer, more flexible and more timely way and saves the customer from having to call in at the branch.

Additional services were likewise put in hand to improve customers' day-to-day banking experience, such as extending digital signatures to all customers, and introducing payments by mobile phone for store purchases (SabadellWallet) and person-to-person payments (Bizum).

Key business data

In 2016 the net interest income attributable to Commercial Banking was €2,212.3 million and profit before tax was €1,133.4 million. The ROE was 15.7% and the cost:income ratio was 48.1%. Business volumes included €76,928 million in loans and receivables and €95,726 million in customer deposits and funds under management (T1).

Customer segments

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

Companies, businesses, government and local authorities

Companies

The year 2016 saw further development of the Bank's new approach to building relations with companies based on the “Our Promise to Businesses” plan. This plan puts the customer at the centre of the relationship and includes a written undertaking by the Bank to honour commitments on certain aspects that are of importance to most customers: responding to a loan application within not more than seven days, keeping the terms of its credit facilities unchanged for the following twelve months, not changing a customer's designated account manager, and other commitments. The plan has been highly rated by customers in quality surveys and is the main vehicle that will enable the Bank to become its customers' main provider of financial services.

This new relationship model, along with a high-energy promotional campaign to gain new customers, ensured that for another year Banco Sabadell was able to see growth in market share as measured by customer numbers. In 2016 a total of 96,239 businesses were enrolled as customers of the Bank. According to available data at the end of the third quarter, Banco Sabadell's share of the business customer segment was 33.5%. Of particular significance was customer acquisition in the large corporate category, in which the Bank achieved a 72.0% share. One reason for this success was the added value provided by a network of dedicated branches all over the country catering to the needs of large corporate customers.

Lending to business customers was one of the Bank's main priorities in 2016. This, combined with an improving economic outlook, was undoubtedly had a positive effect on companies' investment decisions and helped the amount of new lending to exceed the previous year's figure. The Bank's aim of increasing its lending to customers was grounded in a determination to place customers and their needs at the heart of the relationship and, in reaching loan decisions, to put "knowing the customer" first and rigorously apply the Group's risk policy at all times; as a result, the Bank was able to lend more and at the same time reduce its loan loss ratios.

On the deposit-taking side, the Bank's performance was highly satisfactory despite the difficulty of operating in an environment of extremely low interest rates, with deposits rising by 3.1% compared with the year 2015.

Solid growth in performing loans, driven by large companies and SMEs.

T1 Commercial Banking

€ million

	2015	2016	% 16/15
Net interest income	**2,141.99**	**2,212.33**	**3.3**
Fees and commissions (net)	651.56	733.82	12.6
Other revenues	(55.64)	(127.51)	129.2
Gross income	**2,737.91**	**2,818.64**	**2.9**
Operating expenses	(1,395.26)	(1,383.80)	(0.8)
Operating profit/(loss)	**1,342.66**	**1,434.85**	**6.9**
Profit/loss on problematic assets	(642.93)	(301.39)	(53.1)
Profit/loss before tax	**699.73**	**1,133.46**	**62.0**
Ratios (%)			
ROE (profit / average shareholders' equity)	8.9	15.7	—
Cost:income (general administrative expenses / gross income)	49.9	48.1	—
NPL ratio	9.0	7.4	—
NPL coverage ratio	52.7	38.6	—
Business volumes			
Loans and advances	77,708	76,928	(1.0)
Customer funds	94,053	95,726	1.8
Securities deposited	9,008	6,873	(23.7)
Other information			
Employees	12,550	12,343	(1.6)
Spanish branches	2,190	2,105	(3.9)

In 2016 we continued our drive to offer more up-to-date, more specialised products and services.

Domestic market

Our focus in 2016 was on making more products available in a format that would be simpler for customers, improving our processes and using clear language to make products more user friendly. This included bringing the new SEPA Rulebook into operation while keeping Core as the basic scheme along with the B2B scheme for businesses, with the aim of making payments simpler and more straightforward and with a single, shorter, presentation period.

The same approach was adopted in changes made to a variety of more specialised products.

In the area of factoring, work was done to upgrade the product and add new features such as import VAT factoring, of special interest to firms operating as forwarding agents. We maintained our focus on improving response times for customers in our credit scoring process, allowing for an immediate response to be given when required. All these improvements were very well received by customers, making 2016 a good year for business and pushing market share to 11.45% in September, an increase (year-on-year and quarter-on-quarter) that was above the industry average for Spain.

Our supplier payments management service (known as "Confirming") saw improvements being made to the "Pronto Pago" fast payment service and a wider variety of foreign currency payment options. All this, combined with our "Crediglobal" working capital finance scheme, meant a range of new solutions and facilities for our customers and was reflected in a 11.55% market share in September and an increase which, as in the case of factoring, was above the Spanish industry average on a year-on-year and a quarter-on-quarter basis.

Documentary credits also continued to do well and to hold a strong market position, with our market share remaining steady at around 30% for export documentary credits and over 16% for import documentary credits. All in all, we maintained our leading position in this market and in 2016 the Bank was named Bank of the Year for Spanish firms' foreign trade operations, for the second year in succession, ("Empresa Exterior" survey).

In line with its aim of helping businesses meet their investment needs, the Bank gave its full support to ICO-sponsored official credit schemes and took a 35.56% share of the total to occupy the top position among participating banks. This leading position was seen in the main ICO schemes such as ICO Enterprises and Entrepreneurs, where it took a 32.85% share, ICO International (52.25% share) and ICO Exporters (39.29%. share). The overall amount disbursed by Banco Sabadell under ICO schemes was €1,665 million.

These partnership agreements with official agencies included agreements with the European Investment Bank, under which credit facilities of various types totalling €300.7 million were made available to businesses. Once again this year, funding was channelled to small and mid-size businesses and sole proprietors under partnership agreements with mutual guarantee societies represented by the Spanish Confederation of Mutual Guarantee Societies and with the Spanish Refinancing Company (Spanish initials: CERSA). Financing under these agreements increased by 54.8%.

Thanks to an agreement with the European Investment Fund as part of the "PYME" Initiative to help small and medium-sized businesses, an extra €220 million in financing was arranged over and above the original amount of €625 million that had been used up in the course of the year.

International trade

The year 2016 saw further specialisation and improvement in the Bank's services for international trade, in two main areas:

First, a move towards greater simplicity through the digitisation of foreign trade products. This included the introduction of online facilities such as orders for the sending and receiving of money transfers and applications for finance and discounting services and the sending of letters of credit in batches. Arrangements were also made to allow outward and inward exotic currency transfers in more than 150 quoted exotic currencies.

Second, an addition to the Bank's range of non-financial services to help Spanish companies become more international: Sabadell Go Export, a facility that is open to customers and non-customers alike and provides assistance to firms in their search for top-level partners to help them venture into foreign markets.

The Bank also continued to develop its "Export for Growth" programme which spotlights potential foreign markets on which Spanish firms have asked for more help and support. In 2016 the programme focus was on Colombia, Peru and Malaysia.

During the year we also launched a series of one-day seminars focusing on sectors or industries where the propensity to export/internationalise was greatest, such as food and beverages or wine production. The first of these seminars were held in Madrid, Barcelona and Valencia, and were very well attended.

Medium - and long-term finance

In medium - and long-term finance the Bank centred its efforts on simplifying its real estate leasing operations. This led to an improved market share in Spain, where the Bank is now the largest provider of leasing finance for office accommodation (data for September).

We also introduced new leasing packages such as "Leasing Turismo Flexible", a product that enables tourist industry customers to adapt their rental payments to their income generation cycle; and "Tax lease", a product designed to address complex financing arrangements in the shipbuilding industry, which has given greater visibility to the sophistication of leasing products in Spain.

To support the financing of investment in innovation (R&D) and to help firms pursue their interest in securing subsidies under Europe's Horizon 2020 programme, a series of "SME Cafés" was launched in Catalonia to focus on loan or lease finance for medium - and long-term investment.

A significant highlight in the area of leasing was the growth in the Group's fleet rental and contract equipment leasing operations ("Sabadell Renting") with business increasing by 28% and 36% respectively.

According to recent data published by the Spanish Vehicle Renting Association, we are the leasing company with the fastest growing vehicle fleet among the main leasing operators (i.e. those with fleet sizes over 5,000 vehicles) in the market. Under the Triple plan, the Bank's Autorenting Division showed a cumulative increase in production of 258% thanks to a strategy of focusing on SMEs and of diversifying its business into fleet and personal leasing (in both of which segments it has a significant share).

It is important to note that this impressive growth was not only "sustained", but was also "sustainable". At the time of writing, 77% of the fleet consists of low-emission (<120 gr CO_2) vehicles. The promotion of new sales channels and the use of introducers were key to this extraordinary achievement by our leasing subsidiary.

In contract equipment leasing, the Bank strengthened its position as a leading 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 was also a provider of finance to end users, energy services companies and suppliers of energy in its different forms.

Businesses

To build on our success in winning new customers and deepening customer relationships, in 2016 we created "Plan Negocios", a plan for businesses featuring an enhanced product offering including our "Cuenta Expansión Negocios Plus" account, the "Kelvin Retail" service, a new process of risk authorisation for business customers and Proteo Mobile.*

During the year, we continued to strengthen and improve plans to increase customer loyalty and win customers at an early stage of the relationship so as to enhance their value 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 €4,000 million being provided to 184,000 customers during the year. Since the new policy came into effect in 2012, the Bank has granted almost €12,700 million in credit to more than 600,000 businesses.

The "We believe" small retailer campaign

The year 2016 saw the "Creemos" (We believe) campaigns targeted on retail establishments being continued in 23 towns and cities all over Spain. 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 in the area and encourage local visits by branch managers. The slogan we used was: "To believe in your neighbourhood is to believe in your local traders". Key to the campaign's success was the involvement of branch managers, who personally visited each retail outlet 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 publicity and a resounding media impact. In 2016 the following municipalities participated in the "Creemos" campaigns: Bilbao, Vic, Badalona, Blanes, Palamós, Igualada, Benidorm, Ibiza, Gandía, Lorca, Ponferrada, Getafe, Pozuelo, Albacete, Burgos, Cádiz, Almería, Huelva, Pola de Siero, Jaca, Azpeitia, Azkoitia and Rentería.

* See the section "Cutting-edge technology" under the heading "The Customer" in the chapter on the Group.

Franchising

The franchising sector was another area of increased activity during a year in which the focus was on profile-raising and business development. Banco Sabadell was an active participant in a number of franchise industry events (trade fairs, training seminars, etc.) and was able, through a large number of partnership agreements, to assist in arranging loan finance for more than 1,500 franchisees amounting to over €400 million, considerably more than in the previous year. In November the Bank organised the second “Franquicia Futura” franchising conference, a truly ground-breaking initiative for the industry, at its central services facility in Sant Cugat, further strengthening Banco Sabadell's key role 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, key aspect to highlight were, once again, the effects of the decline in the Bank's funding costs and diversification into alternative money-market assets. Towards the end of the year, in fact, negative interest rates were being applied to demand deposit accounts, given the state of the market. As always, arrangements with customers were dependent on the nature of their relationship with the Bank and their cash needs and included zero interest on available account balances.

As for alternative investment products, promotional activities focused on three separate areas: first, the promotion and collection of letters of commitment to invest in what will become Aurica III, the first risk capital fund to be sold to third parties; second, the sale of products created by Sabadell Corporate Finance; and third, the sale of money market funds as a replacement for the demand deposit account. These efforts resulted in a broader offering of financial products for the Bank's institutional clients.

Agricultural sector

In 2016 the Bank fortified its position in the agricultural industry as a firm and efficient ally to farmers and other industry professionals. The year saw growing customer numbers in the agriculture, livestock, fishery and forestry sub-sectors. Year after year our product offering, including new products designed specially to meet customers' demanding requirements, enabled the Bank, to offer efficient solutions that were reflected in high levels of satisfaction among existing and new customers.

This success was attributable, in part, to the emphasis placed on "closeness to the customer" in our commercial model. Thanks to our dedicated “agro” branches and more than 700 specialist account managers, we are supporting our customers and "speaking their language".

Business was also kept active though attendance at key trade fairs (in Spain and abroad), seminars and forums as well as through agreements forged with key industry bodies.

These activities helped our market share to rise to 6.1%, compared with a target of 5% for 2016. This performance means that the Bank is now well on the way to its goal of becoming a major bank in the agricultural sector.

Tourism

The year 2016 continued to see development and growth in the Bank's business with the tourist industry, where the primary aim was to make itself a key banking partner to the industry with a value proposition for industry operators and a strong focus on lending. The Bank continued its system of delegates assigned to the Catalonia, Eastern, Central and Southern regional divisions, these being the areas where tourism is most highly concentrated.

The Bank's business with the sector in 2016 consisted mainly of financing for hotel purchases, hotel chains expanding abroad, refurbishments, corporate identity/rebranding and energy efficiency, plus a range of specialist services such as payment media and insurance. The targets set for the year were thus fulfilled, with lending growing by more than 5% and deposits by more than 43% year-on-year.

The Bank also increased its participation at industry conferences, forums and specialist media, and concluded new agreements with major trade associations, both national and local. The Bank was an active participant at the Congress of Spanish Hoteliers in Salamanca in November 2016 and made plans for further such engagements, including the International Tourist Fair (Fitur) in January 2017, at which the Bank had its own stand.

General government

In 2016 work with government and the public sector was greatly affected by the temporary nature of a caretaker administration, which impacted on the activities of government and indirectly on local authorities, because of a lack of investment by the public sector.

In addition, the negative interest rate environment was having a direct impact on prudential requirements (maximum or regulated prices payable by the government), making it difficult to maintain adequate margins in dealing with public sector customers. The narrowing of interest spreads did not, however, prevent the Bank from increasing its net interest margins, thanks to the inclusion of fees for treasury services to government departments and agencies, which enabled the Bank to achieve its targets under the Triple plan; market rates on loans to the public sector grew by 36 basis points, to 6.55%, and on deposits, by 112 basis points, to 6.10%, with the overall margin showing a very satisfactory increase of 40 basis points, to 25.67%.

These increases reflect the implementation of the policy, set out in the Triple plan, of maintaining a general atomisation of customers, thus allowing increases to be made in the cost of treasury services and related tasks. The Triple business expansion plan launched in 2014, plus the changes made in our sales/marketing policies to align our business with the operating environment, ensured that Banco Sabadell was able to maintain its leadership in serving government agencies at all levels.

Individuals

Among the Bank's objectives for the individual customer segment in 2016 were to maintain the high level of customer enrolments achieved in previous years (475,000 new customers signed up), and to become its customers' main bank by building long-term relationships and providing a high-quality service. Banco Sabadell therefore took a decision to make the customer experience the main driver of differentiation to generate a competitive advantage that would be sustainable over time.

The "Cuenta Expansión" account, in its different variants, is the key product that is enabling us to establish relationships with customers based on their needs.

The aim in all our dealings with customers is to be their main bank and to provide them with solutions for every need, whether it be transaction banking, finance, insurance or saving for the long term.

In the course of 2016 a new "multi-location" approach to branch banking was put in place. This included the introduction of Retail Banking Active Management, which allows our customers' banking needs to be served remotely.

In addition, new services were introduced to make customers' everyday banking easier, such as digital signatures for all customers, payments by mobile phone to retail outlets (SabadellWallet) and between individuals (Bizum).

Retail Banking

Retail Banking customers currently make up 82.9% of all the Bank's individual customers and account for 63.8% of net revenue and 57.3% of business turnover.
The business strategy for this customer segment is to be the main bank for more customers by focusing on the "Cuenta Expansión" range of accounts which form the best offering of transaction banking services in the marketplace and have driven an improvement in NPS customer satisfaction scores from -8 to +4.

Our value proposition for retail banking customers is further enlarged by choice of available channels for interaction: branch network, Active Management and new digital facilities.

Active Management

Active management is a new form of interaction with customers that allows us to “be where the customer is”. The Bank provides each customer with an account manager equipped with tools and capabilities to interact with the customer in a closer, more flexible and more timely way without the customer having to call in at the branch. At present the service comprises more than 150 account managers handling some 230,000 customers.

Personal Banking

The year 2016 saw further development of the customer management system launched in 2015, which comprehensively covers all customers' financial and protection needs. The personal account manager is the linchpin of the relationship with the customer and a key element in building lasting relationships and higher levels of satisfaction with Banco Sabadell. Banco Sabadell was ranked second highest in customer experience in a recent study of leading Spanish banks carried out by Accenture. Our intention is to become the top scoring bank within the next few years. We continue to pursue our aim of differentiating ourselves from our competitors through all-inclusive customer management, more proactive account managers and a highly competitive range of products and services.

Key milestones reached include a 3.1% increase in customer numbers and average margin growth of 3.9%.

Expatriates

Expatriates make up more than 940,072 Banco Sabadell customers. In 2016 the expatriate segment again saw double digit growth, with increases of 28.5% in customer acquisition and 25.6% in new mortgage approvals.

And unlike other lenders, in 2016 Banco Sabadell reached an inflexion point in lending growth. New loan approvals actually outpaced loan redemptions.

As for the nationality of borrowers, the British are typically by far the largest group. The uncertainty surrounding Brexit resulted in a slowing of activity, with mortgage lending down by 4.4% on the first half of the year; however this was offset by an increase in lending to other nationalities, notably the francophone countries.

In the expatriate customer segment, the principal sources of new business were referrals by introducers in the coastal regions and major events in Barcelona such as "Expat Breakfast", a networking event co-sponsored with the city government through "Barcelona Activa".

We continued to enhance our value proposition and in 2016 we announced the launch of our Active Management concept for expatriate customers. This gives customers a personal account manager and lets them do their banking wherever they happen to be. These new service capabilities were especially well received by "international nomad" customers.

Young people

Young people made up 19% of our new customers. They are fast becoming a key segment and one that will enable the Bank to provide a full range of solutions for the whole family.

Our commitment to the younger members of the age-group was again demonstrated by the Drawing Contest, designed to interest children in opening an account and helping them to learn the value of money and to become responsible citizens.

With accounts specially designed for young people, we are well positioned to be the bank of choice for this age group.

Our value proposition is based on simple, convenient products that "grow" as the child gets older and maximise the benefits of our digital offering. We aim to interact with this age group throughout its life cycle, which includes three important occasions: “My first bank”, ”My first card payment” and “My first payroll”.

Key products

The current extreme low interest environment requires that banks provide a full and diverse range of products that enable customers to meet their needs and adapt to a changing market and to customers' life cycles.

In this situation the Bank focused on stable balances and ensuring a permanent offering of products such as indexed deposits, mutual funds and non-convertible bonds.

During the year the inflow of funds into mutual funds continued to increase and carried the Bank's share of the mutual fund market to 6.0%. The Bank refined its offering to focus on mutual funds for particular investor profiles and introduced a new range of guaranteed funds assuring investors of a minimum return and the full recovery of their capital at maturity.

The home loan market continued to see an upturn both in property sales and in mortgages, as reflected in an increase in new production of 24.4% in value terms and 18.1% in the number of loans. As a result the Bank's share of new home loans rose to 9.4% by value and 7.9% by number of loans (for the year to September 2016), up from 8.8% and 7.5% 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 31.8% in the first quarter of 2016 to 80.1% in the last quarter of the year. Innovation continued in mortgages with the launch of "Hipoteca Bonificada Mixta" a discounted rate mortgage which offers an initial period of 10 years at a fixed rate and a variable rate thereafter.

Consumer loan production continued to increase and was up 46.42% by volume on the previous year thanks to a focus on branches and a pricing strategy of offering more attractive rates of interest.

During the year there was a significant increase in the use of pre-determined credit scores, which rose from 27% to 44%, and ensured a better experience for customers due to simpler and more responsive processes. There was also an increase in the number of loan agreements made by remote means. Loans arranged online accounted for 14% of the total —up from 6% in 2015— thanks to the availability of online access to loan applications using the Bank's online facilities such as BSOnline or BSMovil. The Bank continued to develop its express loan services such as "Línea Expansión", an online-only service providing an alternative source of credit for minor household expenses. A new loan product launched with the same purpose in mind was "Préstamo Puntual Expansión", an interest-free loan offering total flexibility in repayment.

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 by 9.5%, with credit card billing rising by 15.8%. A major event was the launch of SabadellWallet, an innovative app for making contactless payments at POS terminals by mobile phone, withdrawing money from ATMs without a card, making account balance and card use enquiries or asking smartphone contacts for money easily, conveniently and securely using the Bizum service.

The EFTPOS business also showed substantial increases on the previous year, there was an 26.1% increase in the number of point-of-sale terminals, and turnover increased by 13.54%. The Bank maintained its market-leading position in handling payments for online sales, with e-commerce turnover growing by 35.2%. Further progress was made in developing the payment platform for digital environments with payments being taken on tablets or smartphones, and distance selling via text message or email. In the course of the year payment services were extended to retailers in European countries, thanks to partnership agreements with international payment providers.

Trading brands

Banco Sabadell is the Group’s flagship brand which operates in most of the country’s regions except in Asturias and León, an area served by the Group’s SabadellHerrero brand; in the Basque Country, Navarra and La Rioja, where the Group is represented by its SabadellGuipuzcoano network; and in 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 2016 are described below:

Sabadell Herrero

In the course of 2016, SabadellHerrero gained a total of 22,957 new customers: 20,107 individuals and 2,850 business customers (sole proprietors, businesses, SMEs and large companies). Figures like these have been seen again and again, with minor variations, over the last few years and testify to the high value placed on the Bank's services within the regional market of Asturias and León. Customers can contact their account managers at the region's 174 branches, or remotely through our new Active Management service which went into operation in 2016 and on which, by the end of the year, more than 65% of our customers were interacting with the Bank on their computers or mobile phones.

These ways of operating with the Bank vary from one customer to another, but the reasons for their choice of bank remain unchanged: a full and competitive product offering, excellence in service delivery as a differentiating factor, and a brand that combines the values of Banco Sabadell with local brand recognition within the area served by SabadellHerrero.

2016 was another year of growth in lending in Asturias and León. Total lending was up by 5.92% on the previous year and indicators such as the Bank's share of lending under ICO-sponsored business financing schemes once again put us at the very top of the league table for the region with shares of 69% in Asturias (the largest achieved to date) and 57% in León. The Bank played a very active part in arranging financing for business, as evidenced by agreements entered into with the Oviedo, Gijón and Avilés chambers of commerce and with Astrugar, the reciprocal guarantee society of the Principality of Asturias, to provide finance on favourable terms to sole proprietors, SMEs and other local businesses. It also concluded an agreement with the Asturian Federation of Entrepreneurs (Spanish initials: FADE) and other regional partners to set up the "Increase" programme to support growth and increased scale for SMEs in Asturias. These actions were supplemented by agreements with a large number of professional associations which enabled the Bank to make its services better known to the markets it serves.

Deposits and funds under management increased by 0.19%, with mutual funds again the fastest-moving component. In the prevailing low interest rate environment, it is useful to be able to offer a wide variety of financial options which, combined with good advice, ensure than customers choose the right balance of risk and return for their investment profile. With its expert private banking and personal banking advisors, Sabadell Herrero was able to provide its customers with advice and support on a wide range of savings and pension/retirement products.

During 2016, SabadellHerrero continued to offer customers the benefit of its extensive experience, a feature for which the brand recently obtained recognition at national level. Internal indicators show high average levels of overall satisfaction with branches in mystery shopper surveys, which confirm that 65% of SabadellHerrero branches are providing an excellent standard of service. Our most vital objective is to ensure that this excellence in service delivery is extended to all branches and to all modes, remote or otherwise, of interaction with customers.

In 2016 this commitment to quality of service and closeness to local organisations scored a major success: The Government of Asturias rewarded the commitment shown by the Banco Sabadell Foundation to Asturian society generally and to the University of Oviedo in particular by awarding it the Asturias Silver Medal. These distinctions are, as stated in the citation, awarded for truly outstanding qualities in individuals or institutions whose importance for, and value to, the general interests of the Asturias region make them worthy to receive the accolade. It is a great honour to have our many years of working with the University of Oviedo, and other activities of the Banco Sabadell Foundation in Asturias, recognised in this way.

Another accolade was the Business of the Year prize awarded to the Bank by the Órbigo Association of Entrepreneurs. The association, based in Veguellina de Órbigo (León) and made up of businessmen and women from all over the canton, singled out the Bank for its close to 60 years of uninterrupted support for businesses in the area.

As part of the Bank's sponsorship programme, the Álvarez-Margaride prize is awarded, as a joint sponsorship initiative of SabadellHerrero and the APQ (Asturias Patria Querida) Association, for outstanding achievement in business. The prize was awarded to Antonio Suárez Gutiérrez, an Asturian-Mexican businessman who is President of Grupo Marítimo Industrial S.A., a group of companies of great importance in the Latin American fisheries industry.

2016 saw the renewal of an agreement between the Banco Sabadell Foundation and the Universities of Oviedo and León providing for university grant programmes to be maintained so that students can complete their training by applying it in the daily 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 15th year of the SabadellHerrero Prize for Research in Economics the Banco Sabadell Foundation awarded its prize for Best Young Economist to Nagore Iriberri Etxebeste, a lecturer at the University of the Basque Country and an expert in the fields of experimental economics and game theory as applied to the study of social behaviour.

Sabadell Gallego

SabadellGallego accelerated the pace of sales in 2016, reaping the advantages of being fully integrated into the Bank's commercial systems and customer service quality standards. A total of 25,000 new customers were signed up by the Bank in Galicia, a 20% increase on the previous year's figure. The improvement was seen both in the number of individual customers, which rose by 19,817, and of business customers of all types and sizes, with 5,183 new businesses becoming customers of SabadellGallego.

This growth in customer numbers, together with the deepening of relationships with existing customers, increased the size of the balance sheet and pushed lending up by 14.84%; the result was that for the first time SabadellGallego became a market leader in Galicia, taking a 29% share of business financing arranged under Official Credit Institute-sponsored schemes.

SabadellGallego currently has agreements with the A Coruña, Orense and Santiago chambers of commerce and with leading business associations at regional level (the Galicia Business Confederation), and provincial associations in Pontevedra, A Coruña, Lugo and Orense, to offer finance and support to firms in Galicia for cross-border expansion. To act as a channel for government investment grants, it entered into agreements with the Galician Enterprise Promotion Institute (Igape), the agency tasked by the Galician government's Economy and Industry Department with promoting economic development in the region, and two regional reciprocal guarantee societies, Afigal and Sogarpo.

Another priority action area was primary producers and the food and agriculture industry, in which the Bank concluded business agreements with farming and livestock cooperatives and fishermen's organisations. A high proportion of the Bank's branches are located in rural areas of Galicia, enabling it to forge close links with the region's main agricultural cooperatives and producers. To leverage these relationships it continued to work on its "Avanza" plan to strengthen its position in the primary sector.

Deposits and customer funds grew at a faster rate —up 5.15% on the previous year— driven by increased investment in mutual funds and other off-balance sheet savings instruments. This, together with appropriate advice, ensured that customers were able to invest, despite low interest rates, at the levels of risk best suited to their profiles.

Notable advances were also seen in two areas that are key to the Bank's growth in Galicia: within little more than three years of the takeover of the former Banco Gallego, the Bank has achieved a turnaround in service quality standards, which are now, according to internal surveys, above the already high average for the Bank across the whole of Spain. This improvement in customer experience has been accompanied by rapid progress in brand recognition which, according to independent sources, has enabled us to change in just three years from a poorly recognised brand to one of the best-known brands in Galicia.

In the social and cultural sphere, the Banco Sabadell Foundation continued its support for Galicia's Vigo and A Coruña universities, as well as the Galicia Business University Foundation ("FEUGA"). The Foundation also sponsored an exhibition entitled "Portraits of our Country" organised by the Galician Government's Culture, Education and Universities Department, a collective portrait of Galician people in 70 large-format photographs made specially for the exhibition.

SabadellGuipuzcoano

2016 was the final year of "Plan North", a business development programme covering the years 2015-2016 and one of the regional initiatives envisaged by the Triple plan. The aims of Plan North were to improve brand recognition and grow customer numbers in all market segments.

Actions under the plan included "synchronised" promotional campaigns carried out in a number of municipalities for short periods of time, in which a system of prize draws was used to encourage visits to local stores, thus boosting consumer purchases, and at the same time stimulate people to visit the Bank's branches, with store owners playing the role of introducers. A total of 11 of these actions were carried out in 2016 and were highly successful and gave rise to reports in the local media.

These and other initiatives helped to make the Sabadell Guipuzcoano brand significantly better recognised within its area of influence and caused an almost twofold rise in the level from 7.8% in 2014 to 14.7% in 2016.

As part of the Plan North development programme, specialist customer acquisition managers were put in place with a brief to grow the customer base. The influence of these managers in driving business development was dramatic, resulting in a 28.5% increase in new individual customers and 4.3% in business customers over the year.

Other business indicators showed a satisfactory performance during the year, especially in lending, which increased by 7.9% on the year before and moved us onto a new upward path despite the complex situation in relation to the demand for credit and fierce competition from other lenders. The loan loss ratio was once again the lowest for the Bank, falling to as little as 1.9% within the Basque Country.

Deposits and funds under management grew by 1,8% thanks to the constant dedication shown by branches and the support of sales managers with sector and product expertise. Especially noteworthy was our share of mutual fund assets which, at 13.6%, was a clear indication of the overall investment profile of our customers and their level of financial education.

As a result, despite the challenging environment facing the banking industry, Sabadell Guipuzcoano saw a 3.9% increase in net revenue compared with the year before.

All this was achieved while maintaining a leading position in quality of service, which actually remained at levels slightly above the average for other Banco Sabadell branches.

SabadellGuipuzcoano was again very active in seeking cooperation with other organisations and entered into joint working arrangements such as an agreement on Language Policy and renewed agreements between Banco Sabadell and local business associations such as the Gipuzkoa Association of Entrepreneurs (Adegi) and the Bizkaia Business Confederation (Cebek).

As part of its policy of sponsoring and supporting business and entrepreneurship, the Bank was a participant in the following events:

— Basque Enterprise Evening: presentation of "Best Basque Businessman" prize for 2015.
— Prizes to companies in the Gipuzkoa Chamber of Commerce
— Álava Chamber of Commerce - Internationalisation prizes.
— Business Leadership Forum at the Euskalduna Centre in Bilbao

SabadellGuipuzcoano continued to sponsor and support activities and events in the sporting field including the Tour of the Basque Country cycling stage race, a key event that is extremely well publicised and has a high degree of visibility in the Basque country and in the rest of Spain.

The Bank is also a sponsor of prizes awarded to the year's best Guipuzcoan sportsmen and women. This year's prizewinner was the slalom canoeist Maialen Chourraut, whose superb performance at the Rio de Janeiro Olympic Games won her a gold medal to great acclaim.

Finally, the Bank maintains a constant presence as a sponsor of cultural events of all kinds, acting in most cases through the Banco Sabadell Foundation.

Support for cultural events this year was, of necessity, centred on the city of San Sebastián, the capital of Guipúzcoa, which was European Cultural capital 2016. Banco Sabadell decided that its involvement should take the form of supporting an open-air performance of Shakespeare's *A Midsummer Night's Dream*. It was one of the biggest projects undertaken during San Sebastian's year as European capital. An ambitious project to arouse the emotions, deliver an experience to stimulate all the senses and open a door into the world of classical theatre with a masterpiece of world literature. A fusion of theatre, dance and music, with the audience taking part in the action in the role of the wedding guests at the end of the play.

The Foundation also helped to fund a number of other initiatives, including the University of Deusto's Ada Byron Prize for women technologists, grants for various scientific and cultural projects such as a grant for health research at Biodonostia, the Cámara de Bilbao University awards for Excellence, or the University of San Jorge-Banco Sabadell Foundation grants for research start-up grants.

Activo Bank

ActivoBank ended the year with 52,440 customers and continued to focus on its wealth management business with volumes totalling €1,024.2 million. Account balances were up 39.6% and off-balance sheet funds by 2.8%. Mutual funds grew by 3.6%, with assets reaching a total of €118.9 million; pension fund assets were €47.5 million.

BStartup

BStartup is a Banco Sabadell project that supports start-up businesses in the area of digital technology where the potential for scalability is greatest, with the aim of positioning us as the bank serving innovative technology companies in Spain. The company' primary action areas are:

Special banking products and services. These are provided at 88 dedicated branches all over Spain, where the operating and other requirements of start-ups are likely to be better understood and their demands more effectively analysed. These branches also have a risk assessment process specially for start-ups.

Equity investments in digital companies. This activity is carried on through BStartup10 and BStartup Venture.

BStartup10 is for start-ups in the early stages, where personalised support is offered with a highly intensive programme of training with the Inspirit seed accelerator to help them become established in the marketplace and gain access to further injections of capital. Annual spend is €100,000 per project, with BSCapital as investment partner. Each year 10 projects are selected; investments have been made in 28 start-up companies to date.

BStartup Venture is a vehicle managed wholly by BS Capital which invests in start-up companies seeking series A- or B-type funding. Expenditure may vary from €200.000 to €500.000. This may rise to up to €1 million in later rounds. Since this vehicle was set up, investments have been made in five companies.

The third action area is based on an "open innovation" concept whose purpose is to accelerate the rate of innovation of the Bank through partnerships with firms that play a disruptive role in areas of interest to the Bank. Activities of this type are carried on jointly with the Innovation Department and other departments, according to the nature of the project.

In 2016 the BStartup name began to appear more often in the media and mentions in the press continued to mount, reaching a total of 1,107. The company increased its social media presence and had 6,000 followers on Twitter. In February it was the main topic in messages on Twitter about the Bank. This year BStartup organised or actively participated in 139 enterprise events all over Spain. At the end of the year a total of 49 joint working agreements were in existence with entrepreneur-supporting firms and organisations that are in a position to recommend the Bank's products and services. The business actually generated from this source amounted €303.99 million (€120.06 million in new lending and €201.92 million in deposit and other funding), up 89.17% on the previous year, producing €8.77 million in net revenue.

Occupational groupings and agent partners

The Banco Sabadell unit that manages agreements with professional and occupational associations focuses primarily on winning new business with individuals, small retailers, SMEs and professional practices. At the end of the year, 2,905 partnership agreements with professional associations and occupational groupings were in existence covering a total of 2,923,000 individual members, of whom 742,975 were customers of the Bank and generated more than €23,350 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 2016, more than 44,000 new customers were acquired in this way. New business from this source amounted to €8,600 million.

Bancassurance

Bancassurance – a profitable, growing business.

At 31 December 2016, the total volume of funds under management in insurance and pension plans was €14,371.1 million. Issued premiums on life and non-life policies totalled €511.9 million, up 20% and 11% on the previous year's figures. The insurance and pensions businesses wholly or partly owned by Banco Sabadell reported net profits totalling €154.2 million overall.

At 31 December 2016 the Banco Sabadell insurance and pensions business was structured in the following way:

— Sabadell Vida, Sabadell Pensiones y Sabadell Seguros Generales, in a joint venture partnership with the Zurich insurance group since 2008.
— Mediterráneo Vida, a company that is not taking any new business and is to be sold subject to approval from the regulatory authorities following the signature of an agreement in 22 June 2016.
— Sabadell Mediación, a tied bancassurance operator.
— Exel Broker de Seguros, an insurance broker.

In 2016 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, and a new business style built around a customer relationship based on digitisation, would be key elements.

Sabadell Vida

Total premium income in life insurance for the year 2016 was €4,388.5 million, with Sabadell Vida ranking in second place among Spanish life offices according to recent data published by ICEA, a research organisation for the insurance and pension industries.

In death benefit insurance, premium income totalled €254 million, up 23% on the year-end figure for 2015, an increase that was due to increased sales of both endowment policies and free-standing products. In life-with-savings products, savings under management reached a year-end total of €8,086 million. These numbers put Sabadell Vida in fifth place among its Spanish life industry peers according to recent data from ICEA. A net profit was posted of €104.5 million.

Sabadell Pensiones

Funds under management by Sabadell Pensiones reached an end-2016 total of €3,603.3 million. Of this total, €2,132.9 million related to individual and group pension plans —down by 7% on the previous year— and €1,470.4 million originated from company schemes, up 1% on the 2015 figure. On these measures, Sabadell Pensiones ranked ninth in the industry as a whole according to recent data from Inverco. In 2016 Sabadell Pensiones made a loss of €16,1 million. Earnings were affected by a decision to write down intangible assets recognised following an agreement between Banco Sabadell and Zurich in 2014 to extend exclusive agent status to all the Bank's branches.

Sabadell Seguros Generales

Premium income for the Group's general insurance provider in 2016 was €208.6 million. Most of this income was from home insurance policies. Sabadell Seguros Generales made a net profit for the year of €18.1 million. 2016 saw completion of the operational integration of Mediterráneo Seguros Diversos, which has now been merged into the company.

Sabadell Previsión, EPSV

Sabadell Previsión, a voluntary social insurance society, distributes pension/retirement plans within the Basque Country. At 2016 year-end the society was holding €333.9 million in savings under management, down 3% on 2015.

Mediterráneo Vida

The insurance operations of Mediterráneo Vida, which took no new business in 2016, generated premiums and contributions of €183.8 million, of which €25.1 million related to death benefit policies. In the life-with-savings business the company ended the year with provisions totalling €1,885.5 million. Mediterráneo Vida reported a net profit of €27.2 million. The company's net profit included exceptional income arising from an extension to the reinsurance treaty with SCOR and the collection of part of the variable component payable on the completion of a business plan made under an agreement between Banco Sabadell and Zurich in 2014 to extend exclusive distribution rights to all branches.

At the end of the year the company's pension fund management business, consisting mainly of company pension schemes, had a total of €55.8 million under management.

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 the distribution of insurance by the branch network is handled.

Sales commission income totalled €127.1 million and brokered premium income was €4,830.2 million. Net profit amounted to €30.7 million in 2016.

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 commission income totalled €4 million - a 14% increase - and brokered premium income was €25.8 million. The net profit contributed to the Group in 2016 was €1.5 million, up 21% on the previous year's figure.

Sabadell Consumer Finance

Sabadell Consumer Finance is a Group subsidiary specialising 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 both customers and loans compared with the previous year, as well as increases in market share. Business performance in 2016 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, bringing the loan loss ratio down to 2.3%. The loan loss coverage ratio was 148.5%

During the year the company increased its promotion of credit cards by means of agreements with well-known brands and started preparatory work on an e-commerce based promotional scheme. Overall, in 2016 the company completed a total of 342,526 new finance packages at 10,000 points of sale all over the country. The amount of new lending arranged during the year totalled €566 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 58%. 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 for 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; Asset Management and Research; Treasury and Capital Markets; and Securities Trading and Custodian Services.

Markets and Private Banking continued to carry on its business of offering and designing value-added products and services, deliver good returns to customers and increase and diversify the customer base, as well as providing products and tools to enable firms to manage financial risk, especially that arising from their operations in foreign markets. It also ensured that its business processes remained consistent with its disciplined research and renowned service quality, while moving towards a relationship model based on multi-channel interactions.

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 ability to meet market needs. Constantly reviewed identification and "know your customer" procedures and practices ensure that products are offered and investments are selected 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 as a broker providing access to new markets and its ability to offer customers new services, create new investment opportunities and raise the profile of the brand under which we operate in this business: SabadellUrquijo Banca Privada.

Demanding new regulations are bringing about changes in the way we sell and the advice we give on savings and investment products. The Bank decided to meet these challenges head-on by setting up a new department responsible for Savings and Investment Business Strategy. The department is tasked with developing a response to the new regulatory environment from a business perspective and using that opportunity to build a competitive advantage based on a value proposition for products having regard to new digital channels and solutions.

Key financial data and trading results - 2016

Net interest income amounted to €237 million in 2016, while the profit before tax was €124.4 million. The ROE was 42.3%, and the cost:income ratio was 47%. Total customer funds under management, including securities deposited, amounted to €21,438 million (T2).

SabadellUrquijo Banca Privada continued to add value as a provider of personalised advice and of products specially for private banking customers, such as mutual funds, discretionary portfolio management and SICAVs. These confirmed the position of SabadellUrquijo as a top-ranking Private Banking company.

Sabadell Asset Management ended the year with €14,122.1 million in assets under management in Spanish-domiciled mutual funds, 7.9% more than at 2015 year-end and surpassing the 7.0% growth rate for the industry as a whole. This number assured the Group's fund manager of a 6% share of assets under management by Spanish-domiciled mutual fund managers.

For Treasury and Capital Markets the year 2016 was a year of consolidation, both in the more traditional areas of activity and in those falling within the scope of the Triple plan.

Of the more traditional type of investment, with interest rates at record lows non-convertible bonds continued to gain ground and to be seen as an attractive investment option. However, structured investment products again proved to be of interest to investors in search of higher returns.

In pursuit of its goal of developing and expanding its Capital Markets business, the Bank continued to identify potential financing deals and collect mandates from issuers and institutional clients relying on the Bank's services to meet their financing and investment needs.

The Trading business was affected by the current state of the market, with European market returns at historic lows and excess liquidity at record highs. Despite this, thanks to the Bank's increased international presence, trading operations linked to the world of currency interest rate management and variations in interest rate spreads gained in importance as part of the Bank's overall securities trading operations.

During the year Securities Trading and Custodian Services saw increased participation in deals with issuers, acting as agent bank in operations of various kinds such as intermediary services in liquidity agreements and execution of treasury share transactions, both on the custodian and the brokerage sides.

This year Banco Sabadell could once again claim a leading position among the top three market traders by dealing volume with an 11.80% which was exceeded only by major financial institutions with market shares of between 12.99% and 12.52%.

T2 Markets and Private Banking

€ million

	2015	2016	% 16/15
Net interest income	**44.88**	**49.25**	**9.7**
Fees and commissions (net)	183.41	188.06	2.5
Other revenues	6.90	48.96	610.1
Gross income	**235.19**	**237.02**	**0.8**
Operating expenses	(104.45)	(112.88)	8.1
Operating profit/(loss)	**130.75**	**124.14**	**(5.1)**
Profit/loss on problematic assets	(7.80)	0.31	(104.0)
Profit/loss before tax	**122.95**	**124.45**	**1.2**
Ratios (%)			
ROE (profit / average shareholders' equity)	38.7	42.3	—
Cost:income (general administrative expenses / gross income)	44.0	47.2	—
NPL ratio	4.3	3.0	—
NPL coverage ratio	62.1	47.7	—
Business volumes			
Loans and advances	981	938	(4.4)
Customer funds	16,854	15,554	(7.7)
Securities deposited	6,231	5,884	(5.6)
Assets under management in CIS	15,459	16,572	7.2
Total assets including CIS sold but not managed	21,427	22,594	5.4
Other information			
Employees	529	525	(0.8)
Spanish branches	12	12	—

Banco Sabadell ranked 5th among Spanish banks by volume of assets under management and by number of Sicavs.

Human resources and infrastructure

Bankers	Specialist branches	Customer information centres
181	12	19

Business overview

SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialist service and support tailored to their particular requirements; it combines the value of private banking advisory services with financial strength and the product capabilities of a full-service bank.

The division's sales team can offer support and assistance from people with expertise in products, taxation and wealth management who are there to provide efficient, customised solutions to private banking clients.

Key developments in 2016

In an environment characterised by volatile equity markets and falling interest rates, SabadellUrquijo Banca Privada was able to respond to the demands of the market and honour its promise to customers with a permanent commitment to innovation and the new technologies. During the year 2016 it continued to progress one of the key components of the Triple plan, namely, Transformation. This was done on several levels:

First, it worked on transforming the product design and development process. This meant offering, in addition to more traditional banking products such as deposits, mutual funds, portfolio management or structured investments, such alternative investments as venture capital funds, private equity and hedge funds. Hedge funds give investors opportunities to gain exposure to new business start-ups or niche markets. These provided an interesting alternative for customers with a need for more innovative types of investment.

Second, it launched a transformation in the area of digitisation, resulting in more advanced IT systems for our team of private bankers. Selling and signing up procedures were streamlined and brought into line with the new banking environment by the introduction of tablets for the use of account and relationship managers. These measures helped to bring Banco Sabadell closer to its customers, in line with our advertising slogan "be where the customer is", where such aspects as connecting, product offering and notification/contract signing procedures have been made simpler and more accessible.

Third, the transformation process was applied to the selling skills of our senior Private Banking managers. This led to more intensive instruction on technical aspects and steps to ensure that values such as personalisation, specialisation, commitment and ethically sound attitudes would continue to be observed, and that customer relations would continue to be built on a firm foundation of quality.

Fourth and last, we continued to carry out a transformation of customer advisory services by implementing tests, recommendations and pre-sale product suitability assessments. This meant the customers would always be offered the best financial options based on their level of expertise and risk profile.

Key financial data

The year 2016 again saw an increase in the demand for off-balance sheet investments in preference to traditional deposits, which were still producing less attractive returns.

Against a backdrop of low interest rates and high volatility, combined with a mood of political uncertainty, the year was characterised by a downward trend in fixed-term deposits and a flight into other products such as demand deposits or Banco Sabadell bond and commercial paper issues. In the constant search for financial returns and/or tax advantages, however, the Bank's mutual fund and discretionary portfolio management offerings continued to play a key role.

During the year efforts were made to improve the customer experience for the Religious Institution and Sports & Entertainment categories with a view to achieving Group sales targets.

By the end of 2016 some 5,000 discretionary portfolio management mandates were in place with an overall value of over €1,870 million. Assets held in mutual funds totalled €6,500 million. The number of SICAVs under management at the close of 2016 was 195, with managed funds totalling €2,022 million, an increase of €69 million, or 3.5%, compared with the figure for 2015. In 2016 Banco Sabadell ranked in fifth place among Spanish financial companies in the volume of SICAV assets and the number of SICAVs, gaining a 6.17% share of the market by the close of the year.

At the end of the year Sabadell Urquijo had business volumes totalling €25,837 million and a customer base of 28,000. Moreover, returns as a source of funding increased compared with 2015 and stood at 0.84%.

All the targets set by the Triple plan were satisfactorily achieved, with funds under management at the close of the year amounting to €17,926 million and exceeding the target figure by more than €1,073 million.

SabadellUrquijo Banca Privada is a manager of socially responsible products and in the course of the year it carried out 17 responsible projects selected by an Ethics Committee set up by SabadellUrquijo Cooperación, SICAV, S.A. and Sabadell Inversión Ética y Solidaria, FI, which donated 50% and 35%, respectively, of their management fees to charitable causes.

Asset Management and Research

Sabadell Asset Management accounted for 6% of assets under management in Spanish-domiciled mutual funds.

In the last three years, Sabadell Asset Management has:
— increased the number of fundholders by a factor of 2.3.
— moved up from 7th to 4th largest Spanish-domiciled fund manager.

Business overview

Asset Management and Research is in the business of providing investment advice and recommendations to private customers, companies and institutional investors and managing their investments on a discretionary or collective basis. Within its remit are two other, even more specialised areas: Sabadell Asset Management, parent company of a group of companies operating as managers of collective investment undertakings; and Banco Sabadell's Research Department. Asset Management and Research is responsible for deciding on all content, publications and recommendations held or produced by the Research Department. Part of its mission is to establish a framework for the investment management business, which is conducted through collective investment management companies and other non-tied asset managers.

The approach is to formulate investment recommendations for customers, based on an analysis of market-listed equities and government and corporate bonds, and to make recommendations on the taking of positions in these different asset classes. The recommendations of our analysts are at the heart of our proposed investment solutions.

In making these recommendations and in our discretionary or collective investment management services, our aim is to achieve excellence and ensure a high degree of reliability, sustainability and an excellent return for investors, having regard to their risk appetite, their liquidity preferences and their return objectives.

These services are now available not only to professional investors but to savers wishing to have access to better investment opportunities to preserve or increase their capital with the help of professional fiduciary management and collective investment schemes, mainly for reasons connected with the prevailing extremely low interest rates.

Key developments in 2016

In 2016 the Research Department increased its output of reports containing recommendations for investment in the equity, government and corporate bond markets. There was an increase in the number research reports on listed equity issues. A larger number of reports on corporate bond issues, including both investment grade and high yielding, was produced. The catalogue of research reports was expanded by tracking and probing equity market indices and segments and with studies of debt issues by sovereign governments and government and supranational agencies.

In the course of the year our investment reports, published in the specialist or general media on paper and in audiovisual format, were circulated to over six thousand readers and highlighted the Bank's role as a source of expert financial opinion in the marketplace.

Banco Sabadell's Research Department earned a number of accolades and distinctions. In 2016 the Thomson Reuters StarMine awards named Banco Sabadell's research team second-best research house and stock picker for the Iberian peninsula. This came on top of earlier awards for our Research Department, including third best Iberia research house for estimates and recommendations in 2015; first place as earnings estimator in the materials sector in 2014, and second-best stock picker for Iberia in 2013 and third-best in 2010.

Key financial data

For Sabadell Asset Management in 2016, variable-income guaranteed funds proved to be the main growth area in mutual fund subscriptions. Assets under management grew by a factor of 1.4 to reach a total of €3,286.1 million. A wider range of new fixed- and variable return guaranteed funds was offered during the year, with return guarantees being issued for five guaranteed funds amounting to €1,499.1 million at 31 December 2016. Guaranteed funds as a whole accounted for €4,009.7 million worth of assets at the close of the year. The proportion of assets held in guaranteed funds relative to the total value of Spanish-domiciled mutual funds managed by Sabadell Asset Management was 28.4%, up from 25.5% the year before.

En 2016 Sabadell Asset Management carried out four fund mergers in the course of which seven mutual funds were absorbed into other funds with similar investment objectives, having regard always to investors' best interests. At the end of the year a total of 265 Spanish-domiciled collective investment undertakings were being managed by Sabadell Asset Management (67 mutual funds, one real estate fund, one SICAV and two venture capital funds) and SabadellUrquijo Gestión (194 SICAVs).

Sabadell Asset Management mutual funds earned some outstanding accolades. In 2016 Fitch Ratings, a credit rating agency, acknowledged the high quality of the management of three Sabadell Asset Management fixed-income funds and two of its equity funds, assigning them a "Good" qualitative rating.

Sabadell Asset Management ended the year with €14,122.1 million in assets under management in Spanish-domiciled mutual funds, a figure that was 7.9% above the figure for the previous year and exceeded the

T3 Spanish-domiciled mutual funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assets under management (€ million)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,091.3	14,122.7
Share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95	6.01
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749

7% figure for the industry as a whole. The increase over the period 2014-2016 was 122.1%, compared with 52.9% for the industry. This number assured the Group's fund manager of a 6% share of assets under management by Spanish-domiciled mutual fund managers. In 2016 Sabadell Asset Management was fourth largest manager of Spanish-domiciled mutual funds by asset value, a clear indication of a significantly stronger position given that, at 2013 year-end, it was only the seventh largest. The growth in the number of fundholders was 16,850, a rise of 2.8% on the previous year, and 130.2% more than at the launch of the Triple plan in 2013 (T3).

The introduction of classes of shares in Sabadell Asset Management mutual funds over the period 2014-2016 brought added flexibility and segmentation to the product offering and made the funds price competitive with foreign funds and distributors of other Spanish funds that had already adopted this approach. This helped in generating new business opportunities and bringing the product range into line with new regulatory requirements on the selling of products. In the same period a new range of "profiled" mutual funds was launched on the market. These are managed in such a way as to maintain a constant level of risk despite adverse market movements. One fund of this type that has proved most popular with investors is Sabadell Prudente, FI, which had 11,512 fundholders and assets totalling €2,554.3 million at the close of 2016.

Sabadell Asset Management makes the most of its experience and capabilities in conducting discretionary portfolio management for Banco Sabadell customers. This investment management service is based on a broad choice of investment solutions, some model-based and some customised, providing a response to the need for these services on the part of existing and potential customers of Banco Sabadell. A major success, once again, in the area of discretionary funds was “BS Fondos Gran Selección”, with 18,468 contracts and €1,800.5 million in assets under management in 2016, compared with 5,724 contracts and assets of €418.6 million at the close of 2013.

Sabadell Asset Management also provides services as portfolio managers and administrators for other institutional investors. Assets under its management or administration totalled €6,672.1 million at the end of 2016.

Treasury and Capital Markets

An increase in income from distribution and trading.

Income generated in 2016 is up 17% on the previous year.

Business overview

Treasury and Capital Markets is responsible for marketing treasury products to Group customers, either through dedicated distribution units at the Bank's branches or through specialist distributors. It is also responsible for the Capital Markets operation which executes placements of corporate debt for third party issuers and for the Group.

In addition, it manages the Bank’s short-term liquidity position and manages and oversees compliance with regulatory capital and other ratios. It also manages proprietary trading risk and the interest and exchange rate risk arising mainly from transaction flows with customers or from the distribution units' own activities.

Key developments in 2016

The financial markets in 2016 were characterised by (i) a continuing record low interest rates , (ii) the continuing pursuit of an accommodative monetary policy of quantitative easing by the European Central Bank; and (iii) the high volatility of some currencies caused by the various referendums and elections taking place during the year. However, the observed volatility of the main currencies, the euro and the US dollar, was slightly lower.

Against this background, the results achieved by the trading teams and their ability to take advantage of fluctuations in bond yield differentials made it possible to fulfil their targets and achieve a result 5% better than their 2015 performance.

Exchange rate volatility resulted in increased activity in helping customers to hedge the currency risk associated with their foreign trade operations. This overall increase in activity, combined with customers' perceptions of the quality of the Bank's services, made a highly positive contribution to profit performance, with income rising by 17% compared with 2015.

Low interest rates and the large amount of liquidity in the system made it easier for small and medium-sized companies, which have historically been less active, to access the capital markets, but to do so in a search for new sources of finance. The service offered by the Capital Markets team ensured that it participated in a larger number of debt issues, resulting in a 60% increase in fee income.

For Treasury and Capital Markets the year 2016 was a year of consolidation both of its traditional activities and also of those included within the Triple plan. Non-convertible bonds became increasingly important as an attractive investment option. However, structured investment products again proved to be of interest to investors in search of higher returns.

In the area of currency trading, the growth in activity related to the business customer segment led to a 16.5% rise in income compared with the previous year.

In pursuit of its goal of developing and expanding its Capital Markets business, the Bank continued to identify potential financing deals and collect mandates from issuers and institutional clients using the Bank's services to meet their financing and investment needs.

The Bank positioned itself as the financial institution placing most issues on the Alternative Fixed-Income Market (Spanish initials: MARF), a domestic market for small and midsize companies seeking sources of market finance. This reflects the lead taken by the Bank in serving this customer segment, with placings for Teknia and MasMovil Broadband. In the case of MasMovil Broadband the placing was for a Project Bond, the first time the Bank has participated in an issue of this type.

Finally, as a result of the prevailing market conditions and the Bank's increased international presence, trading operations linked to the world of currency interest rate management and variations in interest rate spreads gained in importance as part of the Bank's overall securities trading operations.

The Triple plan saw a 75% increase in the overall profitability of treasury products since 2013, exceeding the ambitious figures initially set in the plan by 20%. The main business growth figures were generated on the distribution side with customers for treasury products, and were slightly higher than income from the trading books, which were somewhat less productive in terms of capital market-related fees and commissions.

Securities Trading and Custodian Services

Banco Sabadell remained among Spain's top three equity brokerage houses by trading volume.

Stock market position in 2016 (by trading volume):

Share	Ranking
11.80%	3rd

Business overview

As a member of the Spanish stock markets, Securities Trading and Custodian Services performs the functions of a broker for Banco Sabadell. In this role it handles and executes sale and purchase orders directly via its trading desk, and also has responsibility for equities at Group level. It also designs and manages the Bank’s offering of custodian and depository services.

Key developments in 2016

In April 2016, new stock market legislation in Spain brought in major changes affecting the clearing, settlement and registration of securities in existing post-trade systems.

This required a significant change in the way customer transactions were processed by the whole industry, especially when dealing with non-resident customers, a market in which the Bank is a key player.

High market volatility and falling share prices had a severe impact on trading volumes.

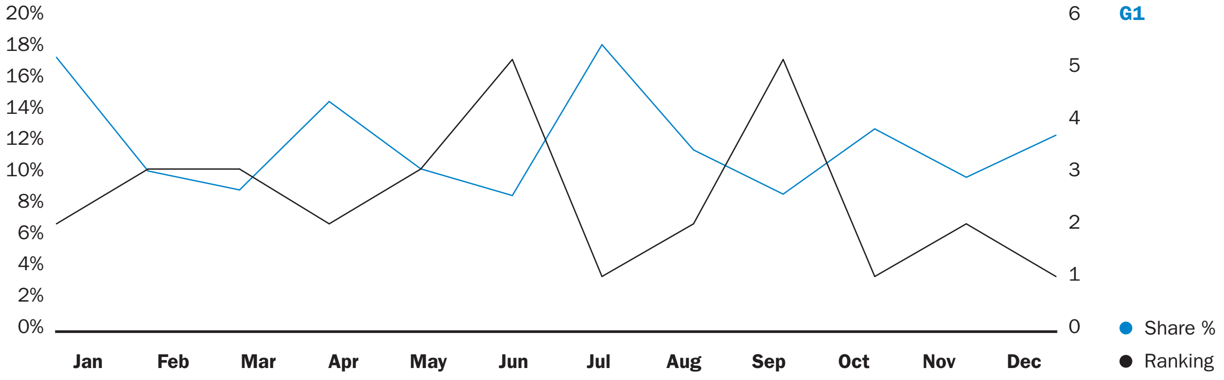
Trading in equities on the Spanish stock market totalled €652,907 million in 2016, a fall of 32.1% compared with the previous year, mirroring the general slide in market trading volumes around the world. The volume of trading at the close of the year was €48,987 million, down 27.5% on the figure for the same month in 2015.

This year Banco Sabadell was able to maintain its key position in the stock market and to end the year as one of the top three stock market firms by trading volume, taking an 11.80% share, just behind two financial institutions with shares of between 12.99% and 12.52%.

In 2016 we saw increased participation in deals with issuers, with the Bank acting as agent bank in a number of transactions and as an intermediary in cash management deals and in executing trades in treasury shares, both on the custodian and the brokerage sides.

The changes in our market share and our position in the ranking over the year are shown in figure G1.

Fee and commission volumes amounted to 112.33% of the target under the Triple plan (T4).



G1

€ million

T4

	2014	2015	2016	Triple	Triple cumulative	%
Brokerage	22.92	21.82	15.60	48.30	60.36	124.98
Custody	31.92	34.92	32.50	93.90	99.40	105.83
TOTAL	**54.84**	**56.74**	**48.16**	**142.20**	**159.74**	**112.33**

Savings and Investment Strategy Division

The Bank's strategy for savings and investment
— Business opportunities
— Better customer experience
— Coordinated implementation of new regulatory requirements

Business overview

Changes in the regulatory environment for selling and advising on savings and investment products are being fuelled by new digital channels and solutions and by regulations such as MiFid II and PRIIPs.

The Bank decided to meet these challenges in a businesslike way by creating a new Savings and Investment Business Strategy Division. The Division's aim will be to pursue a 2016 Group-wide initiative to define the Bank's strategy on savings and investment, identify opportunities for business growth and enhanced customer experience and take measures to address the impacts of the new regulatory requirements. The Personal Banking and Private Banking business areas and the Compliance department are involved in the initiative, which will receive support from the Technology, Operations, Organisation and Risk departments.

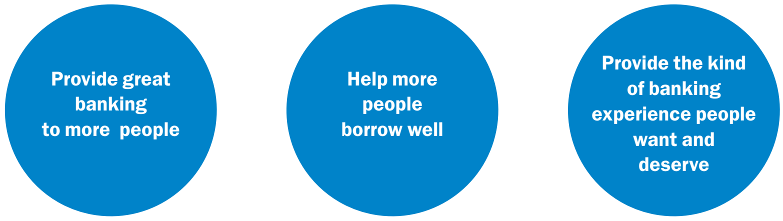
The Division is leading a Group-wide project whose aim is to allow its specialist staff to connect with customers in order to arrive at appropriate savings and investment solutions. This will, in addition, enable it to organise a sales system, simplify processes and the sales tools that appear at times that are appropriate and appealing for the customer, and ensure compliance with regulatory obligations.

As part of this project, during the year the Bank launched Sabadell Inversor, a new market information service for investors.

Sabadell Inversor is a free, exclusive service for customers with savings/investment products and can be accessed via BSOnline. Customers can read the opinions of our market and company specialists and sign up to receive any content that interests them directly by email.

In the first ten months of 2016 Sabadell Inversor received 180,000 visits, published 95 market and company reports and videos, and sent 3.3 million emails to customers telling them about new content on the site.

TSB successfully fulfilled its strategy



G2 TSB strategic aims

Business overview

The TSB franchise (TSB *Banking Group* Plc), which was acquired by the Group in June 2015, is a provider of retail banking services in the United Kingdom, including current and savings accounts, personal loans and credit/debit cards.

TSB has a nationwide multi-channel distribution model including 587 branches in England, Wales and Scotland. At the end of the year, it had 5.0 million customers and 8,060 employees.

TSB's business is divided into the following segments:

— The franchise comprising the multi-channel commercial banking business;
— Mortgage enhancement consisting of a separate set of mortgages which was assigned to TSB as part of the restructuring of Lloyds; and
— The *Whistletree* portfolio (UKAR assets), a set of mortgages managed by the British government that were bought from *Cerberus* while repossession proceedings were in progress.

Key developments in 2016

Business overview

For TSB 2016 was an important year in which it saw faster than expected organic growth in assets and customer numbers. It achieved its lending growth targets, fixed at the time of flotation, three years earlier than expected. During the year TSB was named "Best British high street bank".[1]

Having set itself these three strategic aims (G2) in late 2013, TSB went on to set the following objectives:

— Grow its market share of bank accounts to more than 6% of gross flow within five years.
— Increase TSB Franchise lending by 40% to 50% within five years of flotation.
— Develop its digital capabilities. Promote the TSB brand. Offer a differentiated service to customers.

In 2016 TSB achieved its target of growing its market share of bank accounts, capturing 6.4% of customers switching banks or opening a new account, exceeding the Bank's 6% target (according to the CACI Current Account and Savings Database [CSDB] which includes current, packaged, youth, student and basic accounts as well as new account openings excluding account upgrades; data are presented on a 2-month time-lag). Customer deposits increased to £29.4 billion (up by 13.6% year-on-year), a reflection of the trust placed in TSB by customers.

In fulfilment of its lending growth objective, in 2016 TSB increased its loans and advances to £29.4 billion (a year-on-year rise of 11.4%), due to the success of the mortgage brokerage platform. In fact TSB saw its lending rise more rapidly than was forecast at the time of its flotation, achieving an increase of 46% (excluding its Mortgage Enhancement portfolio) three years earlier than expected.

As for the third aim of increased brand recognition, TSB scored notable successes in three key indicators. During the year it was rated the best British high street bank in a study carried out in March 2016 by BDRC Continental (an independent market survey covering all the major banks based on a sample of 15,000 UK consumers). At the end of the year TSB saw its Net Promoter Score (NPS) for 2016 rise to +23, up from +16 in 2015 (compared with a score of -24 at the time of its launch in 2013 according to data for October of that year). The NPS indicator is based on the question: “On a scale of 1 to 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?”

[1] An independent market survey carried out on the main banks by BDRC Continental in March 2016, based on a sample of 15,000 consumers in the UK.

The balance sheet continues to expand strongly.

The NPS is the proportion of customers rating the brand 9-10 after subtracting those rating it in the 0-6 range. Finally, TSB climbed 84 places in KPMG Nunwood's 2016 UK Customer Experience Excellence ranking, to become the UK's top-rated high street bank. Another important development for TSB was the start of migration to a new technology platform provided by Sabadell. This will give it a more agile approach to selling and a faster pace in adapting to its customers' requirements.

Customers have an excellent perception of the TSB business model.

Key financial data

In 2016 TSB expanded its lending thanks to a strong sales momentum, the high quality of service offered to customers and the sources of its funding, which spring largely from the growth in its customer deposit balances and a successful policy of diversification. It also saw an improvement in credit quality and succeeded in reducing non-performing assets in its loan book, with the loan-to-value ratio remaining at a low level of just 42%.

The growth in customer deposit balances was driven by increases in both current and savings accounts, which grew by 14.8% and 13.3% respectively over the year. This growth was once again helped by the success of the "Classic Plus" account; however, it is also significant that more and more customers are choosing to place their savings with TSB.

With regard to the principal components of the profit and loss account, net interest income remained largely unchanged as a result of low interest rates and the maturing of non-core loans, offset by good volume and margin growth from new customer accounts.

Operating costs declined by 1.1% over the year and totalled £703.8 million in 2016. In 2017 the cost of IT services provided by Lloyds Bank is expected to go up by as much as £100 million until migration to the new platform, which is expected to be completed by the end of the year.

Profit before tax and exceptional items increased by 68.1% to £177.7 million in 2016, compared with £105.7 million in 2015. The result is attributable to three main factors:

— the growth in income generated by the Franchise business. This was thanks to the successful intermediation platform, which contributed to a significant increase in mortgage volumes;
— the acquisition of the *Whistletree* loan portfolio; and
— a one-off gain of £32.5 million on the sale of TSB's stake in Visa Europe following its acquisition by Visa Inc.

These exceptional gains were partially offset by the expected decline in the contribution of the Mortgage Enhancement portfolio as loan repayments continued.

TSB continued to show a strong capital position, with a CET1 capital ratio of 18.4% at the close of 2016, well above the 17.8% ratio reported for 2015 (T5).

€ million

T5 United Kingdom

	2015	2016	% 16/15
Net interest income	**539.62**	**1,050.86**	**94.7**
Fees and commissions (net)	78.83	122.74	55.7
Other revenues	(3.72)	35.18	(1,045.34)
Gross income	**614.73**	**1,208.78**	**96.6**
Operating expenses	(493.57)	(874.55)	77.2
Operating profit/(loss)	**121.16**	**334.23**	**175.9**
Profit/loss on problematic assets	(59.50)	(106.91)	79.7
Other profits/(losses)	—	(4.43)	—
Profit/loss before tax	**61.66**	**222.89**	**261.5**
Ratios (%)			
ROE (profit / average shareholders' equity)	5.3	7.0	—
Cost:income (general administrative expenses / gross income)	77.9	72.6	(6.83)
NPL ratio	0.6	0.5	(20.97)
NPL coverage ratio	44.8	52.7	17.6
Business volumes			
Loans and advances	36,062	34,447	(4.48)
Customer funds	35,249	34,320	(2.64)
Other information			
Employees	8,224	8,060	(1.99)
Branches	614	587	(4.40)

The exchange rate applied for 2016 was GBP 0.8562 for the balance sheet and GBP 0.8166 (year average) for the income statement.
The exchange rate applied for 2015 was GBP 0.7340 for the balance sheet and GBP 0.7201 (six-month average) for the income statement.
Only six months of results were included in 2015. Accounting own funds used for ROE purposes.

Global Corporate Banking

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 16 other countries. It encompasses Corporate Banking, Structured Finance, Trade Finance and International Financial Institutions.

Corporate Banking

Business overview

Corporate Banking is the unit that handles large corporations; to address the needs of these customers the Bank offers a global solutions approach and a team of professionals located in Madrid, Barcelona, London, Paris, Miami, Mexico City, Bogotá, 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. Our value contribution takes a number of forms: support from our sales teams working in the various geographies; a client-focused service delivered by dedicated teams with expertise in particular industries; and constantly improving middle office support to assure excellence in service delivery.

Key developments in 2016

2016 was an excellent year for Global Corporate Banking which saw the roll-out of a coordinated strategy across all working teams and geographies and in which huge strides were made in firmly establishing Banco Sabadell as the best Corporate Banking experience for customers. Key values underpinning our business model are: knowing the customer, coverage and coordination, excellence in service and specialisation.

The Bank's "know your customer" policy means engaging with the client in a strategic partner relationship, being knowledgeable about their industry or sector, and understanding their development strategy, their most immediate challenges and their key markets. It does all this through a process of collaborative working with its sales and specialist teams serving customers in the different geographies where they are operating, to draw up personalised service and global risk proposals (Global Approach Planning).

Banco Sabadell is a key player in Spain, ranking first in Project Finance deals and fourth in MLA* mandates.

To achieve coverage and coordination, in recent years Banco Sabadell has increased its international presence in new markets such as Mexico, Peru and Colombia. This puts the Bank in a position to offer customers the necessary local knowledge and expertise in the complexities of each market and to support them as they expand their international operations. Banco Sabadell also maintains working arrangements with correspondent banks (international financial institutions) all over the world, enabling it to offer additional support and assure customers of genuinely global coverage in their foreign trade ventures.

Excellence in service delivery worldwide is what all the people involved in our customer's value chain (whether it be the local sales team, the back office team, the specialists, the advisors or even the risk analysts) strive to attain, working in unison so that the customer can see us continually improving in our search for excellence. Numerous indicators show the level of service being provided, such as: customer satisfaction surveys (9 out of 10 rating in overall satisfaction with account manager, 2016) and internal surveys (8.9 out of 10 in Structured Finance, 9.1 out of 10 for Financial Institutions team, and many more).

The high standards achieved by the Bank's specialist Global Corporate Banking teams were once again reflected in industry league tables. Its Structured Finance teams, for example, were responsible for making the Bank a key player in deal origination and structuring for customers at a global level. (T6). Banco Sabadell's dedicated teams of local specialists are spread over the different geographies where the Bank has a presence. The Bank is also extremely active in the secondary market through its specialist global team.

T6

Project finance loan MLA — Spanish market 2016

€ million

Position	Mandated Lead Arranger	Amount	Number	%
1	Banco Sabadell SA	656	25	12.60
2	Santander	699	23	13.40
3	CaixaBank	503	23	9.60
4	BBVA	414	19	7.90
5	Bankia	501	16	9.60
6	Banco Popular Español SA	269	11	5.10
7	Banesco Banco Universal CA	191	6	3.70
8	ICO	174	6	3.30
9	Liberbank SA	164	5	3.10
10	BNP Paribas	254	4	4.90

Syndicated loan MLA — Spanish market 2016

€ million

Position	Mandated Lead Arranger	Amount	Number	%
1	Santander	7,231	166	14.20
2	CaixaBank	5,813	133	11.40
3	BBVA	5,315	120	10.40
4	Banco Sabadell SA	2,924	110	5.70
5	Bankia	4,304	100	8.40
6	Banco Popular Español SA	1,765	59	3.50
7	Bankinter	806	34	1.60
8	SG Corporate & Investment Banking	2,089	28	4.10
9	BNP Paribas	1,877	26	3.70
10	Credit Agricole CIB	1,454	20	2.90

* Mandated Lead Arranger.

Another major theme for Global Corporate Banking is innovation. By actively listening to our customer and coordinating with our product teams we can innovate and adapt to the customer's evolving needs in any market in which it is operating. Innovations that were developed for our customers in 2016 comprised both new services and adaptations of existing ones, and included novelties such as "milestone" factoring, energy efficiency leasing and the tax lease.

With regard to profitability, our business model of developing stable, long-term relationships means that we benefit from the relationship with the customer and the customer's relationship with us. To ensure that this happens the Bank has tools that help it to optimise capital consumption and remain profitable within this framework.

Key financial data

The gross income attributable to the Corporate Banking business unit in 2016 was €214.7 million, a rise of 9% compared with the figure for 2015 that was due, in large measure, to a net interest income that remained stable despite the prevailing low interest rates. Maintaining the interest margin was a priority objective for the year which, together with the growth of business in regions of the world where spreads were wider, enabled net interest income for the year to remain almost unchanged (down 1.0%).

Net fee and commission income also made a bigger contribution to earnings for 2016, increasing by 55.4%, thanks partly to a strong contribution generated by customers' operations abroad. This included both international finance and foreign trade services carried out at the Bank's offices in Spain and especially at its offices in other countries.

On the expenditure side, the year saw a considerable increase in costs as a result of the need to upgrade the Bank's IT platforms outside Spain given the vigorous growth in business being experienced in those markets and in preparation for future growth; our foreign branches and offices saw the volume of customer-generated business grow by 41.7% in 2016 and by 205.0% since the launch of the Triple plan that came to an end in that year. As a result of the Bank's increased international presence, costs items for 2016 reflected the growth in the number of specialist personnel in the Corporate Banking and Structured Finance businesses and the costs of upgrades to IT systems at foreign branches and offices.

Loan impairment provisions were lower than in the previous year and the loan loss ratio for 2016 was down to 2.0%, a 120 basis point improvement on the year before.

An increased risk appetite among investors outside Spain in 2016 (fuelled by the higher returns available on their investments), together with the Bank's increased capabilities in foreign markets and coordination with its teams abroad, enabled the Bank to continue to support its customers' expansion plans anywhere in the world. An indication of this was that funds under management (customers' investments and deposit balances) increased overall; however, in Spain the increases were mainly in deposits while our offices abroad showed increases both in deposits and in investments.

€ million

T7

	2015	2016	% 16/15
Net interest income	**164.05**	**162.39**	**(1.0)**
Fees and commissions (net)	25.49	39.61	55.4
Other revenues	7.45	12.73	71.0
Gross income	**196.99**	**214.73**	**9.0**
Operating expenses	(29.66)	(37.88)	27.7
Operating profit/(loss)	**167.33**	**176.85**	**5.7**
Profit/loss on problematic assets	(96.72)	(87.35)	(9.7)
Profit/loss before tax	**70.61**	**89.50**	**26.8**
Ratios (%)			
ROE (profit / average shareholders' equity)	5.5	5.2	—
Cost:income ratio (general expenses / gross income)	14.8	17.5	—
NPL ratio	3.2	2.0	—
NPL coverage ratio	65.0	76.0	—
Business volumes			
Loans and advances	11,702	11,432	(2.3)
Customer funds	6,191	6,431	3.9
Securities deposited	666	2,269	241.0
Other information			
Employees	124	130	4.8
Spanish branches	2	2	—
Branches abroad	3	3	—

The cost:income ratio was once again very low, at 17.5%, the return on equity rose to 7.8% in spite of the addition provisions made during the year (T7).

Structured Finance

Business overview

This business is centred on the origination and structuring of corporate and acquisition finance and project finance deals. In addition to traditional forms of bank lending, the unit has also specialised 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, Bogotá, Miami, New York and Mexico City, and has more than 20 years' experience.

Key developments in 2016

In 2016 Banco Sabadell maintained its policy of supporting customers and adapting to meet their new needs as the economic environment improved in Spain and worldwide, having regard to changing credit market conditions.

A key indicator of the strength of business activity in the year was the volume of origination, which exceeded €5,900 million, spread over more than 260 deals.

A notable success on the international front was the Bank's launch of a new Mexican subsidiary, through which it participated in numerous syndicated loan deals with Mexican companies.

The Bank's representative offices in Lima and Bogotá began operations in the structured finance business in Latin America.

Fee income in these and other international markets where the unit operates accounted for 42% of total Structured Finance revenues in 2016.

Additionally, the business of originating bonds for customers has gained in strenght. Bond issuance, which is operated alongside the treasury business, means that the unit can offer customers a full range of options in long-term finance packages. In 2016 it played an active role in a number of bond issues in the Spanish and French markets.

Trade Finance & International Financial Institutions

Business overview

The business model in TradeFinance & IFIs 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 business with the “bank” customer segment (over 3,000 financial institutions worldwide) with which Banco Sabadell has cooperation agreements to provide Group customers with the best possible coverage worldwide.

Key developments in 2016

The year 2016 saw more than 500 rounds of negotiations on bilateral business flows being concluded with bank customers in international markets, ensuring a balance between defending the interests of the Group and its customers and safeguarding shared commercial interests with the IFI customer segment while complying with internationally accepted rules and practices. The Bank focused on expanding its business with other banks in the international arena, in accordance with its risk policy, with the aim of ensuring the growth, robustness, quality and profitability of the Group's business with IFIs. The Bank gained substantial market shares in the documentary credit business received from correspondent banks: 30.3% of export documentary credit — 1.7% more than in 2015 — based on SWIFT traffic data (T8).

T8

%

	2015	2016
East and South Asia	32.20	34.60
Asia and Oceania	27.60	28.30
Africa	21.70	21.20
Middle East and Central Asia	29.10	28.40
Central and Eastern Europe	26.30	23.70
Western Europe	20.90	22.20
LatAm	15.60	17.80
NAFTA and Central America	20.90	19.20
TOTAL	**29.80**	**30.30**

Sabadell America

Business overview

Banco Sabadell America comprises several business units, two banks, an investment firm and several affiliates and representative offices which together provide corporate banking, commercial banking and private banking services. The business is managed from Miami, where Banco Sabadell has had a foreign branch, Sabadell International Branch (SIB) in operation since 1993, focusing on corporate and private banking, and a bank, Sabadell United Bank (SUB) which operates a commercial banking business in the south of Florida. In 2012 the Bank opened a representative office in New York, where a large part of the Sabadell America structured finance business is handled. In 2015 it opened representative offices in Colombia and Peru to drive forward the corporate banking and structured finance businesses. In 2014 Sabadell Capital was established in Mexico with a brief to build a portfolio of corporate and project finance loans. Banco Sabadell commenced banking operations in Mexico in 2016 by setting up a commercial bank there, focused initially on corporate banking.

The Bank provides services and support to its customers from these operations centres in coordination with its representative offices in Colombia, Peru and the Dominican Republic.

With its current structure, Sabadell America is one of the few financial institutions in the region 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.

Key developments in 2016

Considerable progress was made in 2016 in consolidating existing business lines and deepening the initiatives that commenced in 2015, resulting in 19% growth in business volumes (lending, customer funds and securities deposited) (G3).

In December Sabadell International Branch (SIB) acquired a portfolio of banking business worth some USD 800 million from Itau Private Banking, giving Sabadell a further boost as a major private banking player for customers in Latin America. This acquisition is the Bank's eighth corporate operation in the region in less than ten years.

T9 Sabadell America

€ million

	2015	2016	% 16/15
Net interest income	**216.10**	**249.93**	**15.7**
Fees and commissions (net)	37.08	41.91	13.0
Other revenues	2.21	14.45	554.0
Gross income	**255.39**	**306.29**	**19.9**
Operating expenses	(142.34)	(164.83)	15.8
Operating profit/(loss)	**113.05**	**141.47**	**25.1**
Provisioning expense (net)	2.94	0.04	(98.6)
Profit/loss on problematic assets	(29.15)	(14.87)	(49.0)
Other profits/(losses)	4.77	0.54	(88.7)
Profit/loss before tax	**91.60**	**127.18**	**38.8**
Ratios (%)			
ROE (profit / average shareholders' equity)	7.1	7.0	—
Cost:income (general administrative expenses / gross income)	54.1	50.6	—
NPL ratio	0.6	0.3	—
NPL coverage ratio	142.6	269.7	—
Business volumes			—
Loans and advances	7,374	9,261	25.6
Customer funds	6,769	7,815	15.5
Securities deposited	1,996	2,562	28.3
Other information			
Employees	764	868	13.6
Branches	28	35	25.0

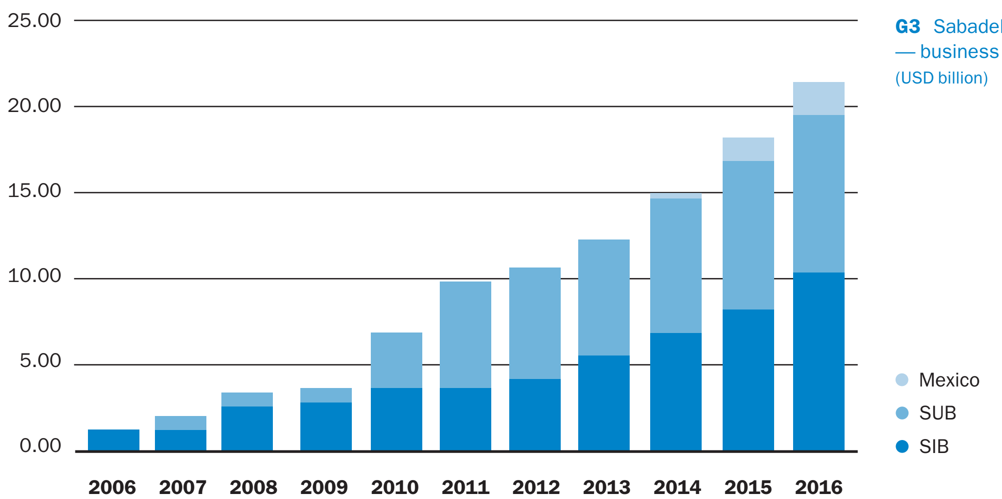
The average exchange rate in 2016 for the income statement was USD 1.1052 and MXN 20.7365 and for the balance sheet it was USD 1.0541 and MXN 21.7719.
The average exchange rate for 2015 was USD 1.0887 and MXN 18.9145.

In its corporate banking operations SIB continued to expand into new markets, with 90% of this growth being achieved in coordination with the Bank's representative offices in Peru and Colombia. In addition it saw an increase in business from the US, including rises of 15% in loans, 29% in customer funds and deposits and 28% in securities in deposit. As a result of its organic and inorganic growth, SIB saw the overall volume of business grow by 23% over the 2015 figure, with a net profit before tax of USD 64 million.

In the US the Bank, through Sabadell United Bank, continued its programme of promoting 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 Sabadell Bank and Trust division (SB&T). Thanks to these efforts, in 2016 SB&T was awarded a prize by the Daily Business Review as Best bank for wealth management in the south of Florida. During 2016 business volumes increased by 7% to USD 9.2 billion, with pre-tax profits for the year rising by 26% to USD 79 million thanks to efficiency improvement initiatives.

Elsewhere in the Americas region, implementation of the Triple plan continued with actions started in 2014 and 2015 to establish a strong base for Sabadell Capital, a Mexican multi-purpose financial company ("SOFOM") engaging in the businesses of corporate banking and structured finance. As a result the company saw its lending increase by USD 593 million and made a pre-tax profit of USD 30 million.

In continuation of the Group's strategy of expansion in Mexico, in late 2015 a banking licence was obtained authorising Banco Sabadell to establish itself in that country. In January 2016 the Bank commenced trading, concentrating initially on financial services for the business customer. Within less than a year of starting to trade, the Bank was already seeing business volumes of USD 393 million in loans and deposits.

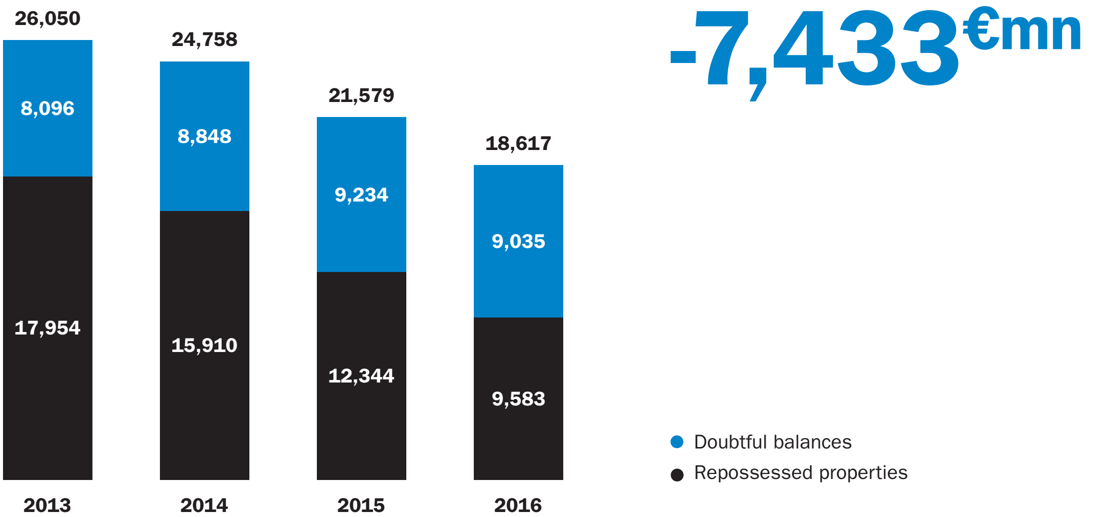


G3 Sabadell America — business growth
(USD billion)

Asset Transformation

The pace of shedding problem assets was maintained, supported by the first year-on-year decline in the volume of foreclosed assets.

G4



Business 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 2016

During the year the Asset Transformation and Industrial and Real Estate Holdings department continued to plan and implement improvements to the asset transformation strategy developed over the preceding years with the primary aim of making troubled asset recovery and transformation processes more effective and maximising any possible recovery in value, either by efficient management or, if likely to be a better option, by divesting the assets. A policy to deal with loan defaults was drawn and is reflected in the following action guidelines:

Default prevention by developing advance warning indicators so that pre-default action, so far as possible, can be taken at an earlier stage and suitable alternative measures put in place to reduce new cases of default.

Specialisation, that is, specialised account managers working on specific segments of the loan portfolio, so that solutions are arrived at on a case-by-case basis and value preservation is optimised.

Productivity, for example by developing ad hoc default management tools, forming dedicated teams and improving the procedures for increasing productivity and efficiency in the management and transformation of troubled assets.

Streamlining the recovery process through a segment-based approach to problem loan portfolios so as to minimise potential losses.

To perform its function of implementing the above strategy, the Asset Transformation business unit is split among the Bank's various departments and divisions, where it scrutinises each stage of the recovery process and of the administration, management and transformation of any troubled assets, making use of its experience and specialist knowledge of the different parts of the process. This organisational structure has evolved and been adapted over the years to respond more effectively to the needs and priorities inherent in the asset transformation process. It has proved to be effective, as reflected in a continuous and gradual reduction in the Group's doubtful or problematic accounts over the last few years. It is structured into the following departments, each focusing on a different part of the process.

The loan loss recovery and default management process covers the following areas:

The Default Prevention and Management Department is primarily responsible for practical implementation of policies and decisions on managing abnormal credit risk and seeking an amicable arrangement with the customers involved, where this is the best way of resolving the case. Special care is always taken in handling any risk of social exclusion that could arise in these situations. The Recovery Department covers the areas of external debt collection, insolvency and legal proceedings. Its mission is to optimise the credit risk management/recovery process by means of external or dispute procedures, where an amicable settlement is not sufficient or is considered inappropriate.

The Corporate Loan Restructuring Department specialises in dealing with issues surrounding the recovery of corporate, property and developer loans and focuses on loan restructuring, recovery and loss minimisation within that borrower category.

The Business Intelligence, Management Control and Asset Protection Scheme Department is a Group-wide servicing unit tasked with optimising and continually improving the Group's recovery processes and overseeing the management of those processes. Its responsibilities include the handling and use of existing information on the Group's troubled assets in order to assist decision-taking by the Group on different balance sheet transformation options.

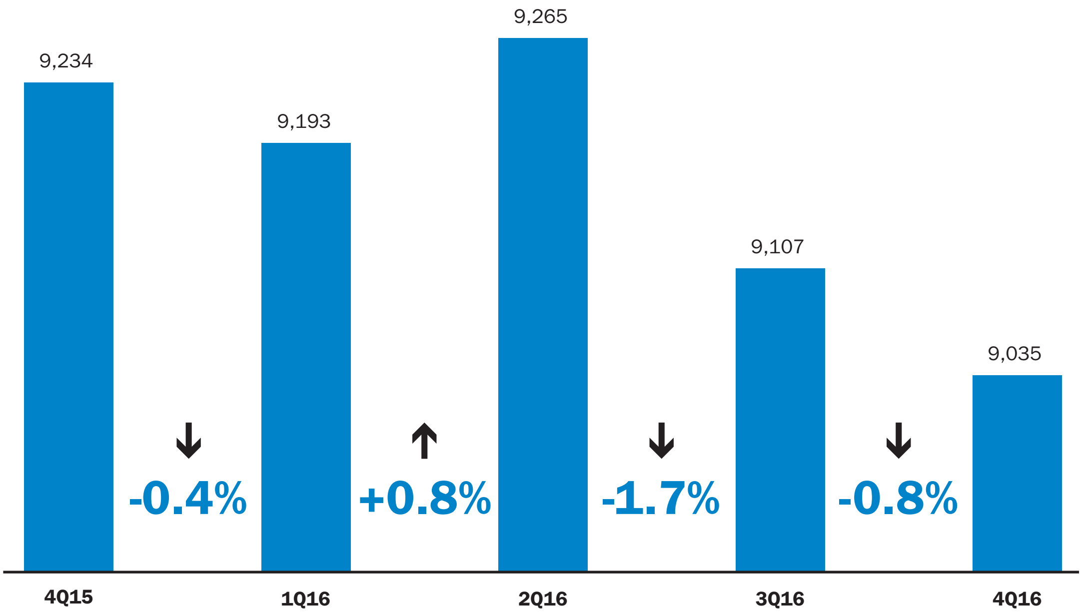
The Sabadell Real Estate and Institutional Markets Department is charged with handling the Group's real estate exposures and the transformation of those exposures on a Group-wide basis with the aim of reducing them and maximising their value. A special section within the department has responsibility for structuring loans and planning sales processes addressing institutional and wholesale investors.

Throughout 2016, in all actions taken by the Bank to recover payment arrears, the Bank adopted a proactive approach in handling mortgage default situations where the mortgaged property was the borrower's normal residence, and looked for solutions that did not involve court proceedings or, in any circumstances, eviction. For example, a total of 3,042 cases resulted in "dation in payment" settlements with an aggregate value of €479 million. As a consequence of its policy of offering alternative accommodation to customers at risk of social exclusion and involved in mortgage foreclosure or "dation in payment" proceedings, the Bank has a stock of nearly 6,600 homes to be let out at reduced rents, including the homes contributed to the Social Housing Fund.

In 2016, properties worth €3,107 million were sold or otherwise disposed of, with the result that for the first time the objective of having a lower number of properties than at the beginning of the year was achieved, showing that the real estate market is now on an upward trend which is likely to continue in 2017. It is especially significant that property sales within the real estate sector (building sites, vacant land and completed non-residential buildings) were higher than in previous years, standing at 112% of the figure at the close of the previous year. This suggests that the revival of the sector is being experienced not only by the end-user or the small investor, but that we are seeing an upturn in business investment fuelled by shortages of properties in certain areas. To take advantage of this revival, enhancements were made to the sales channel for properties of this type.

Sales to real estate investors and of big-ticket assets continued to be made throughout the year and are expected to continue in the coming year (G5).

Of the components of gross income in 2016, net interest income showed an improvement over the previous year, while income from financial assets and liabilities detracted from the result. These revenue figures were reflected in a very positive trend in the results for Asset Transformation, the result of a substantial improvement over the year in provisions for bad debts and other impairments.



G5 Property repossessions (€ million)

Key business data

€ million

T10 Asset Transformation

	2015	2016	% 16/15
Net interest income	**(44.77)**	**(30.99)**	**(30.8)**
Fees and commissions (net)	(1.58)	(1.39)	(12.2)
Other revenues	107.85	92.29	(14.4)
Gross income	**61.50**	**59.91**	**(2.6)**
Operating expenses	(143.18)	(167.84)	17.2
Operating profit/(loss)	**(81.68)**	**(107.93)**	**32.1**
Provisioning expense (net)	(0.07)	1.39	(2,046.0)
Profit/loss on problematic assets	(762.45)	(801.94)	5.2
Other profits/(losses)	—	—	—
Profit/loss before tax	**(844.21)**	**(908.49)**	**7.6**
Ratios (%)			
ROE (profit / average shareholders' equity)	(13.60)	(26.10)	—
Cost:income (general administrative expenses / gross income)	—	—	—
NPL ratio	64.9	70.2	—
NPL coverage ratio	52.5	54.9	—
Business volumes			
Loans and advances	8,413	6,041	(28.2)
Customer funds	301	213	(29.4)
Real estate assets (gross)	9,234	9,035	(2.2)
Other information			
Employees	712	915	28.5
Spanish branches	—	—	—

The recovery in the Spanish real estate market resulted in a strong improvement in Solvia's property sales.

Solvia

In property market services, business at Solvia, Banco Sabadell's real estate services subsidiary, continued at a high level this year. Solvia's real estate servicing platform is one of the biggest in the sector and covers a full range of property market services, from property preparation and development to administration and sales mainly in the retail market.

Solvia continued to develop its business by diversifying its client portfolio. During the year Solvia added Neinor, a real estate developer, as a client for its sales services. It broadened the range of its services to Sareb by adding real estate development. Solvia makes use of its market expertise to provide real estate consultancy for international funds wishing to build property portfolios in Spain.

In a major new business development initiative, in 2016 Solvia took a decision to offer property broking services to individuals and businesses in both sales and lettings. To this end it is enhancing the capabilities of its people, particularly by extending its network of sales representatives and consultants. With these objectives in view, in 2016 Solvia opened 11 high street offices and began to franchise new sales outlets and thus acquire additional points of sale from its network of franchisees. The properties of individual and business clients using Solvia's brokerage services are already on its website, solvia.es. The company continued to invest in its marketing capability and in 2016 was ahead of the market in brand recognition.

In 2016 Solvia saw its property sales grow by 17% and completed the process of integrating Sareb assets that began in 2015. Solvia's debt recovery work for Sareb continued at a high level, with recoveries surpassing 2015 totals. Its real estate development operations were extended with the addition of new projects to its management portfolio: Solvia currently has 79 properties under construction or for sale in developments using sites owned by customers, sales of which totalled more than €110 million. In 2016 the overall value of Solvia-brokered properties, across its various managed portfolios, was over €2,000 million, a record number for a business that goes back to 2008.

BS Capital

BS Capital is the department that manages the Bank's industrial holdings. Its business consists of taking temporary holdings in non-financial companies or business ventures with the primary aim of maximising returns on its investments in the companies in which holds interests.

In 2016 BS Capital actively managed its portfolio to continue a divestment programme going back several years. It also launched and promoted new projects; these included its investment in Aurica III, valued at €100 million at the end of its first year of operation by the Group's venture capital vehicle, Aurica Capital Desarrollo; approving a new 2016-2019 action framework for Sinia Renovables to bring its mezzanine debt and equity investments up to €150 million for renewable energy projects in Spain, Latin America (mainly Mexico) and Europe (mainly the UK); investments in more than five new digital and technology start-ups held by its new vehicle, Sabadell Venture Capital; and organising and managing equity interests resulting from restructurings and debt capitalisations.

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.

BancSabadell d'Andorra posted a profit for the year of €8.5 million and an ROE of 11.12%.

Risk management

The improvement in the Group's fundamentals is reflected in the general improvement in its credit ratings.

Milestones in 2016

In 2016, the Banco Sabadell group continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

Strengthening of the Strategic Risks Framework, giving it a greater deployment in terms of sectors and geographies

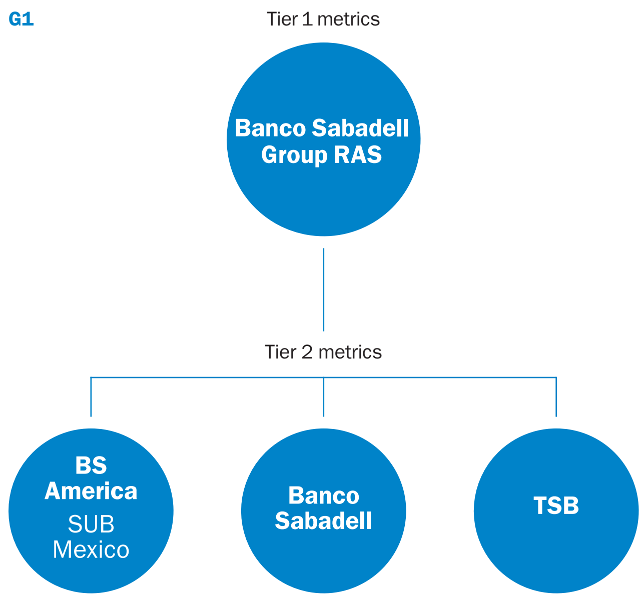
The Banco Sabadell Group's risk appetite framework has been adapted to the new Group structure resulting from internationalisation in order to ensure consistency and effective implementation of the Group's risk appetite statement in all geographies (G1).

Thus, a first tier is established comprising the Group's RAS, setting overall objectives and limits, and a second tier provides details of the first-tier objectives and limits in the various geographies.

During 2016, the Group continued to strengthen its control environment by deploying the risk appetite framework, through the establishment of specific management and control frameworks to manage and control risks associated with lending to certain segments, sectors and geographies. These frameworks aim to establish policies, tools and asset allocations in line with the type of risk and geography, aligned with the Group's risk appetite framework.

Additionally, during 2016, the Group deployed the risk appetite framework through RAS tier two metrics specific to each portfolio, in order to set objectives/limits for monitoring the loan stock, both existing and, in particular, new stock.

G1



Improvement of the Group's risk profile during the year

The Group's risk profile improved in five fundamental aspects during 2016:

1 Internationalisation: following the acquisition of UK bank TSB in 2015, Banco Sabadell Group strengthened its international diversification process in 2016, with international exposure increasing by €641 million. This increase was located in such regions as the UK, the US and Mexico. This increased the Group's international exposure to 32% of its loan book.
2 Concentration: reduction of both individual and sectoral concentration risk. This was coupled with an improvement in the composition of the loan book, with a reduction of over €1,733 million in exposure to real estate developers and an increase in exposure to sectors with higher credit quality.
3 Risk-adjusted pricing system, with a process for allocating costs, risk and capital at the transaction level, ensuring that pricing matches the risks and costs incurred.
4 Reduction of problematic risk: sharp reduction of problematic assets, by over €2,960 million, i.e. by more than the target in the Triple Plan and that achieved by the Group's peers in the same period.
5 Establishment of specific management frameworks for each portfolio and constant improvements in credit risk management, by incorporating lessons learned during the economic crisis with a particular focus on defaults.

The improvement in the Group's fundamentals, particularly in terms of risk, is reflected in the overall improvement of the Bank's senior debt rating by credit rating agencies in 2016.

Strengthening of risk governance and internal credit risk models

The risk appetite framework is part of a risk governance framework in line with both European and Spanish regulations, specifically, the CRR and CRD-IV, transposed into Spanish law through Law 10/2014 on Organisation, Supervision and Solvency of Credit Institutions.

During 2016, the Group continued to strengthen its risk control function, reorganising the structure to give it more independence.

The Banco Sabadell Group also strengthened the management framework of its internal credit risk models during the year. The Group has risk control systems that are appropriate to the activities of the business units in which it operates and to the risk profile it pursues. These control systems form part of the procedures for acceptance, monitoring, mitigation and recovery of the aforementioned risks and are monitored in turn.

The risk assessment also forms part of the control framework and is implemented through advanced measurement methodologies. In this regard, CRR and CRD IV establish requirements in connection with internal models to calculate minimum capital requirements, and Bank of Spain Circular 4/2016 establishes requirements for the calculation of provisions using internal models. The basic principle of these regulations and their implementation in the Bank consists of closer linkage between own funds and provision requirements, on the one hand, and risks actually incurred and the prospects of their materialising in the future, on the other. The Bank has a system made up of three lines of defence to ensure the quality and oversight of internal models, and a governance process specifically designed to manage and monitor these models and their compliance with regulations and the supervisory requirements.

The Bank is aware that having an advanced methodology allows it to reliably assess and actively manage the risks assumed; consequently, it has been authorised to use internal rating based (IRB) models since 2008 and implements the various components required to complete the risk measurement systems and the applications arising from them.

Some of the main bodies within the governance framework of internal risk models include the new Models Committee, which convenes on a monthly basis and strengthens the governance of internal credit risk models (risk management, regulatory capital and provisions), which is based on the following pillars:

— Effective management of changes to internal models.
— Recurring monitoring of the internal model environment.
— Regular reporting, both internal and external.
— Tools for managing internal models.

Main risks in the risk appetite framework

Introduction

The Banco Sabadell Group has a risk appetite framework in place to ensure the proactive control and management of all of the Group's risks. This framework includes a risk appetite statement (RAS), which establishes the amount 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 RAS is comprised of quantitative metrics that allow for objective monitoring of risk management and complementary qualitative aspects.

The 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 under a governance structure for the risk function that conforms to Spanish and European law.

The principles, policies, procedures and methodologies framework is reflected in the document entitled "Banco Sabadell Group risk policies", which is reviewed at least once per year. The Board of Directors is responsible for its approval. The document was last updated in January 2017.

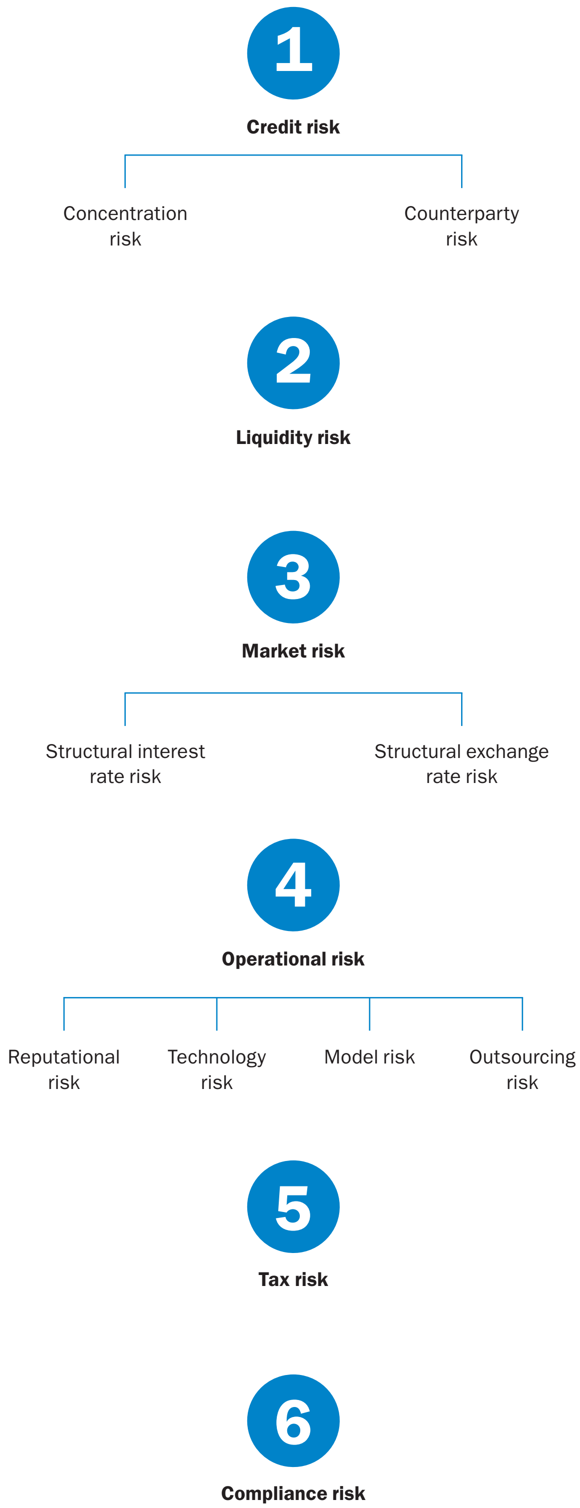
For each significant risk of the Group, details are given of the main persons or units involved, their functions, policies, methods and procedures, as well as control and monitoring mechanisms. Details are also given of organisation of the risk function, indicating the roles and responsibilities of the departments and committees with regard to risks and risk control systems, adapted to the business units' activities, including loan and credit granting functions (G2).*

The main financial risks facing Banco Sabadell Group companies as a consequence of their activities associated with the use of financial instruments are credit risk, liquidity risk and market risk. The most important of these for the Group's loan book is credit risk.**

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 2016 are described below.***

G2 Main risks



* For additional information, see Note 4 to the 2016 consolidated annual accounts.
** See the capital map in the chapter "Banco Sabadell Group financial information".
*** For information on the macroeconomic and regulatory environment, see the chapter on "Economic, business and regulatory environment".

General principles of risk management

Corporate risk culture

Banco Sabadell's risk culture is one of its distinguishing features and is well established throughout the organization as a result of continuous development over decades. Among the aspects that characterise this strong risk culture are:

— A high level of involvement of the Board of Directors in risk management and control. Since 1994, the Bank has had a Risk Control Committee whose primary function is to supervise the management of all significant risks and to bring them into line with the profile defined by the Group.
— A Basic Management Team as a key player in risk acceptance and monitoring. Under this approach, which has been in existence for more than 20 years, the team consists of the relationship manager and the risk analyst. The process combines the viewpoints of both parties. All decisions must be discussed and resolved by agreement between them. All of the foregoing requires a high degree of involvement by the team in the decision-making process, and also contributes depth and solidity to the decisions.
— High degree of specialisation: specific management teams are created in each segment (real estate, corporate, businesses, SMEs, retail, banks and countries, etc.), which allows for a specialised management approach 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). In accordance with best practices, the Group relies on these models to improve the general efficiency of the risk management process. Insofar as these models not only make it possible to sort borrowers in terms of risk but also serve as the basis for quantifying risk, they lend themselves to multiple uses in key management processes: fine-tuning delegations of powers, efficient risk tracking, overall risk management, risk-adjusted returns, and analysis of the Group's capital adequacy, among others.
— The delegation of powers to approve corporate risk transactions is based on the expected level of loss. As a general policy on empowerment, the Bank applies a system in which the various levels are delimited on the basis of expected loss, which considers the exposure to the risk of the customer's proposed credit transaction and the risk group, expected default rate and estimated loss given default.
— Credit risk is rigorously monitored through an advanced system of early warnings for businesses and individuals. The risk monitoring at customer and group level can be divided into three types: operational, systematic and comprehensive monitoring. One of the basic sources used for this monitoring is an early warning system for both businesses and individuals (implemented in 2008 and 2011, respectively) which allows credit risk to be identified in advance. These warnings are based on internal information such as the number of days past-due, overdrafts in commercial credit lines, bank guarantees and international credit, as well as external information, such as customers classed as defaulters in the rest of the financial system or in information available from credit bureaux.
— An advanced model for managing non-performing exposures which enhances early detection and specialized management. An end-to-end model for managing non-performing exposures which enables risk management to focus on situations that pre-date default (early warnings, refinancing, collection). 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.
— Risk-adjusted pricing. Commercial pricing policy is dynamic, adapting constantly to changing business and financial market conditions (liquidity premia, difficulty in accessing credit, interest rate volatility, etc.). Funding and risk costs are taken into consideration (expected loss and cost of capital). Risk models play a vital role in determining prices and profitability targets.
— The risk management model is fully integrated into the Bank's technology platform, with the result that policies are applied immediately in everyday processes: the policies, procedures, methodologies and models that make up Banco Sabadell's risk management approach are built into the Bank's operating platform. This means that policies are applied immediately in everyday processes. This proved particularly important when integrating acquisitions in recent years.
— Stress testing as a management tool: For some years, Banco Sabadell has been using an internal tool to perform stress tests, supported by in-house teams with extensive experience in its development.

Since 2014, the Banco Sabadell group has had a risk appetite 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.

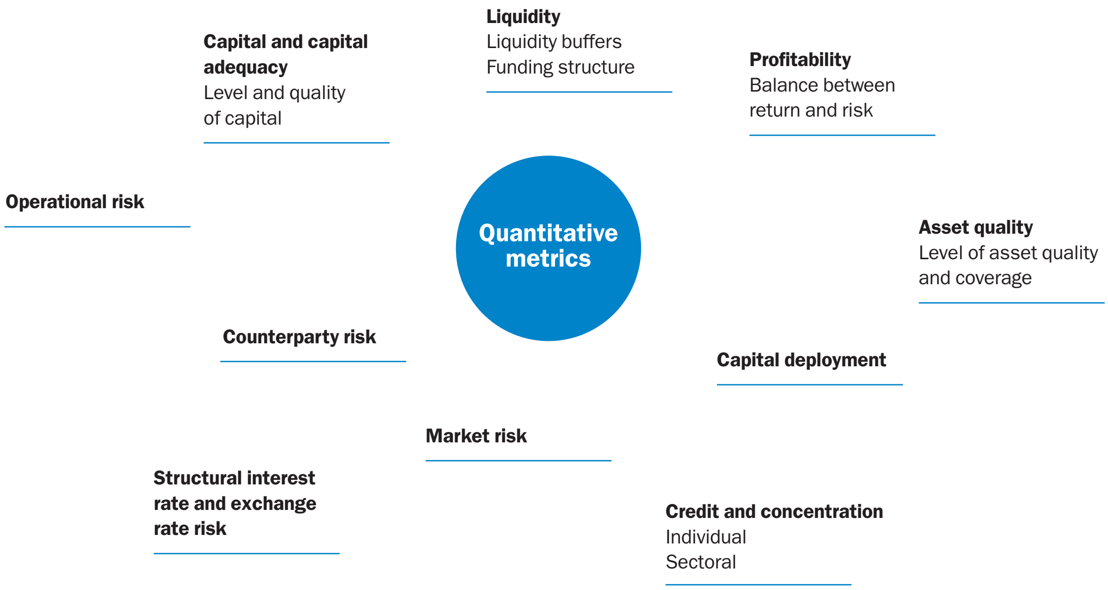
Risk appetite framework

The risk appetite framework includes, among others, a risk appetite statement (RAS), 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 RAS (G3) is composed of quantitative metrics which allow for objective monitoring to be carried out of the achievement of objectives and of established limits, and of qualitative elements that supplement these measures and guide the Group's risk control and management policy.

Quantitative elements

G3 Risk appetite statement



Qualitative aspects

In addition to the quantitative metrics, the following main qualitative metrics guide the Group's risk control and management:

— The Bank's general position with regard to risk-taking aims to achieve a medium-to-low risk profile through the use of a prudent and balanced risk policy that will ensure the profitable and sustainable growth of its activity, and that it is aligned with the Group's strategic objectives in order to maximise value creation while guaranteeing an adequate level of solvency.

— 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 maintains a risk culture that is embedded throughout the entity and has various units that specialise in the treatment of different risks. The risk function conveys this culture by introducing policies, implementing and starting up internal models, and adapting these to the risk management procedures.

— 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 Banco Sabadell Group risk management and control system is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are 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 predefined 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 might significantly compromise shareholders' funds.
- Market trading risk is assumed in order to handle 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 capital.
- The Group's aim in terms of tax risk is to ensure compliance with tax obligations while guaranteeing an adequate return for shareholders.
- Achievement of the business objectives must be compatible, at all times, with compliance with the law 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 has a risk culture that is embedded in all its units, and it has units managing different risk types, so as to guarantee the independence of the risk function, combined with strong Senior Management involvement.

The Board of Directors is the body responsible for establishing the general guidelines for the organisational distribution of the 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.

There are four sub-committees within the Board of Directors which are involved in risk management and control. The Bank also has several other Committees which take part in this function (G4).

The Group also establishes its control framework based on three lines of defence, structured around the following assignment of functions:

First line of defence

Consists mainly of the business units and corporate centres, principally the Risk Management Department, the Finance Department and the Treasury and Capital Markets Department. The first line of defence is responsible for managing the risks inherent in the bank's activity, mainly the acceptance, monitoring and assessment of these risks and the associated processes.

They are responsible for implementing corrective actions to remedy deficiencies in their processes and

Board committees related to risk management

Risk Committee	Executive Committee	Audit and Control Committee	Remuneration Committee
Risk profile supervision and oversight functions	Transaction approval on the basis of delegations Approval of asset allocation strategy	Supervision of efficacy of internal control, internal audit and risk management systems	Supervision of remuneration policy and its alignment with the Risk Appetite Framework

Main committees related to risk management

Risk Technical Committee	Asset and Liability Committee	Credit Transactions Committee	Asset and Capital Transactions Committee	Operational Risk Committee	Institutional Coordination Committee
Risk Committee support Risk management	Balance sheet structural risk monitoring and management	Approval of credit transactions on the basis of delegations	Approval of asset transactions on the basis of delegations	Operational risk management and monitoring	Guarantee alignment of TSB and Group policies

G4 Board of Directors
Approval of the RAS and risk management policies

controls. The functions attributed to this line under the control framework are:

— Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;
— Identifying, assessing, controlling and mitigating risks, following established internal policies and procedures and ensuring that activities are consistent with the bank's targets and objectives;
— Establishing proper management and supervision processes to ensure regulatory compliance and focusing on control errors, inadequate procedures and unexpected events.

Second line of defence, consisting mainly of:

— The risk control function, which is independent from the first line of defence and is responsible for assessing, monitoring and controlling the Group's significant risks and for providing information about such risks.
— The internal validation function, which is responsible for checking that these models work as expected and that their results are appropriate to their uses, both internal and regulatory.
— The Regulatory Compliance, Corporate Social Responsibility and Corporate Governance Department, whose goal is to minimise the possibility of regulatory breaches and ensure that any breaches that occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented.
— The IT Control Department is responsible for identifying risk situations associated with the use of technology, across all units in the Group, that may give rise to operational or reputational risks for the Group. It also promotes the necessary training and support to enable the Group's units to resolve risk situations within their scope of responsibility and action, and transfer, on an independent basis, any significant risks that have not been covered by the implemented controls to the Group's Operational Risk Department.

In general, the second line of defence ensures that the first line of defence is well designed, fulfils the functions assigned to it and puts forward suggestions for continuous improvement. The essential 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 with regulations applicable to the Group in conducting its business activities.
— Providing the technological infrastructure for risk management, measurement and control.
— Analysing and cross-checking existing and future incidents by reviewing the information.
— Identifying changes in the organisation's underlying risk appetite.
— Collaborating with the management team to develop risk management processes and controls.

Third line of defence:

— The Internal Audit Department engages in verification and advisory activities on an independent and objective basis, governed by a philosophy of adding value and helping the Group to fulfil its objectives.
— It provides assistance to the Group in meeting its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the organisation's governance processes and the risk management and internal control activities.

Managing and monitoring the main risks

Credit risk

Definition

Credit risk arises from the possibility of losses arising from defaults on payment obligations by borrowers, as well as losses of value due to impairment of the borrowers' credit rating.

Credit risk management 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 surety to the bank.

The Board of Directors delegates powers to the Executive Committee, which can then sub-delegate authority at each level. The implementation of authority thresholds for credit approval 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 that each customer represents and to guarantee an appropriate degree of security, responsibility for monitoring risks is shared between the relationship manager and the risk analyst; effective communication between them provides 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 using their specialised knowledge.

The implementation of advanced methodologies for managing risk exposures (adapted to 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 rating tools such as credit ratings for corporate borrowers and credit scoring for retails customers, as well as early warning indicators for monitoring risk.

By analysing indicators and early warning alerts and reviewing credit ratings, the quality of a risk can be monitored continuously in an integrated way. The establishment of efficient control procedures for outstanding risks also provides benefits in managing past-due risks as it enables a proactive policy to be implemented based on early identification of cases that may default.

The early warnings system allows an integrated measurement to be made of the quality of a given risk and enables it to be transferred to recovery specialists, who will determine the procedures that should be applied. Therefore, based on risks exceeding a certain limit and on the predicted default rates, groups or categories are identified for individual treatment. These warnings are managed by the relationship manager and the risk analyst.

Managing non-performing risks

Debt refinancing and restructuring are generally the main risk management techniques during the weaker stages of the economic cycle. In the case of debtors or borrowers that have, or are expected to have, financial difficulties in meeting their payment obligations in the contractual terms, the Bank's objective is to facilitate repayment of the debt by minimising the likelihood of non-payment. A number of specific policies to achieve this are in place, including procedures for the approval, monitoring and oversight of debt refinancing and restructuring processes, principally:

— Having a sufficiently detailed compliance record for the borrower and evidence of a clear intention to repay the loan, assessing the time-frame of the financial difficulties being experienced 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, i.e. not just postponing problems to a later date.
— If new guarantees are provided, these must be regarded as a secondary and exceptional means of recovering the debt, so as to avoid impairing the existing means. All ordinary interest accrued up to the refinancing date must be paid in any event.
— Limitations on grace periods.

The Group continually monitors compliance with current terms and conditions and with these policies.

The Banco Sabadell Group also has an advanced model for managing non-performing exposures. The purpose of managing non-performing exposures is to identify the best solution for the customer as soon as there are any signs of impairment so as to avoid classifying customers in difficulties as being in default by working the problem intensively and avoiding lags between phases.*

Real estate loan risk management

As part of its ongoing risk management and, in particular, its policy on the construction and real estate sectors, the Group has a number of specific policies for mitigating risks.

The main measures that are implemented are continuous risk monitoring and reassessment of the borrower's creditworthiness in their new circumstances. If the borrower is found to be creditworthy, the existing arrangements are continued as originally agreed, and compromise solutions are agreed upon if they offer a better fit to the customer's new circumstances.

The policy varies as a function of the type of asset that is being financed. For completed property developments, sale support actions are carried out through the Group's distribution channels, by setting a competitive price which will attract demand and by offering finance to end buyers provided that they comply with risk requirements. For construction projects in progress, the main objective is to complete the project, provided that short- and medium-term market prospects are sufficient to absorb the resulting supply of dwellings.

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

Where the analysis and scrutiny of a borrower’s position do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt ("dation in payment") and/or the purchase of assets.

Where neither approach is practicable, legal proceedings leading to foreclosure will be taken.

All assets taken into possession by the Group, whether through the dation in payment, purchase, or court-ordered repossession, to ensure collection or to execute other lending enhancements are mainly foreclosed tangible assets received from borrowers and other obligors of the Bank to settle financial assets representing a debt claim held by the bank and are managed actively with the primary purpose of divestment.

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

*** For additional quantitative information, see the section of Note 4 dealing with "Credit risk: refinancing and restructuring operations".**

1 Marketing

Various mechanisms are available for the sale of finished products (homes, commercial premises, 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 this strategy.

2 Mobilisation

Given the great difficulty of selling plots of building land and unfinished projects, the mobilisation strategy for these assets was adapted to generate liquidity in the case of zoned building land, and a number of asset mobilisation mechanisms have been designed:

— Programme for working with real estate developers: providing building land in areas of high housing demand so that developers can develop and sell properties.
— Investors program: development of third-party real estate projects with the participation of investors.
— Protected housing programme: development of government-sponsored housing for rent and subsequent sale of the rented developments.

3 Zoning management:

For plots of land not yet zoned for construction, it is important to undertake the necessary processes to achieve a zoning status that allows for building, which is an important mechanism for value enhancement and is vital for any subsequent development and sale.

In the case of new lending for construction and real estate development, a series of criteria have been established as a function of the specific type of business, mainly of the different stages of project maturity and the market situation. Additionally, there is a monitoring process for this type of specialised risk, managed by business and risk experts, which covers the established alerts and the customer's behaviour in the various stages of the loan process, so that the funds are released in parallel with progress made on the building.

Due to having previously reached a high level of concentration in this risk, the Group has an RAS tier-1 metric which establishes a maximum level of concentration for real-estate development in Spain. This metric is monitored on a monthly basis, and is reported to the Risk Technical Committee, the Risk Committee and the Board of Directors.

Moreover, the Risk Control Department, together with the Business and Risk Departments, regularly monitors the degree to which new lending conforms to the framework established for property developers, including a review of compliance and of asset allocation. The outcome is reported to the Risk Technical Committee.*

* For additional quantitative information, see the section of Note 4 dealing with "Credit risk: Risk concentration, exposure to construction and real estate sectors".

Risk management models

Credit rating

Credit risks incurred with corporates, developers, specialised funding projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on an analysis of behaviour patterns in defaulted loans. Each internal rating score is assigned to a projected 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 (G5).

Scoring

In general, credit risks undertaken with individual customers are rated using scoring systems based on a quantitative model of historic statistics to identify meaningful predictive factors. In geographies where scoring is used, it is divided into two types:

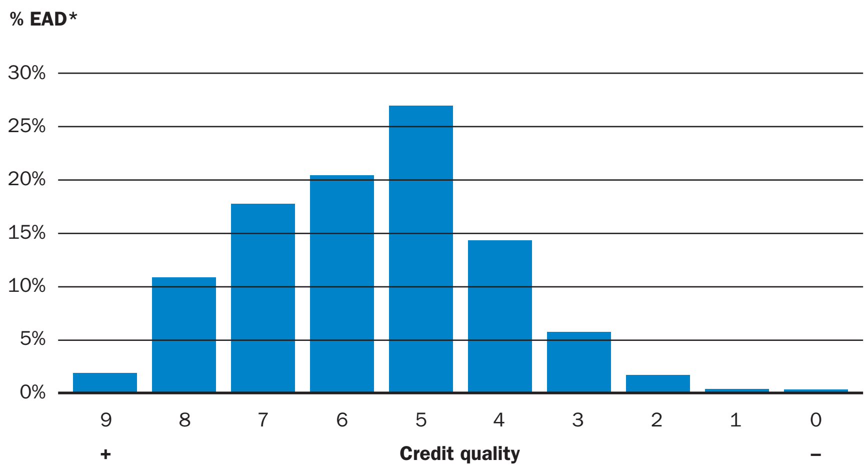
Behavioural scoring: the system automatically classifies customers based on information regarding their activity and each product. It is used primarily for such purposes as granting loans, setting overdraft limits, targeting sales campaigns, and for monitoring and segmenting in claim and/or recovery procedures.

Reactive scoring: this is used to evaluate applications for personal loans, mortgage loans and credit cards. Once all the transaction data has been entered, the system calculates a result based on the estimated creditworthiness and financial profile and any collateral.

If no scoring system exists, it is replaced with individual assessments supplemented with policies (G6).

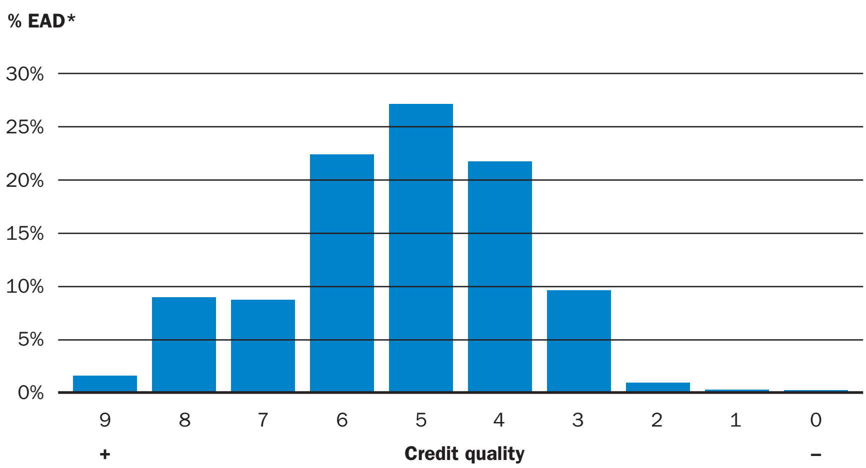
Warning tools

In general, Banco Sabadell Group has a system of early warnings comprised of both individual warnings and advanced early warning models in place for both corporates and private individuals. These early warnings are based on indicators obtained from available sources of information (rating or scoring, customer files, balance sheets, CIRBE — Bank of Spain Central Credit Register, industry and operating performance, etc.). They model the risk posed by a customer on a short-term basis (predicted propensity to default) and have achieved a high level



G5 Company loan rating profile

* EAD (exposure at default)



G6 Individual customer loan portfolio credit score profile

* EAD (exposure at default)

of accuracy in detecting potential cases of default. 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:
— Improved efficiency when monitoring customers with the lowest score (different cut-off points for each group).
— Early action to manage any negative change in the customer's situation (change in score, severe warnings, etc.).
— Regular oversight of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.

Credit risk exposure

Performing loans are expanding at Group level and excl. TSB in an increasingly competitive environment.

The volume of problematic assets was reduced faster than projected in the business plan.

€ million

T1

	2016		
Credit risk exposure	**Business in Spain**	**Business in other countries**	**Total**
Cash and cash balances at central banks	**6,698.32**	**4,989.93**	**11,688.25**
Derivatives	**1,642.55**	**191.94**	**1,834.49**
Debt securities	**21.16**	**4.12**	**0.03**
Central banks	—	—	—
General government	19,450.97	3,426.32	22.88
Credit institutions	612.73	319.36	0.93
Other sectors	1,099.86	379.17	1.48
Of which: Non performing loans	9.03	—	0.01
Loans and advances	**106.93**	**47.46**	**0.15**
Central banks	—	66.23	0.07
General government	9,630.50	125.38	9.76
Credit institutions	3,434.76	797.69	4.23
Other sectors	93,864.14	46,475.19	140.34
Of which: Non performing loans	9,411.04	230.85	9.64
Derivatives – Hedge accounting	**413.32**	**121.84**	**0.54**
Guarantees given	**8,314.59**	**214.76**	**8.53**
Contingent liabilities given	**17,762.58**	**7,446.10**	**25.21**
Total	**162,924.34**	**64,553.90**	**227,478.24**

Financial assets exposed to credit risk, broken down by portfolio, type of counterparty and instrument, and the areas in which the risk arose, were as shown below at year-end, indicating the carrying amount as representing the highest level of exposure to the credit risk incurred, inasmuch as they reflect the highest level of debt of the borrower at the reference date (T1).

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 the latter needs it. Such facilities also entail the acceptance of a credit risk and are subject to the same management and monitoring systems as described above.

The collateral or other credit improvements received to ensure compliance, which are standard practice in the type of financial instruments handled by the entity, have not been deducted from the credit risk exposure value referred to above.

Figure G7 shows the distribution of credit risk across the different segments and portfolios of the Group.

Credit risk mitigation

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour 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 sureties to the Bank.

Generally, these take the form of real 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 real collateral, such as mortgages on business premises, industrial warehouses, 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 valid certificate of solvency.

Legal certainty is secured in all these mitigation techniques, by signing legal agreements that are binding on all parties and can be enforced in all pertinent jurisdictions to ensure, at all times, that the guarantee can be executed. This entire process is subject to internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be obtained where these contracts are granted under foreign legislation.

Real collateral is formalised before a notary in the form of a public instrument to ensure enforceability vis-à-vis third parties. The public instruments referring to mortgage loans are also registered at the pertinent registry to ensure that they are fully valid and enforceable vis-à-vis third parties. In the case of pledges, the pledged goods are normally deposited with the Bank. Unilateral cancellation by the debtor is not permitted, and the guarantee remains in force until the debt is repaid in full.

Personal guarantees or bonds are established in favour of the Bank and, barring exceptional cases, are also formalised before a notary in the form of a public instrument in order to achieve the utmost legal certainty and be able to claim enforcement via the courts in the event of non-payment. They constitute an irrevocable debt claim against the guarantor that is payable on first demand.

In addition to risk mitigation through the establishment of formal guarantees between the debtors and the Bank, as a result of the acquisition of Banco CAM, the Group has an additional guarantee for a certain asset portfolio, provided by the APS, retroactive from 31 July 2011, and for a period of ten years (for more details, see Note 2 of the 2016 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 such guarantees, except for those intrinsic to the treasury business, which are mostly repos with maturities of no more than three months, as a result of which their fair value does not differ substantially from their carrying amount. The fair value of the assets sold with a repurchase agreement is shown in the "Financial liabilities held for trading", under short securities positions.

Assets transferred under this mechanism amounted to €855,145 thousand and are included under repos, on the basis of their nature, in Notes 19 and 20 to the 2016 consolidated annual accounts.

The main concentration of risk in relation to all these types of real collateral or credit enhancements refers to the use of the mortgages as a credit risk mitigation technique in exposures of loans to fund the construction of homes or other types of real estate. In relative terms, the exposure secured with mortgages represents 66.1% of total customer loans and advances.

In the case of market transactions, in line with general trends, the Banco Sabadell Group also has netting rights and agreements with all financial counterparties with which it arranges derivative instruments and some collateral agreements (CSA), in order to mitigate the exposure to credit risk and avoid excessive concentration.

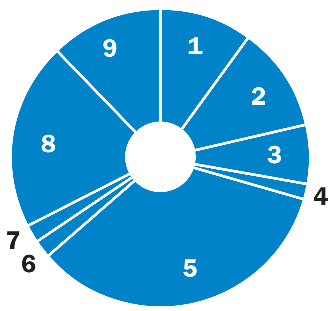
The guarantees deposited at Banco Sabadell as collateral at the end of 2016 amounted to €131 million (€218 million at the end of 2015).

* For more information, see Note 11 "Loans and advances" in the 2016 consolidated annual accounts and the "Banco Sabadell Groupfinancial information" chapter of the Annual Report.

Credit quality of financial assets

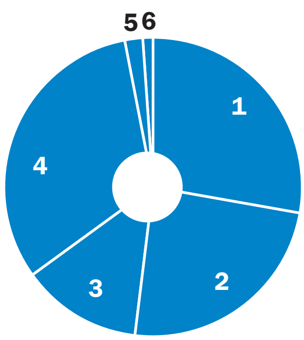
As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) giving rise to credit risk. Such models have been designed in line with best practices proposed by the NBCA. Nonetheless, not all portfolios giving rise to credit risk use internal models, partly due to the fact that a minimum level of experience of defaults is required to reasonably design such a model. Therefore, in order to best describe the quality of the portfolio from an overall perspective, the following chart uses the Bank of Spain's rating system to analyse the Group's credit risk exposure and to estimate the requirements for hedging impairment of debt instrument portfolios (G8).

The breakdown of the total exposure, based on internal ratings, is shown in figure G9.



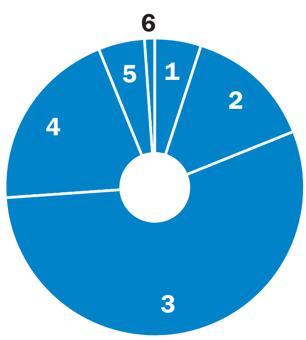
G7
Overall risk profile by customer category (distribution of credit risk exposure) %EAD (exposure at default)

1	Large corporates	10.2
2	Midsize businesses	10.6
3	Small businesses	6.1
4	Retailers and sole proprietors	1.6
5	Mortgage loans	34.3
6	Consumer loans	2.0
7	Banks	2.7
8	Sovereigns	18.7
9	Other	13.9



G8
Credit quality of financial assets (%)

1	No appreciable risk	28
2	Low risk	24
3	Medium-low risk	13
4	Medium risk	32
5	Medium-high risk	2
6	High risk	1



G9
Breakdown of exposure by rating (%)

1	AAA/AA	5
2	A	14
3	BBB	55
4	BB	20
5	B	5
6	Rest	1

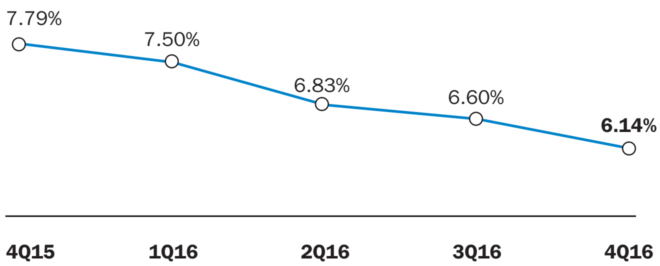
The NPL ratio continues to decline, and stands at 6.1%.

The balance of doubtful and problematic assets continues to decline at a good pace.

Pro-active selling of real estate has proved to be a successful strategy.

G10

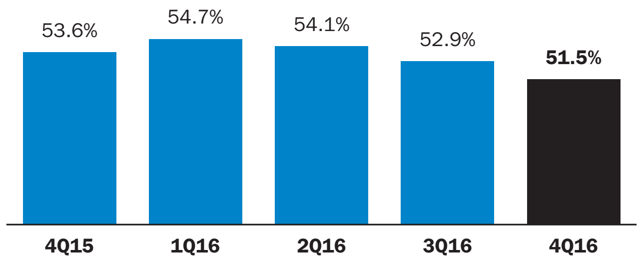
NPL ratio



↓ **6.1%** 2016

↑ **13.6%** 2013

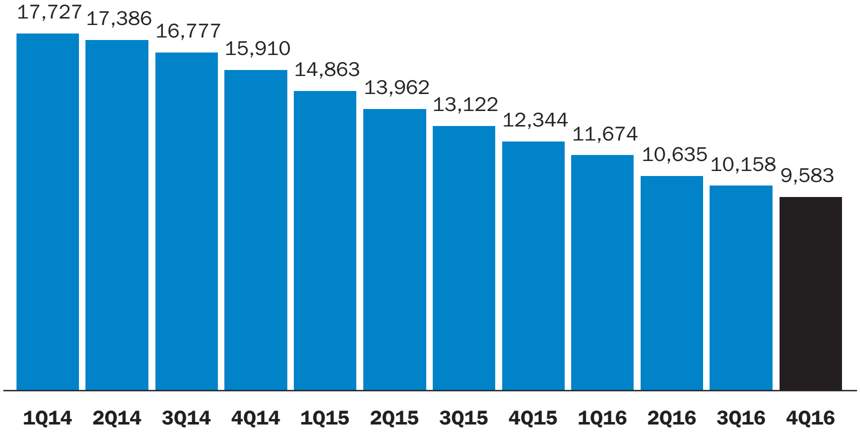
Coverage ratio



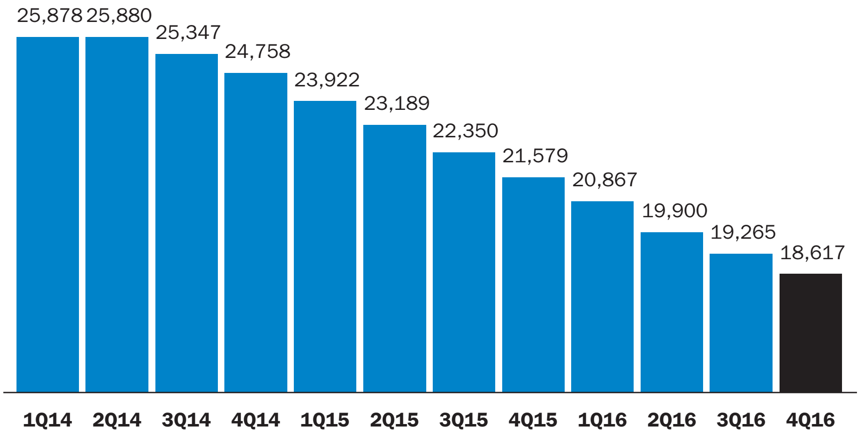
During 2016, an improvement was observed in the volume of doubtful assets, which declined by €2,814 million in 2016, while the NPL ratio reached 6.14% at the end of the year (G10). *

Active management actions by the Bank has achieved a notable reduction in problematic assets since 2013, far exceeding the goals of the business plan (G11 and G12).

* For more information, see Note 11 "Loans and advances" in the 2016 consolidated annual accounts and the "Banco Sabadell Groupfinancial information" chapter of the Annual Report.



G11 Doubtful balances, excl. TSB
(€ million)



G12 Total problematic assets, excl. TSB
(€ million)

-7,411€mn

Concentration risk

Concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity. This type of risk is divided into two basic subtypes:

— Individual concentration risk: imperfect diversification of the portfolio's idiosyncratic risk due either to its small size or to sizeable exposure to specific customers.
— Sectoral concentration risk: imperfect diversification of the systemic components of portfolio risk, which can be sector-based, geographical, etc.

Banco Sabadell has a series of specific tools and policies to ensure efficient management of concentration risk:

— Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, such as tier-one 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.

For information about exposure to construction and real estate development, see Note 4 in the 2016 consolidated annual accounts (section 4.4.1.7.4).

Exposure to customers or significant risks

At 31 December 2016 there were no borrowers with a risk that individually exceeded 10% of the Group's equity.

A total of 32% of performing loans are located outside Spain.

Country risk: geographic exposure to credit risk

Country risk is that applicable to the debts of a country, taken as a whole, as a result of reasons inherent in the country's sovereignty and economic situation, i.e. for circumstances other than the regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to the foreign currency, the inability to transfer it, the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation.

Country risk affects not only debts contracted with a state or entities guaranteed by it but also all private debtors that belong to such state and who, for reasons outside their control and not at their volition, are generally unable to honour debts.

There are no significant restrictions (e.g. statutory, contractual or regulatory) 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 there are no other restrictions of the type envisaged in IFRS 12.

An exposure limit is set for each country which is applicable 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.

The principal component of the framework for the acceptance of country risk and financial institution risk is the structure of limits on the various metrics; on this basis, the various risks are monitored and Senior Management and the delegated bodies establish the Group’s risk appetite on this basis.

The limits structure is based on two tiers: tier 1 metrics in the RAS, and Tier 2 (or "management") limits.

Additionally, a number of indicators and tools are used to manage country risk: ratings, CDS, macroeconomic indicators, etc.

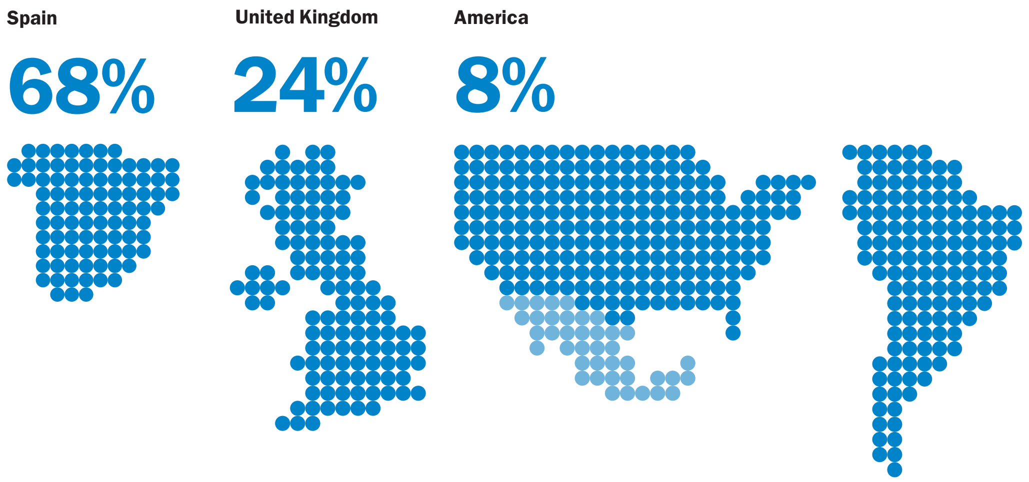
The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), at 31 December 2016, is shown in Graphic G14.

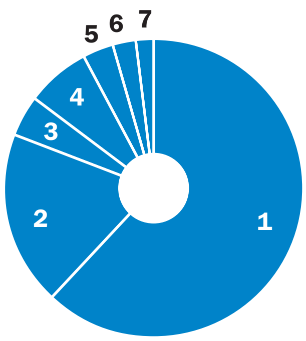
T2 Breakdown of risk concentration by activity worldwide

€ million

	2016				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**18,269.73**	**8,058.20**	**8,463.92**	**1,208.78**	**538.84**
Public authorities	**32,794.94**	**19,758.60**	**9,533.96**	**3,425.63**	**76.76**
Central government	25,016.11	14,395.30	9,403.08	1,179.13	38.61
Rest	7,778.83	5,363.31	130.88	2,246.50	38.15
Other financial institutions	**3,761.10**	**2,700.96**	**525.92**	**481.11**	**53.11**
Non-financial companies and sole traders	**64,159.25**	**51,874.70**	**3,429.71**	**8,211.14**	**643.70**
Construction and real estate development	7,647.18	7,008.31	87.63	505.74	45.50
Civil engineering work	1,879.04	1,820.93	23.81	22.71	11.59
Other	54,633.03	43,045.46	3,318.27	7,682.69	586.61
Large corporates	24,658.63	16,496.53	2,424.41	5,408.74	328.94
SMEs and sole proprietors	29,974.40	26,548.93	893.86	2,273.95	257.67
Other households and NPISH	**78,609.08**	**39,866.07**	**36,253.46**	**1,614.78**	**874.78**
Home loans	67,015.35	31,112.37	33,598.90	1,579.75	724.34
Consumer loans	7,515.54	5,764.95	1,603.14	17.10	130.35
Other	4,078.19	2,988.75	1,051.41	17.93	20.10
TOTAL	**197,594.10**	**122,258.53**	**58,206.96**	**14,941.43**	**2,187.19**

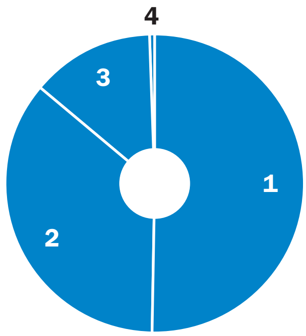
G13 Sabadell Group loan distribution.
%
Data for 4Q2016.





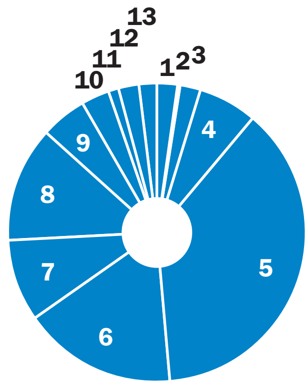
G14 Breakdown of sovereign risk exposure (%)

1	Spain	62.0
2	Italy	18.9
3	United States	4.5
4	United Kingdom	6.9
5	Portugal	3.5
6	Mexico	2.4
7	Rest of the world	1.8



G15 Breakdown of counterparty risk (%) **(by geography)**

1	Euro area	50.4
2	Rest of Europe	35.8
3	USA and Canada	13.3
4	Rest of the world	0.5



G16 Breakdown of counterparty risk, by rating (%)

1	AAA / Aaa	2.3
2	AA+ / Aa1	0.4
3	AA / Aa2	2.2
4	AA- / Aa3	6.4
5	A+ / A1	37.3
6	A / A2	16.7
7	A- / A3	8.9
8	BBB+ / Baa1	12.5
9	BBB / Baa2	5.1
10	BBB- / Baa3	3.0
11	BB+ / Ba1	1.2
12	BB / Ba2	2.2
13	Remainder	1.7

Counterparty risk

This heading refers to credit risk arising from activities in financial markets that are carried out with counterparty risk (derivatives and repos), trades in money markets and fixed-income trades. The exposure resulting from operations in the financial markets is managed and tracked comprehensively.

The exposure resulting from operations in the financial markets under management criteria is mainly concentrated in financial institutions (FI) and Central Counterparties (CCP).

The philosophy behind counterparty risk management is aligned with the business strategy, and seeks at all times to ensure value creation while maintaining a balance between return and risk. For this purpose, criteria have been established for supervising and tracking counterparty risk deriving from activity in the financial markets so as to ensure that the Bank can carry out its business activity within the risk thresholds established by Senior Management.

The Banco Sabadell Group has a system for evaluating and managing those risks that enables it to monitor and oversee compliance with the approved limits on a daily basis. Graphics G15 and G16 show the breakdown of counterparty risk by geographical region and credit rating.

As the table shows, the risk is concentrated among counterparties with a high credit rating: 65% of the counterparty risk is with counterparties rated A or higher.

In June 2016, EMIR (Regulation 648/2012) made it obligatory for the Group to clear and settle certain OTC derivatives through Central Counterparties (CCP). Consequently, the derivatives arranged by the Group that are susceptible to being cleared through a CCP are being cleared in this way. At the same time, the Group has worked to standardise OTC derivatives with a view to increasing the use of CCPs. The exposure to CCPs is equivalent to the amount of the guarantees provided.

Management considers that there is no exposure in derivatives transactions in organised markets (OM), given that the OM acts as counterparty and there is a settlement and guarantee mechanism that ensures transparency and continuity. As in the case of CCPs, the exposure is equivalent to the guarantees provided.

The philosophy behind counterparty risk management is aligned with the business strategy, and seeks at all times to ensure value creation while maintaining a balance between return and risk. For this purpose, criteria have been established for supervising and tracking counterparty risk deriving from activity in the financial markets so as to ensure that the Bank can carry out its business activity within the risk thresholds established by Senior Management.

Exposure is quantified on the basis of Marking to Market (MtM) plus Add-on. MtM represents current exposure, and is defined as the cost of replacing a transaction at market value in the event that a counterparty defaults. The add-on represents the potential future risk, which an operation may attain in a given period of time due to the transactions' characteristics and the market variables on which it depends. In the case of transactions under a collateral agreement, the add-on represents the possible fluctuation of MtM between the time of default and the time the position is unwound in the market. If the transaction is not carried out under a collateral agreement, the add-on represents the possible fluctuation of MtM throughout the term of the operation.

Each day at market close, all exposures are recalculated on the basis of transactions inflows and outflows, changes in market variables and the risk mitigation mechanism established by the Group. In this way, exposures are monitored on a daily basis to ensure that they conform to the limits approved by Senior Management. This information forms part of the risk reports which are escalated to the departments and areas responsible for risk management and monitoring.

With regard to counterparty risk, the Group adopts three different mitigation measures. The main measures are:

— Netting agreements for derivatives (ISDA and CMOF).
— Collateral agreements for derivatives (CSA and Annex III) and repos (GMRA).

Netting agreements allow positive and negative MtM to be aggregated in transactions with the same counterparty in such a way that, in the event of default, a single payment or collection obligation is established in relation to all of the operations arranged with that counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to trade in derivatives.

Collateral agreements provide not just for netting but also for the regular exchange of guarantees that mitigate the exposure to a counterparty in respect of the operations covered by the agreement.

The Group requires that a collateral agreement be in place in order to trade in derivatives or repos with financial institutions. The Group's standard collateral contract is bilateral (i.e., both parties are obliged to post collateral) and provides for daily exchange of guarantees, always in cash and always denominated in euro.

Assets pledged in financing activities

At the end of 2016 and 2015, there are certain financial assets pledged in financing operations, i.e. offered as collateral for certain liabilities. Those assets are mainly loans linked to the issuance of mortgage covered bonds, public sector covered bonds bonds or long-term securitisation bonds (see Note 21 and Schedules III and IV of the 2016 consolidated annual accounts). The other pledged assets are debt securities that are delivered in repos, collateral (loans or debt instruments) provided to gain access to certain types of funding from central banks and collateral of all types provided as surety for derivatives transactions.

The Bank has used part of its portfolio of homogeneous loans and advances in fixed-income securities by transferring the assets to securitisation trusts created for this purpose. Under current regulations, securitised assets cannot be derecognised unless the risk has been substantially transferred.

For further information on funding programmes in the capital market, refer to the section below on liquidity risk.

Liquidity risk

Definition

Liquidity risk arises 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, etc. 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 funding structure that, in line with its strategic objectives and based on its risk appetite statement (RAS), allows it to honour its payment commitments normally and at a reasonable cost, under business as usual conditions or under a stress situation caused by systemic or idiosyncratic factors.

The governance structure for Banco Sabadell's liquidity management is based on the direct involvement of Senior Management, clear delimitation of the three lines of defence and a strict separation of functions, and a clear structure of responsibilities in committees, departments, subdirectorates-general and functional areas.

Senior Management is involved in managing and controlling liquidity risk through the Board of Directors, as the entity's highest governing body, and also directly through three Board sub-committees:

— Executive Committee.
— Risk Committee.
— Audit and Control Committee.

These governing bodies receive regular information from all departments associated with liquidity risk management and control, through the various committees, departments and subdirectors-general.

Liquidity management

Liquidity management at Banco Sabadell seeks to ensure funding for its commercial activity at an appropriate cost and term while minimising liquidity risk. The bank's funding policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

In order to manage its liquidity, the Group applies a structure based on Liquidity Management Units (LMU). Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. At present, the LMUs are Banco Sabadell (includes OFEX), Sabadell United Bank (SUB), Banc Sabadell d'Andorra (BSA) and TSB.

In order to achieve the objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the LMUs' retail business model and the defined strategic objectives:

— Involvement of the Board of Directors and Senior Management in the managing and controlling liquidity risk and funding.
— Clear segregation of functions between the different areas within the organisation, with a clear delimitation of the three lines of defence, to ensure independence when measuring positions and when controlling and assessing risks.
— Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
— Sound identification, measurement, management, control and reporting processes with respect to the liquidity and funding risks to which the Group is exposed.
— Existence of a transfer price system to transfer funding costs.
— A balanced funding structure based primarily on customer deposits.
— A broad base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprises the Group's first line of defence.
— Diversification of funding sources, with controlled recourse to short-term wholesale funding and without depending on any specific funding provider.
— Self-funding of significant foreign banking subsidiaries.
— Oversight of the degree of encumbrance of the balance sheet.
— Maintenance of a second line of liquidity consisting of the capacity to issue mortgage covered bonds and public sector covered bonds.
— Availability of a Liquidity Contingency Plan.

Although ring-fencing will not officially enter into effect until 2019, TSB is an autonomous unit within the Group's liquidity management as it is an independent LMU. The future economic performance of the United Kingdom should not generate liquidity problems, as TSB operates independently from its parent company.

Tools/metrics for monitoring and controlling risk management

The Banco Sabadell Group defines two series of metrics that enable it to measure and control liquidity risk: 1) first-tier RAS metrics; and2) second-tier metrics. Liquidity risk is also monitored and controlled on a daily basis through the early warning indicators (EWI) and the Structural Treasury Report .

The Board of Directors of Banco Sabadell is responsible for defining the Group's liquidity and funding risk appetite statement (RAS) at consolidated level and for setting indicators that LMUs must include in their local RAS, independently of any other indicators they use.

The RAS is comprised of quantitative metrics that allow objective monitoring of risk management, as well as supplementary qualitative aspects.

The Board of Directors of the LMUs are responsible for approving local RAS which must consider the corporate guidelines and the respective local requirements. Aside from the metrics included in the Risk Appetite Framework, each LMU defines a set of second-tier metrics which contribute to analysing and monitoring the funding and liquidity risk. These metrics are monitored continuously by each of the local ALCOs.

The Group has also designed and implemented a system of early warning indicators (EWIs) at the LMU level, which includes market and liquidity indicators adapted to each LMUs funding structure and business model. These metrics at LMU level complement the RAS indicators and second-tier metrics and enable local threats to the liquidity position and funding structure to be detected in advance, thereby facilitating the decision-making process and implementation of corrective actions and reducing the risk of spillover to other management units.

These warnings are categorised into different levels of severity on the basis of which the Group must consider taking different corrective measures and actions in order to return to a BaU situation. The early warning system is linked to the Liquidity Contingency Plan (LCP).

Banco Sabadell has an LCP that sets out the strategy for ensuring that the institution has sufficient management capacities and measures in place to minimise any negative impacts of a crisis affecting its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in liquidity management, particularly in the event that the crisis has arisen due to flawed performance of one or more market infrastructures. The LCP can be triggered in response to different crisis scenarios, either in the markets or in the entity itself. In general, and in line with the impact channels considered in the entity's stress tests, these scenarios can be classed as systemic crises, idiosyncratic crises or combined crises.

The risk control and reporting framework for risk management limits is comprised of:

— Supervision of Group-wide liquidity risks, independently calculating the risk management metrics within risk systems.
— Definition of risk measurement methodologies and verification that control and measurement systems are working properly.
— Daily monitoring of risk indicators and limits, with reporting to the various management units.
— Systematic oversight and analysis of headroom within the limits, identifying cases of breach and activating the necessary procedures to correct the situation.
— Establishment and creation of the necessary reporting framework for optimum monitoring and control of risk management limits.

Additionally, the risk control and reporting framework for RAS indicators is comprised of:

— Development and regular updates of a scorecard to show the evolution of the main metrics, ensuring that they conform to the framework and established limits.
— Systematic oversight and analysis of changes to all material risks.
— Reporting and proposing actions (triggering protocols, changes to guidelines, etc.) based on the analysis of risk trends.

Funding strategy and liquidity trends in 2016

The Group's main source of funding is customer deposits (mainly demand accounts and deposits with agreed maturity captured through the branch network), supplemented by funding through the interbank and capital markets in which the entity maintains a number of short- and long-term funding programmes in order to achieve an appropriate level of diversification by type of product, term and investor. The entity also maintains a diversified portfolio of liquid assets, mostly eligible as collateral for European Central Bank funding transactions.

On-balance sheet customer funds

At 31 December 2016, on-balance sheet customer funds amounted to €133,457 million, compared with €131,489 million at 2015 year-end and €94,461 million at 2014 year-end (an increase of 1.5% in December 2016 compared with December 2015, and of 39.2% in December 2015 compared with December 2014 as a result of the acquisition of TSB in June 2015). In 2016, balances continued to move from deposits with agreed maturities to demand accounts and mutual funds as a result of the downward trend in interest rates. At 31 December 2016, the balance of demand accounts totalled €92,011 million (+8.8%), to the detriment of deposits with agreed maturity, which declined by 13.3% (T3).*

The bank markets deposits through the following Group units/companies (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, SUB and TSB). Details of the volumes of these business units are set out in the section on Business results of the Directors' Report.

During 2016, the funding gap stabilised, maintaining the positive trend observed in recent years though at a more moderate pace. This enabled the bank to maintain its policy of partially refinancing maturities in the capital markets and, at the same time, with the Group's guidance for reduction of the loan-to-deposit (LtD) ratio (from 147% at the end of 2010 to 105.1% at the end of 2016). The ratio was enhanced during the year by the addition of TSB in June 2016, whose funding structure is exposed mainly to customer deposits. To calculate the loan to deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) is taken as the numerator, and retail funding as the denominator.

Capital market

Recourse to funding in the capital markets has been declining in recent years as a consequence of, inter alia, the positive trend in the funding gap. At the end of 2016, the outstanding balance of capital market funding stood at €25,160 million, compared with €27,436 million at the end of 2015. By product type, as of 2016 year-end, of the amount of capital market funding, €13,607 million were in the form of mortgage covered bonds, €2,612 million

*** Off-balance sheet customer funds managed by the Group and those marketed but not managed by the Group are shown in Note 31 to the 2016 consolidated financial statements.**

were commercial paper and ECP placed with wholesale investors, €1,741 million were senior debt (of which €1,059 million were government guaranteed bonds connected with the acquisition of Banco CAM), €1,514 million were subordinated debt and preference shares, €5,653 million were securitisation bonds placed in the market (of which €3,433 million correspond to TSB), and €33 million were other medium- and long-term financial instruments (T4).

The Banco Sabadell Group is an active participant in the capital markets and has a number of active funding programmes with a view to diversifying its sources of liquidity.

In terms of short-term financing, the entity maintains a commercial paper programme and a Euro Commercial Paper (ECP) programme:

— Commercial paper programme: this program regulates issues of commercial paper aimed at institutional and retail investors. On 3 March 2016, Banco Sabadell registered its commercial paper programme for 2016 with the Spanish National Securities Market Commission (CNMV) with an issue limit of €7,000 million with scope for extension to €9,000 million. The outstanding balance of the commercial paper programme has remained stable, with a slight reduction in the outstanding balance placed with institutional investors, and a slight increase in the balance placed with non-qualified investors. At 31 December, the outstanding balance stood at €3,676 million (net of commercial paper acquired by Group companies), compared with €3,661 million at 31 December 2015.
— Euro Commercial Paper (ECP) Programme, aimed at institutional investors, under which short-term securities are issued in several currencies: EUR, USD and GBP. On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of €3,500 million. At 31 December 2016, the outstanding balance stood at €246 million, in comparison to €275.9 million at the end of 2015.

Regarding medium- and long-term financing, the entity has the following programmes in place:

— Programme for the issuance of non-equity securities registered with CNMV ("Fixed Income Programme"): this programme regulates the bonds and debentures, both non-convertible and subordinated, and mortgage covered bonds, public sector covered bonds and structured bonds issued under Spanish law through the CNMV and aimed at both domestic and foreign investors. The limit available for new issues under the Banco Sabadell Programme for the issuance of non-equity securities for 2016 at 31 December 2016, was €10,638.8 million (at 31 December 2015, the outstanding balance under the 2015 Fixed Income Programme was €6,145.8 million).
— During 2016, Banco Sabadell issued a total of €7,658.5 million under the existing Fixed-Income Programme. During the year, the entity tapped the

T3 On-balance sheet customer funds, by maturity:

€ million

	2016	3 months	6 months	12 months	>12 months	No fixed maturity
Total on-balance sheet customer funds (*)	**133,457**	**10.3%**	**6.8%**	**7.9%**	**5.9%**	**68.9%**
Deposits with agreed maturity	37,214	34.7%	21.3%	26.7%	17.3%	—
Demand accounts	92,011	—	—	—	—	100.0%
Retail issues	4,232	21.4%	28.0%	15.7%	34.9%	—

(*) 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.

T4 Maturity of issues aimed at institutional investors, by product type

€ million

	2017	2018	2019	2020	2021	2022	>2023	Outstanding balance
Mortgage bonds and mortgage covered bonds*	2,022	1,560	1,124	2,165	2,108	1,119	3,508	13,607
Government-guaranteed bonds (GGB)*	1,059	—	—	—	—	—	—	1,059
Senior debt**	57	600	—	—	—	25	—	682
Subordinated debt and preference shares**	66	—	—	425	490	—	533	1,514
Other medium- and long-term financial instruments**	—	18	—	—	10	—	5	33
Total	**3,204**	**2,178**	**1,124**	**2,590**	**2,608**	**1,144**	**4,047**	**16,895**

(*) Collateralised
(**) Uncollateralised

market on several occasions, taking advantage of liquidity windows. Specifically, Banco Sabadell made two public issues of mortgage covered bonds in May (eight years) and October (seven years) for a total of €1,000 million each; a €100 million tap of an existing mortgage covered bond in March; three issues of 8-year mortgage covered bonds amounting to a combined €850 million, which were subscribed fully entirely by the European Investment Bank (EIB); eight issues of senior bonds at terms of between 1 and 3.25 years for a total amount of €2,488 million, and eleven issues of structured bonds for a total of €220.6 million at terms between 1 and 5 years. In the current market environment, the entity would have the capacity to issue in different formats and terms.
- Euro Medium Term Notes (EMTN) Programme, registered on 31 March 2016 with the Irish Stock Exchange. This programme allows senior debt and subordinated bonds to be issued in any currency, with a maximum limit of €5,000 million. On 6 May 2016, Banco Sabadell issued €500 million in 10-year subordinated debt million under this new EMTN programme.

Banco Sabadell's primary market activity has not been affected by the outcome of the June 2016 Brexit referendum to decide on the UK's membership in the European Union. As an example, in October 2016 the Bank issued a 7-year mortgage covered bond in the market for the amount of €1,000 million, achieving a historically low cost.

TSB has continued to establish itself as a benchmark issuer, and it would appear that the market also views it as such. In this regard, although TSB continues to have access to wholesale markets, it is not expected to issue significant amounts due to its ready access to retail markets and the implementation of the Term Funding Scheme (TFS) by Bank of England in August. The TFS is a programme to incentivise lending by allowing UK banks to borrow at 4 years from the date of drawdown in exchange for eligible collateral.

- Asset securitisation: since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other highly solvent institutions, granting mortgage loans, loans to small and medium-sized enterprises, consumer loans and debt claims deriving from finance lease contracts.

There are currently 34 outstanding asset securitisation operations (including those performed by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB); although part of the bonds issued were withheld by the issuer entity as liquid assets eligible for financing operations with the European Central Bank, the rest of the bonds were placed in capital markets. At the end of 2016, the balance of securitisation bonds placed in the market stood at €5,653 million.

For efficiency reasons, three securitisation operations with relatively small outstanding balances were redeemed before maturity in 2016 (see further details on securitisation funds in Schedule II to the notes to financial statements).

On 28 July 2016, Banco Sabadell issued a IM Sabadell Pyme 10, a bond backed by loans to SMEs, for an amount of €1,750 million; the bonds were retained in their entirety.

During the first half of 2016, TSB launched a new mortgage-backed bond, Duncan Funding 2016-1 PLC, for an amount equivalent to €3,934 million, of which €664 million have been placed in the market.

In general terms, the tone of the markets was positive in 2016, although there were several episodes of volatility caused by political and regulatory uncertainty, which led to tensions and even the closure of markets during relatively prolonged periods. In the overall system, a large portion of maturities in the market were not refinanced; this, together with the ECB's economic stimulation measures in the last quarter of 2014 and the beginning of 2016, resulted in an excess of liquidity.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted long-term refinancing operation (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II, for a total of €10,000 million, by amortising early €11,000 million from the TLTRO I auctions announced by the ECB in June 2014. The Bank also took part in the Covered Bond Purchase Programme (CBPP3) implemented by the European Central Bank.

In August, Bank of England also implemented a series of measures to support economic growth. That package includes a reduction of the Bank Base Rate and the introduction of the Term Funding Scheme (TFS). As a member of the Sterling Monetary Framework (SMF), TSB plans to resort regularly to the TFS to obtain low-cost funding. There were no amounts drawn under the TFS at 2016 year-end.

The excess liquidity in the market together with a low interest rate environment reduced prices of repo funding compared to other alternatives. At 31 December 2016, the net nominal amount of repo funding stood at €7,927 million.

Liquid assets

In addition to these sources of funding, Banco Sabadell maintains a liquidity buffer in the form of liquid assets to cover any liquidity needs (T5).

With respect to 2015, Banco Sabadell's first line of liquidity has grown by €4,634 million, due to the funding gap, changes in the real estate portfolio and the creation of own collateral.

As for TSB, the first line of liquidity at 31 December 2016 was mainly comprised of gilts amounting to €1,678 million (€1,718 million at 31 December 2015) and surplus reserves at the Bank of England (BoE) amounting to €4,191 million (€3,383 million at 31 December 2015).

It should be noted that Banco Sabadell Group applies a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the eligibility, availability and liquidity requirements established both internally and in regulations in order to comply with the regulatory minima.

There are no significant amounts of cash and cash equivalents which are not available for use by the Group.

In addition to the first line of liquidity, the bank maintains a buffer of mortgage assets and loans to public authorities that are eligible as collateral for mortgage covered bonds and public sector covered bonds, respectively, which, at the end of 2016, added €4,924 million in terms of the capacity to issue new covered bonds that are eligible as collateral for the ECB facility. At the end of 2016, available liquidity amounted to €31,805 million in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity at year-end to issue mortgage and public sector covered bonds, less the average haircut applicable to covered bonds by the ECB.

Fulfilment of regulatory ratios

As part of its liquidity management approach, the Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), and reports the necessary information the regulator 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.

Since 1 January 2016, the regulatory minimum LCR is 70%, a level which is comfortably surpassed by all of the entity's LMUs; in particular, TSB and Banco Sabadell Spain stand out due to their very high LCRs. At Group level, the bank's LCR was consistently above 100% throughout the year.

The NSFR is still under consideration and the final definition has yet to be adopted. The scheduled date for its implementation is January 2018, and, as with the LCR, it will be phased in. The bank has nonetheless already commenced monitoring this ratio as a liquidity metric at the LMU level.

Given the bank's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long-term, this ratio is consistently over 100%.

Market risk

This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices, volatility or correlation between them.

Those positions that generate market risk are usually held in trading activities, consisting of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the entity uses the market risk management and monitoring system to manage the structural market risk position. Other market risks of a structural nature, arising from such factors as interest rates, are addressed in the relevant sections.

The market risk acceptance, management and oversight system is based on setting limits for specifically assigned positions and the approval of transactions of each business unit; in this way, the various management units have the obligation to manage their positions within the established limits and to obtain approval for transactions from the risks department.

€ million

T5

	2016
Cash (*) + Net interbank position	8,002
Available under ECB facility	6,869
Collateral provided under ECB facility (**)	18,687
Balance drawn under Bank of Spain facility (***)	11,818
Assets eligible as collateral for ECB facility not yet used	8,423
Other marketable assets ineligible for central bank facility (****)	3,587
Total available liquid assets	**26,881**

(*) Excess reserves at central banks.
(**) Market value after applying ECB haircut for monetary policy transactions.
(***) Of which, in 2016, €10,000 relate to the ECB's 4-year Targeted Longer-Term Refinancing Operation (TLTRO II) on 29 June 2016. In 2015, €11,000 million related to the Bank of Spain TLTRO on 17 December 2014.
(****) Market value after applying the Liquidity Coverage Ratio (LCR) haircut. Includes fixed-income securities classified as high-quality liquid assets (HQLA) for the purposes of the LCR and other marketable securities of Group undertakings.

Trading activity

The principal risk factors considered by Banco Sabadell in its trading activity are:

- Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit operations, fixed-income and interest rate derivatives.
- Credit spread risk: this risk derives from the fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.
- Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the reference currency. In the case of Banco Sabadell, the reference currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.
- Equity risk: risk which derives from the fluctuation in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices did not have an impact in the year, given that the Group's exposure is marginal, both direct and in underlying assets.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

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. A 99% confidence level is used. Due to the low complexity of the instruments and the high liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on the full appreciation of the transactions under recent historic scenarios, and it is not necessary to make assumptions about the distribution of market prices. The main limitation to this methodology is its dependence on historical data, given that, if a potential event did not materialise within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the contemplated confidence level. Back testing consists of a comparison between daily VaR and daily results. If losses exceed the level of VaR, an exception occurs. In 2016 no exceptions occurred in backtesting due to the low exposure to the year's significant events, such as the Brexit referendum (24 June).

Stressed VaR is calculated in the same way as VaR but with a historical window of variations in the risk factors in stressed market conditions. This stress situation is determined on the basis of current operations, and it can vary if the risk profile of portfolios changes. The methodology used for this risk metric is the historical simulation.

This is supplemented with additional measures such as sensitivities, which refer to the change produced in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out with extreme market scenarios (stress testing), in which the impacts of different past and theoretical scenarios on portfolios are analysed.

Market risks are monitored on a daily basis, and risk levels and compliance with the limits established by the Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable) are reported to the oversight bodies. This makes it possible to keep track of changes in exposure levels and measure the contribution by each risk factor.

Trading market risk incurred in terms of the 1-day VaR with 99% confidence in 2016 is shown in table T6.

Commodity price changes did not have an impact in the year since the Group's exposure, both direct and to the underlying assets, is negligible.

Structural risks concerning interest rates and exchange rates

Structural interest rate risk

Structural Interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking and is defined as the possibility of incurring losses as a result of the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).

The following types are considered under structural interest rate risk:

- Repricing risk: related to a mismatch between maturity dates and repricing of assets, liabilities and short- and long-term off-balance sheet positions.
- Curve risk: arising from changes in the level or gradient of the yield curve.
- Basis risk: arising from hedging an interest rate exposure using exposure to an interest rate that is repriced in different conditions.
- Optionality risk: arising from options, including implicit options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market best practices and are implemented consistently across all balance sheet management units (BMUs) and by local asset and liability committees. The effect of diversification between currencies and BMUs is taken into account when presenting overall key figures.

The Group's current interest rate risk management strategy relies particularly on the following principles and pillars, in line with the business model and the defined strategic objectives:

— Each BMU has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. This allows them to obtain information from all of the identified sources of IRRBB, assess their effect on financial margins and the economic value of assets and measure the vulnerability of the Group/BMU to potential losses deriving from IRRBB under different stress scenarios.
— At corporate level, a set of limits is established for overseeing and monitoring the level of IRRBB exposure that are appropriate in the light of internal risk tolerance policies. However, each BMU has the autonomy to set any other additional limits it deems necessary, based on its specific needs and the nature of its activities.
— The existence of a transfer pricing system.
— The set of systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap (G17), which is a static measure that shows the breakdown of maturities and repricing of sensitive items on the balance sheet. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered to make assumptions as to stability and remuneration on the basis of the product type.

Additionally, the sensitivity of key economic figures (net interest income, economic value) to changes in the yield curve is calculated. Table T7 shows the interest rate risk levels in terms of the sensitivity of the Group's main foreign currencies at the end of 2016.

In addition to the impact on net interest income within one year, presented in the previous table, the Group calculated the impact on net interest income over two years, the result of which is notably more positive for all currencies.

Given the current level of market interest rates, the scenario of a decline in interest rates uses a maximum shift of 100 basis points in each term, so that the resulting interest rate is always greater than or equal to zero.

Derivatives are arranged in the financial markets to hedge risks, mainly interest rate swaps (IRS), which qualify for hedge accounting. Two different forms of macro-hedging are used:

— Interest rate macro hedging of cash flows, whose purpose is to reduce the volatility of net interest income as a result of interest rate fluctuations, for a one-year time horizon.
— Fair value interest rate macro hedges, whose purpose is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

Balance sheet items recognised at amortised cost do not present any valuation adjustments associated with interest rate fluctuations. In the case of financial assets classified as available for sale that are measured at fair value, the change in risk premiums had a greater impact than the decline in interest rates during the year.

Structural exchange rate risk

This risk arises from changes in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in overseas offices and subsidiaries which use currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise the impact on the value of the portfolio and the entity's equity of adverse movements in currency markets. The risk appetite defined in the RAS takes precedence and the established levels for the risk metrics must be complied with at all times.

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 main metric is currency exposure (as a percentage of Tier 1), which measures the sum of the entity's net open position (assets less liabilities) in each currency through any type of financial instrument (FX spot, forward and option transactions), measured in euro and in terms of Tier 1.

Compliance with and the effectiveness of the Group's targets and policies are monitored and reported on a

€ million

T6

	2016		
	Mean	High	Low
Interest rate risk	0.90	2.86	0.45
Exchange rate risk in trading position	0.20	0.55	0.04
Equity risk	0.69	1.62	0.30
Credit spread	0.99	3.58	0.32
Aggregated VaR	**2.78**	**7.90**	**1.23**

monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

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 exchange rate fluctuations.

In 2016, in a context of persisting uncertainty about the negotiations in the wake of the Brexit referendum, Banco Sabadell continued to monitor the EUR/GBP exchange rate. During this period, the Group has adopted a hedging policy which aims to mitigate the negative effects on capital ratios, as well as on the earnings generated by its business in GBP, as a result of the evolution of the EUR/GBP exchange rate.

During 2016, capital hedging increased, from 768 million pounds sterling in 2015 to the current 1,368 million pounds sterling, which represents 73% of the total investment.

This currency hedge is monitored continuously based on market movements.

The value in euro of the assets and liabilities denominated in foreign currencies held by the group at 31 December 2015, classified on the basis of their nature, is shown in figure G18.

The net position of foreign currency assets and liabilities includes the bank's structural position measured at a historical exchange rate, amounting to €1,685 million, of which €597 million correspond to permanent shareholdings in GBP, €769 million to permanent shareholdings in USD and €279 million to stakes in MXN. Net assets and liabilities valued at the exchange rate are hedged through foreign exchange forward transactions and options, in accordance with the Group's risk management policy.

At the end of 2016, the sensitivity of equity exposure to a 1% devaluation in the exchange rates against the euro of the main currencies to which the bank is exposed amounted to €17 million, of which 35% related to the pound sterling, 46% to the US dollar, 17% to the Mexican peso and the rest to other currencies.

Operational risk

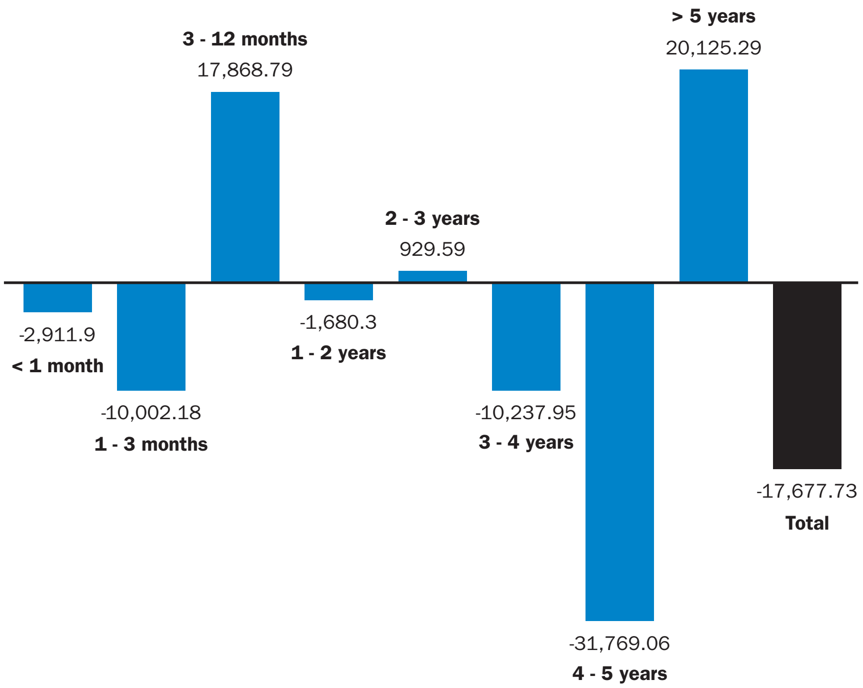
Operational risk is defined as the risk of incurring losses due to inadequate or failed internal processes, people or systems or due to unexpected external events. This definition includes reputation risk (which, in turn, includes behavioural risk), technology, model and outsourcing risks.

T7

%

	Instantaneous parallel increase of 100bp	
Interest rate sensitivity	Impact on net interest income	Impact on economic value
EUR	0.1	1.3
GBP	1.9	(2.2)
USD	0.2	(0.3)

G17 Interest rate gap



Management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes they manage are indicated in the corporate process flowchart, which facilitates the distribution of information throughout the organisation. The Group has a specialized 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 risk management approach.

Senior Management and the Board of Directors are directly and effectively involved in managing this risk by approving the Risk Appetite Framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of Senior Management members from different functional areas. The management of this risk also requires regular audits to be carried out on the application of the risk management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first is based on the analysis of processes, identification of risks associated with such processes that may result in losses, and a qualitative assessment of the risks and the associated controls, all carried out jointly by 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 projected and mitigating actions to be targeted appropriately.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators, resulting in alerts that are triggered by any increase in this exposure, the identification of the causes of such an increase, and measurement of the efficacy of the controls and of any improvements.

At the same time, business continuity plans are designed and implemented for any processes identified as being of high criticality in the event of outage. A qualitative estimate is made of the reputational impact of the identified risks if they were to materialise.

The second line of action is based on experience. It consists of compiling all losses suffered by the entity in a database, which provides information about the operational risks encountered by each line of business, as well as their causes, so that action may be taken to minimise them.

Additionally, this information makes it possible to cross-check the estimates of potential losses with actual losses, 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 dating 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 (G19 and G20).

Operational risk includes management and oversight 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.
— Outsourcing risk: the possibility of losses deriving from failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.
— Model Risk: the possibility of losses arising from decision-making based on the use of inadequate models.

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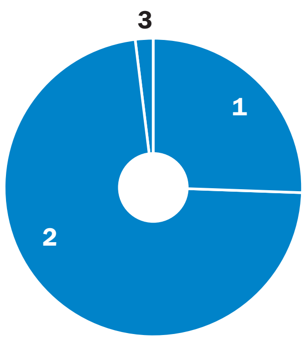
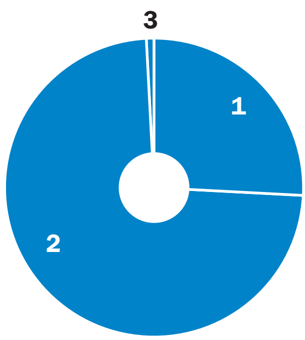
— Reputational risk: the possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution with an impact on its solvency.
— Technology risk: possibility of losses due to inability of the systems infrastructure to fully support the continuation of ordinary business activity.

G18 Value in euro of foreign currency assets and liabilities (%)



Assets in foreign currency

1	US dollar	25.8
2	Pound sterling	72.3
3	Other currencies	1.8



Liabilities in foreign currency

1	US dollar	26.1
2	Pound sterling	73.2
3	Other currencies	0.7

— Outsourcing risk: the possibility of incurring losses deriving from: failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.
— Model Risk: the possibility of losses arising from decision-making based on the use of inadequate models.

Tax risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy Sabadell from a dual perspective due to either internal or external factors:
— On one hand, the probability of failing to comply with the tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the Bank's goals.
— On the other hand, the probability paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

Banco Sabadell's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and objectives are systematically identified, measured and managed so as to comply with the new requirements of the Spanish Capital Companies Act and meet the demands of the Banco Sabadell Group's stakeholders.

Banco Sabadell aims to meet its tax obligations at all times while conforming to the current legal framework in matters relating to taxation.

Banco Sabadell's tax strategy also reflects its commitment to promoting responsible taxation, promoting safety and developing transparency schemes in order to strengthen trust among stakeholders.

The Group's tax strategy is aligned with its business strategy, and tax issues are managed efficiently in line with the principles of prudence and minimisation of tax risk.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible for the following, which responsibility is non-delegable:
— Setting the company's tax strategy.
— Approving investments and operations of all types which are considered strategic or to have a particular tax risk due to their amounts or specific characteristics, except when such approval corresponds to the Annual General Meeting.
— Approving the creation and acquisition of holdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
— Approving any similar transaction which, due to its complexity, might undermine the transparency of the company and its Group.

Thus, the functions of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system as part of the Group's general risk management and control framework.

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 or codes of conduct applicable to the banking industry.

An essential aspect of the Banco Sabadell Group's policy, and one of the foundations of its organisational culture, is meticulous compliance with all legal provisions. The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

To this end, the Group has a Compliance Department whose purpose is to promote and endeavour to reach the highest levels of compliance with the legislation in force and principles of professional ethics within the Group so as to minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved, and that the appropriate preventive measures are adopted if not already in place.

The compliance model centralises responsibility for establishing policies, procedures and controls and execution of oversight programmes in the parent undertaking. Execution of specific programmes is decentralised to the overseas subsidiaries and branches, while retaining functional responsibility.

It is a flexible risk-focused model which can be adapted to the Group's strategy at all times and leverages synergies, maintaining an overall approach to those aspects that are general in scope and/or which require major technological developments, but also adapting to the specific features and legislation affecting each business or country.

The main challenge is to standardise the levels of compliance oversight across the Group and establish minimum standards for mandatory compliance, regardless of the activity or country.

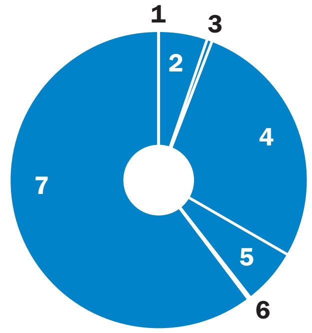
This model is comprised of two main pillars:
1 A central unit providing services to the entire Group in pursuit of comprehensive management of compliance risk. Its main activity is the analysis, distribution and oversight of the implementation of any new regulations with an impact on the Group, as well as risk-focused oversight of compliance with pre-existing regulations.

It is also directly responsible for the implementation of a number of processes that are classified as of high risk as they require direct and comprehensive control: prevention of money laundering and terrorist financing; oversight of market abuse; oversight of compliance with the

Internal Code of Conduct and the implementation and monitoring of measures for investor protection (MiFID).

2 A network of compliance officers in each overseas subsidiary and branch (functionally dependent on the central compliance unit and hierarchically dependent on the head of the overseas subsidiary/branch), who execute their own oversight programmes and report periodically to the central unit, ensuring compliance with the internal rules and the legislation in force in all countries and activities in which the Group operates.

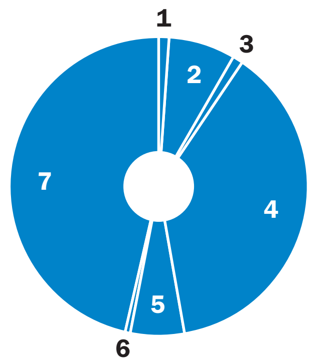
To ensure its efficiency, this model is implemented and enhanced using six catalysts (technology, training, procedures, communication channels, oversight and monitoring programmes, and product and rule approval processes).



G19

Breakdown of operational risk events by amount (last 12 months) (%)

1	Internal fraud	0.2
2	External fraud	5.2
3	Staff relations and job security	0.5
4	Customers, products and business practices	27.6
5	Material damage	6.1
6	Business disruption and system failures	0.3
7	Process execution, delivery and management	60.1



G20

Breakdown of operational risk events by amount (last 5 years) (%)

1	Internal fraud	1.3
2	External fraud	7.3
3	Staff relations and job security	1.1
4	Customers, products and business practices	37.7
5	Material damage	5.9
6	Business disruption and system failures	0.4
7	Process execution, delivery and management	46.3

Roadmap of
published information

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Block	Document	Website section
Corporate Governance System		
General data	General information about the Group	Group
General Meeting	GM Regulations, Representation, Previous General Meetings, Shareholder information and Electronic shareholders' forum	Shareholder and investor information_ General meetings
Corporate governance	Board of Directors, Director CVs and Board sub-committees	The Group - Corporate Governance
Statutory documents	Articles of Association, Regulation of the Board of Directors, internal regulations	Corporate governance and Remuneration policy
Remuneration policy	Annual report on director remuneration	Corporate governance and Remuneration policy
Committee reports	Committees: Audit, Appointments, Remuneration, and Risks	Corporate governance and Remuneration policy
Annual Corporate Governance Report	Annual Corporate Governance Report	Corporate governance and Remuneration policy
	Legal information 2016_Financial statements_ Directors' report	Shareholder and investor information_ Financial information_Annual reports_Legal information
Corporate Social Responsibility	Report on Corporate Social Responsibility policy	Corporate Social Responsibility
The share, policy and communication channels	Share price, capital stock, key data, investor calendar and ownership structure	Shareholder and investor information_The BS share
	Shareholder remuneration	Shareholder and investor information_The BS share
	InfoAccionista	Shareholder and investor information_Pro-ducts and services
	Annual report	Shareholder and investor information_ Financial information_Annual reports
	Policy on communication and contacts with shareholders, institutional investors and proxy advisors	Shareholder and investor information_ Communication policy and channels
Economic and regulatory environment	Annual report_Economy section	Shareholder and investor information_ Financial information_Annual reports
Financial information		
Business plan	Annual report_Triple Plan section	Shareholder and investor information_ Financial information_Annual reports
	Earnings presentations (quarterly)	Shareholder and investor information_ Financial information_Results
	Legal information 2016_Financial statements_ Directors' report	Shareholder and investor information_ Financial information_Annual reports
Balance sheet and earnings performance	Annual report_Group financial information chapter	Shareholder and investor information_ Financial information_Annual reports
Financial statements	Legal information 2016_Financial statements_ Directors' report	Shareholder and investor information_ Financial information_Annual reports_Legal information
Businesses		
General data	General business data	Businesses
Description, data and milestones in the year	Annual report_Business chapter	Shareholder and investor information_ Financial information_Annual reports
Financial data - main businesses	Legal information 2016_Financial statements_ Directors' report	Shareholder and investor information_ Financial information_Annual reports_Legal information
Risks and Capital	Annual report_Risks chapter	Shareholder and investor information_ Financial information_Annual reports
	Legal information 2016_Financial statements_ Note 4 and Note 5	Shareholder and investor information_ Financial information_Annual reports_Legal information
	Pillar III disclosures	Shareholder and investor information_ Financial information
Corporate Social Responsibility	General information	CSR
	Codes and policies	CSR

Statutory Information

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 17th 2017 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, Ms. María Teresa García-Milá LLoveras, Mr. José Ramón Martínez Sufrategui, Mr. José Luís Negro Rodríguez, Mr. José Manuel Martínez Martínez, Mr. David Martínez Guzmán, Ms. Aurora Catá Sala, Mr. José Manuel Lara García, Mr. David Vegara Figueras and Mr. Manuel Valls Morató, 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 2016, 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 26th in the year two thousand and seventeen.

APPROVED BY

The Chairman   The Secretary

M-13899 | II-12 Banco Sabadell S.A., - Pl. de Sant Roc, 20 (Sabadell) - Ins. R.M. Barcelona, Tomo 20093, Folio 1, Hoja B-1561 - CIF A08000143

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, 2016, 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, 2016, 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 2016 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 2016.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 31, 2017

BANCO DE SABADELL, S.A. AND COMPANIES FORMING THE BANCO SABADELL GROUP

Consolidated annual accounts
for the year ended
31 December 2016

Contents: Banco de Sabadell, S.A. Group consolidated annual accounts for 2016

Financial Statements

Consolidated balance sheets of Banco Sabadell Group
At 31 December 2016 and 31 December 2015

Thousand euro

Assets	Note	2016	2015 (*)
Cash and cash balances at central banks and other demand deposits (**)	7	**11,688,250**	**7,343,481**
Financial assets held for trading		**3,484,221**	**2,312,118**
Derivatives	10	1,834,495	1,508,446
Equity instruments	9	10,629	11,212
Debt securities	8	1,639,097	792,460
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets designated at fair value through profit or loss		**34,827**	**77,328**
Equity instruments	9	34,827	77,328
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Available-for-sale financial assets		**18,718,339**	**23,460,356**
Equity instruments	9	597,809	572,730
Debt securities	8	18,120,530	22,887,626
Memorandum item: loaned or pledged as security with sale or pledging rights		*6,761,231*	*5,778,397*
Loans and receivables		**150,384,445**	**153,550,281**
Debt securities	8	918,584	1,732,478
Loans and advances	11	149,465,861	151,817,803
Central banks		66,229	-
Credit institutions		4,225,767	5,002,066
Customers		145,173,865	146,815,737
Memorandum item: loaned or pledged as security with sale or pledging rights		*855,145*	*1,349,574*
Held-to-maturity investments	8	**4,598,190**	**-**
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Derivatives - Hedge accounting	13	**535,160**	**700,813**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	**965**	**7,693**
Investments in joint ventures and associates	15	**380,672**	**340,996**
Jointly controlled entities		-	-
Associates		380,672	340,996
Assets under insurance or reinsurance contracts		**-**	**14,739**
Tangible assets	16	**4,475,600**	**4,188,526**
Property, plant and equipment		2,071,353	1,846,621
For own use		1,887,534	1,709,523
Leased out under operating leases		183,819	137,098
Investment property		2,404,247	2,341,905
Of which: leased out under operating leases		-	-
Memorandum item: acquired through finance leases		-	-
Intangible assets	17	**2,135,215**	**2,080,570**
Goodwill		1,094,526	1,092,777
Other intangible assets		1,040,689	987,793
Tax assets		**7,055,876**	**7,255,450**
Current tax assets		280,539	678,938
Deferred tax assets	43	6,775,337	6,576,512
Other assets	18	**4,437,265**	**4,753,034**
Insurance contracts linked to pensions		153,989	153,631
Inventories		2,924,459	3,655,548
Rest of other assets		1,358,817	943,855
Non-current assets and disposal groups classified as held for sale	14	**4,578,694**	**2,542,386**
TOTAL ASSETS		**212,507,719**	**208,627,771**

(*) Shown for comparative purposes only (see Note 1.4).

(**) See details in the consolidated cash flow statement of the Group.

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2016.

Consolidated balance sheets of Banco Sabadell Group

At 31 December 2016 and 31 December 2015

Thousand euro

Liabilities	Note	2016	2015 (*)
Financial liabilities held for trading		**1,975,806**	**1,636,826**
Derivatives	10	1,915,914	1,484,922
Short positions		59,892	151,904
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	-
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities			-
Financial liabilities measured at amortised cost		**192,011,024**	**189,468,677**
Deposits		162,909,052	159,182,125
Central banks	19	11,827,573	11,566,070
Credit institutions	19	16,666,943	14,724,718
Customers	20	134,414,536	132,891,337
Debt securities issued	21	26,533,538	27,864,371
Other financial liabilities	22	2,568,434	2,422,181
Memorandum item: subordinated liabilities		*1,561,069*	*1,472,779*
Derivatives - Hedge accounting	13	**1,105,806**	**681,461**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	**64,348**	**16,330**
Liabilities under insurance or reinsurance contracts	23	**34,836**	**2,218,295**
Provisions	24	**306,214**	**346,225**
Pensions and other post-employment defined benefit obligations		89,471	86,305
Other long-term employee benefits		24,554	28,713
Pending legal issues and tax litigation		49,404	51,971
Commitments and guarantees given		84,032	113,679
Other provisions		58,753	65,557
Tax liabilities		**778,540**	**580,357**
Current tax liabilities		236,275	88,214
Deferred tax liabilities	43	542,265	492,143
Share capital repayable on demand		**-**	**-**
Other liabilities		**934,801**	**911,939**
Liabilities included in disposal groups classified as held for sale	14	**2,213,368**	**-**
TOTAL LIABILITIES		**199,424,743**	**195,860,110**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2016.

Consolidated balance sheets of Banco Sabadell Group

At 31 December 2016 and 31 December 2015

Thousand euro

Equity	Note	2016	2015 (*)
Own Funds	25	**12,926,166**	**12,274,945**
Capital		702,019	679,906
Paid up capital		702,019	679,906
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up			-
Share premium		7,882,899	7,935,665
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		38,416	14,322
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		3,805,065	3,175,065
Reserves or accumulated losses of investments in joint ventures and associates		109,510	152,296
Other		3,695,555	3,022,769
(-) Treasury shares		(101,384)	(238,454)
Profit/(loss) attributable to owners of the parent company		710,432	708,441
(-) Interim dividends		(111,281)	-
Accumulated other comprehensive income	**26**	**107,142**	**455,606**
Items that will not be reclassified to profit or loss		13,261	12,212
Actuarial gains or (-) losses on defined benefit pension plans		13,261	12,212
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		93,881	443,394
Hedge of net investments in foreign operations (effective portion)		151,365	17,927
Foreign currency translation		(428,650)	(23,690)
Hedging derivatives. Cash flow hedges (effective portion)		(21,521)	16,412
Available-for-sale financial assets		280,548	416,235
Debt instruments		229,008	495,688
Equity instruments		51,540	83,607
Other value adjustments		-	(163,060)
Non-current assets and disposal groups classified as held for sale		96,299	-
Share of other recognised income and expense of investments in joint ventures and associates		15,840	16,510
Minority interests (non-controlling interests)	**27**	**49,668**	**37,110**
Accumulated other comprehensive income		172	(39)
Other items		49,496	37,149
TOTAL EQUITY		**13,082,976**	**12,767,661**
TOTAL EQUITY AND TOTAL LIABILITIES		**212,507,719**	**208,627,771**
Memorandum item			
Guarantees given	28	**8,529,354**	**8,356,167**
Contingent commitments given	29	**25,208,687**	**21,130,614**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2016.

Consolidated income statements of Banco Sabadell group

For the years ended 31 December 2016 and 2015

Thousand euro

	Nota	2016	2015 (*)
Interest income	31	5,170,100	4,842,356
(Interest expense)	31	(1,332,348)	(1,639,526)
(Expense on share capital repayable on demand)		-	-
Net interest income		**3,837,752**	**3,202,830**
Dividend income		10,037	2,912
Share of profit or loss of entities accounted for using the equity method		74,573	48,795
Fee and commission income	32	1,376,364	1,166,677
(Fee and commission expense)	32	(227,782)	(163,333)
Net gains (losses) on financial assets and liabilities	33	609,722	1,208,161
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		476,217	1,052,288
Gains or (-) losses on financial assets and liabilities held for trading, net		107,593	150,440
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		114	109
Gains or (-) losses from hedge accounting, net		25,798	5,324
Exchange differences (gains or (-) losses), net		16,902	137,926
Other operating income	34	286,725	216,718
(Other operating expenses)	35	(466,873)	(298,111)
Income from assets under insurance and reinsurance contracts	23	165,781	174,226
(Expenses on liabilities under insurance and reinsurance contracts)	23	(212,503)	(218,431)
Gross income		**5,470,698**	**5,478,370**
(Administrative expenses)	36	(2,663,347)	(2,286,515)
(Staff expenses)		(1,663,053)	(1,457,341)
(Other administrative expenses)		(1,000,294)	(829,174)
(Depreciation)	16.17	(395,896)	(328,862)
(Provisions or (-) reversal of provisions)	24	3,044	20,216
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	37	(553,698)	(1,528,567)
(Financial assets measured at cost)		-	-
(Available-for-sale financial assets)		(112,284)	(132,390)
(Loans and receivables)		(441,414)	(1,396,177)
(Investments held to maturity)		-	-
Profit/(loss) on operating activities		**1,860,801**	**1,354,642**
(Impairment of (-) reversal of impairment of investments in joint ventures and associates)	15	(3,820)	(25,694)
(Impairment or (-) reversal of impairment on non-financial assets)	38	(558,148)	(618,250)
(Tangible assets)		(20,276)	(158,626)
(Intangible assets)		-	(1)
(Other)		(537,872)	(459,623)
Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	39	35,108	(16,960)
Negative goodwill recognised in profit or loss	40	-	231,891
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	41	(314,519)	(180,868)
Profit or (-) loss before tax from continuing operations		**1,019,422**	**744,761**
(Tax expense or (-) income related to profit from continuing operations)	43	(303,569)	(32,516)
Profit or (-) loss after tax from continuing operations		**715,853**	**712,245**
Profit or (-) loss from discontinued operations		-	-
PROFIT/(LOSS) DURING THE YEAR		**715,853**	**712,245**
Attributable to minority interests (non-controlling interests)	27	5,421	3,804
Attributable to owners of the parent company		710,432	708,441
Earnings per share		**0.13**	**0.14**
Basic		0.13	0.14
Diluted		0.13	0.14

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated income statement for 2016.

Consolidated statements of changes in equity of Banco Sabadell group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2016 and 2015

Thousand euro

		2016	2015 (*)
Profit/(loss) during the year		**715,853**	**712,245**
Other comprehensive income	**26**	**(348,253)**	**(483,367)**
Items that will not be reclassified to profit or loss		1,049	(10,317)
Actuarial gains or (-) losses on defined benefit pension plans		1,499	(14,738)
Non-current assets and disposal groups held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates			-
Other valuation adjustments		-	-
Income tax relating to items that will not be reclassified		(450)	4,421
Items that may be reclassified to profit or loss		(349,302)	(473,050)
Hedge of net investments in foreign operations [effective portion]		133,438	25,611
Valuation gains or (-) losses taken to equity		133,438	25,611
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		(404,960)	(38,401)
Translation gains or (-) losses taken to equity		(404,960)	(38,401)
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges [effective portion]		(54,190)	(315,914)
Valuation gains or (-) losses taken to equity		5,785	(392,627)
Transferred to profit or loss		(59,975)	76,713
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	
Available- for-sale financial assets		(193,537)	(345,004)
Translation gains or (-) losses taken to equity		415,704	723,428
Transferred to profit or loss		(483,609)	(1,103,025)
Other reclassifications		(125,632)	34,593
Non-current assets and disposal groups held for sale		137,570	-
Translation gains or (-) losses taken to equity		11,938	-
Transferred to profit or loss		-	-
Other reclassifications		125,632	-
Share of other recognised income and expense of Investments in joint ventures and associates		(670)	(1,454)
Income tax relating to items that may be reclassified to profit or (-) loss		33,047	202,112
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**367,600**	**228,878**
Attributable to minority interest (Non-controlling interest)		5,632	2,247
Attributable to owners of the parent company		361,968	226,631

(*) Shown for comparative purposes only (see Note 1.4).

The consolidated statement of recognised income and expense, together with the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated statement of changes in equity for 2016.

Consolidated statements of changes in equity of Banco Sabadell group

Consolidated statements of total changes in equity

For the years ended 31 December 2016 and 2015

Thousand euro

												Minority interests		
Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	**Total**
Opening balance 31/12/2015 (*)	**679,906**	**7,935,665**	**-**	**14,322**	**-**	**-**	**3,175,065**	**(238,454)**	**708,441**	**-**	**455,606**	**(39)**	**37,149**	**12,767,661**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 31/12/2015 (*)	**679,906**	**7,935,665**	**-**	**14,322**	**-**	**-**	**3,175,065**	**(238,454)**	**708,441**	**-**	**455,606**	**(39)**	**37,149**	**12,767,661**
Total comprehensive income for the year	-	-	-	-	-	-	-	-	710,432	-	(348,464)	211	5,421	**367,600**
Other changes in equity	22,113	(52,766)	-	24,094	-	-	630,000	137,070	(708,441)	(111,281)	-	-	6,926	**(52,285)**
Issuance of ordinary shares	15,877	-	-	-	-	-	(15,877)	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or remuneration paid to partners) (**)	-	(106,448)	-	-	-	-	(77,947)	135,695	-	(111,281)	-	-	-	**(159,981)**
Purchase of treasury shares	-	-	-	-	-	-	-	(322,822)	-	-	-	-	-	**(322,822)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	15,690	324,197	-	-	-	-	-	**339,887**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	6,236	53,682	-	-	-	-	-	-	-	-	-	-	-	**59,918**
Transfers between equity components (***)	-	-	-	3,393	-	-	705,048	-	(708,441)	-	-	-	-	**-**
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments based on shares (****)	-	-	-	18,271	-	-	-	-	-	-	-	-	-	**18,271**
Other increases or (-) decreases in equity	-	-	-	2,430	-	-	3,086	-	-	-	-	-	6,926	**12,442**
Closing balance 31/12/2016	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**

(*) Shown for comparative purposes only (see Note 1.4).
Notes 1 through 47 in the report and its Schedules form an integral part of the statement of changes in equity for 2016.
The main movements in own funds are given in Note 25, unless otherwise indicated.
The consolidated statement of recognised income and expense, together with the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.
(**) See Note 3. Proposed distribution of profits.
(***) Includes mainly the distribution of profit/(loss) during the year.
(****) See Note 36. Administrative expenses - Staff expenses.

Consolidated statements of changes in equity of Banco Sabadell group

Consolidated statements of total changes in equity

For the years ended 31 December 2016 and 2015

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	**Total**
Opening balance 31/12/2014	**503,058**	**5,710,626**	**727,567**	**6,564**	**-**	**-**	**2,991,627**	**(87,376)**	**371,677**	**-**	**937,416**	**1,517**	**53,276**	**11,215,952**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 31/12/2014	**503,058**	**5,710,626**	**727,567**	**6,564**	**-**	**-**	**2,991,627**	**(87,376)**	**371,677**	**-**	**937,416**	**1,517**	**53,276**	**11,215,952**
Total comprehensive income for the year	-	-	-	-	-	-	-	-	708,441	-	(481,810)	(1,557)	3,804	**228,878**
Other changes in equity	176,848	2,225,039	(727,567)	7,758	-	-	183,438	(151,078)	(371,677)	-	-	1	(19,931)	**1,322,831**
Issuance of ordinary shares	145,257	1,470,867	-	-	-	-	(9,568)	-	-	-	-	-	-	**1,606,556**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	30,302	738,622	(727,567)	-	-	-	(34,688)	-	-	-	-	-	-	**6,669**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration paid to partners)	-	(50,678)	-	-	-	-	(21,172)	50,678	-	-	-	-	-	**(21,172)**
Purchase of treasury shares	-	-	-	-	-	-	-	(519,652)	-	-	-	-	-	**(519,652)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	7,440	317,896	-	-	-	-	-	**325,336**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	1,289	18,409	-	-	-	-	-		-	-	-	-	-	**19,698**
Transfers between equity components	-	-	-	-	-	-	371,677	-	(371,677)	-	-	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	7,758	-	-	1,371	-	-	-	-	-	-	**9,129**
Other increases or (-) decreases in equity	-	47,819	-	-	-	-	(131,622)	-	-	-	-	1	(19,931)	**(103,733)**
Closing balance 31/12/2015	**679,906**	**7,935,665**	**-**	**14,322**	**-**	**-**	**3,175,065**	**(238,454)**	**708,441**	**-**	**455,606**	**(39)**	**37,149**	**12,767,661**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 47 in the report and its Schedules form an integral part of the statement of changes in equity for 2016.

Consolidated cash flow statements of Banco Sabadell group

For the years ended 31 December 2016 and 2015

Thousand euro

	Note	2016	2015 (*)
Cash flows from operating activities		**4,149,262**	**1,608,785**
Profit/(loss)during the year		715,853	712,245
Adjustments to obtain cash flows from operating activities		2,050,862	2,175,554
Depreciation		395,896	328,862
Other adjustments		1,654,966	1,846,692
Net increase/decrease in operating assets		(1,811,380)	(8,471,408)
Financial assets held for trading		(1,172,098)	(53,282)
Financial assets designated at fair value through profit or loss		36,152	59,820
Available-for-sale financial assets		(2,373,182)	(1,344,438)
Loans and receivables		1,583,632	(6,912,675)
Other operating assets		114,116	(220,833)
Net increase/decrease in operating liabilities		3,316,932	7,497,237
Financial liabilities held for trading		338,933	(137,280)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		2,481,603	8,318,813
Other operating liabilities		496,396	(684,296)
Collections/Payments due to income tax		(123,005)	(304,843)
Cash flows from investment activities		**408,441**	**2,028,121**
Payments		(1,015,913)	(4,665,091)
Tangible assets	16	(581,077)	(626,863)
Intangible assets	17	(288,998)	(186,397)
Investments in joint ventures and associates	15	(8,953)	(116,469)
Subsidiaries and other business units		(136,885)	(2,361,922)
Non-current assets and liabilities classified as held for sale		-	(1,373,440)
Investments held to maturity		-	-
Other payments related to investment activities		-	-
Collections		1,424,354	6,693,212
Tangible assets	16, 39	356,795	413,257
Intangible assets		-	-
Investments in joint ventures and associates	15	85,407	277,236
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale	14, 41	982,152	581,311
Investments held to maturity		-	-
Other collections related to investment activities		-	5,421,408
Cash flows from financing activities		**52,366**	**1,221,727**
Payments		(787,521)	(710,165)
Dividends (**)		(159,981)	(21,172)
Subordinated liabilities		(302,373)	(87,505)
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments (**)		(322,822)	(519,652)
Other payments related to financing activities		(2,345)	(81,836)
Collections		839,887	1,931,892
Subordinated liabilities		500,000	-
Issuance of own equity instruments		-	1,606,556
Disposal of own equity instruments (**)		339,887	325,336
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**(265,300)**	**(5,744)**
Net increase (decrease) in cash and cash equivalents		**4,344,769**	**4,852,889**
Cash and cash equivalents at the start of the year		**7,343,481**	**2,490,592**
Cash and cash equivalents at the end of the year		**11,688,250**	**7,343,481**

Memorandum item		
CASH FLOWS CORRESPONDING TO:		
Interest received	4,975,485	4,888,454
Interest paid	1,513,810	1,930,625
Dividends received	10,037	2,912
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash	759,357	734,362
Balances of cash equivalents in central banks	10,122,725	5,405,097
Other demand deposits	806,168	1,204,022
Other financial assets		-
Less: bank overdrafts reimbursable on demand		-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**11,688,250**	**7,343,481**
Of which: held by Group entities but not drawable by the Group	-	-

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 47 in the report and its Schedules form an integral part of the consolidated cash flow statement for 2016.

(**) See consolidated statement of changes in equity.

For the year ended 31 December 2016.

Note 1 – Activity, accounting policies and practices

1.1. Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the bank or the Company), with registered office in Sabadell, Plaza de Sant Roc, 20, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a corporate group (see Schedule I) whose activity it controls directly or indirectly and which comprise, together with the bank, the Banco Sabadell Group (hereinafter, the Group).

1.2. Basis of presentation

The Group's consolidated annual accounts for 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2016, taking into account Bank of Spain Circular 4/2004 of 22 December 2004 and amendments thereto and other financial reporting regulations applicable to the group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2016 and the results of its consolidated operations, changes in equity and cash flows in 2016.

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 26 January 2017 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.

Except as otherwise indicated, these consolidated annual accounts are expressed in thousands of euros. In order to show the amounts in thousands of euros, the accounting balances have been subject to rounding; for this reason, some of the amounts appearing in certain tables may not be the exact arithmetic sum of the preceding figures.

Standards and interpretations issued by the International Accounting Standards Board (IASB) coming into effect in 2016.

During 2016, the following standards have been enforced and have been adopted by the European Union:

Standards	Title
Amendment of IAS 19	Defined Benefit Plans: employee contributions
Amendment of IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendment of IFRS 11	Accounting for acquisitions of interests in joint operations
Amendment of IFRS 10 and 12 and IAS 28	Investment entities: Applying the consolidation exception
Amendment to IAS 1	Disclosure initiative

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 it 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.

Amendments to IAS 16 and IAS 38 "Clarification of acceptable methods of depreciation and amortisation"

The amendments to IAS 16 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 the expected consumption by the entity of the asset's future economic benefits. The IASB had indicated that, except in certain cases, a depreciation method based on revenue generated by an activity that includes the use of assets is not an appropriate method. This is because it would depict the pattern of economic benefits generated by operating the businesses (of which assets form part) instead of the economic benefits that are being consumed through the use of assets.

Amendments to IFRS 11 "Accounting for acquisitions of interests in joint operations"

This amendment to IFRS 11 provides accounting guidance for the acquisition of interests in a joint venture whose activities constitute a business. In particular, it sets forth that all of the principles contained in IFRS 3 "Business combinations" and other IFRS concerning the accounting treatment of business combinations should be applied, with the exception of those that conflict with the guidance of IFRS 11 (as amended).

Amendments to IFRS 10 and 12 and IAS 28 "Investment entities: applying the consolidation exception"

The amendments clarify three aspects of enforcing the requirement for investment institutions to measure their subsidiaries at fair value instead of consolidating them. These amendments:

- Confirm that the exception to the submission of consolidated financial statements shall continue to apply to the subsidiaries of an investment institution when such subsidiaries are, at the same time, the parent companies;

- Clarify in which circumstances a parent investment institution should consolidate a subsidiary that provides services related to the investment instead of measuring that subsidiary at fair value; and

- Simplify the application of the equity method for an institution which is not in itself an investment institution, but which has interests in an associate entity which is an investment institution.

Amendments to IAS 1 "Disclosure Initiative"

The amendments to IAS 1 arise from the IASB initiative for the improvement of information reported by institutions, and introduce changes to the current wording of IAS 1 for the purpose of facilitating the use of professional judgement in the preparation of such information. These amendments affect items such as relative importance, the structure of the notes and information to be disclosed on accounting policies, among others.

There have been no significant effects caused by the application of these accounting standards on these consolidated annual accounts of the Group.

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 the EU		
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
Not approved for application in the EU		
IFRS 16	Leases	1 January 2019
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7	Disclosure Initiative	1 January 2017
Clarifications regarding IFRS 15	Revenue from contracts with customers	1 January 2018
Amendments of IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
Annual improvements to IFRS	Cycle 2014 - 2016	1 January 2017/ 1 January 2018
Amendments to IAS 40	Investment property transfers	1 January 2018
Interpretation of IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018

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 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 contrast, 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 under equity. The remaining financial assets, including those containing implicit derivatives, are to be measured in full at their fair value through profit or loss.

The most substantial changes of IFRS 9 as regards to the current IAS 39 model involve value impairments based on expected losses incurred by credit risk. In particular, IFRS 9 requires institutions 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, or if the asset has been impaired, 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 for the effective life of the assets (expected lifetime loss) must be recorded when a significant increase in credit risk occurs, measured on an individualised or collective basis (condition 2), or when it is considered that assets have been impaired (condition 3). Financial interests on financial assets 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 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 scenarios which could arise during the life of operations, and to determine how these scenarios are included in the assessment of expected loss.

- There will be major factors which could give rise to changes in expected loan losses, for example, the introduction of mechanisms to reclassify financial assets from condition 1 to 2.

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 that 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 items, hedging 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.

At the end of 2014, the group began preparatory work for the implementation of this standard. This project covers three years (2015, 2016 and 2017) and is cross-cutting, as it will have an impact on the Group's processes and systems, and on the financial reporting governance and controls. This project is headed by a specific committee which is responsible, and has been from its inception, for coordinating the different Group departments involved and for ensuring that the implementation objectives which have been set are achieved on time.

The approach followed by the entity to take on new classification criteria for the purpose of presenting information related to financial instruments has consisted in establishing a process for the assessment of characteristics of financial assets which will determine their classification into one of the portfolios set forth in the standard. The results obtained after this assessment will be taken into consideration in the processes for accepting and granting new operations, when defining policies and fitting in new decisions to be taken within the entity's governance environment, and when determining changes in current accounting cycles in order to incorporate these new requirements.

With regard to the focus of the project on the new estimated impairment loss model, the entity has worked on adapting the triggers or indicators to classify its financial instruments into one of the three portfolios defined in the standard, and their implementation into the systems: the development of individual and collective analysis tools, together with their corresponding accounting processes and the definition of information flows between divisions and the assignment of responsibilities according to the functions established; the incorporation of forward looking information in the calculation of expected loss; the update of internal and external reporting based on the changes in IFRS 9, the analysis and development of the project for its implementation in the Group’s subsidiaries; the documentation process of the criteria used for the adoption of the standard and the amendment of accounting policies; the adaptation of information flows to the governing bodies on aspects relating to implementation and review, and the approval and decision making process. In this regard, the Group will maintain its approval processes for internal models, although the Group is reviewing them to ensure their compliance with the new requirements. Furthermore, a plan is being developed to amend and adapt the systems, which includes the relationship between the requirements set forth in the standard and the relationship on system tests and users to be carried out. These models will be subject to review by the Group’s internal control functions.

The Group does not expect significant changes for the purposes of classifying operations on the balance sheet arising from the use of the business model under which its financial assets are managed, given that the majority of cash flows that these represent, are only principal and interest payments, for which reason they are valued at amortised cost, which is the principal criteria by which the Group’s financial assets are currently valued, as they are mainly loans and receivables.

The most relevant impacts will arise as a consequence of the establishment of criteria to determine the operations for which a significant increase in credit risk has occurred since its initial recognition, and from the application of an expected lifetime loss model for these operations. For these purposes, as indicated above, the Group is in the process of adapting the triggers or indicators of an increase in risk, which together with the use of internal models based on credit ratings, aligned with the Group’s risk management, shall be used to determine the classification of each financial asset into one of the three portfolios mentioned earlier. On the other hand, the Group will use its credit ratings models as a basis for the application of the expected lifetime loss model. The Group's credit rating models are already used for regulatory purposes, incorporating the necessary changes to their calibration in order to comply with the new accounting standard.
Additionally, the Group has scenario forecasting models, which shall be used to include forward looking information, both for the purpose of determining whether there is a significant increase in credit risks exists, as well as for estimating total expected loss for assets.

Furthermore, significant impacts on hedge accounting as a consequence of the entry into force of this standard are not expected.

In 2017 the Group shall establish a process in which impairment losses incurred from the application of current accounting regulations (IAS 39), shall be calculated simultaneously with those losses that would be incurred from the application of IFRS 9 (parallel run), with the objective of ensuring the correct implementation of the latter. Furthermore, the Group will develop procedures to redraft the information corresponding to credit risk impairment in 2017 in accordance with IFRS 9 criteria, with the objective of presenting this information for comparison purposes against information corresponding to 2018, which shall be prepared in accordance with the accounting criteria of the new standard, both in the consolidated annual accounts as well as in the rest of the interim financial information of such year which requires comparable information from the previous year to be presented.

The Group considers that the incorporation of IFRS 9 does not entail a significant change in its tools and methodologies for the management and monitoring of impairment losses on financial assets, although it does imply a necessity to carry out an assessment, through which the new changes in this standard should be incorporated into the processes and systems already established by the Group.

The project for the adoption of IFRS 9 is being developed in accordance with the plan and in line with expected implementation dates. As indicated above, the Group is currently assessing different existing alternatives for the practical application of some of the new requirements established by IFRS 9, and, as a consequence, its estimated impact will vary depending on the decisions which are finally adopted. Due to the foregoing, at the date of formulating these consolidated annual accounts, the Group still does not have a sufficiently precise estimation of the impact that the initial application of this standard will have on consolidated financial statements.

IFRS 15 “Revenue from contracts with customers”

IFRS 15 lays down new income recognition requirements based on the principle that an institution should recognise revenue to depict the transfer of promised goods or services to customers 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 institutions 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 institution 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 (IFRS 9, once it comes into effect), the Group does not expect any significant impact from the future application of this standard.

Not approved for application in the EU

IFRS 16 "Leases"

In January 2016, IASB published a new standard on leases, which supersedes IAS 17 "Leases", and establishes new criteria for the identification and accounting of leasing contracts, for both lessors as well as lessees.

IFRS 16 establishes a control model for the identification of these contracts, distinguishing between lease and service contracts based on the existence of a specified asset controlled by the lessee.

This standard includes significant changes in the accounting of lessees, eliminating the classification between finance leases and operating leases. The standard requires right-of-use assets and lease liabilities to be recognised on the balance sheet, with the exception of short term leases or leases of low value assets. This standard does not introduce significant amendments in the accounting of these contracts by lessors.

The standard has a mandatory effective date of 1 January 2019. Institutions can opt to apply it in advance, but only if it is applied at the same time as IFRS 15 "Revenue from contracts with customers".

Due to the volume of current, operational lease contracts in which consolidated entities act as lessees, the Group does not expect significant equity effects on the consolidated financial statements from the future application of this standard.

Amendments to IAS 12 "Recognition of deferred tax assets for unrealised losses"

On 19 January 2016, the IASB published the following amendments to IAS 12 – "Income Taxes", which is the standard containing the requirements to measure deferred tax assets and liabilities. The amendments clarify when a deferred tax asset should be recognised for unrealised losses related to debt instruments measured at fair value.

The application of this Standard shall be mandatory from 1 January 2017, although institutions can opt to apply it in advance.

Amendments to IAS 7 "Disclosure Initiative"

These amendments introduce additional disclosure requirements to already existing requirements, with the aim of clarifying information provided to the users of financial statements about an entity's financing activities. In particular, they require entities to provide disclosures of information that enables users of financial statements to evaluate changes in liabilities arising from financing activities. Although a pre-determined format is not required, it is specified that the presentation of the reconciliation of liabilities at the beginning and end of the year together with cash flows for financing activities is a method of complying with these obligations.

Clarifications regarding IFRS 15 "Revenue from contracts with customers"

These clarifications address the identification of performance obligations, principal versus agent considerations and licensing, as well as some information regarding transition rules.

Amendments to IFRS 2 "Classification and measurement of share-based payment transactions"

These amendments address specific issues such as the accounting of cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax withholdings and some aspects of the accounting of the amendments to the terms and conditions of share-based payments.

Amendments to IFRS 4 “Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts”

The objective of these amendments is to address the concerns of some entities, particularly insurance entities, regarding the different effective dates of the first application of IFRS 9 and the new standard on insurance contracts, which has not yet been approved. These concerns relate to the possibility of accounting mismatches and volatility in results if IFRS 9 is applied before the new standard on insurance contracts, as well as on the difficulties and costs of implementing both standards.

Therefore, in accordance with IFRS 4, entities who issue Insurance contracts may choose from the following two options:

- Reclassification of gains included in profit or loss for the year to total equity, except for income and expenses deriving from financial assets measured at fair value.

- Temporarily not applying IFRS 9, in the case of entities whose activity predominantly consists of issuing insurance contracts within the scope of IFRS 4.

Annual Improvements to IFRS “Cycle 2014-2016”

These improvements include non-urgent amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards”; IFRS 12 “Disclosure of Interests in Other Entities”; and IAS 28 “Investments in Associates and Joint Ventures.”

Amendments to IAS 40 “Investment property transfers”

According to these amendments, it is only possible to record one asset as a real estate investment, or reclassify it to a different item on the balance sheet, when there is evidence that a change in its use has occurred. In particular, in accordance with these amendments, a change in the intended use of the asset does not constitute, in itself, evidence of a change in the use of the asset.

Interpretation of IFRIC 22 “Foreign currency transactions and advance consideration”

This interpretation refers to the treatment of transactions in a foreign currency, when an entity recognises a monetary or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income associated with it.

In these cases, the exchange rate to be used is the date of initial recognition of the payment or receipt of advance consideration.

Accounting estimates made

The preparation of the consolidated annual accounts requires certain estimates to be made. It also requires that Management exercise judgement in the process of applying the Group’s accounting policies. Such estimates could affect the amount of assets and liabilities and breakdown of contingent assets and liabilities at the date of the consolidated annual accounts, as well as income and expenses during the year.

The main estimates refer to the following concepts:

- Losses due to the impairment of certain financial assets (see Notes 1.3.4, 7, 8, 9, and 11).
- The assumptions used in the actuarial calculation of the liabilities and the commitments in respect of post-employment remuneration, as well as those used in the calculation of the liabilities of insurance contracts (see Notes 1.3.16, 1.3.18, 23 and 24).
- The useful life of tangible and intangible assets (see Notes 1.3.10, 1.3.12, 16 and 17).
- The valuation of consolidated goodwill (see Notes 1.3.12 and 17).
- The provisions and consideration of contingent liabilities (see Notes 1.3.17 and 24).
- The fair value of certain unquoted financial assets (see Note 6).
- The fair value of real estate assets included in the balance sheet (see Notes 1.3.9, 1.3.10, 13.13 and Note 6).

Although estimates are based on the best information available to Management about the present and foreseeable circumstances, final outcomes may be at variance with these estimates.

1.3. 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:

1.3.1 Consolidation principles

In the consolidation process a distinction is drawn between subsidiaries, joint ventures, associates and structured entities.

Subsidiaries

Subsidiaries are institutions 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 criteria must be met:

- 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.

At the time of the takeover a subsidiary, the Group applies the acquisition method provided for in the regulatory framework (see Note 1.3.2) 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 consolidated balance sheet under the heading "*Minority interests (non-controlling interests)*", and the portion of the profit or loss for the year attributable to such interests is reflected in the consolidated income statement under "*Gains/(losses) attributable to non-controlling interests*".

Joint ventures

These are institutions covered by joint control agreements whereby decisions on the relevant activities are made unanimously by the institutions which share control.

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 the Group's holding of their share capital, after taking account of any dividends received from them and any other equity disposals.

The Group has not held investments in joint ventures during 2016.

Associates

Associates are institutions 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 customers 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. For these operations, 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 consolidated balance sheet assets, and the issues of securitisation funds are recorded as liabilities on the Group consolidated balance sheet. At 31 December 2016, 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 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 institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 2 includes information on the most significant acquisitions and sales that have taken place during the year. Relevant information regarding the Group's companies is provided in Schedule I.

1.3.2 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, also considering contingent liabilities, in line with their fair value, including those which were not recognised for accounting purposes by the acquired entity. This method also requires the estimate of the cost of the business combination, which will normally correspond to the consideration paid, defined as the fair value, on the date of acquisition, the assets delivered, the liabilities incurred against the former owners of the acquired business and the equity instruments issued, if any, by the acquiring entity.

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 recorded under the heading "*Negative goodwill recognised in profit and loss*" on the consolidated 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 acquired entity'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 measured on the basis of the proportional percentage of its identified net assets. All purchases and disposals of these minority interests are accounted for as equity transactions when they do not result in a change of control. No profit 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 business to associates or jointly controlled institutions in which control is lost over said businesses, the Group's accounting policy is to record the full profit or loss on the consolidated income statement, recognising any remaining interest at fair value (if any).

1.3.3 Measurement of financial instruments and recognition of changes arising in their subsequent measurement

In general 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 consolidated 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 consolidated income statement, under the headings "*Interest income*" or "*Interest expenses*", as applicable, with the exception of derivatives (see Note 1.3.5). Dividends received from other companies are recognised on the consolidated 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 and liabilities held for trading include financial assets and liabilities which have been acquired or issued to be sold or repurchased in the short term, or which 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 and liabilities 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 also considered to be financial assets held for trading.

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 contracts are not classified as "Financial assets held for trading" or as "Financial assets and liabilities designated at fair value through profit or loss" or "Financial liabilities held for trading".

Changes in fair value of these instruments are recorded on the consolidated income statement.

Financial assets and liabilities designated at fair value through profit or loss

This category includes financial instruments that, designated on initial recognition, are regarded as hybrid financial instruments, they do not form part of financial instruments held for trading, 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 of these instruments are recorded on the consolidated 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 category.

Changes in the fair value of these assets are temporarily recorded, net of taxes, under the heading "*Accumulated other comprehensive income*" in consolidated equity, unless they are due to foreign exchange differences arising on monetary financial assets that are recognised in the consolidated income statement.

Amounts recorded under the heading "*Accumulated other comprehensive income*" continue to be included in consolidated equity until the asset from which they have originated is derecognised on the consolidated balance sheet, at which point they are written off against the consolidated income statement, or until an impairment in the value of the financial instrument is determined.

Loans and receivables

This category includes financial assets which, while not traded in 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 Group's normal lending activities and includes amounts loaned to customers and not yet repaid; deposits placed with other institutions, 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 consolidated 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 coincides 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 similar income*" on the consolidated income statement.

Investments held until maturity

This category includes debt securities which have a specific maturity date, and lead to payments on pre-established dates for fixed or pre-determined amounts, with a proven capacity and intention for holding these securities to maturity.

The valuation criterion for investments held to maturity are the same as the criteria for loans and receivables.

Financial liabilities at amortised cost

This category comprises those financial liabilities that cannot be classified under any other consolidated 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. This item corresponds to the amount of financial instruments issued by the Group which, although they are treated as capital for legal purposes, do not qualify for classification as consolidated 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 valued at amortised cost, applying similar criteria to loans and receivables and investments held to maturity. Interest accrued calculated using the effective interest rate method is recorded under the heading "*Interest expenses*" on the consolidated income statement. However, if the Group has discretional powers with regards to the payment of coupons associated with the financial instruments issued and reclassified as financial liabilities, the Group's accounting policy consists of recognising them by charging them to reserves.

The fair value of the Group's financial instruments at 31 December 2016 and 2015 is included in Note 6.

1.3.4 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 at the time the transaction was entered into.
- For equity instruments, a situation in which their carrying values will not be recovered.

As a general rule, the carrying amount of impaired financial assets is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes known. The recoveries of previously recognised impairment losses are reflected, if appropriate, in the consolidated income statement for the year in which the impairment is reversed or 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 "*Accumulated other comprehensive income*" in consolidated equity.

The calculation of the impairment on financial assets is determined by the type of instrument and other circumstances that could affect it, taking into account the 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.

In general terms, the recognition of the accrual of interest in the consolidated income statement based on contractual terms is discontinued for all debt instruments classified as impaired. If such interests are subsequently recovered, the amount received is recognised on the consolidated income statement.

Debt instruments measured at amortised cost

To determine impairment losses, the Group monitors borrowers individually, at least those who are significant borrowers, and collectively, for groups of financial assets with similar risk characteristics that indicate the capacity of borrowers to satisfy their outstanding payments. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the losses due to impairment.

The Group has policies, methods and procedures in place to estimate losses that may arise as a result of its credit risks, both due to insolvency attributed to counterparties and due to country risk. These policies, methods and procedures are applied when granting, assessing and formalising off-balance sheet debt instruments and exposures, and when identifying their possible impairment and, where applicable, when calculating the necessary amounts to cover such estimated losses.

Accounting classification based on credit risk attributable to insolvency.

The Group has established criteria which allows it to identify borrowers who show signs of weakness or objective evidence of impairment, and classify them based on their credit risk.

The following sections lay out the classification principles and methodologies used by the Group.

Definition of the classification categories

Debt instruments not included in the portfolio of financial assets held for trading, as well as off-balance sheet exposures, are classified in terms of credit risk attributable to insolvency into:

- Standard exposures:
  - Operations which do not meet the requirements to be classified into other categories.
  - Standard exposure subject to special monitoring: this includes all transactions that, while not meeting the criteria for individual classification as doubtful or write off, present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures.
- Doubtful risk:
  - As a result of borrower arrears: transactions, any part of whose principal, interest or contractually agreed expenses is more than 90 days past due, even if taking into consideration the particular characteristics of the markets in which foreign subsidiaries operate, unless they should be classified as being written off. This category also include guarantees given if the guaranteed party has fallen into arrears in the guaranteed transactions. Furthermore, this category also includes the amounts of all a borrower's transactions if the transactions with amounts more than 90 days past due, as indicated earlier, exceed 20% of the amounts outstanding.
  - For reasons other than borrower arrears: transactions which are not classifiable as write-off or doubtful due to borrower arrears, but for which there are reasonable doubts about their full repayment under the contractual terms; as well as off-balance sheet exposures not classified as doubtful due to borrower arrears, whose payment by the Group is likely, but whose recovery is doubtful.

- Write-off risk:

  The Group derecognises from the consolidated balance sheet transactions whose recovery is considered very unlikely after an individual assessment. This category includes risks of customers who are in bankruptcy proceedings filing for liquidation, and transactions classified as doubtful due to arrears with payments over four years past-due, except balances that have sufficient efficient guarantees. It also includes transactions which, despite not being in any of the two previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

  In the past, the Group has derecognised from the consolidated balance sheet any amount recorded together with its provision, without prejudice to any actions that may be taken to collect payment, until no more rights to collect payment exist, whether due to prescription, discharged loans or any other reasons.

Classification criteria for transactions

The Group applies diverse criteria to classify borrowers and operations into different categories based on their credit risk. These categories include:

- Automatic criteria;
- Specific criteria for refinancing; and;
- Criteria based on indicators.

The automatic factors and specific criteria for refinancing constitute the classification and cure algorithm, and are applied to the entire portfolio.

Furthermore, and with the objective of the early identification of the weaknesses and impairment of the transactions, the Group establishes indicators or triggers, distinguishing between significant and non-significant borrowers In particular, non-significant borrowers, who, once they have passed the automatic classification algorithm, do not comply with any of the conditions to be classed as doubtful or subject to special monitoring, are evaluated through indicators, the objective of which is to identify early signs of weaknesses that could lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures. This trigger is based on the best estimate of probability of being classified as doubtful associated with each transaction (synthetic trigger).

Transactions classified as doubtful are reclassified as standard exposure when, as a consequence of the full or partial collection of defaulted amounts in the case of transactions classed as doubtful due to arrears, or for having exceeded the grace period for reasons other than arrears, the reasons for which they were classified as doubtful no longer exist, unless other reasons make it advisable to keep them in this category.

As a result of these procedures, the group classifies its borrowers into the categories of standard exposure; subject to special monitoring or doubtful due to borrower arrears, or maintains them in the category of standard exposure.

Individual risk

The Group has established a threshold in terms of exposure to classify borrowers as significant, based on the parameter exposure at default (EAD).

For significant borrowers, an indicator system is established which enables weaknesses or early signs of impairment to be detected An expert team of risk analysts analyses the borrowers, using the indicators to determine whether there is weakness or objective evidence of impairment, and in the event of finding evidence of impairment, will determine whether this event, or events causing the loss, will impact the estimated future cash flows of the financial asset or its group.

The indicators system for significant borrowers is automated, and includes particularities of behaviour segments differentiated from the loan book. The items which the indicators system aims to identify are listed below:

- Significant financial difficulties by the issuer or the obligor: these difficulties are indicative of an impairment event to the extent that, due to their significance, they limit the issuer or obligor's capacity to fulfil their financial obligations.

  In this regard, to identify an impairment, it is necessary to consider the variables indicative of a negative economic-financial situation, as well as variables which could be potential causes of, or lead to, this negative economic-financial situation.

- Non-compliance with contractual clauses, default or delays in the payment of interests: in addition to defaults more than 90 days past due, which form part of the automatic classification algorithm, by which defaults or delays less than 90 days past due are identified, which could be a sign of impairment.

- Due to financial difficulties, concessions or advantages are granted to the borrower, which would not be granted otherwise. Granting refinancing to a debtor in difficulties could prevent or delay the non-compliance with their obligations, and at the same time, the recognition of the impairment related to the financial assets associated with the debtor.

- The probability of the borrower becoming subject to bankruptcy proceedings: in those cases in which there is a strong probability of the borrower entering into bankruptcy or restructuring, the liquidity of the issuers or obligors becoming considerably affected, possibly leading to a loss event based on the impact on estimated future cash flows.

- The disappearance of an active market for that financial asset due to financial difficulties: the suspension of financial assets issued by the obligor or issuer could imply a complicated economic-financial situation, and therefore, a reduced capacity to fulfil their obligations.

The Group carries out an annual review of the reasonableness of the thresholds and the individual analysis coverage achieved through their application.

The levels defined include a volume of borrowers which permits reasonable coverage of the total credit exposure, set above the materiality threshold, which are therefore subject to individual expert analysis.

Collective risk

For borrowers who have not surpassed the threshold set by the bank and have also not been classified as doubtful or subject to special monitoring by the automatic classification algorithm, the Group has defined a synthetic indicator through which it identifies those exposures which show weaknesses that could lead to incurring losses higher than losses in other similar operations classified as standard exposure. In this regard, the Group has established thresholds which, once exceeded, imply the automatic classification of standard exposure subject to special monitoring due to the associated weaknesses.

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group guarantee a detailed monitoring of borrowers, and demonstrate the need to make provisions when there is evidence of impairment to their solvency (see Note 4). For this purpose, the Group constitutes the insolvency provisions for transactions in which the borrower's circumstances requires them, prior to formalising the restructuring/refinancing operations, which should be understood as follows:

- Refinancing transaction: this is granted or used for economic or legal reasons associated with current or foreseeable financial difficulties of the holder to cancel one or more operations granted by the Group, or by which outstanding payments for such operations are met in full or in part, for the purpose of enabling holders to pay their debt (principal and interest) because they are unable, or will predictably soon be unable, to fulfil their payment obligations in due time and proper form.

- Restructuring transaction: the financial terms and conditions of an operation are amended for economic or legal reasons associated with current or foreseeable financial difficulties of the holder in order to facilitate payment of the debt (principal and interest) because the borrower is, or will, foreseeably become unable to comply with those terms and conditions on time and in due form, even if that change was envisaged in the contract. In any event, transactions are considered to be restructured when a debt reduction takes place, assets are received to reduce the debt or their terms and conditions are changed to extend their maturity, change the repayment table to reduce instalments in the short term or reduce their frequency, or establish or extend the principal repayment and/or interest grace period, except when it can be demonstrated that the terms and conditions were changed for reasons other than the borrowers' financial difficulties and are similar to those terms that would be applied by other entities in the market for similar risks.

The formalisation of amendments to contractual terms and conditions does not entail any significant additional deterioration to the borrowers' circumstances that will require the creation of additional provisions.

If a transaction is classified within a specific risk category, the refinancing transaction does not entail any automatic improvement in its risk assessment. For refinancing operations, the algorithm establishes its initial classification based on the characteristics of the operations, mainly that the borrower encounters financial difficulties, the fulfilment of certain clauses as well as long grace periods. Subsequently, the algorithm modifies the initial classification based on the fixed cure periods. A reclassification into a lower risk category shall only be considered if there is a quantitative or qualitative increase in efficient guarantees that back the transaction and if there is an evident significant improvement in the continuous recovery of the debt over time, therefore the act of refinancing does not in itself produce any immediate improvements.

With regards to refinanced/restructured loans classified as standard, different types of transactions are specifically assessed to reclassify them, if applicable, into a higher risk category using the same categories described in the previous section (i.e. assets considered doubtful due to counterparty arrears, when payments are, in general, over 90 days past-due, or for reasons other than arrears, when there are reasonable doubts concerning their recoverability).

Estimates of losses due to credit impairment that are consistent with the accounting classification of the risk are provisioned for as soon as they are identified.

The methodology used to estimate losses for these portfolios is generally similar to the other financial assets measured at amortised cost, but it is considered that, as a rule, a transaction that has had to be restructured in order to meet payment obligations should have a higher loss estimate than a transaction that has never suffered default (unless there are sufficient additional effective guarantees to justify otherwise).

After the initial rating of the transaction, the change to a lower risk category must be supported by significant evidence of improvement in the expected recovery of the transaction, either because the borrower has been consistently meeting their payment obligations over a prolonged period of time or because the initial debt has been significantly repaid. Nevertheless, that transaction shall continue to be identified as a restructuring or refinancing operation.

Hedging operations

The Group applies the criteria described below to calculate allowances and provisions for credit risk losses.

With regard to the transactions identified without negligible risk (fundamentally, transactions with central banks, general governments, companies, public and financial institutions, all of whom are European Union countries, or determined countries deemed to be risk-free), they are covered by a credit risk allowance of 0%, except in the case of operations classified as doubtful, for which an individual estimation of the impairment is carried out. In the estimation process, the amount of the allowance and provisions is calculated, on the one hand, for credit risk attributable to the holder, and on the other hand, for country risk. If there are reasons for simultaneously recording allowances or provisions against a transaction for credit risk attributable to the holder and credit risk, the most demanding criteria is applied.

As an exposure metric for allowances and provisions, the Group uses current drawn down balances, and the estimation of the amounts that it expects to disburse in the case of entry into default for off-balance sheet exposures, through the application of a Credit Conversion Factor (CCF).

For transactions classified as doubtful, an estimate shall be made of the losses incurred , defined as the difference between the gross carrying amount of the exposure and the present value of the estimated future cash flows, as described further on.

The Group uses shorter time horizons in certain segments when it has evidence that the reclassification procedures ensure that loss events are detected in a shorter period.

Subsequently, these estimated cash flows are updated to the effective interest rate of the instrument (if its contractual interest rate is fixed) or to the contractual effective interest rate on the date of the update (when the interest rate is variable).

The Group's methodologies are described in the following sections.

Individual estimates of allowances and provisions

The following items must be estimated individually:

- Allowances and provisions for borrower transactions that are doubtful, and that the Group considers to be significant.

- Where relevant, the operations or borrowers whose characteristics prevent impairment from being calculated collectively.

- Allowances and provisions for transactions identified as being without negligible risk, classified as doubtful, whether due to arrears or for other reasons.

The Group has developed a methodology to estimate these provisions and allowances, calculating the difference between the gross carrying amount of the operation and the present value of the estimated cash flows it expects to collect, discounted using the effective interest rate. In order to do so, effective guarantees/collateral received are taken into account. In order to evaluate the recoverable amount using these guarantees, the average parameters of the collective impairment estimation model are used as a benchmark, adapting them, where relevant, to the best information available in the individual analysis.

Three methods are established for the calculation of the recoverable amount of assets evaluated on an individual basis:

- Discounted cash flow approach: for debtors whom are estimated as being capable of generating future cash flows through their own business activity, permitting, through the development of their activity and the economic-financial structure of the company, the partial or full re-payment of the debt owed. This entails the estimation of cash flows obtained by the borrower in their business activity.

- Recovery of collateral approach: debtors without capacity of generating cash flows through their own business activity, becoming forced to liquidate assets to make their debt payments. This entails the estimation of cash flows based on the execution of guarantees.

- Combined approach: debtors who are estimated to have capacity of generating future cash flows, and who, in addition, also have non-core assets. These flows could be supplemented with the potential sales of non-performing assets, insofar as they are not necessary for the development of their activity, and, as a consequence, for the generation of the aforesaid future cash flows.

Collective coverage estimates

The following items are subject to collective estimation:

- Exposures classified as standard exposure (including those classified as subject to special monitoring), which the Group believes have incurred a loss that has not been communicated (IBNR coverage), due to not having stated the impairment in operations considered on an individual basis.

- Exposures classed as doubtful, which are not evaluated through the individual estimation of coverage.

When carrying out the calculation of collective impairment loss, the Group, in accordance with that laid out in the Implementation Guidance IAS 39, and the guidelines issued by ESMA on IAS 39, principally takes the following aspects into consideration:

- The impairment estimation process takes into account all credit exposures, except for non-doubtful exposures without appreciable risk. For these exposures the methods established by Bank of Spain based on data and statistics models are used, which add up the average performance of the entities in the Spanish banking sector. The Group recognises an impairment loss equal to the best estimation using available internal models, taking into account all of the relevant information available to it under the existing conditions at the end of the period it is reporting on.

- With the objective of carrying out a collective assessment of the impairment, the financial assets are grouped based on the similarities of their characteristics regarding credit risk, with the aim of estimating different risk parameters for each homogeneous group. This segmentation differs for each estimated risk parameter. The segmentation takes into account the historic record of the losses observed for a homogenous group of assets (segment), once conditioned to the current economic situation, which is representative of the non-reported losses incurred which will arise in this segment. This segmentation discriminates against risk, and it is aligned with risk management. It is used in the Group's internal models, as well as by internal control units for different purposes, and the Supervisor. Lastly, it is subjected to regular back testing and the regular update and review of estimates to incorporate all of the information available.

Classification and coverage of credit risk due to country risk

Country risk is the risk arising in counterparties resident in a specific country for reasons other than normal commercial risk (sovereign risk, transfer risk or risks derived from international financial activity). The Group classifies transactions conducted with third parties into different groups depending on the economic changes of countries, their political situation, the regulatory and institutional framework and the payment capacity and experience, and assigns percentages of insolvency provisions, pursuant to that set forth in current regulations.

Assets considered doubtful due to the materialisation of country risk are transactions in which the final borrowers are resident in countries experiencing long-term difficulties to meet their debt obligations, and the possibility of recovery is considered doubtful, as well as other off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The provision levels for this item are not significant in terms of the hedges for impairment established by the Group.

Guarantees

Collateral and personal guarantees are defined as those which the Group is able to show as being valid as a means of mitigating credit risk. The analysis of the effectiveness of the collateral/guarantees takes into account, amongst others, the time required to execute them, the Group's capacity to do, as well as its previous experience in doing so.

Under no circumstances shall collateral/guarantees whose effectiveness depends substantially upon the credit quality of the debtor, or of any economic group to which the debtor may belong, be admissible. In compliance with these conditions, collateral/guarantees can be defined as:

- Real estate mortgages, provided they are the first mortgage:
  - Completed buildings and parts thereof:
    - Housing.
    - Offices, commercial premises and multi-purpose industrial buildings.
    - Other buildings, such as single purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.
- Collateral in the form of pledged financial instruments:
  - Cash deposits.
  - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other types of collateral:
  - Personal property received as collateral.
  - Subsequent mortgages of properties.
- Personal guarantees, which imply the direct and joint liability of the guarantors to the client, and it is these persons or entities whose liquidity has been sufficiently proved for the purposes of guaranteeing the full amortisation of the transaction under the terms agreed.

The Group has collateral assessment criteria for assets located in Spain, aligned with current regulations. In particular, the Group applies selection and contracting criteria of appraisers that are geared towards assuring the independence of the appraisers, and the quality of the appraisals. For this purpose, all of the appraisal companies are registered in the Bank of Spain Special Registry, and the assessments are carried out in accordance with the criteria established in Ministerial Order ECO/805/2003 on rules for the appraisal of real estate and of certain rights for financial purposes.

Real estate guarantees for credit transactions and properties are appraised when they are granted or registered, the latter whether through a purchase, foreclosure or in lieu of payment, and when the asset has suffered a significant reduction in value. Additionally, minimum update criteria are applied which guarantee annual frequency in the case of impaired assets (special monitoring, doubtful, foreclosed properties or received in payment of debt), or three times a year for large debts in a standard situation without signs of latent risk. Statistical methodologies are used to update appraisals exclusively for previous assets when they have reduced exposure and risk, although a full ECO appraisal is carried out, as a minimum, on a triennial basis.

For assets which are located in the rest of the European Union the appraisal is carried out pursuant to Royal Decree 716/2009 of 24 April, and in the rest of the world, by companies and/or experts with recognised capacity and experience in the country.

<u>Global comparison of provisions for credit risk and impairment real estate assets</u>

The Group has established back testing methods between estimated losses and losses incurred.

Thanks to this comparison, the Group establishes amendments to its internal methodologies when the regular comparison, through back testing, reveals significant differences between expected losses and losses incurred.

Additionally, the methodologies, as well as the back tests, are reviewed by the Group's internal control functions.

In 2016 the Group has carried out a review of the procedures followed to calculate impairment, and it has strengthened the criteria and information used to determine individual and collective estimations of losses arising from insolvency, and of the recoverable amount of the foreclosed assets or received in payment of debt. As a result of this review, the Group has increased its provisions for these assets by approximately 378 million euros, which it has recorded with a charge to the consolidated income statement for 2016.

<u>Debt instruments measured at fair value</u>

The amount of losses due to impairment incurred in debt securities included under the heading of "*Available-for-sale financial assets*" is equal to the positive difference between their cost of acquisition, net of any amortisation of principal, and its fair value less any loss due to impairment previously recognised in the consolidated income statement.

When there is objective evidence to suggest that a decline in their fair value is due to impairment, unrealised losses recognised directly under the *"Accumulated other comprehensive income"* heading in the consolidated statement of equity are immediately recorded in the consolidated income statement. In order to determine whether there is objective evidence of value impairment in the debt instruments, the Group analyses the occurrence of potential loss causing events. In general, the Group considers the following as impairment indicators:

(i) an increase in the probability that the issuer enters into a situation of financial reorganisation;

(ii) the disappearance of an active market for the financial asset in question; and

(iii) a downgrade in credit rating.

For sovereign debt instruments, the assessment of possible impairments is made by assessing changes in market share prices caused mainly by changes in risk premiums and by the continued assessment of the solvency of each of their financial statements.

If, after an impairment has been recognised, all or part of such losses are recovered, their amount is recognised in the consolidated income statement for the year in which they were recovered.

Equity instruments

The amount of losses due to impairment incurred in equity instruments included under the heading "Available-for-sale financial assets" is equal to the positive difference between their cost of acquisition, net of any amortisation of principal, and its fair value less any loss due to impairment previously recognised in the consolidated income statement.

When there is objective evidence to suggest that a decline in their fair value is due to impairment, unrealised losses recognised directly under the "*Accumulated other comprehensive income*" heading in the consolidated statement of equity are immediately recorded in the consolidated income statement.

To conclude on the existence of objective evidence of an impairment in the value of equity instruments, the Group assesses whether there has been a prolonged or significant decline in the fair value of the investment to a value below its cost. In particular, the Group impairs these investments when there are such declines, which are determined separately, over a period longer than 18 months or when the fair value declines by 40% or more, taking into consideration the number of instruments held for each individual investment and their unit share price.

For unquoted equity instruments, the Group calculates a discounted cash flow valuation using directly observable market variables and/or data such as a published net asset value, or comparable data and sector multipliers of similar issuers in order to determine 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 2016 and 2015 year-end 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, after an impairment has been recognised, all or part of such losses are recovered, their amount is recognised under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity.

In the case of interests in associates included under the heading "*Investments in joint ventures and associates*", the Group estimates impairment losses for each of them by comparing the amount recoverable with the carrying value of the investments. The recorded impairment is the result of an individual assessment of the investees portfolio which are assessed based on their net asset value or based on projections of their results, grouping them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector that could affect the performance of such companies, in order to estimate their value in use.

Specifically, insurance undertakings are assessed by applying the market consistent embedded value methodology, companies related to real estate are assessed based on their net asset value, and financial investees based on multiples of their book value and/or the profit from other comparable listed companies.
Losses due to impairment are recorded in the consolidated income statement for the year in which they took place and subsequent recoveries are recognised in the consolidated income statement for the year in which they were recovered.

1.3.5 Hedging operations

The Group uses financial derivatives to: (i) 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 in organised markets and those traded bilaterally with counterparties in the over-the-counter (OTC) market.

Financial derivatives that do not qualify for designation as hedging instruments are classified as derivatives held for trading. 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 the 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 is consistent 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 consolidated balance sheet headings in which the hedged item is recorded or under the "*Hedging derivatives*" heading, 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 the fair value of hedged items in a portfolio with interest rate risk hedge*" under assets or liabilities in the consolidated balance sheet, 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 under the "*Accumulated other comprehensive income - hedging derivatives*" heading. "*Cash flow hedges (effective portion)*" of consolidated net equity. 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 the consolidated statement of equity under "*Accumulated other comprehensive income – Hedges of net investments in foreign operations (effective portion)*". These differences are recognised on the consolidated income statement when the investment in a foreign operation is disposed of or derecognised from the consolidated balance sheet.

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedging instruments and net investments in foreign operations are recognised in the consolidated income statement under the heading "*Net trading income (net)*".

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 derivative held for trading 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 the consolidated statement of equity under "*Accumulated other comprehensive income*" (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.

1.3.6 Financial guarantees

Financial guarantees are contracts by which the Group undertakes to make specific 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 the heading "*Financial liabilities measured at amortised cost - 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 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, it 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 consolidated income statement during the period for which it 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 is 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 the heading "*Income from fees and commissions*" on the consolidated income statement 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 the heading "*Interest income*" in the consolidated income statement.

1.3.7 Transfer and derecognition of financial instruments

Financial assets are only derecognised from the consolidated balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are derecognised from the consolidated balance sheet 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 2016 and 2015, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 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.

1.3.9 Non-current assets and assets and liabilities included in disposal groups classified as held for sale and discontinued operations

The "*Non-current assets and disposal groups classified as held for sale*" heading on the consolidated 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 included in disposal groups classified as held for sale*" includes amounts payable that are associated with disposal groups or assets, or with the Group's discontinued operations.

Non-current assets and disposal groups of items classified as held for sale are measured, on the acquisition date or thereafter, at the lowest amount 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 and disposal groups of items classified as 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 and disposal groups classified as held for sale*".

The valuations of these assets are carried out following the policies and criteria described in the section "Guarantees" in note 1.3.4

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 consolidated balance sheet.

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 the heading "*Gains or losses on non-current assets and disposal groups classified as held for sale not eligible as discontinued operations*" 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 the heading "*Gains or losses after tax from 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 their sale or disposal.

1.3.10 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) investment properties, which include land, buildings and other construction held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received as payment of debts classified on the basis of their end utilisation.

As a general rule, tangible 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 of tangible assets is calculated using the straight-line method, applying the estimated years of useful life of the various items 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 tangible assets is reflected against the consolidated income statement and calculated over the remaining years of their 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 Group reviews the estimated useful life of tangible assets 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 consolidated 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 (the higher of its fair value less selling costs and its value in use). When the asset's carrying value exceeds the recoverable value, the Group reduces the carrying value of the corresponding item 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 years 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, registered in the Bank of Spain's special register of valuation firms according to criteria set forth in Order ECO/805/2003. In the case that tangible assets have been received in payment of debt, independently of their intended use, the Group applies criteria which is similar to the criteria described in note 1.3.4 for these assets. Maintenance expenses and the maintenance of tangible assets are recorded on the consolidated income statement for the year in which they occur.

1.3.11 Leases

Finance leases

A lease is treated as a finance lease if substantially all of the risks and rewards of ownership of the asset are transferred.

Where the Group is the lessor of an asset, the sum of the present values of payments receivable from the lessee is recorded as financing provided to a third party and is therefore included in the consolidated balance sheet under the heading "*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 consolidated 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 under the heading "*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.

Where 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.

1.3.12 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 which may have been sustained.

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 consolidated 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.

- Projection periods: 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.

- Type of discount: 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.

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: 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 zero 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 mainly 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. In particular, the useful lives of brands and contractual rights arising from customer relations in acquired businesses vary between five and 15 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.

1.3.13 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 registered into the Bank of Spain's Special Register of Valuation Firms. 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. In the case that the inventories have been received in payment of debt, the Group applies criteria similar to the criteria described in note 1.3.4 for these assets. The book value of the inventories is derecognised from the consolidated balance sheet, and it is recorded as en expense during the year in which the income proceeding from its sale is recorded.

1.3.14 Own equity items

An own equity item 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 items, including their issuance or redemption, are recognised directly as consideration in the consolidated statement of equity.

Changes in the value of instruments classified as own equity items are not recognised in the financial statements. Any consideration paid or received for such instruments is added to or deducted directly from the consolidated statement of equity and the associated transaction costs are deducted therefrom.

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.

On the other hand, compound financial instruments, which are those contracts which simultaneously generate a financial liability and their own equity instrument for the issuer (such as, for example, convertible debentures which grant their holder the right to convert them into equity instruments of the issuing entity) are recognised on the date of their issue, separating their components and classifying them in accordance with the economic fund.

The assignment of the initial amount to the different components of the compound instrument will not imply, under any circumstances, a recognition of income. The amount shall firstly be assigned to the component which is a financial liability, including any implicit derivative for which its own equity is not used as an underlying asset. The amount shall be obtained based on the fair value of the entity's financial liabilities, with similar characteristics to compound instruments, but which are not associated with own equity instruments. The attributable value at the start of the capital instrument will be the residual portion of the initial amount of the compound instrument, once the fair value assigned to the financial liability has been deducted.

1.3.15 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 the consolidated statement of 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 the consolidated statement of 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 them, with a balancing entry under the heading "*Provisions - 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 year.

1.3.16 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 to 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 by the Group under the heading *"Liabilities under insurance or reinsurance contracts"* of the consolidated balance sheet.

The most significant technical reserves are as follows:

- Unearned premium reserves: records the fraction of premiums accrued during the year that must be allocated to the period between the year end date and the termination of the relevant insurance coverage.

- Current risk provisions: 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.

- Provisions for claims: 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 made in advance and taking into consideration the internal and external settlement expenses.

- Mathematical provisions: includes the year-end value of the insurance company's obligations net of the obligations pertaining to the policy holder under life insurance policies.

- Provisions for life insurance when the investment risk is assumed by the insurance policy holders: the amount of the provisions is determined according to the valuation of the assets linked specifically to the contract.

- Provisions for 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 "*Assets under insurance or reinsurance contracts*" 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 mismatches, the Group records changes in the fair value of the financial assets that back up insurance contracts and are classified under the heading "*Available-for-sale financial assets*" under the heading "*Liabilities under insurance and reinsurance contracts*" on the consolidated balance sheet.

The Group's 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 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 as well as 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 annual 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 95 - GKM-5 95 - PASEM 2010 - PASEM 2010 unisex	0.5% - 2%
Individual savings insurance	PERM/F 2000 P – GRM/F 95 - PER M/F 2000 P unisex - GKM/F 95 - PASEM 2010 unisex	0.25% - 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 consolidated income statement for the year.

1.3.17 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 to meet the obligation is higher than not having to meet it. These provisions include, among others, commitments undertaken with employees by some entities within the Group (see Note 1.3.18), 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 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 are not recognised in the consolidated annual accounts but are disclosed in the consolidated notes of the accounts.

As set forth 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 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.

1.3.18 Provisions for pensions

Pension commitments

The Group's pension commitments to its employees are as follows:

Defined contribution schemes

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 42, 43, 44 and 48 of the 23rd 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:

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:

- Additional commitments on early retirement as provided for by Article 43 of the Collective Agreement.
- Disability occurring in certain circumstances.
- 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 the Group's associates are not regarded as scheme assets.

2. Insurance contracts:

The insurance policies provide general cover for specified commitments under Articles 43 and 44 of the 23rd Collective Agreement for the Banking Industry, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension scheme (described 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 non-Group insurers, 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:

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. Pension commitments to serving and former employees are fully covered by non-Group entities.

Accounting record

The consolidated balance sheet heading "*Provisions - Pensions and other post employment defined benefit obligations*" includes the actuarial present value of pension commitments, which is calculated individually using the projected unit credit method on the basis of financial and actuarial assumptions with are set out below. The same method is used to analyse the sensitivity described in Note 24.

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 Group 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 Group, even in the event of the Bank becoming insolvent.

- They cannot be returned to the Group 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 Group.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros 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 scheme settlement.

- Under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity, the re-evaluation of the net liabilities (assets) for pension commitments, 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 scheme 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 liabilities (assets).

  The amounts recorded in the consolidated statement of equity are not reclassified to the consolidated income statement in subsequent years but are reclassified under the heading "*Other reserves - Other*" in the consolidated statement of equity.

Assumptions

The most relevant actuarial assumptions used in the valuation of pension commitments are as follows:

	2016	2015
Tables	PERM / F 2000 New production	PERM / F 2000 New production
Technical interest rate, pension scheme	1.25% annual	1.75% annual
Technical interest rate, internal fund	1.25% annual	1.75% annual
Technical interest rate, related-party policies	1.25% annual	1.75% annual
Technical interest rate, non-related party policies	1.25% 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 2016 and 2015, 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 10.62 years in 2016 and 10.74 years in 2015.

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 (1.25% in 2016).

1.3.19 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 of each investee:

- 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 consolidated 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 the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity, a breakdown is given for the exchange rate component of 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, liabilities and valuation adjustments 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.
- Own funds, 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 "*Accumulated other comprehensive income*" 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.

1.3.20 Recognition of income and expense

Interest income and expense and similar items are generally accounted for over the period in which they accrue using the effective interest rate method, under the headings "*Interest income*" or "*Interest expenses*" of the consolidated income statement, as applicable. 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 fees are recorded in the consolidated 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 disbursement.
- Those related to transactions or services performed over a period of time are reflected over this period.
- 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 are deferred net of associated direct costs and recognised in the consolidated income statement over the expected average life of these transactions.

The equity managed by the Group that is owned by third parties is not included in the consolidated balance sheet. Fees generated by this activity are recorded under the heading "*Income from fees and commissions*" on the consolidated income statement.

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 definitive, the commitment is recognised when the event that leads to its payment takes place in line with the legislative terms and conditions.

Therefore, the item pending payment is recognised whenever there is an obligation to pay these levies, such as in the case of 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

The bank forms part of the Deposit Guarantee Fund. In 2016, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that laid out in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities adhered to the deposit guarantee scheme at 1.6 per thousand of the amount of the deposits guaranteed at 30 June 2016. The calculation of each entity's contribution was based on the amount of deposits guaranteed, and the risk profile of the entity, taking into account indicators such as capital adequacy, the quality of the assets and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee fund has been set at 0.2% of each 5% of the guaranteed amount of the securities and other financial instruments at 31 December 2016. In accordance with IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded at 31 December each year (see Note 35).

Some of the consolidated entities are integrated into systems which are similar to the Deposit Guarantee Fund and they make contributions to these systems in accordance with national regulations (see Note 35). The most relevant entities are listed below:

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme which are not accrued until 1 April each year.
- Sabadell United Bank makes contributions to the Deposit Guarantee Fund as established by the Federal Deposits Insurance Corporation. The payment obligation, and therefore its collection, is quarterly.

Single Resolution Fund

Law 11/2015 of 18 June, together with its regulatory implementation with Royal Decree 1012/2015, entailed the transposition of Directive 2014/59/EU to the Spanish legal system, therefore a new framework for the resolution of credit institutions and investment firms was established, which is also one of the standards that have contributed to the constitution of the Single Resolution 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 at a European level.

In the context of the implementation of this regulation, on 1 January 2016, the Single Resolution Fund entered into force, which established itself as a financing instrument which the Single Resolution Board could use. The Single Resolution Board is the European Authority which makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures which are adopted. The Single Resolution Fund receives contributions from credit institutions and investment services companies subject to the same.

The calculation of each entity's contribution to the Single Resolution Fund, regulated by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the entities adhered to the Fund, after shareholders' funds have been deducted and the guaranteed amount of the deposits are deducted. The latter is then adjusted to the entity's risk profile (see Note 35). The obligation to contribute to the Single Resolution Fund is accrued on 1 January of each year.

1.3.21 Corporate income tax

Corporate income tax applicable to the Spanish companies in Banco Sabadell Group and similar taxes applicable to foreign subsidiaries and investees are treated as expenses and are recorded in the consolidated income statement under the heading "*Expenses or income from tax on income from continuous activities*" unless the tax has arisen on a transaction accounted for directly in the consolidated statement of equity, in which case it is also recognised directly therein.

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 applying 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 consolidated income statement, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items which are non-taxable or non-deductible.

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 at the tax rate at which they are expected to be recovered or settled (see Note 43).

A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or allowance, or a credit in respect of tax loss 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 Corporate 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, in the case of assets, 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 bank's 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 the consolidated statement equity that do not affect profits for tax purposes are recorded as temporary differences.

Banco Sabadell Group companies included in Spain's consolidated tax regime for Corporate Income Tax are listed in Schedule I.

1.3.22 Consolidated cash flow statements

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 have been or will be the cause of operating income and expense have been taken into account, 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, deposits in central banks and demand deposits in credit institutions.

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. For these purposes, in addition to cash, cash components or equivalent are also classified as deposits held with central banks and demand deposits held with credit institutions.

- 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 or in operating activities.

- Financing activities: activities that result in changes in the size and consolidated composition of equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the period.

There have been no significant transactions that have not generated cash flows not reflected in the cash flow statement.

1.4. Comparability

The information presented in these consolidated annual accounts for 2015 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2016, and therefore does not constitute the Group's consolidated accounts for 2015.

These consolidated annual accounts have been adapted to Circular 5/2014 of 28 November and Circular 3/2015, of 29 July, of Bank of Spain, and subsequent Circulars published by Bank of Spain, amending Circular 4/2004 of 22 December, and therefore the terminology and presentation of certain items of the financial accounts have been modified compared with the 2015 consolidated annual accounts. Furthermore, the information corresponding to 2015 included in these current consolidated current accounts has been redrafted in accordance with this criteria in order for it to become comparable.

The main reclassification for this purpose has involved assets on the consolidated balance sheet, relative to demand deposits with credit institutions, which have gone from being recorded under the heading "*Loans and receivables*" ("*Lending*", pursuant to the terminology previously used in the consolidated balance sheet), to being recorded under the heading "*Cash and cash balances at central banks*", in the amount of €1,204 million at 31 December 2015 (€1,300 million at 1 January 2015.) The reclassifications in the rest of the headings in the consolidated annual accounts have not been significant.

Furthermore, in order to interpret the 2016 consolidated annual accounts, it should be taken into account that on 30 June, 2015, the Group took control of TSB Banking Group plc (see Note 2), for which reason the consolidated income statement for 2015, presented for comparison purposes with the consolidated income statement for 2016, only includes the results obtained by this investee from the date of its acquisition until the end of 2015, pursuant to current legislation (see note 1.3.1).

Note 2 – Banco Sabadell Group

The companies comprising the Group at 31 December 2016 and 2015 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 provides a breakdown of 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 2016 and 2015. 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 the Group scope in 2016

Associates consolidated for the first time:

No significant additions in the scope of consolidation have taken place during the year (see Schedule I).

Subsidiaries no longer consolidated:

On 13 April 2016, Banco Sabadell transferred its full holding (20.994% of its share capital) in Dexia Sabadell, S.A. to Dexia Crédit Local, S.A. (Dexia), at a price of €52,390 thousand, representing gross gains for Banco Sabadell in the same amount, under the terms ratified by the arbitration award.

This transfer was the result of Banco Sabadell exercising its put option on 6 July 2012 to Dexia, holder of the remaining share capital of the above-referred entity.

The transfer of shares by Banco Sabadell and their acquisition by Dexia occurred after having sent the relevant communications to the corresponding regulatory authorities.

Other significant corporate operations and contracts in 2016

Agreement for the sale of Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros

On 22 June 2016, the Group reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, a life insurance and saving/retirement insurance undertaking that has managed a portfolio with no new business since 2014 to a consortium led by Ember. The closing of this transaction is subject to obtaining the corresponding regulatory authorisation. Consequently, the Group has not recorded any gains/(losses) from this transaction in the consolidated income statement for 2016, although it has reclassified assets and liabilities from this subsidiary company to the headings of "*Non-current assets and disposal groups classified as held for sale*" and "*Liabilities and disposal groups classified as held for sale*", of the consolidated balance sheet at 31 December 2016 pursuant to current legislation (see Note 14).

Changes in the Group scope in 2015

Associates consolidated for the first time:

Founding of Banco Sabadell, S.A., Institución de Banca Múltiple

On 29 January 2015, Banco Sabadell, S.A., Institución de Banca Múltiple was created in Mexico, and in August that year it obtained local regulatory licences to start operating as a commercial bank. On 4 January 2016, after completing the certification procedure of the Mexican National Banking and Securities Commission, and having met the requirements of the Bank of Mexico, the bank formally began operating.

This bank carries out corporate and business banking operations and, during 2016, it has started personal banking operations.

The Group's total investment in this bank at 31 December 2016 amounts to €91,554 thousand (€57,375 thousand in 2015).

Combination of business with TSB Banking Group plc

Acquisition process

The European Commission (EC) declared that the financial aid 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 had 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 benefiting 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 or' 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 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 was 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, and the procedures for the bid acceptance, 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's share capital and voting rights, a percentage that 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 Bank of England as well as from other regulators, including anti-trust authorities.

On 30 June 2015 the final condition precedent 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 10 and 15 July 2015, consideration payable to TSB shareholders was paid in full to those shareholders who accepted the public offering, whose shares represented 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.

On the takeover date, TSB was a bank aimed at retail customers and small businesses with a distribution reach of approximately 7% of branches in the United Kingdom, having a Common Equity Tier 1 Capital Ratio of 19.5%, and a comfortable funding position with a franchise loan-to-deposit ratio of 76.6%.

The acquisition of TSB has allowed the Group to access the UK banking market, which is attractive due to its well established and stable regulatory framework, its consistent rates of return and its good outlook for future growth. The Group expects that, under its control, TSB will be able to continue to strengthen its growth and efficiency strategies, benefiting from the Group's resources and experience in SMEs financing in the Spanish banking market.

In 2016, progress has been made in the building of the technology platform for TSB, and this project is developing satisfactorily.

A summary of TSB's consolidated balance sheet at the date of acquisition is shown below:

Thousand euro

Asset		Equity and Liabilities	
		Liabilities	
Cash and balances with central banks	**5,421,408**	**Trading portfolio**	**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 held for sale	**1,418,035**	Deposits from credit institutions	111
Debt securities	1,418,035	Customer deposits	35,517,525
Lending	**31,377,312**	Marketable debt securities	14,077
Deposits held with credit institutions	936,800	Subordinated liabilities	561,200
Loans and advances to customers	30,440,512	**Adjustments to financial liabilities due to macro-hec**	**46,111**
Adjustments to financial assets due to macro-hedge	**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**
Other assets	**738,225**	Capital	7,028
Other	738,225	Issued	7,028
		Share premium	1,356,621
		Reserves	947,023
		Accumulated reserves (losses)	947,023
		Less: Treasury shares	*(14,523)*
		Profit for the year attributed to the parent company	27,703
		Valuation adjustments	**(362)**
		Financial assets held for sale	1,042
		Cash flow hedges	(1,403)
Total assets	**39,437,080**	**Total liabilities and equity**	**39,437,080**
		Memorandum item:	
		Contingent commitments	**6,186,296**

The exchange rate applied was the rate on 30/06/2015 (0.7114 pound/euro)

Accounting of the business combination

These consolidated accounts record the valuation and accounting of this business combination based on Management's estimates of fair values of assets and liabilities; the cost of the transaction is allocated to specific assets, liabilities and contingent liabilities ("Purchase Price Allocation" or PPA). These estimates were 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 was €2,362 million.

The following assets, liabilities and contingent liabilities of the acquired entity were valued as part of the PPA exercise:

1. Based on the analyses carried out by the Group, an expected lifetime loss on the loans to customer lending portfolio was estimated in order to adjust its estimated fair value. The amount allocated to additional provisions amounted to €151 million. A point in time Probability of Default (PD) was applied for the first three years, and a cycle-adjusted PD was applied from the fourth year on. The cycle-adjusted PD mainly affected the mortgage portfolio, due to its longer-term nature, and allowed medium- and long-term behaviour to be reflected rather than conditioning the calculation to economic conditions at the time of their valuation. For residential mortgages, a point in time Loss Given Default (LGD) was 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 was weighted with the LGD downturn. For the remaining segments, the LGD corresponded 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 were estimated at €354 million. The value attributable to this asset was 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 was estimated at €73 million. The value attributable to this asset was 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 will be amortised within 12 years.

4. Lastly, in the headings "*Deferred tax assets*" and "*Deferred tax liabilities*", the tax effect (with a 20% rate) was adjusted in line with the adjustments described in points 1 and 3, totalling €31 million and €15 million respectively.

A 10.9% discount rate was used in the valuation of intangible assets, which was 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 premium 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 were adjusted, the resulting negative consolidation difference amounted to €266 million, which is recorded on the consolidated profit and loss statement net of expenses associated with the acquisition, amounting to €232 million. 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 million and €168 million, respectively.

The variation in the Group's cash and cash equivalents resulting from the takeover of TSB amounted to €5,421 million, recorded in the heading "*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 income 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, was 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 2015, Banco Sabadell acquired 4.99% of the Colombian bank GNB Sudameris, for USD 50 million. The majority shareholder of Banco GNB Sudameris 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 by a strategic business cooperation agreement, in order to seize mutual business opportunities in markets with a high growth potential, such as Colombia, Peru and Paraguay.

Other relevant information

Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (APS) came into force with retroactive effect as from 31 July 2011, in accordance with the protocol on financial assistance for the restructuring of Banco CAM. Under the scheme, which covers a specified portfolio of assets with a gross value of €24,644 million at 31 July 2011, the Deposit Guarantee Fund (hereinafter, FGD) will bear 80% of losses on the portfolio for a period of ten years, once impaired allowances in respect of those assets, which amounted to €3,882 million at that date, have been fully applied.

The table below shows a breakdown of the asset portfolio covered by the APS on the date it entered into force (31 July 2011):

€million

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances	21,711	2,912	19,117	2,263
Of which risk drawn down	*21,091*	-	*18,460*	-
Of which guarantees and contingent liabilities	*620*	-	*657*	-
Real-estate assets	2,380	558	4,663	1,096
Investments in joint venture and associates	193	52	504	163
Written-off assets	360	360	360	360
Total	24,644	3,882	24,644	3,882

Movements in the balance of the customer lending portfolio protected by the APS from its entry into force until 31 December 2016 are as follows:

€million

Balance at 31 July 2011	18,460
Acquisition of real-estate assets	(6,611)
Collections and subrogation	(3,324)
Increase in written-off assets	(1,128)
Credit draw-downs	56
Balance at 31 December 2016	7,454

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force through 31 December 2016 are as follows:

€million

Balance at 31 July 2011	4,663
Acquisition of real-estate assets	4,913
Sales of real-estate assets	(4,769)
Balance at 31 December 2016	4,807

In general, the objective of financial statements is to provide information which fairly represents the financial situation, financial performance, changes in equity and cash flows of an entity, for the purpose of constituting useful information to a wide range of users when they make their economic decisions. At the same time, as laid out in IAS 1- Presentation of Financial Statements, to meet this objective, the financial statements should provide information on the management carried out by the administrators of the assets they have been entrusted. Amongst other aspects, a fair presentation requires the entity to present its information so that it is relevant, reliable, comparable and understandable.

Taking the foregoing into account, and the relevance of the economic impacts deriving from the granting of the APS in the Group's financial statements, particularly with regard to: (i) the volume of doubtful assets; (ii) the NPL ratio; and (iii) the level of hedging of provisions, certain characteristics have been considered with the objective of not distorting the three indicators mentioned earlier, and therefore, ensuring that the presentation of the financial statements on the guarantees granted under the APS protocol is as faithful and comparable as possible.

With regard to customer lending classified as doubtful, as well as the real-estate assets deriving from non-payment on behalf of the loan holders covered by the protocol, the Bank classifies doubtful balance as the amount corresponding to 20% of retained exposure due to not having transferred the credit risk to the DGF and 80% of the risk. Whilst the credit or loan is included on the balance sheet, it is presented as a standard exposure due to the existence of the transfer of credit risk. That is, for each covered asset, the Group considers the proportion of its flows that would be obtained from the borrowers or third parties and the proportion that would be obtained from the DGF as a result of the guarantee provided, taking into account the value of any mortgage guarantees securing the loan.

For the purposes of preventing gross loans from becoming overvalued or duplicated by recording under the same heading the balance receivable from the DGF as well as the 80% exposure covered by the APS, the provisions constituted for this 80% are presented net of gross loans. This treatment in the presentation of such information does not have any impact on net loans.

The breakdown of the asset portfolio protected by the APS at 31 December 2016 is shown below, together with the NPL and coverage ratios, and the breakdown of financing for construction and real estate development prior to the transfer of credit risk to the DGF:

€million

	On Group Balance Sheet		*Of which doubtful*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances	7,463	2,571	*4,768*	*2,552*
Of which risk drawn down	*7,454*	*2,570*	*4,767*	*2,552*
Of which guarantees and contingent liabilities	*9*	*1*	*1*	-
Real estate assets (*)	4,807	2,903	-	-
Investments in joint venture and associates	49	30	-	-
Written-off assets	1,476	1,476	-	-
Total	13,794	6,980	*4,768*	*2,552*

(*) Real estate exposure for which credit risk has been transferred, applying the Asset Protection Scheme (see detail on the exposure to the sector of provision and real estate development in Note 4).

%

	2016
NPL ratio	63.89
NPL coverage ratio	53.92

€euros

	On Group Balance Sheet		*Of which doubtful*	
	Balance	Provision	*Balance*	*Provision*
Draw down risk loans and advances	7,454	2,570	*4,767*	*2,552*
Of which financing for construction and real estate development (business in Spain)	*3,760*	*1,991*	*3,384*	*1,984*
For which credit risk has been transferred	*3,008*	*1,593*	*2,707*	*1,587*
For which credit risk has not been transferred	752	398	*677*	*397*
Total	7,454	2,570	*4,767*	*2,552*

The reconciliation between gross loans and net loans prior to and after the transfer of credit risk to the DGF is shown below:

Thousand euro

	Post credit risk transfer	Credit risk transfer	Pre credit risk transfer
	2016	2016	2016
Gross lending excluding repos	**150,087,282**	**2,039,956**	**152,127,239**
Of which doubtful assets	*9,641,526*	*3,811,104*	*13,452,630*
Of which other investments	*140,445,756*	*(1,771,148)*	*138,674,609*
Net lending excluding repos	**145,165,935**	-	**145,165,935**
Of which doubtful assets	*9,641,526*	*3,811,104*	*13,452,630*
Of which other investments	*140,445,756*	*(1,771,148)*	*138,674,609*
Of which allowances	*(4,921,348)*	*(2,039,956)*	*(6,961,304)*
NPL ratio	6.14	2.30	8.44
NPL coverage ratio	51.55	0.56	52.11

For all losses recorded for accounting purposes, deriving from loan loss provisions, loan reductions, provisions for real estate asset impairments and losses from the disposal of these assets, the bank keeps a billing statement classed under the "*Loans and receivables*" heading and recognised on the income statement, in order to reflect the collection rights of the DGF for the guarantee granted by the DGF, and to neutralise the impact of recorded losses related to assets covered by the APS. The cumulative amount recorded as of 31 December 2016 amounts to close to €5,700 million.

Nota 3 – Proposed distribution of profits and earnings per share

Set out below is the distribution of 2016 Banco de Sabadell, S.A. profits which the Board of Directors 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 2015 profits approved by the shareholders on 31 March 2016:

Thousand euro

	2016	2015
To dividends	279,766	(a)
To statutory reserve	4,423	35,370
To Canary Island investment reserve	314	192
To voluntary reserves	95,336	266,336
Profit for the year of Banco de Sabadell, S.A.	**379,839**	**301,898**

Proposed distributions of profits of subsidiaries are subject to approval by shareholders at their respective Annual General Meetings.

The Board of Directors will propose, to the General Meeting of Shareholders, the agreement for the distribution of a gross dividend per share for the year 2016 of 0.05 euros per share.

On 27 October, 2016 the Board of Directors agreed to the distribution of a divided charged to the 2016 income statement for the total amount of 111,281 thousand euros (gross payment of 0.02 euros per share), which was paid on 30 December 2016.

Pursuant to Article 277 of the Law on Corporate Enterprises, the provisional accounting statement prepared to demonstrate the existence of sufficient liquidity and profit at the Bank at the time of approving the interim dividend is shown below.

Thousand euro

Available for the payment of dividends according to the interim statement at:	**30/11/2016**
Banco Sabadell profit as of the date indicated, after provisions for taxes	**511,195**
Estimated statutory reserve	4,423
Estimated Canary Island investment reserve	314
Maximum amount available for distribution	**506,458**
Interim dividend, proposed and distributed	**111,281**
Cash balance at Banco de Sabadell, S.A available (*)	**4,035,094**

* Includes the balance of the heading "*Cash, cash balances from central banks and other demand deposits*".

(a) On 31 March 2016, the General Meeting of Shareholders approved a flexible remuneration to shareholders arranged in the form of a capital increase charged to reserves in the amount of €0.05 per share, offering shareholders the opportunity to receive that amount in cash and/or in new shares through the sale of rights to free assignment, with the commitment of purchasing the free allocation rights that would be assumed by the bank.

Each shareholder received a free allocation right for each of the bank's shares which they owned. When the capital increase was carried out, each bank shareholder received one new share for every 34 right to free assignment.

As a result, on 25 April 2015, a capital increase was carried out charged to reserves in the amount of €15,877 thousand through the issuance of 127,016,761 new shares with a par value of €0.125 each, since 79.40% of the owners of the rights to free assignment elected to receive new shares. The remaining 18.57% of holders of rights to free assignment accepted the bank's irrevocable commitment to purchase the rights, with the result that the bank acquired 1,010,122,734 rights for a total gross amount of €48,486 thousand, which is presented under "*Dividends (or members' remuneration)*", reducing "*Other reserves*" in the consolidated statement of changes in equity.

The General Meeting of Shareholders approved shareholder remuneration, supplementary to the dividend, of €0.02 per share consisting of the delivery of shares from the bank's treasury portfolio for an equivalent amount, which was recognised at its market value charged to the issue premium at €106,448 thousand, and at the difference compared to the value of the delivered treasury portfolio (€135,695 thousand) and cash flow peaks (€213 thousand) charged to Other reserves amounting to €29,461 thousand. Both are shown under the heading "*Dividends (or remuneration)*" of the statement of changes in equity.

The Board submitted a proposal to the Annual General Meeting in March 2016 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 Notes 25 and 43).

Under this proposal, retribution to shareholders this year, compared with the previous year, would be as follows:

In euro

	2016	2015
Flexible remuneration	-	0.05
Complementary remuneration in shares	-	0.02
Cash remuneration	0.05	-
Total remuneration	**0.05**	**0.07**

Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Group by the weighted average number of ordinary shares outstanding in 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 ordinary shares outstanding, for the estimated effect of all potential conversions to ordinary shares.

Earnings per share calculations are shown in the following table:

Thousand euro

	2016	2015
Net profit attributable to the owners of the parent company (€'000)	710,432	708,441
Profit or loss (-) after taxes deriving from discontinued operations	-	-
Weighted average number of ordinary shares outstanding (*)	5,451,978,110	4,889,348,750
Weighted average number of ordinary shares using adjustment factor (**)	5,451,978,110	5,027,194,131
Conversion undertaken of convertible debt and other equity instruments	7,520,252	33,006,410
Adjusted weighted average number of outstanding ordinary shares	5,459,498,362	5,060,200,541
Earnings per share (€)	0.13	0.14
Basic earnings per share adjusted for mandatorily convertible bonds (€)	0.13	0.14
Diluted earnings per share (€)	0.13	0.14

(*) Average number of shares in circulation (million), excluding the average number of own shares held in treasury stock during the period.

(**) Adjustment factor of the effects of the capital increase with preference rights applied to years prior to the issue.

During the first half of 2015 the bank carried out several capital increases. As laid out in IAS 33, after capital increases with rights, basic and diluted earnings per share must be recalculated. To do so, an adjustment factor must be applied to the denominator (weighted average number of shares outstanding). This adjustment factor is the result of the division of the fair value of each share immediately prior to the exercise of the preference subscription rights between the theoretical fair value ex-rights per share.

As of 31 December 2016 and 2015, there were no other share-based financial instruments or commitments to employees with a material impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Nota 4 – Financial risk management

4.1 Introduction

During 2016, Banco Sabadell Group has continued to strengthen its risk management framework, incorporating improvements which align it with the best practices in the financial sector.

Banco Sabadell Group has prepared a Strategic Risk Framework, the purpose of which is to ensure control and the proactive management of all of the Group's risks. This framework is set forth, amongst others, in the Risk Appetite Statement (RAS), which establishes 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 is comprised of quantitative metrics that allow an objective monitoring to be conducted on the risk management, as well as the qualitative aspects that complement such management.

Risk management and control is embodied in a broad framework of principles, policies, procedures and advanced valuation methods, forming an efficient decision-making 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 2017.

For each significant risk of the Group, details are given of the main persons or units involved, their tasks, policies, methods and procedures, as well as control and monitoring mechanisms. Details are also given of Risk Function Organisation, indicating the roles and responsibilities of divisions 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 as a result of their activity related to the use of financial instruments are credit risk, liquidity risk and market risk. Of these risks, 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 2016 are described hereafter:

- During the first months of the year, there was significant volatility in financial markets in a situation in which oil prices declined to minimums not seen for more than a decade and in which concerns arose regarding China and, in general, the state of the world economy.

- Politics have increasingly taken centre stage throughout the year. Events which particularly stood out include the formation of a minority government in the second elections in Spain, the UK's decision to withdraw from the European Union, the victory of Republican candidate Donald Trump in the US presidential elections and Italy's referendum on Senate reforms.

- The growth of the global economy has remained at relatively reduced levels in a context of lower potential growth rates than those observed prior to the international financial crisis.

- Emerging economies have taken further steps in the deleveraging process.

- In the UK, the impact of Brexit on economic activity has been limited to date and has mainly affected the construction industry and, to a lesser extent, the manufacturing industry.

- The Spanish economy has performed extremely well, with an increase in GDP in excess of 3.0% and significant job creation.

- In Mexico, Trump's victory in the US led to a downward revision of future economic outlooks for the Mexican economy.

- Inflation has continued to be below the targets of the monetary policies in the main developed economies, although it has experienced an upturn in the final months of the year.

- The ECB has cut its deposit rate to -0.40%, and has increased the monthly rate of its asset purchases to €80 billion per month. In December, the duration of this programme was extended, although asset purchases returned to €60 billion per month.

- Bank of England introduced a significant stimulus package in August to offset the potential negative effects of Brexit (benchmark interest rate cuts, reactivation of the asset purchase programme, etc.).

- The Fed increased its Fed funds rate in December, to 0.50-0.75%, one year after the previous increase.

- Bank of Japan announced a significant change to the implementation of its policy, setting a target level for the long-term yield of Japanese government bonds.

- Yields of long-term government bonds in the United States and Germany have remained at reduced levels. The yield of 10-year German government bonds went so far as to reach negative figures for the first time in history. In the final months of the year, there was a general upturn in yields following Trump's victory, and due to expectations that the ECB will reduce its asset purchases and that the Fed will hike its Fed funds rates, amongst other reasons.

- Risk premiums in countries in the European periphery ended the year with higher figures than in the previous year, particularly Italy and Portugal, which have been affected by their domestic political situation and the situation of their financial systems, with the exception of the risk premium in Spain, which has performed relatively well.

- The sterling pound significantly depreciated against its main currency pairs as a result of uncertainty associated with holding the referendum on the UK's membership of the European Union and the referendum's subsequent outcome.

- The dollar appreciated against the euro, supported by growing expectations of a hike in the Fed funds rate.

- The European banking sector proved to be resilient to the main episodes of volatility in financial markets. Bank profitability still faces significant challenges related to the weak economic recovery, the lower-for-longer interest rate environment, asset quality issues and stringent regulatory requirements.

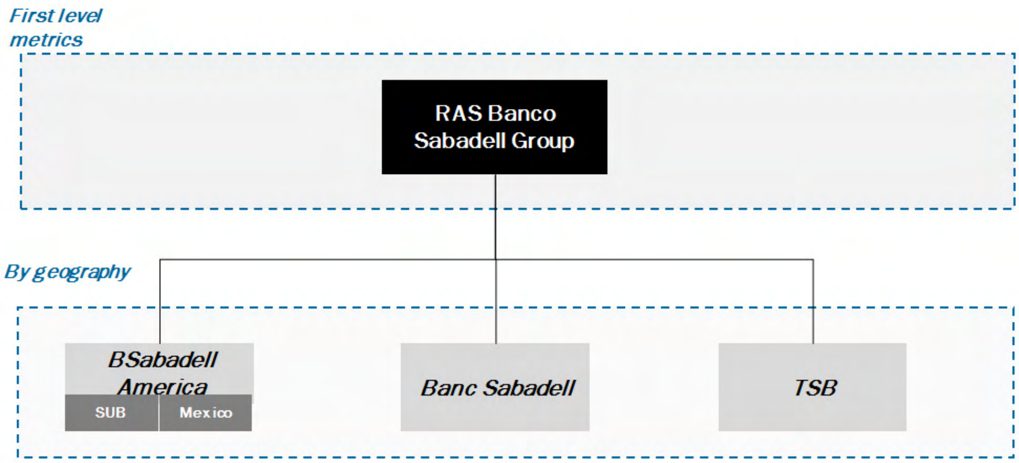
- In terms of the construction of Europe, no significant progress has been made to complete the Banking Union, although efforts have been made to accelerate the design and implementation of measures to develop the Capital Markets Union.

- Regulatory requirements have continued to be demanding, and banking activity has been conditional upon this.

4.2 Key milestones during the year

Strengthening of the Strategic Risks Framework, giving it a greater deployment in terms of industry and geography

The Strategic Risk Framework of Banco Sabadell Group has been adapted to the new structure of the Group as a result of its internationalisation. It aims to ensure consistency and an effective deployment of the Group RAS across all geographies.



Thus, a first level is established which makes up the Group's RAS, setting overall objectives and limits, and a second level deploys the objectives and limits of the first level to different geographical regions.

During 2016, the Group has continued to strengthen its control environment by deploying the Strategic Risk Framework, thanks to the establishment of specific management and control frameworks intended for the management and control of risks linked to the financing of certain segments, sectors and geographies. These frameworks aim to set forth policies, tools and asset allocation in line with the type of risk and geography, aligned with the Group's Strategic Risk Framework.

Furthermore, during 2016, the Group has deployed the Strategic Risk Framework through tier two RAS metrics specific to each portfolio, in order to set objectives/limits for monitoring both existing, and with a particular focus on, new stock.

Improvement of the Group's risk profile during the year

The Group's risk profile during 2016 has improved in five fundamental aspects:

(i) Internationalisation: following the acquisition of British bank TSB in 2015, Banco Sabadell Group has strengthened its international diversification process in 2016, with a growth in its international exposure of €641 million. Most of this increase has taken place in regions such as the UK, the US and Mexico. This increases the weight of the Group's international portfolio to 31% of its credit portfolio.

(ii) Concentration: reduction of both individual and sector-wide concentration risk. This is coupled with an improvement in the composition of the portfolio, with a reduction of over €1,733 million in the developer sector and increasing the exposure in sectors with higher credit quality.

(iii) Price discrimination: risk-adjusted pricing system with a process for allocating costs, risk and capital, and at operation level, ensuring the oversight of the adjustment of prices to risks and incurred expenses.

(iv) Reduction of problematic risk: intense reduction of problematic assets, in excess of €2,960 million, resulting in a higher growth than that considered in the targets set forth in the TRIple strategic plan and that observed by the Group's peers in the same period.

(v) Establishment of specific management frameworks for each portfolio and constant improvements in credit risk management, incorporating lessons learned during the economic crisis with a particular focus on new entry.

The improvement in the Group's key aspects, particularly in terms of risk, is reflected in the overall improvement of the bank's senior debt rating by credit rating agencies in 2016 (see Directors' Report - Other significant information).

Strengthening of risk governance and internal credit risk models

The strategic risk framework is part of a risk governance framework in line with both European and Spanish standards and regulations (specifically, the European Parliament Regulation, CRR 575/2013, and Directive CRD-IV and its transposition to Spanish law through Law 10/2014 on Organisation, Supervision and Solvency of Credit Institutions).

During 2016, the Group has continued to strengthen its risk control function, reorganising the structure to give it more independence.

During 2016, Banco Sabadell Group has strengthened the management framework of its internal credit risk models. Banco Sabadell Group has at its disposal risk control systems that have been adapted to the activities of the various business units in which it operates and to the risk profile that it wishes to accept. These control systems are under the framework of the procedures of acceptance, monitoring, mitigation and recovery of the aforementioned risks and are monitored in turn.

The risk assessment also forms part of the control framework and is established through advanced measurement methodologies. In this regard, the CRR and CRD IV set forth requirements relative to internal models to calculate minimum capital requirements, and Bank of Spain Circular 4/2016 sets forth requirements for the calculation of provisions using internal models. The basic principle of these regulations and their implementation in the bank consists of drawing up a closer link between own funds requirements and provisions through the use of internal models, using the real risks that have been incurred and the expectations of the possibility of their arising in the future. The bank has a system made up of three lines of defence to ensure the quality and monitoring of internal models, and a governance process specifically designed to manage and monitor these models and compliance with regulations and the Supervisor.

Banco Sabadell is aware that having an advanced methodology will allow the risks taken to be reliably valued and actively managed. It has been authorised to use the IRB (Internal Ratings Based) approach since 2008 and it promotes the development of the necessary aspects to complete its risk measurement systems and the applications deriving therefrom.

Some of the main bodies within the governance framework of internal risk models include the new Models Committee, which convenes on a monthly basis and strengthens the governance of internal credit risk models (risk management, regulatory capital and provisions), which is based on the following pillars:

- Effective management of changes to internal models.
- Recurring monitoring of the environment of internal models.
- Regular reporting, both internal and external.
- Internal models management tools.

4.3 General principles of risk management.

4.3.1 Corporate risk culture

The risk culture of Banco Sabadell Group is one of the factors that sets it apart, and it is firmly rooted throughout the organisation as a result of its progressive development spanning over decades. Among the aspects that characterise this strong risk culture are:

- A high level of involvement of the Board of Directors in risk management and control procedures. Even prior to 1994 there has been a Risk Control Committee in the bank, whose main task is to supervise the management of all relevant risks and to align these with the risk profile defined by the Group.

- A Basic Management Team as a key player in the acceptance and monitoring of risk. The team has existed for more than 20 years, and is formed of the account manager on one hand, and the risk analyst on the other. Risks are managed based on the points of view expressed by each party. Decisions must always be discussed and resolved by means of an agreement between all parties involved. All of the foregoing requires a high degree of involvement of the team in the decision-making process, and also contributes depth and solidity to the judgements.

- High degree of specialisation: specific management teams for each segment (Real Estate, Corporate Banking, Corporates, SMEs, Retailers, Banks and Countries, etc.) which allow a specialised risk management process to be implemented in each area.

- Advanced internal credit rating models that have served as a fundamental element of decision-making processes for over 15 years (since 1999 for individuals and since 2000 for corporates). The Group, in accordance with the relevant best practices, applies said practices in order to improve the general efficiency of the process. Insofar as these models not only allow borrowers to be organised in ordinal terms but also provide a basis for a quantitative risk measurement, and allow for their use in various key management processes: slight adjustments to the delegation of powers, efficient risk monitoring, Group-wide risk management, risk-adjusted returns and the Group's solvency assessment are just some examples.

- The delegation of powers for sanctioning corporate risk transactions at the various different levels is based on expected losses. As a general policy in respect of the delegation of powers, the Group has opted for a system in which different levels are determined using the expected loss metric, which takes into account the exposure to credit risk of the sanctionable transaction of the customer and their risk group, expected default rate and estimated severity.

- A rigorous monitoring of credit risk carried out in an advanced system of early warnings for corporates and individuals. The risk monitoring at customer and Group level can be divided into three types: operational, systematic and comprehensive. One of the key sources for this monitoring is the implementation of an early warning indicator system for both corporates and individuals (started in 2008 and 2011) which allows credit risk to be anticipated. These warnings are based on internal information such as, for example, the number of days past-due, overdrawn/exceeded credit lines, bank guarantees and international credit, as well as external information, such as customers classed as defaulters in the rest of the financial system or in information available from credit bureaux.

- An advanced abnormal risk management model that strengthens the anticipation and specialised management of risks. A comprehensive abnormal risk management model has been implemented which allows the treatment of risk to be directed to those situations where default is most likely (anticipated default, refinancing, collections, etc.). This comprehensive system uses specific tools (simulators to help determine the best solution in each situation), as well as managers who specialise in the different segments and who are dedicated exclusively to this task.

- Risk-adjusted pricing. The commercial policy in respect of price management is dynamic, and adapts to the economic and financial environment of the market (liquidity premiums, difficulty of accessing credit, interest rate volatility, etc.). It takes into account the cost of funding and the risk (expected losses and cost of capital). Risk models are a key element in setting prices and return objectives.

- The risk management model is fully integrated into the bank’s technological platform, so that all policies can be immediately transferred for daily management: the policies, procedures, methodologies and models that make up the risk management model of Banco Sabadell are technically integrated in the bank’s operational platform. This allows policies to be transferred immediately for an effective daily management. This element has been particularly relevant in the bank’s acquisitions.

- Use of stress testing as a management tool: For years, Banco Sabadell has been using an internal tool to conduct stress tests, working together with internal teams with extensive experience in carrying out these tests.

- Banco Sabadell Group has a Strategic Risk Framework, which includes the Risk Appetite Statement, that guarantees control and proactive management of risks under a strengthened framework of corporate governance, which has been approved by the Board of Directors.

4.3.2 Strategic Risk Framework (Risk Appetite Framework)

The Strategic Risk Framework includes, amongst others, the Risk Appetite Statement, which is defined as the quantity and diversity of risks that Banco Sabadell Group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The Risk Appetite Statement (RAS) is composed of quantitative metrics which allow an objective monitoring to be carried out of the achievement of objectives and of established limits, and of qualitative elements that supplement these measures and govern the Group’s risk control and management policy.

Quantitative elements

The quantitative metrics of the RAS are divided into ten general areas:

- Capital and Solvency: level and quality of capital.
- Liquidity: liquidity buffers and financing structure.
- Return: balance between return and risk.
- Quality of Assets: for different significant risks and in stress scenarios.
- Credit and Concentration: on both a stand-alone and at sector-level.
- Market Risk
- Structural Interest Rate and Exchange Rate Risks
- Counterparty Risk
- Operational Risk

Qualitative aspects

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

- The general position held by the entity with regards to risk-taking aims to achieve a medium-to-low risk profile through the use of a prudent and balanced risk policy that will ensure the profitable and sustainable growth of its activity, and that it is in line with the strategic objectives of the Group, in order to maximise the generation of value while guaranteeing an adequate level of solvency.

- The Board of Directors is committed to risk management and control procedures: approval of policies, limits, management model and procedures, as well as methodologies for risk measurement, monitoring and control.

- The Group maintains a risk culture that is embedded throughout the entity, and has various units that specialise in the treatment of different risks. The risk function conveys this culture by introducing policies, implementing and starting up internal models, and adapting these to the risk management procedures.

- The risk management policies and procedures are aimed at adapting the risk profile to the strategic risk framework, whilst maintaining a balance between the expected return and risk.

- The risk control and management system in Banco Sabadell Group is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are integrated into an efficient decision-making structure. The risk variable is taken into account when making any kind of decision, and is quantified in terms of allocated capital using a common measurement method.

- Risk management requires solid and continuous control procedures to keep risks within the pre-defined limits, with clearly defined responsibilities for identifying and monitoring indicators and early warnings, as well as an advanced risk assessment methodology.

- The levels of capital and liquidity should be sufficient to cover the risks accepted by the entity, including in unfavourable economic scenarios.

- There should not be any risk concentration levels that could significantly compromise own funds.

- The objectives behind accepting market risk for trading purposes is to handle the flow of transactions produced by customers' operations and to seize market opportunities, whilst maintaining a position in line with the bank's market share, risk appetite, capacities and profile.

- The risk function is independent, and senior management has a high degree of involvement that guarantees a strong risk culture focused on protecting and ensuring an appropriate return on capital.

- The Group's aim in terms of fiscal risk is to ensure compliance with fiscal obligations whilst guaranteeing an adequate return for shareholders.

- The achievement of corporate objectives should be sought in such a way that is compatible with the legal system at all times and by applying best practices.

- The entity will have at its disposal the necessary human and technological resources to monitor, control and manage all risks that may arise during the course of its activities.

- The Group's remuneration systems should align the interests of employees and Senior Management with the fulfilment of the Strategic Risk Framework.

4.3.3 General Organisation of the Risk Function

The Group has a risk culture that is embedded throughout all units, with units specialised in the treatment of risks, guaranteeing the independence of the risk function and a strong involvement of Senior Management.

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

There are four committees in the Board of Directors itself which are involved in risk management and control. The Bank also has several other Committees which take part in this function.

Main committees related to risk management

The Group 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 business units and corporate centres, among the most noteworthy of which are the Risk Management Division, the Financial Division and the Treasury and Capital Markets Division. The first line of defence is responsible for the management of risks inherent in the bank's activity, mainly in the acceptance, monitoring and assessment of risks and associated processes.

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

  - Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis.
  - Identify, assess, control and mitigate risks, following internal policies and procedures and ensuring that activities are consistent with the bank's targets and objectives.
  - Establish adequate management and supervision processes to ensure regulatory compliance and focus on control errors, inadequate procedures 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 providing information about such risks.
  - The internal validation function is responsible for reviewing these models and ensuring that they work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
  - The Regulatory Compliance, Corporate Social Responsibility and Corporate Governance Divisions, which aim to minimise the possibility of regulatory breaches occurring and ensure that any breaches that occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented.
  - The IT Control Division is responsible for identifying risk situations associated with the use of technology across all units in the Group that may give rise to operational or reputation risks for the Group. It also promotes 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 independently transfers any significant risks that have not been covered by the implemented controls to the Group's Operational Risk Division.

  In general, the second line of defence ensures that the first line of defence is well designed, fulfils the functions assigned to it and puts forward suggestions for its continuous improvement. The core functions attributed to this line under the control framework are:

  - Proposing the risk management framework.
  - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.
  - Verifying compliance with regulations applicable to the Group in the performance of its business activities.
  - Providing the technological infrastructure for risk management, measurement and control.
  - Analysing and comparing existing and future incidents by reviewing available information.
  - Identifying changes in the underlying risk appetite of the organisation.
  - Working with the management team to develop risk management processes and controls.

- **Third line of defence:**

  - The Internal Audit Division conducts an independent and objective verification and advisory activity, governed by a philosophy of adding value and helping the Group to fulfil its objectives.
  - It provides assistance to the Group in meeting its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the organisation's governance processes and the risk management and internal control activities.

4.4 Managing and monitoring the main significant risks

4.4.1 Credit risk

Credit risk arises from the possibility of losses arising from defaults on payment obligations by borrowers, as well as losses of value due to the impairment of the borrowers' credit rating.

4.4.1.1. Credit risk management framework.

Credit risk control framework

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 grants powers and discretions to the Executive Committee to allow the latter to delegate different parts of the decision-making process. 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 their specialised knowledge.

The implementation of advanced methodologies for managing risk exposures (adapted to 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 rating tools such as credit rating for corporate borrowers and credit scoring for retail customers, as well as early warning indicators for monitoring risk.

The analysis of indicators and early warnings, in addition to rating reviews, allows an integrated and continuous measurement to be made of the appropriateness of the accepted risk. The establishment of efficient procedures to manage outstanding risks also benefits the management of outstanding debt by enabling a proactive policy to be devised based on a preliminary identification of any cases with propensity to default.

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.

Abnormal risk management

Refinancing and restructuring processes are generally more relevant 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 under 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 common policies to achieve this are in place across the Group, including procedures for the approval, monitoring and control of debt refinancing and restructuring processes, the most relevant of which are 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 experienced by the customer.

- Refinancing and restructuring conditions based on a realistic payment schedule which is in line with the borrower's current and predicted payment capacity, preventing problems from being postponed until a later date.

- If new guarantees are provided, these must be regarded as a secondary and exceptional source for recovering the debt, so as to avoid adversely affecting existing sources. All ordinary interest accrued must always be paid up to the refinancing date.

- Limitations of any lengthy grace periods.

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

Banco Sabadell Group also has an advanced abnormal risk management model in place to manage the impaired assets portfolio. The purpose of managing abnormal risks is to identify the best solution for the customer of any symptoms of impairment, whilst reducing the default of customers with economic difficulties, ensuring smooth progression and consistent management across the different phases.

For further quantitative information, see section 4.4.1.6 of this note "Credit risk: refinancing and restructuring operations".

Real estate credit risk management

As part of its ongoing risk management and, in particular, its policy on the construction and real estate industries, the Group has a number of specific policies for mitigating risks.

The main measure being implemented is continuous monitoring of risks and the reappraisal of borrowers' continued financial viability in the new economic environment. If the position is satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate in light of changed circumstances.

The policy to be applied depends in each case on the type of asset being financed. For completed developments, sale support actions are carried out through the group's distribution channels, setting a competitive price which enables the transactions to be activated and allowing final buyers access to financing, provided they comply with risk requirements. For works in progress, the main objective is to complete the work, provided that short and medium term market expectations are sufficient to absorb the resulting supply of dwellings.

For land-related loans, the saleability of properties to be built on the site is the key consideration in deciding on the provision of finance for construction.

Where monitoring and scrutiny of a borrower's position do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt and/or the purchase of assets.

Where a solution of this kind is not practicable, legal proceedings will be taken, leading to the foreclosure of the assets.

All assets taken into possession by the Group, whether through the transfer of debt, purchase, or as a result of legal proceedings, to ensure collection or to execute other lending improvements are mainly foreclosed tangible assets received from borrowers and other obligors of the bank, to satisfy financial assets representing the bank's collection rights, and are actively managed with the primary purpose of divestment.

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

1. Trading:

Different trading mechanisms are in place for the sale of the final product (households, retail properties, warehouses, parking spaces, etc.) in the different distribution channels and agents, which change according to the type, condition and location. The real estate portal www.solvia.es is a fundamental factor in this strategy.

2. Mobilisation:

Given the very difficult conditions surrounding the sale of building plots and buildings under construction, a mobilisation strategy has been adopted whose aim is to generate liquidity from building plots. A number of mobilisation schemes have been launched:

- Collaboration with real estate developers: this seeks to make building land available in areas of high housing demand and allow developers to develop and sell properties.
- Investor programme: the aim of this is to develop sites for office, commercial and industrial use with capital inputs from investors.
- Council housing programme: this involves developing council housing units to be leased out and subsequently sold.

3. Urban planning management:

Land that is not yet ready for development must be managed to secure development rights. This is vital as a means of leveraging the value of the sites and is key to any subsequent development and sale.

In the case of new financing for construction and real estate development, a series of criteria adapted to the specific type of business is established, mainly to the different stages of the maturity of the project and the market situation. Additionally, there is a monitoring process for this type of specialised risk, managed by business and risk experts who manage the different alerts established, and the customer's behaviour in the different financing stages, so as to ensure that when the facilities granted are drawn down, this is done in parallel to developments in the building works.

The Group, due to having previously reached a high concentration of this risk, has a first level RAS metric which establishes a maximum level of concentration in terms of concentration metric for real-estate promotion based on TIER1 in Spain. This metric is monitored on a monthly basis, and it is reported to the Technical Risks Committee, the Risk Committee and the Board of Directors.

Lastly, it is worth highlighting that the Risk Control Division, together with the Business and Risk divisions, regularly monitors the adequacy of new financing granted to the RE developer, as part of which compliance with policies, as well as asset allocation, is reviewed. This monitoring is escalated to the Technical Risks Committee for their information.

For further quantitative information, see section 4.4.1.7 of this Note “Credit risk: Risk concentration, exposure to construction and real estate sectors”.

4.4.1.2. <u>Risk management models</u>

Credit rating

Credit risks incurred with corporates, developers, specialised lending projects, financial institutions and countries, are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on the analysis of behavioural patterns of defaulted loans. A predicted default rate is assigned to each internal credit rating level, which also allows a homogeneous comparison to be made of other segments and credit ratings from external credit agencies through a master ratings scale.

%

Breakdown of BS corporates portfolio										
9	8	7	6	5	4	3	2	1	0	TOTAL
1.87%	10.91%	17.76%	20.35%	26.99%	14.24%	5.71%	1.72%	0.34%	0.11%	100%

Credit scoring

In general, credit risks undertaken with individual customers are rated using scoring systems which are in turn based on a quantitative model of historic statistical data, where the relevant predictive factors are identified. In geographies in which scoring takes place, the latter is divided into two types:

Behavioural scoring: the system automatically classifies customers based on information regarding their activity and on each product. These scores are mainly used in: authorisation of transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or reimbursement procedures.

Reactive scoring: this is used to evaluate applications for personal loans, mortgage loans and credit cards. Once all the data of the transaction has been introduced, the system calculates a result based on the estimated creditworthiness, financial profile and, if applicable, the level of pledged assets.

If no scoring system exists, it is replaced with individual assessments supplemented with policies.

%

Breakdown by rating of individuals portfolio										
9	8	7	6	5	4	3	2	1	0	TOTAL
1.48%	8.76%	8.65%	22.06%	26.92%	21.55%	9.49%	0.82%	0.12%	0.13%	100%

Warning tools

In general, Banco Sabadell Group has a system of early warnings comprised of both individual warnings and advanced early warning models in place for both the Corporates sector and the Individuals sector. These early warnings are based on indicators obtained from available sources of information (rating or scoring, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information of a sector or operative, nature, etc.). They measure the risk presented by the customer on a short-term basis (predicted propensity to default), obtaining a high level of predictability to detect potential defaulters. The rating, which is obtained automatically, is a basic data input used when monitoring the risk of corporate and individual customers.

This warnings system offers:

- Improved efficiency when monitoring customers with the lowest rating (different cut-off points for each group).
- Foreseeable actions to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Regular control of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.

4.4.1.3. Credit risk exposure

Financial assets exposed to credit risk by portfolio, type of counterparty and instruments, and areas in which the risks 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

	2016			2015		
Exposure to credit risk	Operations in Spain	Foreign operations	Total	Operations in Spain	Foreign operations	Total
Cash and cash balances at central banks and other demand deposits	6,698,325	4,989,926	11,688,250	2,556,385	4,787,096	7,343,481
Derivatives	1,642,555	191,940	1,834,495	1,409,197	99,249	1,508,446
Debt securities	21,163,557	4,124,844	25,288,402	22,430,654	2,995,027	25,425,681
Central banks	-	-	-	-	-	-
General governments	19,450,973	3,426,317	22,877,291	19,111,364	1,980,098	21,091,462
Credit institutions	612,727	319,361	932,088	1,068,101	145,489	1,213,590
Other sectors	1,099,857	379,166	1,479,023	2,251,189	869,440	3,120,629
Of which: doubtful assets	*9,030*	-	*9,030*	*11,422*	-	*11,422*
Loans and receivables	106,929,401	47,464,488	154,393,890	110,179,308	46,625,728	156,805,036
Central banks	-	66,229	66,229	-	-	-
General governments	9,630,502	125,376	9,755,878	8,887,684	78,394	8,966,078
Credit institutions	3,434,759	797,690	4,232,448	4,156,500	662,878	4,819,378
Other sectors	93,864,141	46,475,194	140,339,334	97,135,124	45,884,456	143,019,580
Of which: Doubtful assets	*9,411,042*	*230,853*	*9,641,894*	*12,185,068*	*285,911*	*12,470,979*
Derivatives - hedge accounting	413,322	121,838	535,160	642,718	58,095	700,813
Guarantees given	8,314,594	214,760	8,529,354	8,086,858	269,309	8,356,167
Contingent liabilities and commitments given	17,762,582	7,446,105	25,208,687	11,690,016	9,440,598	21,130,614
Total	162,924,336	64,553,902	227,478,237	156,995,136	64,275,102	221,270,238

The Group also maintains guarantees and contingent 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. These facilities also imply the acceptance of credit risk and are subject to the same management and monitoring systems described above.

Information on the value of financial guarantees given at 31 December 2016 and 2015 year-end is shown below:

Thousand euro

	2016	2015
Loan commitments given	19,567,289	19,306,331
Of which classified as doubtful	-	-
Amount recorded under liabilities on the balance sheet	23,160	-
Financial guarantees given (*)	1,878,608	1,834,870
Of which classified as doubtful	*42,507*	*53,254*
Amount recorded under liabilities on the balance sheet (**)	35,382	45,259
Other commitments given	6,650,746	6,521,297
Of which classified as doubtful	*61,632*	*36,573*
Amount recorded under liabilities on the balance sheet	25,490	68,420

(*) Of which 89 and 514 million euros in December 2016 and 2015 granted in relation to construction and real estate development

(**) Of which 2 and 43 million euros in December 2016 and 2015 recorded under liabilities on the balance sheet in relation to real estate development

The credit risk exposure described above includes the amount of collateral and other credit enhancements to ensure compliance, which are commonly used in the types of financial instrument managed by the entity.

4.4.1.4. Credit risk mitigation

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.

Generally, 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 local properties, industrial warehouses, 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 of these mitigation techniques are established ensuring their legal enforceability, i.e. under legal contracts that are legally binding for all parties and which are also enforceable in all relevant jurisdictions, thus guaranteeing that the collateral can be seized at any time. This process is fully subject to an internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be requested and applied where these contracts have been created under foreign legislation.

Collaterals are formalised before a notary public through a public document, thus ensuring their enforceability before third parties. For property mortgages, these public documents are also registered with the corresponding land registries, thus gaining constitutional weight before 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 particular 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 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 to treasury activities, which are mostly repos 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 repurchase agreements is included under the heading "*Financial liabilities held for trading*", under short securities positions.

Conversely, transferred assets from the same operation amount to €855,145 thousand and are included in line with their nature under temporary transfers in Notes 19 and 20.

The breakdown of the heading "*Loans and advances - Customers*" by activity and guarantee, excluding advances not classed as loans, at 31 December 2016 and 2015, respectively, is as follows:

Thousand euros

	2016							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	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%
Central governments	**9,672,203**	**63,328**	**29,611**	**33,797**	**26,686**	**21,300**	**10,914**	**242**
Other financial companies and individual entrepreneurs (financial business activity)	**1,529,964**	**225,431**	**11,544**	**129,186**	**61,213**	**32,120**	**418**	**14,038**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**54,865,311**	**21,039,638**	**2,118,596**	**8,682,983**	**5,619,744**	**3,279,982**	**1,764,821**	**3,810,704**
Real estate construction and development (including lan	7,384,262	6,414,054	59,769	1,873,838	1,312,792	794,888	564,358	1,927,947
Civil engineering construction	929,939	109,506	5,157	47,865	30,444	12,022	10,183	14,149
Other purposes	46,551,110	14,516,078	2,053,670	6,761,280	4,276,508	2,473,072	1,190,280	1,868,608
Large companies	23,147,491	2,212,883	1,014,578	1,982,462	300,686	326,487	341,261	276,565
SMES and individual entrepreneurs	23,403,619	12,303,195	1,039,092	4,778,818	3,975,822	2,146,585	849,019	1,592,043
Rest of households	**78,337,895**	**71,880,048**	**171,628**	**16,989,062**	**24,219,106**	**21,953,567**	**6,810,869**	**2,079,072**
Housing	67,015,350	66,723,129	15,227	15,008,921	22,647,654	20,966,329	6,422,914	1,692,538
Consumer loans	7,513,943	3,819,744	44,510	1,517,874	1,177,020	738,124	246,145	185,091
Other purposes	3,808,602	1,337,175	111,891	462,267	394,432	249,114	141,810	201,443
TOTAL	**144,405,373**	**93,208,445**	**2,331,379**	**25,835,028**	**29,926,749**	**25,286,969**	**8,587,022**	**5,904,056**
MEMORANDUM ITEM Refinancing, refinanced and restructured loans	7,599,200	5,944,077	106,074	1,349,978	1,539,868	1,450,836	820,973	888,496

Thousand euro

	2015							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: Other financial collateral	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%
Central Governments	**9,117,775**	**84,116**	**35,454**	**27,545**	**24,336**	**56,378**	**-**	**11,311**
Other financial companies and individual entrepreneurs (financial business activity)	**1,930,145**	**96,692**	**73,552**	**34,811**	**52,148**	**26,123**	**56,238**	**923**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**54,617,204**	**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 (including lan	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	47,206,560	15,925,567	1,304,193	5,900,276	5,853,542	3,412,598	1,072,820	990,523
Large companies	21,256,755	2,360,762	495,054	995,638	791,985	614,005	242,127	212,060
SMEs and individual entrepreneurs	25,949,805	13,564,805	809,140	4,904,638	5,061,558	2,798,593	830,693	778,463
Rest of households	**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: Allowances due to asset impairment not allocated to specific operations	**345,106**	-	-	-	-	-	-	-
TOTAL	**145,733,584**	**95,875,956**	**1,959,822**	**23,794,846**	**31,880,828**	**29,458,306**	**9,560,639**	**3,141,159**
MEMORANDUM 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

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.

The value of the collateral received to ensure collection, broken down into financial guarantees and other collateral, at 31 December 2016 and at 2015 year-end, are as follows:

Thousand euro

Guarantees received	2016	2015
Value of collateral	87,667,577	88,011,916
Of which: guarantees doubtful risks	*4,500,350*	*6,472,226*
Value of other collateral	8,911,554	8,625,811
Of which: guarantees doubtful risks	*485,640*	*386,881*
Total value of guarantees received	**96,579,131**	**96,637,727**

The main concentration of risk in relation to all these types of financial guarantees and credit improvements corresponds to the use of the mortgage guarantees 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 66.1% of the overall gross investment.

In the case of market operations, in line with general trends, Banco Sabadell Group also provides rights and contractual compensation (netting) agreements with all 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 for the years 2016 and 2015:

Thousand euro

	2016					
				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	1,681,362	-	1,681,362	(1,540,141)	(118,525)	22,696
Repurchase agreements	1,711,930	-	1,711,930	(1,699,240)	(12,690)	-
Total	**3,393,292**	**-**	**3,393,292**	**(3,239,381)**	**(131,215)**	**22,696**

Thousand euro

	2016					
				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	2,712,049	-	2,712,049	(1,540,141)	(1,714,105)	(542,197)
Repurchase agreements	10,093,135	-	10,093,135	(10,012,798)	(80,337)	-
Total	**12,805,184**	**-**	**12,805,184**	**(11,552,939)**	**(1,794,442)**	**(542,197)**

Thousand euro

	2015					
				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	1,401,047	-	1,401,047	(1,180,616)	(210,870)	9,561
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

	2015					
				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	1,894,664	-	1,894,664	(1,180,616)	(814,429)	(100,381)
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 2016 amounted to €131 million (€218 million at the closing of 2015).

The amounts of derivative financial instruments which are settled through a clearing house represent €348,850 (€58,225 at the end of 2015), corresponding to financial assets and €293,150 euros (€84,911 thousand euros at the end of 2015) corresponding to financial liabilities.

The notional amount of derivative financial instruments accounted at 31 December 2016 stands at 164.277 million euros (143,297 million euros at end of 2015), of which 2,195 million euros correspond to operations with organised markets (1,720 million euros at end of 2015) and 133,379 million euros (115,313 million euros at close of 2015) correspond to OTC operations, of which 25,140 million euros are settled through clearing houses (10,450 million euros at end of 2015).

4.4.1.5. <u>Credit quality of financial assets</u>

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the NBCA. However, not all portfolios in which credit risk is incurred use internal models, partly due to the fact that a minimum level of experience in cases of non-payment 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 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	2016	2015
Without negligible risk	28	29
Low risk	24	25
Medium-low risk	13	11
Medium risk	32	29
Medium-high risk	2	5
High risk	1	1
Total	100	100

The (original) percentage exposure, calculated using internal models, in terms of solvency for the bank is 52.12 %.

The breakdown of the exposure, rated based on the internal rating levels, is as follows:

%

Distribution of exposure by rating	Risk assigned rating / scoring	
	2016	2015
AAA/AA	5	5
A	14	12
BBB	55	56
BB	20	19
B	5	7
Resto	1	1
Total	100	100

Does not include operations derived from TSB, or individuals' operations from Banco Cam, BMN-Penedès, Banco Gallego and Sabadell Solbank (formerly Lloydsbank).

During 2016 an improvement has been noted in the reduction of doubtful assets, which have been reduced by 2,814 million euros in 2016, with a NPL ratio as shown in the table below.

%

	2016	2015
NPL ratio (*)	6.14	7.79
NPL coverage ratio (*)	51.55	53.64

(*) The NPL ratio excluding TSB stands at 7.72 and the NPL coverage ratio at 51.53 (in 2015, 9.86 and 53.1).

The NPL ratio, broken down by financing segment, is set out below:

%

	4Q15	Proforma 2Q16 (*)	2Q16	Proforma 4Q16 (*)	4Q16
Real-estate development and construction	38.71	33.29	33.21	29.05	28.98
Non-real-estate construction	14.35	11.76	11.75	9.68	9.67
Companies	4.62	3.89	3.89	3.82	3.82
SMEs and independent contractors	10.76	9.39	9.33	8.47	8.42
Private individuals with 1st mortgage guarantee	4.71	7.47	4.56	7.25	4.36
BS Group NPL ratio	7.79	8.54	6.83	7.72	6.14

(*) Corresponds to the NPL ratio excluding the addition of TSB.

Further information of the quantitative breakdown of coverage and doubtful assets is included in Note 11 to these consolidated annual accounts.

4.4.1.6. Refinancing and restructuring operations

The outstanding balance of refinanced and restructured loans as of 31 December 2016 and 2015 is as follows:

Thousand euro

2016	Credit institutions	Central Governments	Other financial companies and individual entrepreneurs (financial business activities)	Non-financial companies and individual entrepreneurs (non-financial business activities)	Of which: finance for construction and real estate development (including land)	Rest of households	Total	Additional information: finance classified as non-current assets and disposal groups classified as held for sale
TOTAL								
Unsecured								
Number of operations	-	-	56	19,308	700	60,132	**79,496**	-
Gross carrying amount	-	-	134,220	1,403,486	152,090	214,648	**1,752,354**	-
With financial collateral								
Number of operations	-	28	23	20,241	7,609	51,912	**72,204**	-
Gross carrying amount	-	21,259	12,253	3,929,309	1,412,073	3,548,530	**7,511,351**	-
Impairment adjustments	-	865	255	1,240,631	558,242	422,435	**1,664,186**	-
Of which doubtful risk								
Unsecured								
Number of operations	-	-	*11*	*5,219*	*381*	*24,434*	***29,664***	-
Gross carrying amount	-	-	*417*	*602,180*	*136,516*	*89,514*	***692,111***	-
With financial collateral								
Number of operations	-	*9*	*12*	*11,373*	*6,342*	*20,735*	***32,129***	-
Gross carrying amount	-	*3,125*	*689*	*2,388,137*	*1,112,891*	*1,669,943*	***4,061,894***	-
Specific coverage	-	*865*	*228*	*1,150,073*	*550,584*	*380,629*	***1,531,795***	-
TOTAL								
Number of operations	-	28	79	39,549	8,309	112,044	**151,700**	-
Gross amount	-	21,259	146,473	5,332,795	1,564,163	3,763,178	**9,263,705**	-
Impairment adjustments	-	865	255	1,240,631	558,242	422,435	**1,664,186**	-

Thousand euro

2015	Credit institutions	Central governments	Other financial companies and individual borrowers (financial business activity)	Non-financial companies and individual borrowers (non-financial business activity)	Of which: finance for construction and real estate development (including land)	Rest of households	Total	Additional information: finance classified as non-current assets and disposal groups classified as held for sale
TOTAL								
Unsecured								
Number of operations	-	-	39	14,217	728	56,756	71,012	-
Gross carrying amount	-	-	137,614	2,158,922	177,239	236,782	2,533,318	-
With financial collateral								
Number of operations	-	45	23	20,865	9,023	54,278	75,211	-
Gross carrying amount	-	89,624	11,104	7,067,314	2,700,087	5,114,947	12,282,989	-
Impairment allowances	-	39	2,365	2,544,560	1,232,342	612,761	3,159,725	-
Of which doubtful risk								
Unsecured								
Number of operations	-	-	*7*	*3,733*	*450*	*21,646*	*25,386*	-
Gross carrying amount	-	-	*228*	*790,083*	*150,328*	*79,875*	*870,186*	-
With financial collateral								
Number of operations	-	*9*	*7*	*12,839*	*7,872*	*19,389*	*32,244*	-
Gross carrying amount	-	*6,487*	*2,562*	*3,768,774*	*2,077,150*	*1,646,115*	*5,423,938*	-
Specific coverage	-	-	*2,010*	*2,127,500*	*1,158,779*	*362,164*	*2,491,674*	-
TOTAL								
Number of operations	-	45	62	35,082	9,751	111,034	**146,223**	-
Gross amount	-	89,624	148,718	9,226,236	2,877,326	5,351,729	**14,816,307**	-
Impairment allowances	-	39	2,365	2,544,560	1,232,342	612,761	**3,159,725**	-

The value of the collateral received to ensure collection associated with refinancing and restructuring operations, broken down into collateral and other guarantees, at 31 December 2016 and 2015 year-end, are as follows:

Thousand euro

Guarantees received	2016	2015
Value of collateral	5,817,830	8,453,534
Of which: guarantees doubtful risks	2,621,019	3,082,379
Value of other guarantees	653,986	752,003
Of which: guarantees doubtful risks	250,968	195,667
Total value of guarantees received	**6,471,816**	**9,205,537**

Detailed movements of the refinancing and restructuring balance and associated provisions during 2016 and 2015 are as follows:

Thousand euro

	2016	2015
Opening balance	14,816,307	15,961,422
Addition of TSB	-	596,000
(+) Refinancing and restructuring in the period	1,687,111	2,309,180
Memorandum item: impact recorded on the income statement for the period	*89,471*	*293,281*
(-) Debt amortisations	(1,790,243)	(1,017,792)
(-) Foreclosure	(551,942)	(945,528)
(-) Derecognised from the balance sheet (reclassified as write-off)	(175,353)	(237,161)
(+)/(-) Other changes	(4,722,175)	(1,849,814)
Balance at the end of the year	**9,263,705**	**14,816,307**

(*) Includes operations which are no longer identified as refinancing, refinanced or restructured, due to complying with requirements for their reclassification from standard exposure subject to special monitoring to standard exposure (see Note 13.4).

The table below shows the value of operations which, after refinancing or restructuring, have been classified as doubtful during 2016 and 2015:

Thousand euro

	2016	2015
Central governments	**707**	**5,964**
Other corporate borrowers and individual entrepreneurs	**444,792**	**571,709**
Of which: Finance for construction and real estate development	124,975	149,605
Other individual borrowers	**349,306**	**268,057**
Total	**794,805**	**845,730**

The average probability of default of current refinancing and restructuring operations per activity at 31 December 2016 and 2015 is as follows:

%

	2016	2015
Central governments (*)	-	-
Other corporate borrowers and individual entrepreneurs	11	10
Of which: Finance for construction and real estate development	*12*	*12*
Other individual borrowers	12	11
Total	**11**	**10**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.
Average probability of default calculated at September 2016.

4.4.1.7. Concentration risk

Concentration risk refers to exposures whose risk of incurring losses is great enough to pose a threat to the financial solvency of the entity or the feasibility of its ordinary business activities. This risk is divided into two basic sub-types:

- Individual concentration risk: imperfect diversification of the idiosyncratic risk within the portfolio due to either its reduced size, or due to significant exposures in specific customers.

- Sector concentration risk: imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, etc.

In order to efficiently manage concentration risk, Banco Sabadell has a series of specific tools and policies in place:

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, such as level one metrics.
- Individual limits of risks or customers considered significant by the Executive Committee.
- Delegations that ensure that all transactions carried out by the most important customers are approved by the Credit Operations Committee or even the Executive Committee.

4.4.1.7.1.Exposure to customers or significant risks

At 31 December 2016 there were no borrowers with a ceded risk that individually exceeded 10% of the Group's equity.

4.4.1.7.2.Country risk: geographic exposure to credit risk

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 meet their foreign currency payment obligations with external creditors due to, among other reasons, the country not permitting access to that 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 which for reasons outside of their own control or decision, are generally unable to pay off 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 set forth in each country, and no restrictions of any other type 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 bodies, depending on the powers delegated to them, and are continuously monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time.

The principal component of the framework for the acceptance of country risk and financial statement risk is the limits structure for different metrics. Based on this structure, the monitoring of the different risks is carried out by Senior Management, and the delegated bodies establish the Group's risk appetite.

The limits structure is based on two levels: first level metrics in the Risk Appetite Statement and second level limits or management.

Additionally, different indicators and tools are used to manage country risk: ratings, CDS, macroeconomic indicators, etc.

The breakdown of risks by activity and at global level at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**18,269,730**	**8,058,200**	**8,463,915**	**1,208,778**	**538,837**
General Governments	**32,794,943**	**19,758,603**	**9,533,956**	**3,425,625**	**76,759**
Central Governments	25,016,113	14,395,295	9,403,079	1,179,130	38,609
Rest	7,778,830	5,363,308	130,877	2,246,495	38,150
Other financial institutions	**3,761,100**	**2,700,955**	**525,918**	**481,114**	**53,113**
Non-financial companies and individual entrepreneurs	**64,159,247**	**51,874,700**	**3,429,712**	**8,211,138**	**643,697**
Real estate construction and development	7,647,180	7,008,309	87,631	505,737	45,503
Civil engineering construction	1,879,036	1,820,929	23,810	22,712	11,585
Other purposes	54,633,031	43,045,462	3,318,271	7,682,689	586,609
Large companies	24,658,629	16,496,530	2,424,411	5,408,744	328,944
SMEs and individual entrepreneurs	29,974,402	26,548,932	893,860	2,273,945	257,665
Non-profit institutions serving households (NPISH)	**78,609,080**	**39,866,067**	**36,253,458**	**1,614,775**	**874,780**
Housing	67,015,350	31,112,369	33,598,901	1,579,745	724,335
Consumer loans	7,515,541	5,764,952	1,603,144	17,097	130,348
Other purposes	4,078,189	2,988,746	1,051,413	17,933	20,097
TOTAL	**197,594,100**	**122,258,525**	**58,206,959**	**14,941,430**	**2,187,186**

Thousand euro

	2015				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**16,156,173**	**6,403,443**	**8,363,438**	**1,006,313**	**382,979**
General governments	**30,358,097**	**18,361,762**	**8,671,837**	**3,289,083**	**35,415**
Central governments	25,569,000	13,590,807	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	**64,635,729**	**53,899,509**	**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	55,704,074	45,376,392	3,422,053	6,530,342	375,287
Large companies	26,444,931	18,951,422	2,447,837	4,748,993	296,679
SMEs and individual entrepreneurs	29,259,143	26,424,970	974,216	1,781,350	78,608
Non-profit institutions serving households (NPISH)	**80,595,940**	**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	**196,596,160**	**122,752,062**	**58,868,794**	**13,744,409**	**1,576,001**

4.4.1.7.3.Sovereign risk exposure

The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), at 31 December 2016 and 2015, is as follows:

Thousand euro

Sovereign risk exposure by country (*)	2016										
	Sovereign debt securities					Loans and advances to customers	Derivatives		Total	Other exposures (***)	%
	Held for Trading	Short positions	Available-for-sale	Loans and receivables	Held until maturity		Direct exposure	Indirect exposure			
Spain	932,175	(59,891)	8,461,114	320,667	-	10,080,456	-	13,352	19,747,873	99,927	57.4%
Italy	502,026	-	2,711,220	-	2,818,518	-	-	4,026	6,035,790	2,362,526	24.3%
United States	-	-	1,323,396	-	-	93,665	-	30,720	1,447,781	265,456	5.0%
United Kingdom	-	-	2,187,458	-	-	19	-	-	2,187,477	-	6.3%
Portugal	-	-	-	-	1,106,401	-	-	-	1,106,401	-	3.2%
Mexico	-	-	201,802	-	550,184	-	-	-	751,986	-	2.2%
Rest of the world	10,332	-	324,489	-	123,088	125,818	-	-	583,727	(1)	1.7%
Total	**1,444,533**	**(59,891)**	**15,209,479**	**320,667**	**4,598,191**	**10,299,957**	**-**	**48,099**	**31,861,035**	**2,727,908**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (544 million euros at 31 December 2016).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

Sovereign risk exposure by country (*)	2015										
	Sovereign debt securities					Loans and advances to customers	Derivatives		Total	Other exposures (***)	%
	Held for Trading	Short positions	Available-for-sale	Loans and receivables	Held until maturity		Direct exposure	Indirect exposure			
Spain	419,990	(151,904)	6,171,544	962,177	-	9,589,055	-	(1,624)	13,536,438	355,677	53.8%
Italy	227,598	-	5,832,532	-	-	-	-	(8,872)	6,051,258	194,111	24.2%
United States	-	-	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**	**-**	**9,682,561**	**-**	**(10,284)**	**25,286,534**	**549,788**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria. Mainly excludes sovereign risk of Group insurance undertakings (1,340 million euros at 31 December 2015).

(**) Includes those available under credit transactions and other contingent risks (657 million euros at 31 December 2015).

(***) Relates to commitments for cash purchases and sales of financial assets.

4.4.1.7.4.Exposure to construction and real estate sectors

Details of financing intended for construction and real estate development and its coverage are as follows: The classification of the credit which is presented has been defined in accordance with the purpose of the credits, and not with the debtor's National Classification of Economic Activities (CNAE). This implies, for example, that if a debtor belongs to: (a) a real estate company, but uses the financing granted for a purpose other than real-estate construction or promotion, it is not included in this table; and (b) a company whose principal activity is not construction or real estate, but the credit is used for the financing of properties intended for real-estate promotion, it is included in the same table:

€million

	2016				
	Gross carrying amount	*Of which: APS (**)*	Excess value of the collateral	*Of which: APS (**)*	Impairment adjustments (***)
Finance for construction and real-estate development (including land)(business in Spain) (*)	7,762	3,008	2,602	1,301	1,183
Of which: doubtful	*2,387*	*-*	*759*	*-*	*1,136*

(**) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.

(***) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€million

	2015				
	Gross carrying amount	*Del que: EPA (*)*	Excess value of the collateral	*Del que: EPA (*)*	Impairment adjustments (**)
Finance for construction and real-estate development (including land)(business in Spain) (*)	9,517	3,567	2,902	1,119	2,039
Of which: doubtful	*3,844*	*-*	*1,158*	*-*	*1,948*

(**) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80%of the total value of the exposure.
(***) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€million

	Gross carrying amount	
Memorandum item	2016	2015
Written-off assets	136	186

€million

	Amount	Amount
Memorandum item	2016	2015
Loans and advances to customers, excluding General Governments (Spanish operations) (carrying amount)	93,865	97,135
Total assets (total operations) (carrying amount)	212,508	208,628
Allowances and provisions for exposures classed as standard (total operations)	880	354

The breakdown of financing intended for construction and real estate development for operations registered by credit institutions (business in Spain) is as follows:

€million

	Gross carrying amount 31/12/2016	Of which: APS	Gross carrying amount 31/12/2015	Of which: APS
Unsecured	701	*62*	699	*70*
With collateral	7,061	*2,945*	8,818	*3,497*
Buildings and other finished constructions	4,820	*1,717*	5,754	*2,061*
Housing	3,487	*1,281*	3,999	*1,519*
Rest	1,333	*436*	1,755	*542*
Buildings and other constructions under construction	380	*245*	482	*273*
Housing	343	*222*	455	*261*
Rest	37	*23*	27	*12*
Land	1,861	*984*	2,582	*1,163*
Consolidated urban land	1,555	*805*	2,147	*949*
Other land	306	*179*	435	*214*
Total	7,762	*3,008*	9,517	*3,567*

The figures shown do not show the total value of guarantees received, but the net accounting value of the associated exposure.

Guarantees received associated with financing intended for construction and real estate development are shown hereafter, for both periods.

€million

Guarantees received	2016	2015
Value of collateral	4,142	6,266
Of which: guarantees doubtful risks	*1,068*	*2,019*
Value of other guarantees	309	285
Of which: guarantees doubtful risks	*64*	*47*
Total value of guarantees received	4,451	6,551

The breakdown of loans and advances to households for the acquisition of property for transactions recorded by credit institutions (business in Spain) is as follows:

€million

	2016		
	Gross carrying value	Of which: APS	Of which: doubtful
Loans for property purchase	**33,697**	**693**	**2,052**
Without mortgage guarantee	199	1	4
With mortgage guarantee	33,497	692	2,047

€euro

	2015		
	Gross carrying value	Of which: APS	Of which: doubtful
Loans for property purchase	**34,995**	**771**	**2,286**
Without mortgage guarantee	135	*1*	3
With mortgage guarantee	34,860	*770*	2,283

The table below shows the breakdown of secured mortgage loans granted to households for the purchase of housing by the percentage of total risk of the last available taxation amount for transactions recorded by credit institutions (business in Spain):

€million

	2016		
	Gross amount	Of which: APS	Of which: doubtful
LTV ranges	**33,497**	**692**	**2,047**
LTV <= 40%	8,132	172	337
40% < LTV <= 60%	11,268	251	480
60% < LTV <= 80%	10,196	194	726
80% < LTV <= 100%	2,650	43	307
LTV > 100%	1,251	31	197

€million

	2015		
	Gross amount	Of which: APS	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*

Lastly, the table below gives details of foreclosed assets of companies in the consolidated group for transactions recorded by credit institutions in Spain:

€million

	2016			
	Gross carrying amount	Allowances	Gross amount (**)	Allowances (**)
Real estate assets deriving from financing of construction and real estate development	7,842	3,026	*7,116*	*3,438*
Finished buildings	3,241	855	*2,788*	*1,086*
Housing	1,729	425	*1,377*	*576*
Rest	1,512	430	*1,412*	*510*
Buildings under construction	564	176	*477*	*212*
Housing	467	140	*389*	*171*
Rest	97	36	*88*	*41*
Land	4,037	1,995	*3,851*	*2,140*
Building land	1,564	721	*1,455*	*820*
Other land	2,473	1,274	*2,396*	*1,320*
Real estate assets deriving from home loan mortgages	1,999	599	*1,918*	*859*
Rest of real-estate assets received in payment of debts	-	-	-	-
Foreclosed capital instruments or received in payment of debts	30	1	-	-
Equity instruments of entities holding foreclosed assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed assets or received in payment of debts (*)	-	-	-	-
Total real-estate portfolio	9,871	3,626	9,035	4,297

(*) Financing to investees who are not consolidated is included in the first table of this note

(**) Problematic real-estate assets including properties outside of national territory, considering the hedging in the original financing and the credit risk transferred upon application of the APS

€million

	2015	
	Gross carrying value	Impairment allowances
Real estate assets deriving from financing of construction and real estate development	8,577	2,966
Finished buildings	3,520	749
Housing	2,009	358
Rest	1,511	391
Buildings under construction	624	167
Housing	524	139
Rest	100	28
Land	4,433	2,050
Building land	1,820	719
Other land	2,613	1,331
Real estate assets deriving from home loan mortgages	2,129	460
Rest of real estate assets acquired in payment of debts	-	-
Capital instruments, interests and financing to companies holding assets (*)	-	-
Total real-estate portfolio	10,706	3,426

(*) Financing to non-consolidating investees is included in the first table in this Note.

Given that for part of these assets, the risk of loss of value is transferred by the Asset Protection Scheme, the table below shows the reconciliation with the amount corresponding to problematic real estate assets, including amounts from outside of Spain.

€million

	2016		
	Gross Value	Net value	Allowances
Total operations national territory	**9,841**	**6,216**	**3,625**
Total operations outside of national territory and others	49	45	4
Credit risk transferred upon application of APS	(1,966)	(1,523)	(443)
Hedging of the original funding	1,111	-	1,111
Total	**9,035**	**4,738**	**4,297**

€million

	2015		
	Gross Value	Net value	Allowances
Total operations national territory	**10,706**	**7,280**	**3,426**
Total operations outside of national territory and others	53	49	4
Credit risk transferred upon application of APS	(2,547)	(2,139)	(407)
Hedging of the original funding	1,022	-	1,022
Total	**9,234**	**5,190**	**4,044**

4.4.1.8. Counterparty risk

Under this heading, credit risk arising from activities in financial markets that are carried out through specific counterparty operations is considered (derivatives and operations with repurchase agreements), operations in money markets and fixed income operations. In this manner, an integral management and monitoring of the exposure is carried out, as a result of the activity in financial markets.

The exposure resulting from activity in financial markets under management criteria is mainly concentrated in financial institutions (FI) and Central Counterparty Clearing houses (CCP).

The following two tables show the distribution of exposure by rating and the Group's geographies.

%

AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	No rating	
2.30	0.39	2.17	6.44	37.27	16.66	8.94	12.54	5.11	3.04	1.22	2.24	0.00	0.42	1.26	**100.00**

%

	2016
Euro Zone	50.42
Rest of Europe	35.75
U.S.A and Canada	13.33
Rest of the World	0.50
Total	**100.00**

As can be seen in the table, the risk in concentrated into counterparties with a high credit quality rating, with 65% of the risk with counterparties with a rating equal to or higher than A.

In June 2016, under EMIR (Regulation 648/2012), the obligation to clear and settle certain OTC derivatives through Central Counterparty Clearing houses (CCP) became applicable to the Group. For this reason, the derivatives subscribed by the Group susceptible to being cleared through a CCP are channelled via these agents. At the same time, the Group has strengthened the standardisation of OTC derivatives with a view to increasing the use of CCPs. The exposure through CCPs is equivalent to the amount of the guarantees deposited.

With regard to derivatives transactions in organised markets (OM), in line with management criteria, it is deemed that there is no exposure, given that there is no risk as the OMs act as a counterparty in the transactions, and due to having clearing and guarantee mechanisms, this ensures the transparency and continuity of the activity. As in the case of CCPs, the exposure is equivalent to the deposits guaranteed.

The philosophy behind counterparty risk management is in line with the business strategy, and seeks to ensure value creation whilst maintaining a balance between profitability and risk. For this purpose, supervision and counterparty risk criteria has been established, deriving from activity in financial markets, which ensures that the bank can carry out its business activity whilst respecting the risk thresholds established by Senior Management.

The methodology used to quantify the exposure is Mark to Market (hereinafter, MtM), plus Add-on. MtM represents current exposure, and is defined as the cost of substituting a transaction at market value in the event that a counterparty defaults. Add-on represents a potential future risk, which an operation could reach in a certain period, due to the characteristics of the operation and the variables of the market it depends on. In the case of transactions under a collateral agreement, add-on represents the possible fluctuation of MtM between the time of default and the close of the position in the market. If the transaction is not carried out through a collateral agreement, it represents the possible fluctuation of MtM throughout the life of the operation.

Each day at market close all of the exposures are recalculated in accordance with the entry and exit flows of transactions, in line with the changes in market variables and the risk mitigation mechanism established by the Group. In this manner, the exposures are subjected to daily monitoring and are controlled in accordance the limits approved by Senior Management. This information forms part of the risk reports which are escalated to the divisions and areas responsible for the management and monitoring of the same.

With regard to counterparty risk, the Group adopts three different mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and CMOF).
- Collateral agreements for derivatives (CSA and Annex III) and in repos (GMRA).

Netting agreements allow positive and negative MtM to be aggregated with the same counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the operations closed with this counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to operate in derivatives.

Collateral agreements, as well as including the netting effect, also include the periodic exchange of guarantees which mitigate the exposure with a counterparty in respect of the operations subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having a collateral agreement. The Group’s standard collateral contract is bilateral (that is to say, both parties are obliged to deposit collateral), and with a daily exchange of guarantees, always in cash and always denominated in euro.

4.4.1.9. Assets pledged in financing activities

At the end of 2016 and 2015, there are certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These 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 which are submitted in operations of assets sold 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 - Customers*” portfolio and which 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).

The bank has used part of its loans and advances portfolio and similar credit 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 programmes by the Group, identifying those in which the risks and associated profits have been transferred, is as follows:

Thousand euro

	2016	2015
Derecognised in full from the balance sheet	**1,200,421**	**1,390,427**
Securitised mortgage assets	294,998	358,803
Other securitised assets	19,332	20,630
Other financial assets transferred	886,092	1,010,994
Retained in full on the balance sheet:	**17,873,959**	**15,943,390**
Securitised mortgage assets	16,911,366	15,788,059
Other securitised assets	962,593	155,331
Other transfers to credit institutions	-	-
Total	19,074,380	17,333,817

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and benefits have not been transferred to third parties, have been maintained in the consolidated financial statements. 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.

Within the heading of other transferred financial assets fully derecognised from the balance sheet, it mainly included assets transferred to SAREB by Banco Gallego, as they continue to be administered by the entity. These assets amount to €698,084.

Details of Securitisation Funds are included in Schedule II.

4.4.2 Liquidity risk

4.4.2.1. Description

Liquidity risk arises 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 risk may also arise from 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, etc. 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 systemic and/or idiosyncratic factors.

The governance structure in terms of Banco Sabadell's liquidity management is based on the direct involvement of Senior Management, the clear-cut definition of the Three Lines of Defence and a strict separation of functions and a clear structure of responsibilities in Committees, Divisions, General Sub-Divisions and functional areas.

The involvement of the entity's Senior Management in managing and controlling liquidity risk entails the involvement of the Board of Directors, as the highest governing body of the institution, and also the direct involvement of its three delegated committees:

- Executive Committee.
- Risk Committee.
- Audit and Control Committee

These governing bodies receive regular information from all departments associated with liquidity risk management and control, through the various Committees and/or Divisions/General Sub-Divisions.

4.4.2.2. Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its commercial activity at an appropriate cost and term while minimising liquidity risk. The bank's financing policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, and supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units (UGLs, for their acronym in Spanish) to manage its liquidity. Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. Currently, the UGLs are Banco Sabadell (includes OFEX), Sabadell United Bank (SUB), Banc Sabadell d'Andorra (BSA) and TSB.
In order to achieve objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs' retail business model and the defined strategic objectives:

- The involvement of the Board of the Directors and Senior Management in the management and control of the liquidity and funding risk.
- Clear segregation of functions between the different areas within the organisation, with a clear-cut definition of the three lines of defence, to give a degree of independence when evaluating positions and when controlling and assessing risks.
- Decentralised liquidity management system for the more significant units but with a risk oversight and management system at a centralised level.
- Sound identification, measurement, management, control and reporting processes on the different liquidity and funding risks to which the Group is exposed.
- Existence of a transfer pricing system to transfer the cost of funding.
- Balanced funding structure largely based on customer deposits.
- Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprises the first line of defence of the Group.
- Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.
- Self-funding by the main banking subsidiaries outside of Spain.
- Oversight of the degree of encumbrance of the balance sheet.
- Maintenance of a second line of liquidity that includes the capacity of issuing covered bonds and territorial bonds.
- Availability of a Liquidity Contingency Plan.

With respect to TSB, although ring-fencing will not officially enter into effect until 2019, TSB is an autonomous unit within the Group's liquidity management as it is an independent UGL. The future economic performance of the United Kingdom should not generate liquidity problems, as TSB operates independently from its parent company.

Tools/metrics for monitoring and control of risk management

Banco Sabadell Group defines two series of metrics that allow it to measure and control its liquidity risk: 1) first-tier RAS metrics and 2) second-tier metrics. Liquidity risk is also monitored and controlled on a daily basis through the early warning indicators (EWI) system and the Structural Treasury Report.

The Board of Directors of Banco Sabadell is responsible for defining the Group's liquidity and funding risk appetite statement (RAS) at consolidated level and for setting indicators that UGLs must include in their local RAS, even if they include other additional indicators.

The RAS is comprised of quantitative metrics that allow an objective monitoring to be conducted on the risk management, as well as the qualitative aspects that complement such management.

The Board of Directors of UGLs are responsible for approving local RAS in which corporate guidelines and their respective local requirements must be taken into consideration. Aside from the metrics included in the Risk Appetite Framework, each UGL defines a set of second-tier metrics which contribute to the assessment and monitoring of the funding and liquidity risk. These metrics are monitored continuously in each of the local ALCOs.

Lastly, it should be mentioned that the Group has designed and implemented an early warning indicators (EWIs) system at the UGL level, which includes market and liquidity indicators adapted to the funding structure and the business model of each UGL. The deployment of these metrics at UGL level complements the RAS indicators and second-tier metrics and allows local threats to the liquidity position and funding structure to be detected early, thereby facilitating the decision-making process and implementation of corrective actions and reducing the risk of contagion between the different management units.

These warnings are broken down into different levels of severity based on which the Group must consider taking different corrective measures and actions in order to return to a BaU situation. The early warning system is linked to the Liquidity Contingency Plan (LCP).

Banco Sabadell has an LCP in place, which sets forth the strategy for guaranteeing that the institution has the sufficient management capacities and measures in place to limit any negative impacts of a crisis scenario affecting its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in the management of liquidity, particularly in the event that the crisis has arisen due to a flawed performance of one or more market infrastructures. The LCP can be activated in response to different crisis scenarios of either the markets or the entity itself. In general, and in line with the impact channels considered in the entity's stress tests, these scenarios can be classed as systemic crises, idiosyncratic crises or combined crises.

The risk control and reporting framework for the liquidity risk management limits is comprised of:

- Supervision of Group-wide liquidity risks, independently calculating the risk management metrics within risk systems.
- Definition of risk measurement methodologies and verification of the correct operation of control and measurement systems.
- Daily monitoring of risk indicators and limits reporting to the different management units.
- Systematic control and analysis of the adherence to limits, identifying instances of non-fulfilment and activating the necessary procedures for their correction.
- Establishment and generation of the necessary reporting framework for optimum monitoring and control of risk management limits.

Furthermore, the risk control and reporting framework for RAS indicators is comprised of:

- Preparation and regular updates of a scorecard to show the evolution of the main metrics, ensuring their adherence to the framework and limits set forth.
- Systematic control and assessment of changes to all material risks.
- Reporting and proposing actions (activation of procedures, changes to guidelines, etc.) based on the assessment of changes to risks.

4.4.2.3. Residual term of transactions

The table below shows the breakdown by contractual balance maturity, excluding, in some cases, value adjustments and losses due to impairment, of certain items on the consolidated balance sheet at 31 December 2016 and 2015, under business-as-usual conditions:

Thousand euro

Time to Contractual Maturity	Demand	Up to 1 month	1-3 months	3-12 months	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Money Market	383,232	11,063,550	507,680	883,355	10,056	15,433	435,058	-	-	**13,298,364**
Loans and receivables	*318,850*	*4,238,238*	*5,884,157*	*15,517,248*	*13,888,186*	11,664,735	9,733,905	9,008,065	60,823,760	**131,077,143**
Debt securities		38,307	59,429	1,100,296	1,014,272	938,892	907,656	1,827,359	18,552,479	**24,438,690**
Rest of assets	*546,756*	*10,679*	-	-	-	-	-	-	-	**557,435**
Total assets	1,248,837	15,350,774	6,451,267	17,500,899	14,912,514	12,619,060	11,076,620	10,835,424	79,376,239	169,371,633
Money Market	1,534	9,548,830	1,954,808	2,423,471	304,337	2,244,063	10,650,509	66,769	53,170	**27,247,492**
Customer funds	80,027,468	6,350,790	8,471,037	22,525,772	5,394,356	1,588,454	801,168	818,282	55,571	**126,032,898**
Debits represented by marketable securities (*)		2,093,982	2,440,386	4,909,701	3,366,905	1,757,627	3,998,428	3,278,376	5,985,687	**27,831,091**
Of which: Subordinated liabilities	-	-	-	*83,730*	-	-	*424,600*	*490,061*	*533,425*	***1,531,817***
Other liabilities	-	410,667	243,272	1,397,473	802,843	614,196	403,583	298,528	1,767,318	**5,937,879**
Total liabilities:	80,029,002	18,404,269	13,109,502	31,256,417	9,868,440	6,204,340	15,853,688	4,461,955	7,861,746	187,049,360
Of which:										
Secured liabilities	-	*8,478,820*	*1,882,382*	*3,974,636*	*2,094,706*	*3,822,941*	*3,663,130*	*2,682,400*	*5,385,729*	*31,984,744*
Unsecured liabilities	*80,029,002*	*9,925,449*	*11,227,121*	*27,281,780*	*7,773,734*	*2,381,399*	*12,190,558*	*1,779,555*	*2,476,018*	*155,064,615*
Trading and Hedging Derivatives										
Receivable	406	9,001,830	9,145,760	18,968,059	16,589,433	7,200,243	5,940,177	8,066,168	44,857,154	**119,769,230**
Payable	-	11,218,731	16,426,905	21,866,001	16,740,936	7,359,623	9,392,160	6,721,421	45,770,028	**135,495,805**
Net	406	(2,216,901)	(7,281,145)	(2,897,942)	(151,503)	(159,380)	(3,451,983)	1,344,747	(912,874)	(15,726,575)
Contingent risks										
Financial guarantees	177	93,030	109,441	497,196	207,737	223,510	80,672	109,238	1,350,151	**2,671,150**

(*) See information on the maturity of issues aimed at institutional investors in section 4.4.2.4

Thousand euro

Time to contractual maturity	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**
Lending	*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**
Liabilities in the form of tradable securities	-	2,263,333	1,670,623	8,346,885	4,423,114	2,108,140	1,616,318	3,827,523	5,948,667	**30,204,603**
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										
Receivable	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**
Payable	-	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 resulting in an increase of the outstanding balances.

It should be noted that it is systematically evident that the financing capacity of the Group in capital markets guarantees short, medium and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table is a snapshot of the balance sheet which shows residual time to maturity of the asset and liability positions on the balance sheet, distributed in different temporary tranches.

The information provided is static, and it does not reflect foreseeable financing needs, as it does not include performance models of the asset/liability items.

At the same time, it is worth highlighting that the breakdown of the cash flows in the parent company have not been discounted.

The parent company's treatment of the contractual maturities of financial liabilities with specific characteristics for the purposes of their reflection, are as follows:

- For any transaction that includes early repayment flows (regular or irregular), each capital flow is shown in the temporary category in which it is expected that the payment/collection will be made (in accordance with the contractual amortisation schedule).

  In the case of demand liabilities, they are included in the "demand" tranche, without taking into account their type (stable vs. unstable).
- There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities granted with limits that have not been drawndown at the balance sheet date by the borrowers. The Board of Directors also establishes limits in this regard for its control.

  Note 29 breaks down balances by contingent commitments given the characteristics of these contracts, contingent commitments are generally demandable from the time of the contractual formalisation of such commitments. It is for this reason that they should appear as "demand" in the table of contractual maturities.

- Balances from financial guarantee contracts have been included in the table, assigning them the maximum amount of the guarantee for the first year in which the guarantee can be executed.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables, or instruments with clauses linked to a downgrade in credit rating) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent would not be significant.

- At 31 December 2016 and 2015 the Group does not present additional instruments to regulated instruments from framework contracts associated with the contracting of derivative products or temporary acquisitions/sales of financial assets.

- The Group does not have instruments which allows the entity to decide whether to liquidate its financial liabilities using cash (or another financial asset) or through the submission of its own shares at 31 December 2016 and 2015.

- At 31 December 2016 and 2015 the Group does not have instruments which are subject to master netting agreements.

4.4.2.4. Financing strategy and development of liquidity throughout 2016

The main source of the Group's funding is customer deposits (mainly demand accounts and term deposits captured through the branch network), supplemented by funding through interbank and capital markets in which the entity maintains various short-term and long-term funding programmes in order to achieve an adequate level of diversification by type of product, term and investor. The entity maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to financing from the European Central Bank (ECB).

On-balance sheet customer funds

At 31 December 2016, on-balance sheet customer funds amounted to €133,457 million, compared with €131,489 million at 2015 year-end and €94,497 million at 2014 year-end (1.5% increase in December 2016 compared with December 2015, and a 39.2% increase in December 2015 compared with December 2014 as a result of the acquisition of TSB in June 2015). In 2016, the movement of balances from term deposits to current accounts and investment funds has continued, as a result of the downward trend of interest rates. At 31 December 2016, the balance of sight accounts totalled €92,011 million euros (+8.8%), to the detriment of term deposits, which showed a -13.3% decrease.

On-balance sheet customer funds by maturity:

€million

	2016	3 months	6 months	12 months	>12months	No mat.
Total on balance sheet customer funds (*)	**133,457**	**10.3%**	**6.8%**	**7.9%**	**5.9%**	**68.9%**
Deposits with agreed maturity	37,214	34.7%	21.3%	26.7%	17.3%	0.0%
Demand deposits	92,011	0.0%	0.0%	0.0%	0.0%	100.0%
Retail issues	4,232	21.4%	28.0%	15.7%	34.9%	0.0%

(*) Includes customer deposits (ex-repos) and other liabilities placed in the branch network: notes necessarily convertible into shares, Banco Sabadell non-convertible bonds, promissory notes and others.

€million

	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%**
Deposits with agreed maturity	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 issues	4,006	15.9%	21.6%	46.4%	16.1%	0.0%

(*) Includes customer deposits (ex-repos) and other liabilities placed in the branch network: notes necessarily convertible into shares, Banco Sabadell non-convertible bonds, promissory notes and others.

Off-balance sheet customer funds managed by the Group and those traded but not under management are shown in Note 30 to these 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.

In 2016, the positive trend in terms of the generation of a commercial gap observed in recent years has continued, which has allowed the entity to continue with its policy to partially refinance capital market maturities and, at the same time, continue reducing the Group's Loan to Deposits (LtD) ratio (from 147% at 2010 year-end to 105.1% at 2016 year-end). To calculate the Loan to Deposits (LtD) ratio, the net lending to customers, adjusted by subsidised financing, is used as the numerator, and retail financing as denominator.

Capital Markets

The level of financing in the capitals market has been declining in the last few years, as a consequence of, amongst others, a positive performance of the commercial gap. At the end of 2016, the outstanding balance of financing in capital markets stood at €25,160 million, compared with €27,436 million at the end of 2015. By product type, as of December 2016, €13,607 million of the total amount placed in capital markets corresponded to covered mortgage bonds, €2,816 million to promissory notes and ECP placed with wholesale investors, €1,741 million to senior debt (of which €1,059 million corresponded to state-secured transactions from the acquisition of Banco CAM), €1,514 million corresponded to issuances of subordinated bonds and preferred shares, €5,653 million to securitisation bonds placed on the market (of which €3,433 million correspond to TSB), and €33 million correspond to other medium and long-term financial instruments.

Maturities of issuances aimed at institutional investors by product type at 31 December 2016 are analysed below:

€million

	2017	2018	2019	2020	2021	2022	>2023	ng
Bonds and mortgage covered bonds (*)	2,022	1,560	1,124	2,165	2,108	1,119	3,508	13,607
Guaranteed issues (*)	1,059	-	-	-	-	-	-	1,059
Senior Debt (**)	57	600	-	-	-	25	-	682
Subordinated debt and preference shares (	66	-	-	425	490	-	533	1,514
Other medium/long term financial instruments (**)	-	18	-	-	10	-	5	33
Total	**3,204**	**2,178**	**1,124**	**2,590**	**2,608**	**1,144**	**4,047**	**16,895**

(*) Secured issues

(**) Unsecured issues

Banco Sabadell Group is an active participant in the capital markets and has a number of funding programmes in operation, with a view to diversifying its sources of liquidity.

In terms of short-term financing, the entity maintains a company promissory notes programme and a Euro Commercial Paper (ECP) programme:

- Company promissory notes programme: this programme regulates issues of promissory notes and is aimed at institutional and retail investors. On 3 March 2016, the promissory notes programme of Banco Sabadell for 2016 was registered with the CNMV (Spanish Securities Commission), with an issue limit of €6,000 million, extendible to €9,000 million. The outstanding balance of the promissory notes programme has remained stable, with a slight reduction in the outstanding balance between institutional investors, and a slight increase in the balance allocated to non-qualified investors. At 31 December, the outstanding balance stood at €3,676 million (net of promissory notes subscribed by companies of the Group), compared with €3,661 million euros at 31 December 2015.

- Euro Commercial Paper (ECP) Programme, 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 Programme for a maximum nominal amount of €3.5 billion. At 31 December 2016 the outstanding balance stood at €246 million, in comparison to €275,9 million at the end of 2015.

Regarding medium- and long-term financing, the entity maintains the following active programmes:

- Programme for the issue of non-equity securities registered with CNMV ("Fixed Income Programme"): this programme regulates the issues of bonds and obligations, both straight and subordinated, and mortgage covered bonds, territorial bonds and structured bonds, carried out under Spanish law through the CNMV (Spanish Securities Commission) and aimed at both national and foreign investors. The limit available for new issues under the Programme for the issue of non-equity securities for 2016 of Banco Sabadell at 31 December 2016, was of €10,638.8 million (at 31 December 2015, the outstanding balance under the Fixed Income Programme of 2015 was of €6,145.8 million).

- During 2016, Banco Sabadell has carried out issuances under the Fixed-Income Scheme in force for a total of €7,658.5 million. Throughout this year, the bank has accessed the market on several occasions, taking advantage of available liquidity windows. Specifically, in March Banco Sabadell carried out two public issuances of mortgage covered bonds at eight and seven years in June and October 2016, totalling €1 billion, respectively; the extension of an existing covered bond by €100 million in March, three 8-year issuances of covered bonds totalling €600 million fully subscribed by the European Investment Bank (EIB); 8 issuances of senior debt with a 1 to 3.25 year term totalling €2,488 million and 11 issuances of structured notes totalling €220.6 million and with terms varying between 1 and 5 years. In the current market environment, the entity would have the capacity to issue in different formats and terms.

- Euro Medium Term Notes (EMTN) Programme, registered on 31 March 2016 with the Irish Stock Exchange. This programme allows senior debt and subordinated bonds to be issued in any currency, with a maximum limit of €5 billion. On 6 May 2016, Banco Sabadell carried out an issuance of 10-year subordinated bonds amounting to €500 million under this new EMTN programme.

On the other hand, activity in Banco Sabadell's primary markets has currently not been affected due to the result of the Brexit referendum held in June 2016, on the UK's membership in the European Union. As an example, in October 2016 the Bank issued a seven year mortgage covered bond in the market for the amount of 1 billion euros, achieving a historically low cost.

TSB has continued to consolidate itself as a benchmark issuer, and it would appear that the market also views it as such. In this regard, although TSB continues to have access to wholesale markets, very high volumes are not expected, due to its ease of access to retail markets and the implementation of the Term Funding Scheme by Bank of England in August. The Term Funding Scheme is a programme which aims to incentivise funding, allowing British banks to make drawdowns for terms of 4 years from the date of drawdown in exchange for eligible collateral.

- Asset securitisation: Since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other highly solvent institutions, granting mortgage loans, loans to small and medium-sized enterprises, consumer loans and credit rights deriving from financial lease contracts.

There are currently 34 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 in capital markets. At the closing of 2016, the balance of securitisation bonds placed in the market stood at €5,653 million.

For efficiency reasons, during 2016, 3 securitisation operations with relatively small outstanding balances were terminated early (see further details on securitisation funds in Schedule II of the annual report).

On 28 July 2016, Banco Sabadell carried out a new securitisation of loans awarded to SMEs named IM Sabadell Pyme 10, for an amount of €1,750 million, the amount of which has been fully withheld in the portfolio.

During the first half of 2016, TSB launched a new mortgage securitisation named Duncan Funding 2016-1 PLC for an amount equivalent to €3,934 million, of which €664 million have been placed in the market.

In general terms, in 2016, the tone of the markets has been positive, although there have been several episodes of volatility caused by political and regulatory uncertainty, which have led to tensions and even the closure of markets during relatively prolonged periods. In the overall system, a large portion of maturities in the market have not been refinanced, which together with the ECB's economic stimulation measures from the last quarter of 2014 and the beginning of 2016, has resulted in excess liquidity.

In March 2016, the European Central Bank announced new economic stimulation measures through a new targeted long-term refinancing operations programme (TLTRO II), consisting of four 4-year liquidity auctions with execution dates between June 2016 and March 2017. Banco Sabadell has taken part in TLTRO II, with a total of €10,000 million, though the early redemption of €11,000 million from TLTRO I auctions announced by the ECB in June 2014. Similarly, the entity has taken part in the Covered Bond Purchase Programme (CBPP3) implemented by the European Central Bank.

In August, Bank of England also implemented a series of measures to support economic growth. This package includes a reduction of the Bank Base Rate and the introduction of the Term Funding Scheme (TFS). TSB, as a member of the Sterling Monetary Framework (SMF), plans to use the TFS as usual, with a view to obtaining funding at low costs. There are no drawdowns under TFS at the close of 2016.

The market's excess liquidity, together with a low interest rate environment, has reduced prices of repo funding compared to other alternatives. At 31 December 2016 the net nominal income from repo funding stood at €7,927 million.

Liquid assets

In addition to these sources of funding, Banco Sabadell maintains a liquidity buffer in the form of liquid assets with which to meet possible liquidity needs.

€million

	2016	2015
Cash(*) + Net Interbank Position	8,002	4,016
Funds available in facility	6,869	4,349
Pledged assets in facility (**)	*18,687*	*15,899*
Drawn-down balance on Bank of Spain facility(***)	*11,818*	*11,550*
Eligible ECB assets not included in the policy	8,423	10,785
Other tradable assets not eligible for the central bank(****)	3,587	3,097
Total Liquid Assets Available	**26,881**	**22,247**

(*) Excess reserves at Central Banks

(**) Market value and once the ECB discount has been applied for monetary policy operations.

(***) Of which, in 2016, 10,000 correspond to ECB four year liquidity auctions with a specific objective (TLTRO or Targeted Longer-term refinancing operations). En 2015, 11,000 correspond to BoS auction of TLTRO of 17 December 2014.

(****) Market value and once the Liquidity Coverage Ratio (LCR) discount has been applied. Includes Fixed Income considered as a high quality and liquid asset according to LCR (HQLA and other tradable assets from different Group entities.

With respect to 2015, Banco Sabadell's first line of liquidity has grown by 4,634 million euros, partly due to the commercial gap, the diversification of the properties portfolio and the creation of own collateral.

In the case of TSB, the first line of liquidity at 31 December 2016 is mainly comprised of gilts amounting to €1,678 million (€1,718 million at 31 December 2015) and a surplus of reserves in Bank of England (BoE) amounting to €4,191 million (€3,383 million at 31 December 2015).

It should be noted that Banco Sabadell Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures, going beyond the potential restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the requirements of eligibility, availability and liquidity set forth both internally and in regulations in order to comply with regulatory minimums.

There are no significant amounts of cash and cash equivalents which are unavailable for use by the Group.

In addition to the first line of liquidity, the bank maintains a buffer of real estate assets and loans to central governments eligible as collateral of covered mortgage bonds and covered territorial bonds respectively, which at the end of 2016 contributed €4,924 million in terms of the capacity to issue new treasury bonds eligible as collateral in return for access to the ECB facility. At the end of 2016, available liquidity amounted to €31,805 million in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity at year-end to issue covered bonds and territorial bonds, adjusted to the average haircut applicable to covered bonds by the ECB.

4.4.2.5. Compliance with regulatory ratios

Banco Sabadell Group has included as part of its liquidity management the monitoring of a short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), reporting to the regulator the information required on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the control of liquidity risks in the set of UGLs.

As regards the LCR ratio, since 01 January 2016, the regulatory minimum is 70%, a level which is comfortably surpassed by all of the entity's UGLs, in which TSB and Banco Sabadell Spain stand out due to their extremely high LCRs. At Group level, the bank's LCR has consistently been above 100% throughout the year.

In terms of NSFR, this is still under review and pending finalisation. The scheduled date for its implementation is January 2018, and, as with the LCR, a period has been set for its gradual implementation. However, the bank has already started monitoring this ratio as a liquidity metric for UGLs.

Given the bank's funding structure, in which customer deposits have a significant weight, and as the majority of its market funding is in the medium/long-term, the bank has maintained stable levels consistently over 100%.

4.4.3 Market Risk

This risk is defined as the possibility of incurring a loss in the market value of positions maintained in financial assets, as a result of changes in risk factors which in turn affect their share price and stock exchange contributions, their volatilities and the correlations between them.

These positions that generate market risk are usually limited to trading activities, which consist of the coverage operations performed by the bank to provide services to its customers and the maintenance of the entity's own positions of a discretionary nature.

Market risk 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 entity 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 rates, are addressed in the relevant sections.

The market risk acceptance, management and oversight system is based on the imposition of limits for specifically assigned positions and the approval of transactions of each business unit. The various management units therefore have the duty and obligation to manage their positions within the established limits and to obtain approval from the risks department.

Trading activity

The principal risk factors considered by Banco Sabadell in its trading activity are:

- Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit operations, fixed income and interest rate derivatives.

- Credit spread risk: this risk derives from the fluctuations in credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This type of risk mainly occurs in fixed income instruments.

- Exchange rate risk: risk associated with the fluctuation in exchange rates with regard to the reference currency. In the case of Banco Sabadell, the reference currency is the euro. This risk principally occurs in currency exchange transactions and currency derivatives.

- Equity risk: risk which derives from the fluctuation in the value of capital instruments (shares and listed stock exchanges). This risk is reflected in the market prices of securities, as well as their derivatives.

The changes in commodities prices has not had an impact in the year, given that the Group has residual exposures, neither as direct positions nor as derivatives underlying exposures.

Discretionary market risks in trading activities are measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

VaR provides an estimated of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters affecting market risk. This estimate is made in monetary terms and is associated with a specific date, a particular confidence level and a specified time horizon. A 99% confidence level is used. Due to the low complexity of the instruments and the high liquidity of the positions, a time horizon of 1 day is used.

The advantages of this methodology are that it is based on the full revaluation of the operations under recent historic scenarios, and it is not necessary to make assumptions on the distribution of market prices. The main limitation to this methodology is its dependence on historic data used, given that if a potential event has not materialised within the range of historic data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be proven using backtesting techniques, which can be used to verify that the VaR estimates fall within the contemplated confidence level. Backtesting consists of the comparison between daily VaR and daily results. In the event that losses exceed the level of VaR, an exception occurs. In 2016 no exceptions occurred in the backtesting, due to the low exposure to significant events during the year, such as the Brexit referendum (24th June).

Stressed VaR is calculated in the same way as VaR but with a historical insight of variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of current operations, and it varies if the risk profile of portfolios changes. The methodology used for this risk metric is the historic simulation.

Its monitoring is complemented with additional measures such as sensitivities, which refer to a change taking place in the value of a position or portfolio in response to a change in a specific risk factor. It is also complemented by the calculation of management results, used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out with extreme market scenarios (stress testing), in which the impacts of different past and theoretical scenarios on portfolios are analysed.

Market risks are monitored on a daily basis and reports are made on the existing risk levels and on the abidance by the limits set forth by the Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This allows any changes to the risk levels to be detected, and also gives information regarding the contribution of market risk factors.

Market risk for the trading activity incurred in terms of the VaR at day 1 with 99% confidence for 2016 and 2015 is as follows:

€million	2016			2015		
	Medium	Maximum	Minimum	Medium	Maximum	Minimum
Interest rate risk	0.90	2.86	0.45	0.94	1.68	0.54
Currency risk-trading	0.20	0.55	0.04	0.14	0.51	0.03
Equity risk	0.69	1.62	0.30	0.52	1.15	0.21
Credit spread	0.99	3.58	0.32	0.10	0.18	0.06
Aggregate VaR	2.78	7.90	1.23	1.70	3.52	0.84

4.4.3.1. Structural Interest Rate and Exchange Rate Risks

Structural interest rate risk

Structural Interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking activities and is defined as the possibility of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (income and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions sensitive to interest rates).

The following types are considered under structural risks:

- Repricing risk: related to a temporary mismatch between the maturity dates and the repricing of assets, liabilities and short and long-term off-balance sheet positions.

- Curve risk: arising from changes in the level or gradient of the interest rate curve.

- Base risk: arising from hedging exposure of an interest rate using exposure to an interest rate that is repriced in different conditions.

- Option risk: arising from options, including implicit options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the best market practices and are consistently implemented across all balance sheet management units (UGBs, for their acronym in Spanish), and by local asset and liability committees. The diversification between currencies and UGBs is taken into consideration when presenting figures at a global level.

The current interest rate risk management strategy of the Group is mainly based on the following principles and pillars, in line with the business model and the strategic objectives defined:

- Each UGB has appropriate tools and processes and robust systems in order to perform an adequate identification, measurement, management, control and reporting of IRRBB. This allows them to obtain information from all of the identified IRRBB sources, assess their effect on financial margins and the economic value of assets and measure the vulnerability of the Group/UGB to potential losses deriving from IRRBB under different stress scenarios.

- At a corporate level, a set of limits is set forth for overseeing and monitoring the level of exposure to IRRBB which will be in line with the internal risk tolerance policies. However, each UGB has the autonomy to set any other additional limits deemed necessary, based on their specific needs and the nature of their activities.

- The existence of a transfer pricing system.

- The set of systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap, which is a static measure which shows the breakdown of maturities and repricing of sensitive items on the balance sheet. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered, setting forth stability and remuneration hypotheses in line with the type of product.

Thousand euro

Time until review or maturity	Up to 1 month	1 and 3 months	3 and 12 months	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	More than 5 years	Total
Money Market	11,582,282	995,726	694,867	10,056	15,433	-	-	-	**13,298,364**
Loans and receivables	30,239,930	24,172,993	45,704,621	9,829,568	4,643,156	4,606,265	3,652,136	10,718,929	**133,567,598**
Debt Securities	777,973	425,453	470,589	595,616	965,449	792,510	1,758,988	16,708,412	**22,494,992**
Other assets	10,679	-	-	-	-	-	-	-	**10,679**
Total assets	**42,610,865**	**25,594,173**	**46,870,078**	**10,435,240**	**5,624,039**	**5,398,775**	**5,411,124**	**27,427,341**	**169,371,633**
Money Market	9,833,363	5,315,743	1,528,052	300,052	-	10,264,091	-	6,190	**27,247,492**
Customer funds	29,916,721	27,956,566	20,218,285	7,942,095	3,874,426	2,588,029	35,293,842	10,080	**127,800,043**
Debits represented by marketable securities	5,838,507	6,244,639	3,626,795	2,763,070	635,725	2,671,713	2,168,561	3,882,080	**27,831,091**
Of which: subordinated liabilities	*66,050*	*58,800*	*17,680*	-	-	*424,600*	*449,661*	*515,025*	***1,531,817***
Other liabilities	413,359	578,921	1,915,619	405,944	306,036	178,685	109,491	262,678	**4,170,734**
Total liabilities	**46,001,950**	**40,095,869**	**27,288,751**	**11,411,161**	**4,816,187**	**15,702,518**	**37,571,894**	**4,161,028**	**187,049,360**
Hedging Derivatives	479,189	4,499,515	(1,712,535)	(704,377)	121,734	65,789	391,706	(3,141,020)	-
Interest rate gap	(2,911,897)	(10,002,181)	17,868,792	(1,680,299)	929,586	(10,237,954)	(31,769,065)	20,125,293	(17,677,726)

On the other hand, the sensitivity of different key economic figures (financial margin, economic value) to changes in the interest rate curve is calculated. The following table shows the interest rate risk level in terms of the sensitivity of the main currencies of the Group at 2016 year-end:

	Instant and parallel increase of 100 b.p's	
Interest rate sensitivity	Impact on financial spread	Impact on economic value
EUR	0.1%	1.3%
GBP	1.9%	(2.2%)
USD	0.2%	(0.3%)

In addition to the impact on net interest income, in the time horizon of one year, presented in the previous table, the Group calculates the impact on net interest income for the time horizon of two years, the result of which is notably more positive for all currencies.

Given the current level of market interest rates, in the scenario of a decline in interest rates, a maximum shift of 100 basis points in each term is applied, so that the resulting interest 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 net interest income as a result of interest rate fluctuations, 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.

Balance sheet items accounted at amortised cost do not show any valuation adjustments associated with interest rate changes. On the other hand, for financial assets classified as "Available-for-sale financial assets" valued at fair value, the change in risk premiums has had a greater impact than the decline in interest rates during the year.

Structural exchange rate risk

Structural exchange rate risk arises ahead of the event that changes in market rates between different currencies could generate losses in financial investments, and for permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise its impact on the value of the portfolio / the entity's equity due to adverse movements in currency markets. This management is subject to the risk appetite set forth in the RAS and must comply at all times with the levels set forth for established risk metrics.

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 main monitoring metric is currency exposure (as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the entity in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in terms of Tier 1.

Compliance and the effectiveness of the Group's targets and policies are monitored and reported on a monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

The Financial Division, through ALCO, has designed and executed the coverage of foreign exchange structural positions with the primary aim of minimising the negative impact on CET1 capital ratios caused by exchange rate fluctuations.

In 2016, in a context of continued uncertainty, caused by the post-Brexit referendum negotiations, Banco Sabadell continues to be vigilant with respect to the EUR/GBP exchange rate. During this period the Group has adopted a hedging policy which aims to mitigate the negative effects on capital ratios, as well as the results generated from its business in GBP, which may arise from the evolution of the EUR/GBP exchange rate.

During 2016, capital hedging has increased, from 768 million sterling pound in 2015, until the current 1,368 million sterling pound, which represents 73% of the total investment carried out (see Note 13 Hedging of net investments in foreign businesses).

This currency hedging is continuously monitored based on market movements.

The exchange value in euro of assets and liabilities in foreign currencies maintained by the Group at 31 December 2016 and 2015, classed in line with their nature, is as follows:

Thousand euro

	2016			
	U.S.D	GBP	Other currencies	Total
Assets denominated in foreign currency:	**15,878,614**	**44,435,457**	**1,133,974**	**61,448,045**
Cash and cash balances with central banks and other demand deposits	652,889	4,266,002	165,408	5,084,299
Debt securities	3,731,567	2,450,815	60,693	6,243,075
Loans and advances				
Central banks and credit institutions	277,689	721,908	12,572	1,012,168
Customers	10,735,376	35,012,927	810,188	46,558,492
Other assets	481,094	1,983,805	85,112	2,550,010
Liabilities denominated in foreign currency:	**14,864,643**	**41,702,364**	**418,332**	**56,985,338**
Deposits				
Central banks and credit Institutions	4,639,081	969,118	208,281	5,816,480
Customers	9,873,168	35,482,586	166,121	45,521,875
Other liabilities	352,393	5,250,659	43,930	5,646,983

Thousand euro

	2015			
	U.S.D	GBP	Other currencies	Total
Assets denominated in foreign currency	**14,737,033**	**46,239,931**	**665,890**	**61,642,854**
Cash and cash balances with central banks and other demand deposits	570,278	4,211,810	38,684	4,820,772
Debt securities	4,290,721	1,690,073	38,925	6,019,719
Loans and advances				
Central banks and credit Institutions	201,959	28,587	50,827	281,373
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 denominated in foreign currency	**11,731,015**	**41,052,234**	**221,502**	**53,004,751**
Deposits				
Central banks and credit institutions	3,525,967	31,655	110,588	3,668,210
Customers	7,898,875	35,528,670	94,662	43,522,207
Other liabilities	306,173	5,491,909	16,252	5,814,334

The net position of foreign currency assets and liabilities includes the structural position of the bank valued at a historic exchange rate at €1,685 million, of which €597 million correspond to permanent shareholdings in GBP, €769 million to permanent shareholdings in USD and €279 million in stakes in MXN. Net assets and liabilities valued at the exchange rate are hedged through forwards and foreign exchange options, in accordance with the Group's risk management policy.

At the end of 2016, the sensitivity of equity exposure to a 1% devaluation in exchange rates against the euro of the main currencies to which the bank is exposed amounted to €17 million, of which 35% correspond to the sterling pound, 46% to the US dollar, 17% to the Mexican peso and the rest to other currencies.

4.4.4 Operational Risk

Operational risk is defined as the risk of incurring losses due to from inadequate or failed internal processes, people or systems or due to unexpected external events. This definition includes reputation risk (which in turn includes behavioural risk), technology, model and outsourcing risks.

The operational risk management process is decentralised, split among the various process managers throughout the organisation. The processes they manage are indicated in the corporate process flowchart, which facilitates the distribution of information throughout the organisation. The Group has a central unit specialised in the management of operational risk, whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in the management of this risk by approving the management framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of Senior Management members from different functional areas within the entity. The management of this risk also requires regular audits to be carried out on the application of the management framework and the reliability of the information provided, as well as internal validation tests of 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 such 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 risk 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, a check is made to ensure that processes identified as being highly critical in the event of discontinued service have specific business continuity plans in place and that they are implemented. In terms of the risks identified, a qualitative estimate is made of the reputation 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 about 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 real losses to be compared and contrasted, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Operational Risk includes the management and control of the following significant risks:

- Reputation risk: possibility of incurring losses derived from negative publicity related to the entity’s practices and business, which may also generate a lack of confidence in the institution, thereby affecting is solvency.

- Technological risk: possibility of incurring losses derived from an inability of the systems’ infrastructure to fully continue carrying out its day-to-day activities.

- Outsourcing risk: the possibility of incurring losses deriving from: suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems’ security, disloyal customers or a breach of applicable regulations.

- Model Risk: the possibility of incurring losses derived from decisions taken based on the use of inadequate models.

4.4.5 Fiscal risk

Fiscal risk is defined as the probability of failing to comply with the objectives set forth in the fiscal strategy of Banco Sabadell from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to comply with the tax obligations that may result in an undue lack of income, or the occurrence of any other event that generates potential damages for the bank in terms of its meeting objectives.

- On the other hand, the probability of undue income arising from meeting tax obligations, thus negatively affecting shareholders or other stakeholders.

Banco Sabadell’s fiscal risk policies aim to set forth principles and guidelines in order to ensure that any fiscal risks that may affect the strategy and fiscal objectives of the Group are systematically identified, assessed and managed, so as to comply with the new requirements of the Spanish Capital Companies Act and stakeholders of Banco Sabadell Group.

In terms of fiscal risk, Banco Sabadell aims to meet its tax obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell’s fiscal strategy reflects its commitment to promoting responsible taxation, promoting the prevention and development of key transparency schemes in order to strengthen the trust of the various stakeholders.

The Group's fiscal strategy is aligned with its business strategy, and manages fiscal aspects efficiently and in line with the principles of prudence and mitigation of fiscal risk.

The Board of Directors of Banco Sabadell, under the framework of powers set forth in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the company's fiscal strategy.
- Approving investments and operations of all types which are considered strategic or to have a particular fiscal risk due to their amounts or particular characteristics, except when such approval corresponds to the Annual General Meeting.
- Approving the creation and acquisition of interests in special purpose entities or entities domiciled in countries or territories considered as tax havens.
- Approving any similar transaction which, due to its complexity, could undermine the transparency of the company and its Group.

Thus, the functions of the Board of Directors of Banco Sabadell include the obligation to approve the corporate fiscal policy and ensure compliance therewith by implementing an appropriate control and oversight system, covered by the general risk management and control framework of the Group.

4.4.6 Compliance risk

Compliance risk is defined as the possibility of incurring legal or administrative sanctions, significant financial losses or loss of reputation as a result of breaches of laws, regulations, internal standards and codes of conduct related to banking activities.

An essential aspect of Banco Sabadell Group's policy, and one of the foundations of its organisational culture, is the meticulous fulfilment of all legal terms and conditions. The achievement of corporate objectives should be sought in such a way that is compatible with the legal system at all times and by applying best practices.

To this end, the Group has its Compliance Division whose purpose is to promote and endeavour to reach the highest degrees of compliance with the legislation in force and the professional ethics of the Group, to minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved, and that the appropriate preventive measures are adopted in the event that these are not already in place.

The compliance model assigns responsibility for establishing policies, procedures and controls to the parent undertaking. Responsibility for the execution of control programmes also resides with the parent undertaking. Foreign branches and subsidiary undertakings are assigned responsibility for the implementation of those policies, procedures and controls that directly affect them, and are also responsible for their functional maintenance.

It is a flexible model focused on risk, which is continuously adapted to the Group's strategy and which takes full advantage of synergies, maintaining an overall focus on any aspects that fall within the general scope and/or which require significant technological development, but which is also adapted to the specifications and legislation affecting each business or each country.

The main challenge is the standardisation within the Group of regulatory compliance control levels, setting compulsory minimum standards, irrespective of the activity or country in which this activity is being carried out.

This model is made up of two pillars:

(i) A central unit which provides services to the whole Group and which is aimed at the Group-wide management of compliance risk. Its main tasks are the analysis, distribution and implementation control of any new regulations that could impact the Group, as well as the control, focused on risk, of the correct fulfilment of the regulations already in place.

Additionally, it is directly responsible for the execution of various processes which have been categorised as high risk, as they require comprehensive and direct control methods: anti-money laundering and combating the financing of terrorism; control of market abuse practices; control of fulfilment of Internal Code of Conduct and the implementation and monitoring elements for investor protection (MiFID).

(ii) A network of compliance supervisors located in each subsidiary and foreign branch (with functional dependency on the central compliance unit and hierarchical reliance on the manager of the subsidiary or foreign branch) and which operate their own control programmes. They regularly report to the central unit to ensure the fulfilment of internal rules and regulations and compliance with the legislation in force that govern the countries in which these subsidiaries and foreign branches operate, and the activities that they carry out.

This model is constructed and implemented through six different means to ensure its efficiency: technology, training, procedures, communication channels, control and monitoring programmes and an approval process of products and regulations.

Nota 5 – Minimum own funds and capital management

Regulatory Framework

On 1 January 2014, the new regulatory framework entered into force, whereby the European Union has implemented the capital regulations of the Basel III accords by the Basel Committee on Banking Supervision (BCBS) under a phase-in model until 1 January 2019.

This regulation, which is split into three pillars, regulates the minimum own funds to be kept by credit institutions, on both an individual and consolidated basis, and the way in which these own funds must be calculated (Pillar I), as well as the various internal capital assessment process that must be performed (Pillar II), and the public information that must be disclosed to market (Pillar III).

This regulatory framework consists of:

- Directive 2013/36/EU (generally known as CRD-IV), of 26 June 2013, of the European Parliament and of the Council, on access to the activity of 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 of the Council, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.

Directive CRD-IV was transposed into Spanish law through:

- RD-Law 14/2013, of 29 November, on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions.

- Law 10/2014 of 26 June, on the ordering, 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 ordering and discipline of credit institutions.

- Bank of Spain Circular 2/2016, of 2 February, the primary objective of which is to complete, in matters related to credit institutions, the transposition of Directive 2013/36/EU (Supervision of Credit Institutions) to the Spanish legal system.

The CRR, which is immediately applicable to Member States and, as such, to Spanish credit institutions, implements the requirements of Directive CRD-IV, granting authority to the national authorities of competent jurisdiction to make use thereof in certain regulatory options.

In this respect, Bank of Spain, by virtue of the enabling clause included in RD Law 14/2013, published Circulars 2/2014 and 3/2014, of 31 January and 30 July, respectively. It also recently published Circular 2/2016 by which it makes use of these regulatory options.

Under the requirements set forth in the CRR, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority under the new regulatory framework and require institutions to maintain additional capital.

The stress test exercise carried out by the European Banking Authority, in collaboration with the European Central Bank, concluded in July 2016 that in the most adverse scenario contemplated Banco Sabadell Group would have a Common Equity Tier 1 (CET1) ratio of 8.19%, and 8.04% fully loaded in 2018, which is proof of the Group's high liquidity to overcome very adverse economic scenarios.

The entity received a notification in November 2016 from the European Central Bank regarding the decision on the prudential minimum requirements applicable to the entity for 2017, following a Supervisory Review and Evaluation Process (SREP), determining that Banco Sabadell Group must maintain, on a consolidated basis, a CET1 ratio of 7.375% measured against phased-in regulatory capital. This requirement includes: the minimum required by Pillar 1 (4.50%), the Pillar 2 requirement (1.50%), the capital conservation buffer (1.25%) and the requirement arising from its consideration as an O-SII (0.125%). Furthermore, this is the consolidated CET1 level below which the Group would be obligated to calculate the maximum distributable amount (MDA), which would limit its distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 capital securities.

Furthermore, based on the note published by Bank of Spain on 14 December 2016, which designates systemic institutions for 2017 and sets their countercyclical capital buffers in line with the European Banking Authority Guidelines on criteria for the assessment of O-SIIs (EBA/GL/2014/10), included in Standard 14 and Annex 1 to Bank of Spain Circular 2/2016, Banco Sabadell is considered an O-SII(Other Systemically Important Institution) and the countercyclical capital buffer has been set at 0% for 2017, and the prudential capital buffer has been set at 0.125%.

At 31 December 2016, the Group's CET1 capital ratio stood at 12%. Therefore, these capital requirements do not entail any of the aforementioned limitations.

Capital management

The management of capital funds is the result of the ongoing process of capital planning. This process considers the expected evolution of the economic, regulatory, and sectoral environment, as well as more adverse scenarios. It takes into account the expected capital consumption in different activities, under the various scenarios envisaged, and the market conditions that could determine the effectiveness of the various actions that could be considered for implementation. The process is always in line with the strategic objectives of the bank and strives to achieve an attractive return for shareholders, whilst always ensuring that its own funds are appropriate in terms of the inherent risks of 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' own funds requirements with the real risks incurred, based on internal risk measurement models that have been previously validated by independent parties.

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 measurements provided by these new methodologies, the Group has a comprehensive risk measurement model under one internal measurement unit, in terms of allocated capital.

The allocation of capital by risk type at the end of 2016 is as follows:

In percentage

	2016
Credit risk	82%
Structural risk	4%
Operational risk	8%
Market risk	1%
Other	5%
Total	**100%**

The risk assessment in terms of necessary allocated capital enables it to be linked to the yield obtained from customer and operation levels to a business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and be included in the transaction pricing process.

The Group has a sophisticated system to measure each type of risk incurred and methodologies capable of integrating all of them. Such an approach requires a broad perspective of 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 practices.

Each year the Group carries out its own internal capital assessment process as prescribed by the New Basel Capital Accord (NBCA), and more specifically in regulatory standards on regulatory own funds, and reports the results to the Supervisor.

The process starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk and appropriate mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the institution'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 calculated to be used as an indicator in terms of allocated capital. In addition, the institution'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 its solvency when compared to its available own funds.

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 on capital management see the document published annually regarding Pillar III Disclosures, 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 2016, the group's qualifying capital amounted to €11,852 million, representing a surplus of €4,966 million, as shown below:

Thousand euro

	2016	2015	Year-on year change (%)
Capital	702,019	679,906	3.25
Reserves	11,874,214	11,428,739	3.90
Bonds convertible into shares	-	-	-
Non-controlling interests	21,490	24,339	(11.71)
Deductions	(2,265,363)	(1,923,514)	17.77
CET1 resources	**10,332,360**	**10,209,470**	**1.20**
CET1 (%)	12.0	11.5	
Preference shares, convertible bonds and deductions	-	-	-
Tier one resources	**10,332,360**	**10,209,470**	**1.20**
Tier I (%)	12.0	11.5	
Tier two resources	**1,519,237**	**1,207,912**	**25.77**
Tier II (%)	1.8	1.4	
Capital base	**11,851,597**	**11,417,382**	**3.80**
Minimum capital requirement	6,885,598	7,101,497	(3.04)
Capital surplus	**4,965,998**	**4,315,885**	**15.06**
BIS ratio (%)	**13.8**	**12.9**	**7.06**
Risk weighted assets (RWA)	**86,069,980**	**88,768,713**	**(3.04)**

Common Equity Tier 1 (CET1) capital accounted for 87.2% of qualifying capital resources.

Tier 1 of Basel III consists of, in addition to CET1 capital, convertible bonds and the deduction of intangible assets by the same amount.

Secondary or Tier II capital provide a further 12.8% of the BIS ratio and is mainly made up of subordinated bonds and generic provisions (subject to regulatory limits as to eligibility), and other required deductions.

Over the last 5 years, the bank has increased its capital base through issuances classed as tier 1 capital, which have increased the Group's capital by more than €6,600 million. These include the capital increase with pre-emptive subscription rights of €1,607 million, carried out in April 2015 as a result of the acquisition of TSB.

During 2016 the total mandatory conversion due to the maturity of the Mandatory Convertible Subordinated Bonds series (Series III/2013) was exercised, as well as the conversion of 25% of the nominal amount of the MCSD (Series IV 2013), without any impact on capital ratios. Additionally, in 2016, a Subordinated Debt issue for the amount of 500 million euros was also executed, leading eligible TIER2 resources to amount to €1,519 million.

The change in Common Equity Tier 1 (CET1) phased-in 2015 (€10,209 million) and 2016 (€10,332 million) is mainly due to the retained earnings in the year, larger deductions and including all valuation adjustments (incorporating valuation adjustments for sovereign debt instruments).

Risk-weighted assets (RWAs) for the period stand at €86,069,980 thousand, which represents a 3.04% decrease compared with the previous year, mainly due to the devaluation during the year of the British pound sterling against the euro.

All of these actions and events have enabled Banco Sabadell to reach a phased-in Common Equity Tier 1 (CET 1) level of 12.0%, and a total capital ratio of 13.8% at December 2016, which widely surpasses the levels required in the regulatory framework.

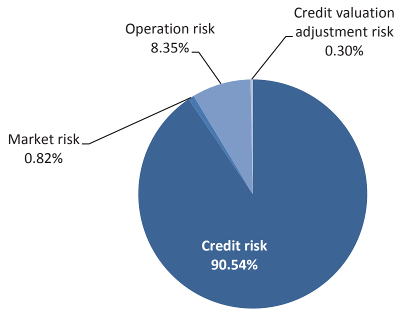
The table below shows the reconciliation of net equity with regulatory capital:

€million

	2016	2015
Equity	12,926	12,275
Valuation adjustments	107	456
Non-controlling interests	50	37
Total net equity	**13,083**	**12,767**
Goodwill and intangibles	(2,128)	(1,989)
Other adjustments	(623)	(569)
Regulatory accounting adjustments	**(2,751)**	**(2,558)**
Common equity tier 1	**10,332**	**10,209**
Additional tier 1 capital	-	-
Tier 2 capital	**1,519**	**1,208**
Total regulatory capital	**11,852**	**11,417**

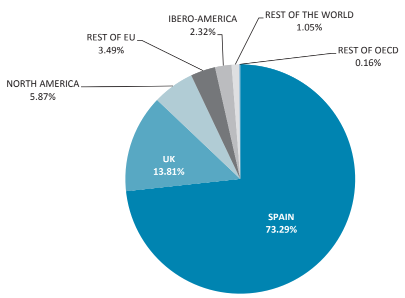
Risk weighted assets (RWAs) are distributed by risk type, as shown below, with Credit Risk showing the largest risk:

Distribution of own funds by risk type

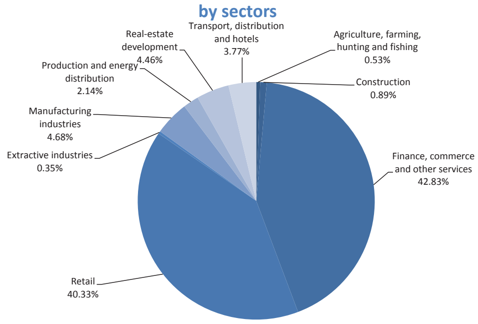


The distribution of own funds requirements to cover this type of risk (credit risk), broken down by segment, geography and sector is shown below:

Own funds requirements by geography



Exposure by sectors



For the calculation of risk-weighted assets by credit risk, for some portfolios the Bank has received approval from the Supervisor to treat them using an internal ratings based model, which represents 52.12% of the total.

The following table outlines the status of credit rating models developed by Banco Sabadell Group with regards to the authorisation by the Supervisor for their usage when calculating own funds requirements:

Distribution of portfolios approved by the supervisor for the use, or the application of internal ratings based methods (IRB).

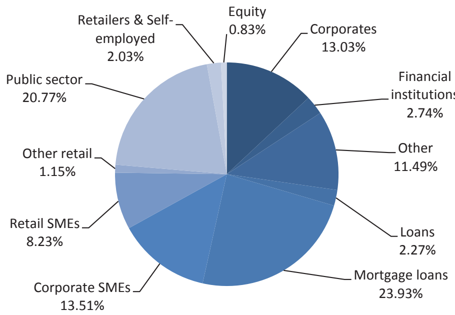
Entity	Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimations Used	Method Based on Internal Ratings	Status
BS	Corporates	Portfolios based on rating models that rate corporate banking up to SMEs and developers	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 01/2008
BS	Retail	Mortgage scoring	*Probability of Default (PD)* *Loss Given Default (LGD)*	*Advanced IRB*	Approved on 01/2008
BS	Retail	Consumer scoring	*Probability of Default (PD)* *Loss Given Default (LGD)*	*Advanced IRB*	Approved on 01/2008
BS	Corporates	Project Finance	*Probability of Default (PD)*	*Supervisory Slotting Criteria*	Approved on 12/2009
BS	Retail	Retailers & Self-Employed	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 12/2010
BS	Retail	Behavioural scoring cards & credit	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 12/2011
BS	Institutions	Financial Institutions	*Probability of Default (PD)*	*Foundation IRB*	Approved on 12/2012
TSB	Retail	Mortgage scoring	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 06/2014
TSB	Retail	Consumer Loans scoring	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 10/2014
TSB	Retail	Cards scoring	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 06/2015
TSB	Retail	Current account scoring	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	*Advanced IRB*	Approved on 06/2015

Data from models approved by the supervisor at 31/12/2015.

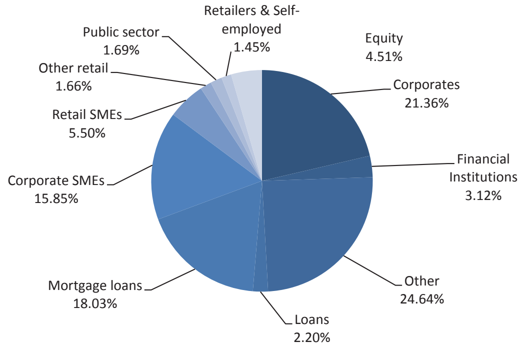
The Group carries out frequent backtesting of its IRB (Internal Ratings Based) models, at least on an annual basis. These exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risks Committee or the Risk Commission (delegated committees). Additionally, the backtesting results that affect the risk parameters, and the main conclusions from these results, taking into account the criteria established by the EBA in its disclosure Guidelines, are included in the annual Pillar III Disclosures report.

The distribution, based on the calculation methods of exposures and risk weighted assets for different portfolios, is shown below:

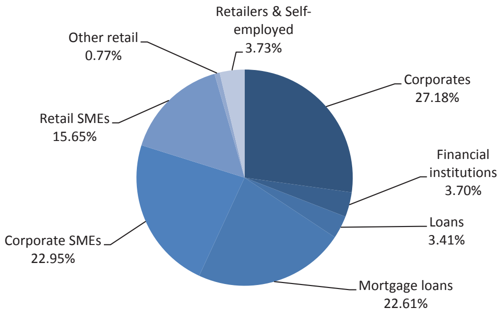
EAD by segment



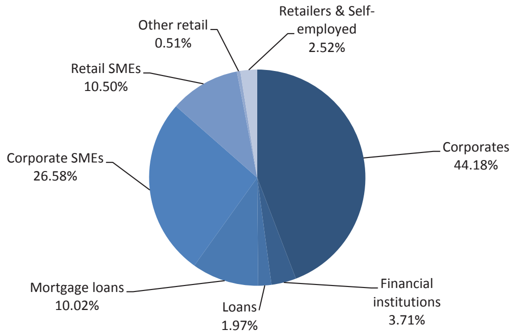
RWA by segment



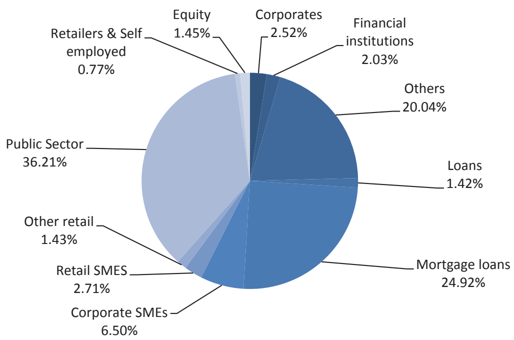
EAD per segment using the IRB method



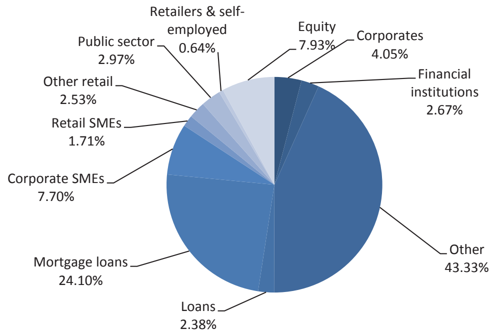
RWA per segment using the IRB method



EAD by segment using the standard method



RWA by segment using the standard method



The Leverage Ratio aims to strengthen capital requirements with a supplementary measure not linked to the level of risk. The leverage ratio is the ratio between qualifying Tier 1 capital resources (Tier 1) and exposure.

The CRR sets forth a leverage ratio, the fulfilment of which is mandatory as of 1 January 2018. Previously, a definition and calibration period between 2014 and 2017 was set forth, during which institutions are required to disclose their leverage ratio and send information relative to the ratio to the supervisor who, based on the results, shall implement amendments as they see fit for their entry into force. At present, the bank reports to the supervisor on a quarterly basis and a reference level of 3% is considered.

The level of exposure is calculated in line with the definition contained in Commission Delegated Regulation (EU) 62/2015. The leverage ratio at 31 December 2016 and 31 December 2015 is shown below:

Thousand euro

	2016	2015
Tier 1 capital	10,332,360	10,209,470
Exposure	217,918,574	210,369,669
Leverage ratio	**4.74%**	**4.85%**

Note 6 – Fair value of assets and liabilities

Financial assets and liabilities

The fair value of a financial asset or liability at a given date is understood as the amount at which it could be sold or transferred, respectively, at that date, between independent and knowledgeable parties acting freely and prudently and without coercion in market conditions. The most objective and commonly used reference for the fair value of a financial asset or liability is the price that would be paid for it in 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 is estimated from the values established for similar instruments in recent transactions or, failing that, by using mathematical valuation models suitably tested by the international financial services community. When using these models, the specific characteristics of the financial asset or liability being valued are taken into account, particularly the different types of risk that may be associated with them. The above notwithstanding, 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 or liability 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 practices 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 that 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 through 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 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
Capital instruments	Sector multiples (P/BV)	Based on the CNAE that is best adjusted to the company's main activity, the P/BV multiple obtained in the comparison is applied.	- CNAE's - Share price listings in organised markets
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 equity derivatives, 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 Options asset volatility surfaces on Libor rate (caps) and Swaps rates (swaptions) - Probability of default for CVA and DVA calculation (**) 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: - Standard Model - Libor Market Model	These models assume that: - The standard and shifted model allow negative rates - 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 estimated that the funding value adjustment (FVA) has a non-material impact on the valuation of derivatives.

(**) For CVA and DVA calculation fixed severities at 60%have been used, corresponding to the market standard for senior debt. Average future exposures, positive and negative, have been estimated using market models, libor for rates and black for currencies, using market inputs. The probability of default for customers without quoted debt securities or CDS were obtained from the internal rating model, and for Banco Sabadell Banco Sabadell those obtained from the CDS quotation have been used.

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.
Capital instruments	Discounted cash flow method	Calculation of the present value of future cash flows discounted at market rate adjusted for risk (CAPM method), taking into account: - Estimated cash flows for the company - Sector risk for the company - Macroeconomic inputs	- The entity's business plans - Risk premiums for the company's sector -Adjustment for systematic 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 equity derivatives, inflation, currencies or commodities: - Historical volatilities - Historical correlations - PD for calculation CVA and DVA (a)
	For credit derivatives: - Intensity models	These models assume a structure of probabilities of default due to default intensity rates due to default	For credit derivatives: - Estimated credit spreads of issuer or a similar issuer. - Historical volatility of credit spreads
	For interest-rate derivatives: - Standard model - Libor Market Model	These models assume that: - The standard model allows negative 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)

(*) Due to Banco Sabadell's net position, it is estimated that the funding value adjustment (FVA) has a non-material impact on the valuation of derivatives.

(**) For the calculation of CVA and DVA fixed severities at 60% have been used, which correspond to the market standard for senior debt. The positive and negative future average exposures were estimated using market inputs. The probability of default 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.

Determination of the fair value of financial instruments

A comparison between the value at which the group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and the related fair value is as follows:

Thousand euro

		2016		2015	
	Note	Accounting balance	Fair value	Accounting balance	Fair value
Assets:					
Cash, cash and cash balances with central banks and other demand deposits	7	11,688,250	11,688,250	7,343,481	7,344,287
Financial assets held for trading	8.9	3,484,221	3,484,221	2,312,118	2,312,118
Financial assets at fair value through profit or loss	9	34,827	34,827	77,328	77,328
Available-for-sale financial assets	8.9	18,718,339	18,718,339	23,460,356	23,460,356
Loans and receivables	11	150,384,445	158,022,457	153,550,281	160,473,352
Held to maturity investments		4,598,190	4,956,486	-	-
Derivatives - hedge accounting	13	535,160	535,160	700,813	700,813
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	965	965	7,693	7,693
Total assets		**189,444,397**	**197,440,705**	**187,452,070**	**194,375,947**

Thousand euro

	Note	2016 Accounting balance	2016 Fair value	2015 Accounting balance	2015 Fair value
Liabilities:					
Financial liabilities held for trading		1,975,806	1,975,806	1,636,826	1,636,826
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities at amortised cost	19,20,21 y 22	192,011,024	193,175,272	189,468,677	190,919,750
Derivatives - hedge accounting	13	1,105,806	1,105,806	681,461	681,461
Fair value changes of the hedged items in portfolio hedge of interest rate risk	12	64,348	64,348	16,330	16,330
Total liabilities		**195,156,984**	**196,321,232**	**191,803,294**	**193,254,367**

In relation to financial instruments whose carrying amount differs from their fair value, the latter has been calculated as follows:

– The fair value of "Cash and balances with central banks" has been considered to be the carrying amount, as these are mainly short-term balances.

– The fair value of "Loans and receivables" and "Financial liabilities at amortised cost" has been estimated by the discounted cash flow method, using market interest rates at the end of each year.

–The heading "*Fair value changes of the hedged items in portfolio hedge of interest rate risk*" on the accompanying consolidated balance sheets records the difference between the carrying amount of the deposits covered (recorded in "Loans and receivables") and the fair value calculated using internal models and observable market 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

	Note	2016 Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		1,624,748	1,859,473	-	3,484,221
Derivatives	10	3,774	1,830,721	-	1,834,495
Equity instruments	9	-	10,629	-	10,629
Debt securities	8	1,620,974	18,123	-	1,639,097
Loans and advances-Customers		-	-	-	-
Financial assets designated at fair value through profit or loss		-	34,827	-	34,827
Equity instruments		-	34,827	-	34,827
Debt securities		-	-	-	-
Loans and advances-Credit institutions		-	-	-	-
Available-for-sale financial assets		16,784,526	1,683,006	250,807	18,718,339
Equity instruments	9	100,006	246,996	250,807	597,809
Debt securities	8	16,684,520	1,436,010	-	18,120,530
Derivatives-hedge accounting	13	108,078	427,082	-	535,160
Total assets		**18,517,352**	**4,004,388**	**250,807**	**22,772,547**

Thousand euro

	Note	2016 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		59,900	1,915,906	-	1,975,806
Derivatives	10	8	1,915,906	-	1,915,914
Short positions		59,892	-	-	59,892
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives-hedge accounting	13	63,745	1,042,061	-	1,105,806
Total liabilities		**123,645**	**2,957,967**	**-**	**3,081,612**

Thousand euro

	Note	2015 Level 1	Level 1	Level 3	Total
Assets:					
Financial assets held for trading		794,117	848,633	669,368	2,312,118
Derivatives		28	848,433	659,985	1,508,446
Equity instruments	9	11,212	-	-	11,212
Debt securities	8	782,877	200	9,383	792,460
Loans and advances- Customers		-	-	-	-
Financial assets designated at fair value through profit or loss		-	77,328	-	77,328
Equity instruments	9	-	77,328	-	77,328
Debt securities		-	-	-	-
Loans and advances-Credit institutions		-	-	-	-
Available-for-sale financial assets		21,917,058	1,383,697	159,601	23,460,356
Equity instruments	9	202,301	211,677	158,752	572,730
Debt securities	8	21,714,757	1,172,020	849	22,887,626
Derivatives-hedge accounting	13	1,814	560,363	138,636	700,813
Total assets		**22,712,989**	**2,870,021**	**967,605**	**26,550,615**

Thousand euro

	Note	2015 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		151,904	1,235,836	249,086	1,636,826
Derivatives	10	-	1,235,836	249,086	1,484,922
Short positions		151,904	-	-	151,904
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives-hedge accounting	13	12,098	484,211	185,152	681,461
Total liabilities		**164,002**	**1,720,047**	**434,238**	**2,318,287**

Derivatives without a collateral contract (CSA) include credit valuation adjustment (CVA) and debit valuation adjustment (DVA) in their fair value. The fair value of these derivatives represents 7.16% of the total, and their adjustment for credit and debit risks represents 4.86% of their fair value.

The movements in the balances of the financial assets and liabilities classified as Level 3 that are disclosed in the accompanying consolidated balance sheets are as follows:

Thousand euro

	Asset	Liability
Balance at 31 December 2014	**880,713**	**409,262**
Valuation adjustments recorded to profit and loss (*)	35,758	75,980
Valuation adjustments not recorded to profit and loss	69,638	-
Purchases, sales and write-offs	(199,051)	(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	**967,605**	**434,238**
Valuation adjustments recorded to profit and loss (*)	-	-
Valuation adjustments not recorded to profit and loss	-	-
Purchases, sales and write-offs	61,447	(24,339)
Net additions/(exits) on Level 3	(773,540)	(409,899)
Exchange differences and other	(4,705)	-
Balance at 31 December 2016	**250,807**	**-**

(*) Relates to securities kept on the balance sheet

Financial instruments that were transferred between valuation levels during 2016 present the following balances in the accompanying consolidated balance sheet at 31 December 2016:

En miles de euros

		2016					
	From:	Level 1		Level 2		Level 3	
	Note To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:							
Financial assets held for trading		-	-	-	-	-	634,920
Financial assets designated at fair value through profit or loss		-	-	-	-	-	
Available-for-sale financial assets		-	-	-	-	-	
Derivatives	10	-	-	-	-	-	138,620
Liabilities							
Financial liabilities held for trading		-	-	-	-	-	226,050
Financial liabilities designated at fair value through profit or loss		-	-	-	-	-	
Derivatives-hedge accounting	13	-	-	-	-	-	183,849
Total		**-**	**-**	**-**	**-**	**-**	**1,183,439**

Transfers from Level 3 to Level 2 are due to an assessment made of the impact of non-observable market data on the valuation of these instruments and, as such valuation is residual, it has been deemed appropriate to transfer these instruments to Level 2.

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:							
Financial assets held for trading		-	-		64,187	-	1,380
Financial assets designated at fair value through profit or loss		-	-		-	-	-
Available-for-sale financial assets		-	-		-	-	-
Derivatives		-	-		-	-	-
Liabilities							
Financial liabilities held for trading		-	-		6,171	-	54
Financial liabilities designated at fair value through profit or loss		-	-		-	-	-
Derivatives-hedge accounting	13	-	-		-	-	-
Total		**-**	**-**	**-**	**70,358**	**-**	**1,434**

At 31 December 2015, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with 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 not significant because the amount of financial instruments classified as Level 3 is non-material.

At 31 December 2016 this estimate has not been presented, as the instruments considered as level 3 mainly correspond to the investment the entity holds in the Management Company for Assets Arising from the Banking Sector Reorganisation (SAREB), and that, due to the singularity of this investment it has been valued at its purchase price after applying impairment adjustments where necessary (see Note 9).

At 31 December 2016, income from sales of real estate assets classified as Level 3, recognised in the accompanying profit and loss statement, was not material.

Loans and financial liabilities designated at fair value through profit or loss

At 31 December 2016 and 2015, there were no loans or other financial liabilities at fair value other than those recognised under "Financial assets held for trading – Loans and advances - Customers", "Other assets designated at fair value through profit or loss" and "Other liabilities designated at fair value through profit or loss" in the accompanying balance sheets.

Financial instruments at cost

At 31 December 2016 and 2015 there were equity instruments 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 investments in companies that are not quoted in organised markets and are not unique in nature. As mentioned above, this is how the interest in SAREB has been recorded (see Note 9).

At the end of both years there were no equity derivatives such as underlyings and equity interest in discretionary benefits in some companies.

During 2016, there were no sales of financial instruments recorded at cost.

Non-financial assets

Real estate assets

At 31 December 2016 and 2015, net accounting values of real estate assets do not differ significantly from the fair values of these assets (see Notes 14, 16 and 18).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section “Guarantees”, in Note 1.3.4. of the present consolidated annual accounts.

The valuation techniques are generally used by all appraisal companies based on the type of each real-estate asset.

Due to a regulatory requirement, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and non-observable or non-verifiable data to a minimum.

The following measurement hierarchy levels would correspond to the main valuation methods used:

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 valued property generates or may generate income 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 their 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 trends in all provinces provided by external valuation companies and demographic data from the Spanish National Statistics Institute to calculate sensitivity at a municipality level. At the same time, the value obtained is adjusted based on the degree of maturity (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method – applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- 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 frames for project completion 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:

- *Completed buildings*: valued in comparable terms, based on updates to income or the statistical model (Level 2).
- *Buildings under construction*: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).
- *Land*: valued using the residual method (Level 3).

Calculation of fair value

The following table shows the main real estate assets broken down using the valuation method used in their fair value estimate:

Thousand euro

	Fair Value			
	Level 1	Level 2	Level 3	Total
Housing	-	2,704,401	-	2,704,401
Offices, retail outlets and other properties	-	3,456,469	-	3,456,469
Land and building plots	-	-	2,041,785	2,041,785
Work in progress	-	-	387,736	387,736
Total assets	**-**	**6,160,870**	**2,429,521**	**8,590,391**

Significant non-observable variables used in valuations classed on Level 3 were developed not by the Group but by the independent valuation companies that performed the appraisals. Due to the general use of appraisals, the valuation techniques of which are clearly defined in regulations on property valuations, the unobservable variables used reflect the assumptions which are habitually used by all appraisal companies. The Group does not have, at 31 December 2016 or 2015, the quantification of these unobservable variables used in the appraisals. Therefore, as such valuations were not performed internally, it has not been considered necessary to conduct a sensitivity assessment.

The movements of balances during 2016 classified as Level 3 are shown below:

Thousand euro

	Housing	Offices, retail outlets and other properties	Land, building plots and work in progress
Balance at 31 December 2015	-	-	2,840,000
Purchases	-	-	402,403
Sales	-	-	(378,629)
Impairments recorded on income statement (*)	-	-	(318,623)
Net additions/(exits) on Level 3	-	-	(115,630)
Balance at 31 December 2016	-	-	2,429,521

(*) Relates to assets kept on the balance sheet at 31 December 2016 and 2015

At 31 December 2016, income from sales of real estate assets classified as Level 3, recognised in the accompanying profit and loss statement, was not material.

The fair value of real estate assets valued by valuation companies, portfolios of foreclosed assets and own-use assets classified in Non-current assets and disposal groups classified as held for sale, investment properties and inventories in 2016 is as follows:

Thousand euro

	Non-current assets held for sale		Tangible assets		
Appraisal company	For own use	Foreclosed	For own use	Real estate investments	Inventories
Afes Tecnicas de Tasacion, S.A.	11,310	15,830	117,185	85,081	9,169
Alia Tasaciones, S.A.	-	120,074	8,359	94,944	63,749
Arco Valoraciones S.A.	1,664	10,759	29,132	22,925	4,664
Col.lectiu D'arquitectes Taxadors, S.A.	86	27,266	15,540	13,743	28,987
Cushman & Wakefield	-	-	1,544	-	-
Egara Informes, S.L.	-	1,807	-	628	-
Eurovaloraciones, S.A	16,979	47,111	102,530	42,415	35,330
Gestion de Valoraciones y Tasaciones, S.A.	3,186	256,948	114,214	541,657	367,597
Iberica de Tasaciones, S.A	-	21,463	-	18,856	-
Ibertasa, S.A.	2,238	165,478	21,778	143,901	531,118
Knight Frank Madrid S.a	-	-	-	-	15,222
Krata, S.A.	1,506	163,612	158,169	95,853	194,185
Servatas S.A.	-	82	-	647	-
Sociedad de Tasacion, S.A.	604	738,605	236,304	561,272	965,171
Tabimed Gestion de Proyectos S.l.	-	23,750	-	3,233	2,392
Tasaciones de Bienes Mediterraneo, s a	-	67,738	-	10,001	1,796
Tasaciones Hipotecarias	369	16,201	-	17,817	12,025
Tasaciones Inmobiliarias, S.A	-	13,084	-	1,945	29,488
Tasaciones Madrid, s a	-	274	-	-	7,206
Tecnicos en Tasación, S.A.	654	-	-	-	-
Tecnitasa Técnicos en Tasación S.A.	1,340	104,036	17,913	54,684	222,682
Thirsa	-	17,830	-	3,347	3,624
Tinsa Tasaciones Inmobiliarias, S.A.	2,126	223	130,198	2,058	82
Valoraciones Mediterraneo, S.A.	-	1,090	-	543	2,578
Valtecnic, S.A.	-	692	-	129	1,239
Other (*)	429	246,642	205,733	688,568	426,155
Total	42,491	2,060,595	1,158,599	2,404,247	2,924,459

(*) Includes restated valuations using statistical methods (see Note 1).

Note 7 – Cash and cash balances at central banks and other demand deposits

The composition of this asset heading in the consolidated balance sheets at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016	2015
By nature:		
Cash	759,357	734,362
Cash balances at central banks	10,122,725	5,405,097
Other demand deposits	806,168	1,204,022
Total	**11,688,250**	**7,343,481**
By currency:		
In euro	6,603,951	2,522,709
In foreign currency	5,084,299	4,820,772
Total	**11,688,250**	**7,343,481**

Average annual interest rates on deposits in credit institutions for 2016 and 2015 were 0.30% and 0.57% respectively.

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheet at 31 December 2016 and 2015 are analysed below:

Thousand euro

	2016	2015
By heading		
Financial assets held for trading	1,639,097	792,460
Financial assets designated at fair value through profit or loss	-	-
Available-for-sale financial assets	18,120,530	22,887,626
Loans and receivables	918,584	1,732,478
Held to maturity investments	4,598,190	-
Total	**25,276,401**	**25,412,564**
By nature:		
Central Banks	-	-
General Governments	22,877,291	21,091,462
Credit institutions	925,180	1,204,554
Other sectors	1,476,902	3,118,243
Doubtful assets	9,030	11,422
Impairment adjustments	(12,001)	(13,117)
Total	**25,276,401**	**25,412,564**
By currency:		
In euro	19,033,326	19,392,845
In foreign currency	6,243,075	6,019,719
Total	**25,276,401**	**25,412,564**

Average annual interest rates on debt securities for 2016 and 2015 were 2.37% and 2.79% respectively (2.42% in 2016 excluding TSB).

Details of debt instruments recorded under the heading Available-for-sale financial assets are as follows:

Thousand euro

	2016	2015
Amortised cost (*)	17,825,735	22,180,596
Fair value	18,120,530	22,887,626
Accumulated losses recognised in equity at year end	(101,268)	(231,960)
Accumulated capital gains recognised in equity at year end	396,063	938,990

(*) Includes net results due to impairment in the profit and loss statement for the year 2016 and 2015 for 521 and 1,719 thousand euros, of which losses amounted to (3,935) and 1,106 in the years 2016 and 2015.

The breakdown of government debt exposures classified as available-for-sale financial assets is as follows:

Thousand euro

	2016	2015
Amortised cost	16,174,690	18,941,738
Fair value	16,443,443	19,450,687
Accumulated losses recognised in equity at year end	(78,972)	(211,136)
Accumulated capital gains recognised in equity at year end	347,725	720,085

As regards the portfolio of investments held to maturity, it is broken down as follows:

Thousand euro

	2016	2015
Central banks	-	-
General governments	4,598,190	-
Credit institutions	-	-
Other sectors	-	-
Impairment adjustments	-	-
Total	**4,598,190**	**-**

In the second half of 2016, certain debt securities were reclassified from the heading “Available-for-sale financial assets” to the heading “Investments held to maturity”. This reclassification took place at the end of the two years of penalisation set forth in standard IAS-39 (a penalisation which entailed not being able to hold the portfolio to maturity due to the significant sales produced during 2013) and given that the Group’s intended way of managing these securities was to hold them to maturity.

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheet at 31 December 2016 and 2015 are analysed below:

Thousand euro

	2016	2015
By heading:		
Financial assets held for trading	10,629	11,212
Financial assets designated at fair value through profit or loss	34,827	77,328
Available-for-sale financial assets	597,809	572,730
Total	**643,265**	**661,270**
By nature:		
Resident sector	361,290	168,931
Credit institutions	9,418	9,207
Other	351,872	159,724
Non resident sector	148,839	324,737
Credit institutions	95,955	227,247
Other	52,884	97,490
Equity investments in investment funds and companies	133,136	167,602
Total	**643,265**	**661,270**
By currency:		
In euro	496,356	514,216
In foreign currency	146,909	147,054
Total	**643,265**	**661,270**

At 2016 year-end there were no investments in quoted equity instruments for which their market price has not been considered as a reference of their fair value.

Financial assets designated at fair value through profit or loss consisted of investments associated with unit-linked life policies sold through the subsidiary Assegurances Segur Vida, S.A.

Details of equity instruments recorded under the heading *Available-for-sale financial assets* are as follows:

Thousand euro

	Note	2016	2015
Acquisition cost		532,378	452,213
Fair value		597,809	572,730
Accumulated losses recognised in equity at year end		(2,333)	(1,236)
Accumulated capital gains recognised in equity at year end		67,764	121,753
Losses recorded as impairment in profit and loss for the year	37	(112,806)	(134,109)

During the first half of 2016, Banco Sabadell and its investee, BanSabadell Holding, S.L. reduced the value of the interest they held in Banco Comercial Português, S.A. ("Millennium BCP") for the amount of 92,324 thousand euros (71,215 thousand euros in 2015).

In December 2016 both entities sold 38,577,892 Millennium BCP shares, representing 4.08% of its share capital and its voting rights. The shares were sold at a price of 1.15 euros per share, which represented a total of 44,364 thousand euros for the block of shares sold, and the overall result of the transaction was a loss of 8,375 thousand euros.

After this sale, Banco Sabadell is a direct owner of 1,353,619 Milennium BCP shares, representing 0.14% of its capital valued at 1,450 thousand euros.

On the other hand, during 2016 Banco Sabadell increased the cost of its interest by 143,550 thousand euros in the Management Company for Assets Arising from the Banking Sector Reorganisation (SAREB), as a consequence of the execution of the capital increase to convert the "Unsecured Convertible Subordinated Debentures 2013".

At 31 December 2016, the impairment of this interest amounted to 56,756 thousand euros. Subsequently, it is valued at 170,174 thousand euros (26,624 thousand euros in 2015).

On 2 November 2015, Visa Inc. announced a tender offer to purchase 100% of Visa Europe shares, which materialised on 21 June 2016. The consideration for shares owned by the Group consisted in the up-front delivery of a cash amount plus the delivery of convertible preferred shares of Visa Inc., as well as a cash amount payable within 3 years. The recorded capital gain amounted to €109 million.

At 31 December 2016 the valuation of the interest held in Visa Inc has been updated, and 3 million euros have been offset by other comprehensive income in the statement of equity.

Note 10 – Asset and liability derivatives held for trading

The breakdown by transaction types of trading derivatives balances on the asset and liability sides of the consolidated balance sheet at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Securities risk	169,449	170,058	259,555	233,732
Interest rate risk	1,122,057	1,137,713	916,789	961,604
Currency risk	467,291	530,860	312,200	269,290
Other kinds of risk	75,698	77,283	19,902	20,296
Total	**1,834,495**	**1,915,914**	**1,508,446**	**1,484,922**
By currency:				
In euro	1,609,077	1,738,788	1,367,187	1,342,124
In foreign currency	225,418	177,126	141,259	142,798
Total	**1,834,495**	**1,915,914**	**1,508,446**	**1,484,922**

Fair values of derivatives at 31 December 2016 and 2015 are broken down below, by type of derivative instrument:

Thousand euro

	2016	2015
Assets		
Derivatives held for trading	*1,834,495*	*1,508,446*
Swaps, CCIRS, Call Money Swap	1,128,670	910,320
Exchange-rate options	30,068	22,631
Interest-rate options	54,365	56,296
Index and securities options	184,169	279,457
Currency forwards	437,223	239,742
Total assets held for trading	**1,834,495**	**1,508,446**
Liabilities		
Derivatives held for trading	*1,915,914*	*1,484,922*
Swaps, CCIRS, Call Money Swap	1,125,749	894,460
Exchange-rate options	31,323	29,298
Interest-rate options	100,774	103,588
Index and securities options	186,571	254,027
Currency forwards	471,497	203,549
Total liabilities held for trading	**1,915,914**	**1,484,922**

Note 11 – Loans and advances

Central banks and Credit institutions

The composition of the headings "*Loans and advances - Central banks*" and "*Loans and advances - Credit institutions*" in the consolidated balance sheets at 31 December 2016 and 31 December 2015 is as follows:

Thousand euro

	2016	2015
By heading:		
Financial assets held for trading	-	-
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables	4,291,996	5,002,066
Total	**4,291,996**	**5,002,066**
By nature:		
Deposits with agreed maturity	2,320,133	1,311,414
Assets acquired under repurchase agreements	1,704,404	3,101,716
Hybrid financial assets	89	3,176
Other	269,122	583,416
Doubtful assets	368	566
Impairment adjustments	(6,681)	(1,801)
Other valuation adjustments (interest, fees and commissions, other)	4,560	3,579
Total	**4,291,996**	**5,002,066**
By currency:		
In euro	3,279,828	4,720,693
In foreign currency	1,012,168	281,373
Total	**4,291,996**	**5,002,066**

Customer base

The composition of the heading "*Loans and advances - Customers*" (General governments and Other sectors) of the consolidated balance sheets at 31 December 2016 and 31 December 2015 is as follows:

Thousand euro

	2016	2015
By heading:		
Financial assets held for trading	-	-
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables	145,173,865	146,815,737
Total	**145,173,865**	**146,815,737**
By nature:		
On-demand loans and other	6,801,456	7,206,937
Trade credit	5,530,045	5,665,062
Finance leases	2,168,803	2,070,028
Secured loans	90,693,505	92,739,951
Repos	7,930	728,475
Other term loans	35,363,490	32,685,849
Doubtful assets	9,641,526	12,470,413
Impairment adjustments	(4,921,348)	(6,609,577)
Other valuation adjustments (interest, fees and commissions, other)	(111,543)	(141,401)
Total	**145,173,865**	**146,815,737**
By sector:		
General governments	9,683,466	8,954,620
Other sectors	130,881,764	132,141,682
Doubtful assets	9,641,526	12,470,413
Impairment adjustments	(4,921,348)	(6,609,577)
Other valuation adjustments (interest, fees and commissions, other)	(111,543)	(141,401)
Total	**145,173,865**	**146,815,737**
By currency:		
In euro	98,615,373	100,965,967
In foreign currency	46,558,492	45,849,770
Total	**145,173,865**	**146,815,737**
By geography:		
Spain	98,965,788	104,752,006
Rest of European Union	39,707,952	36,417,861
Latin America	3,519,712	2,351,185
North America	6,431,602	9,235,497
Other OECD countries	245,475	149,741
Rest of the world	1,224,683	519,024
Impairment adjustments	(4,921,347)	(6,609,577)
Total	**145,173,865**	**146,815,737**

Average annual interest rates on customer lending on the asset side of the balance sheet for 2016 and 2015 were 3.16% and 3.27 % respectively (2.94% in 2016 excluding TSB).

The heading "*Loans and advances*" on the consolidated balance sheets include certain assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. For more information, see Note 4. Financial risk management – Credit risk.

Finance leases

Items sold under finance leases are recorded at the amortised cost of the fees payable by the lessee, plus the secured and unsecured residual value, excluding financial expenses and value added tax. Their composition is as follows:

Thousand euro

	2016	2015
Finance leases		
Total gross investment	2,137,815	2,083,279
Of which: Contingent lease payments recognised in income	74,007	77,630
Unearned financial income	245,716	272,662
Unguaranteed residual value	139,827	126,034
Impairment adjustments	38,881	68,509

A continuación se presenta un detalle por plazos del valor actual de los pagos futuros mínimos a recibir por el grupo durante el período de obligado cumplimiento (al considerarse que no se van a ejercitar prórrogas ni opciones de compra existentes).

Thousand euro

	Up to 1 year	1-5 years	More than 5 years	Total
Minimum lease payments receivable				
Mandatory minimum lease payments receivable	510,790	1,312,388	456,022	2,279,200

Unimpaired financial assets past-due

The credit balance of non-doubtful lending to customers past-due and pending collection at 31 December 2016 amounts to €222,083 thousand (€161,702 thousand at 31 December 2015). Of this total, over 75% of the balance at 31 December 2016 (60% of the balance at 31 December 2015) has reached maturity over a term not exceeding one month.

Doubtful assets

Assets recognised as doubtful in the different balance sheet asset headings at 31 December 2016 and 2015 were as follows:

Thousand euro

	Note	2016	2015
Debt securities		9,030	11,422
Loans and advances			
Customers		9,641,526	12,470,413
Central Banks and Credit Institutions		368	566
Total		**9,650,925**	**12,482,401**
By sector:			
General governments		13,863	11,458
Central Banks and Credit Institutions		7,276	566
Other private sectors		9,629,785	12,470,377
Total		**9,650,925**	**12,482,401**

The movements of doubtful assets is as follows:

Thousand euro

Balance at 31 December 2014	**15,726,087**
Addition of TSB (*)	252,697
Additions	1,984,531
Disposals	(4,443,097)
Amortisations	(1,037,817)
Balance at 31 December 2015	**12,482,401**
Additions	1,755,062
Disposals	(4,058,422)
Amortisations	(528,116)
Balance at 31 December 2016	**9,650,925**

(*) See note 2.

The breakdown of doubtful assets by type of guarantee at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Secured with a mortgage (*)	5,694,291	7,308,197
Other collateral (**)	1,838,432	2,878,060
Rest	2,118,202	2,296,144
Total	**9,650,925**	**12,482,401**

(*) Assets secured with a mortgage with an outstanding risk below 100% of their valuation amount.
(**) Includes the rest of assets secured with collateral.

The breakdown of the balance of doubtful assets by geography at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Spain	9,070,695	11,699,177
Rest of European Union	479,338	589,474
Ibero-America	33,933	101,482
North America	25,631	42,602
Rest of OECD	6,471	9,507
Rest of the world	34,857	40,159
Total	**9,650,925**	**12,482,401**

Financial income on impaired financial assets incurred but not recorded in the consolidated income statement amounts to €610,673 thousand at 31 December 2016 and to €723,241 thousand at 31 December 2015.

The movements in impaired financial assets written off because their recovery is regarded as unlikely is as follows:

Thousand euro

Balance at 31 December 2014	**5,610,127**
Scope additions / exclusions (*)	
Addition 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)
Acquisitions of tangible assets and debt remission	(19,714)
Expiry	-
For debt refinancing or restructuring	-
Due to bad-debt write off	(758,613)
Exchange differences	-
Balance at 31 December 2015	**5,955,711**
Additions	**648,028**
Charged to impairment adjustments	612,583
Charged directly to the income statement	1,296
Overdue unpaid items	33,591
Other items	558
Disposals	**(1,327,929)**
Recovery of principal in cash (**)	(109,360)
Recovery of overdue unpaid items in cash (**)	(64,960)
Acquisitions of tangible assets and debt remission	(92,933)
Expiry	-
For debt refinancing or restructuring	-
Due to bad-debt write off	(1,060,676)
Exchange differences	**(26,127)**
Balance at 31 December 2016	**5,249,683**

(*) See note 2.

(**) Disposals due to recovery of principal in cash and recovery of overdue unpaid items in cash are reflected in the heading "Impairment losses on financial assets". (See Note 37).

Value adjustments

The amounts of value adjustments due to asset impairment under the different balance sheet asset headings at 31 December 2016 and 2015 are as follows:

Thousand euro

	2016	2015
Debt securities	12,001	13,117
Loans and advances		
Customers	4,921,348	6,609,577
Central Banks and Credit Institutions	6,681	1,801
Total	**4,940,030**	**6,624,495**

The bank considers that the Group's value adjustments due to asset impairment and its provisions are sufficient to absorb any possible losses resulting from its assets and the outcome of any open contingency that the bank may have.

Impairment adjustments include €410 million to cover contingencies which have arisen related to mortgage floor clauses. Excluding the described impairment, the NPL coverage ratio would stand at 47.34%, and the coverage ratio of problematic assets would stand at 47.45% (47.25% and 47.40%, respectively, excluding TSB).

Details of the value adjustments made for credit risk hedging and their cumulative amount at the start and at the end of the year is as follows:

Thousand euro

	Determined individually	Determined collectively	IBNR coverage (***)	Country risk	Total
Balance at 31 December 2014	1,399,618	5,194,280	1,136,010	3,761	7,733,669
Scope additions / exclusions (*)	-	-	-	-	-
Addition of 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
Movements reflected in impairment losses (**)	86,581	190,444	103,911	(1,965)	378,971
Movements not reflected in impairment losses	(1,128,701)	(671,925)	(261,218)	5,414	(2,056,430)
Utilisation of allowances	(967,417)	(685,173)	(241,775)	-	(1,894,365)
Other movements (****)	(161,284)	13,248	(19,443)	5,414	(162,065)
Adjustments for exchange differences	(193)	(1,797)	(5,518)	502	(7,006)
Balance at 31 December 2016	1,321,959	2,448,093	1,161,472	8,506	4,940,030

(*) See note 2.

(**) This figure, impaired financial assets written off against income and bad-debt recoveries are reflected under the heading "Impairment losses on financial assets" (see Note 37).

(****) Corresponds to the transfer of €162,065 thousand of value adjustments recognised for credit risk hedging to non-current assets held for sale (see note 14) and investment properties (see note 16).

The breakdown of value adjustments due to asset impairment by geography at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Spain	4,657,319	6,238,422
Rest of the European Union	220,814	309,367
Ibero-America	38,610	49,408
North America	2,317	7,057
Rest of OECD	2,998	4,630
Rest of the world	17,972	15,611
Total	4,940,030	6,624,495

Note 12 – Fair value changes of the hedged items in portfolio hedge of interest rate risk

The balances under this heading on the asset and liability sides of the consolidated balance sheet correspond to gains and losses on items covered by fair value hedges of the interest rate risk on portfolios of financial instruments, almost entirely offset by gains and losses associated with their corresponding hedging derivative.

Note 13 – Derivatives – Asset and liability hedge accounting

The composition of the fair values of these headings in the consolidated balance sheets at 31 December 2016 and 2015, in terms of the type of hedging carried out, was as follows:

Thousand euro

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Micro-hedges:				
Fair value hedges	147,563	54,611	171,755	379,355
Cash flow hedges	339,357	216,022	436,441	161,281
Hedge of net investment in foreign operations	26,934	-	13,383	173
Macro-hedges:				
Fair value hedges	21,306	785,819	79,234	76,857
Cash flow hedges	-	49,354	-	63,795
Total	**535,160**	**1,105,806**	**700,813**	**681,461**
By currency:				
In euro	379,914	484,487	537,267	353,525
In foreign currency	155,246	621,320	163,546	327,936
Total	**535,160**	**1,105,806**	**700,813**	**681,461**

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

These are hedges which cover exposure to changes 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 transactions.

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 in capital markets and operations involving deposits with agreed maturity contracted with customers. The fair value of the swaps included in these hedges, at 31 December 2016 and 31 December 2015, amounts to a credit balance of €72 thousand and €32,740 thousand respectively.

- Macro-hedges of fixed-rate debt securities classified in the available-for-sale portfolio. The fair value of the swaps included in these hedges, at 31 December 2016 and 31 December 2015, amounts to a credit balance of €741,648 thousand and €16,683 thousand respectively.

- Macro-hedges of mortgage loans granted to customers. The fair value of the swaps included in these hedges amounts to €22,792 thousand at 31 December 2016 (€971 thousand at 2015 year-end).

- Micro-hedges of fixed-rate liability transactions consisting of deposits with agreed maturity contracted with customers and issued subordinated debt. The fair value of the swaps included in these hedges, at 31 December 2016 and 31 December 2015, amounts to a credit balance of €2,666 thousand and €22,853 thousand respectively.

- Micro-hedges of fixed-rate liability transactions consisting of customer sight accounts. The fair value of the swaps included in these hedges amounts to a debit balance of €14,905 thousand at 31 December 2016 (€271 thousand at 2015 year-end).

- Micro-hedging of fixed-rate asset transactions. The fair value of the swaps included in these hedges, at 31 December 2016 and 31 December 2015, amounts to a credit balance of €8,547 thousand and €323,165 thousand respectively.

Gains and losses recognised during the year on hedging instruments and on hedged items are shown in the following table:

Thousand euro

	2016		2015	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(36,928)**	**33,031**	**(25,763)**	**24,604**
Fixed-rate assets	(38,816)	35,366	(16,526)	16,604
Capital markets	(2,327)	2,607	(5)	(570)
Fixed-rate liabilities	4,215	(4,942)	(9,232)	8,570
Macro-hedges	**(248,285)**	**277,980**	**(15,053)**	**24,252**
Capital markets and fixed-rate liabilities	32,129	5,958	6,338	3,411
Fixed-rate assets	(280,414)	272,022	(21,391)	20,841
Total	**(285,213)**	**311,011**	**(40,816)**	**48,856**

b) Cash flow hedges

These hedges cover changes in cash flows from financial instruments associated with a specific risk or a transaction which is highly likely to occur.

The derivatives used in such hedging mainly consist of forward interest rate swaps and transactions. The composition of the main hedges is as follows:

- Micro-hedges for interest rates on future transactions involving fixed income securities. The entity designates as hedging items the derivative agreements which will be settled at their gross amount through the delivery of the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines in IAS 39, may be considered as cash flow hedges with respect to the consideration to be settled 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 forward securities contracted at 31 December 2016 and 31 December 2015 amounted to a debit balance of €44,332 and a €10,284 thousand, respectively.

- Micro-hedges of interest rates on bonds tied to inflation. The bank has contracted financial swaps to cover the variation in future cash flows to be settled with inflation-linked bonds. The fair value of these swaps at 31 December 2016 and 31 December 2015 amounted to a credit balance of €15,580 thousand and a debit balance of €280,814 thousand, respectively.

- Macro-hedges of cash flows, the purpose of which is to reduce the volatility of the buy-sell spread due to interest rate fluctuations over a one-year time horizon. Thus, macro-hedges cover future cash flows based on the net exposure of a portfolio consisting of highly probable liabilities with a similar exposure to interest rate risk. Interest rate swaps are the hedging instruments used for this purpose. The fair value of these swaps at 31 December 2016 and 31 December 2015 amounted to a credit balance of €49,354 thousand and €60,211 thousand, respectively.

- Micro-hedges of securitisation bonds denominated in foreign currency to reduce volatility in the event of exchange rate fluctuations. A cross currency interest rate swap has been contracted to hedge this amount, the fair value of which, at 31 December 2016, amounted to a debit balance of €65,283 thousand (€10,288 thousand at 2015 year-end).

- Exchange rate hedges for future transactions. The entity has taken out forward exchange contracts to cover exchange rate fluctuations. The fair value of the forward securities contracted at 31 December 2016 amounted to a debit balance of €23,364 thousand.

Amounts recognised in equity during the year and amounts written off from equity and included as income during the year are recorded in the statement of total changes in equity of Banco Sabadell.

No market failure has been recognised in the 2016 results related to cash flow micro-hedges being non-material.

c) Hedge of net investment in foreign operations

The entity uses hedging policies with the primary aim of minimising the negative impact of adverse movements in currency markets on capital ratios and on income generated through its currency business. Hedging operations cover the foreign exchange risk of investments made in companies of the Group located in countries in which the operating currency is not the euro (see Note 4.4.3.1 on Structural exchange rate risk).

At present, GBP 1,368 million, USD 100 million and MXN 1,293 million are being hedged by currency forwards. The fair value of these hedging derivatives at 31 December 2016 amounted to a debit balance of €29,192 thousand.

During 2016, the coverage of capital has increased from GBP 768 million in 2015 to the current GBP 1,368 million, representing 73% of the total investment.

This currency hedge is continuously monitored in light of market fluctuations.

Note 14 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Assets	**5,423,159**	**3,165,293**
Loans and advances	28,584	-
Credit institutions	28,284	-
Customers	301	-
Debt securities	2,375,232	-
Equity instruments	7,012	19,452
Tangible assets	2,942,683	3,145,841
Tangible assets for own use	66,958	97,351
Foreclosed tangible assets	2,874,314	3,047,535
Leased out under operating leases	1,411	955
Rest of other assets	69,648	-
Impairment adjustments	**(844,464)**	**(622,907)**
Non-current assets and disposal groups classified as held for sale	**4,578,694**	**2,542,386**
Liabilities		
Financial liabilities measured at amortised cost	2,058	-
Tax liabilities	52,106	-
Liabilities under insurance or reinsurance contracts	2,159,084	-
Rest	119	-
Liabilities included in disposal groups classified as held for sale	**2,213,368**	-

The main change year-on-year corresponds to the reclassification of assets and liabilities from Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros to this heading, as explained in Note 2 to these consolidated annual accounts.

The contribution of Mediterráneo Vida to the heading "*Accumulated other comprehensive income*" of the consolidated equity statement, has been reclassified under the sub-heading "*Items that may be reclassified to profit or loss - Non-current assets and disposal groups classified as held for sale*". This contribution includes two items, valuation adjustments of available-for-sale financial assets and the effect of accounting mismatches arising from different valuations of financial assets and associated insurance commitments.

Foreclosed tangible assets comprise assets received from borrowers or other debtors of the bank for the full or partial settlement of financial assets representing collection rights against those borrowers or debtors.

Total tangible assets for own use relates to residential property (offices).

As regards assets arising from foreclosures, 90.37% of the balance corresponds to residential assets, 7.74% to industrial assets and 1.89% to rural properties.

The average term during which assets remained within the category of "*Non-current assets and disposal groups classified as held for sale - Foreclosed assets*" was 31.6 months in 2016. Policies for the sale of these assets and their disposal though alternative means are described in Note 4.

The percentage of foreclosed assets sold to purchasers financed by the bank in 2016 was 30.49% (34.73% in 2015).

Movements in non-current assets and disposal groups classified as held for sale during 2016 and 2015 were as follows:

Thousand euro

		Non-current assets held for sale
Cost:		
Balances at 31 December 2014	**Note**	**2,873,974**
Additions		1,373,440
Disposals		(722,570)
Other transfers	16	(113,611)
Transfer of credit losses (*)		(245,940)
Balances at 31 December 2015		**3,165,293**
Reclassification Mediterráneo Vida		2,438,066
Additions		1,094,360
Disposals		(1,062,491)
Other transfers	16	(58,107)
Transfer of credit losses (*)		(153,962)
Balances at 31 December 2016		**5,423,159**
Value adjustments due to impairment:		
Balances at 31 December 2014		**624,039**
Impairment through profit or loss	41	261,552
Reversal of impairment through profit or loss	41	(160,291)
Utilisations		(61,653)
Other transfers	16	(40,740)
Balances at 31 December 2015		**622,907**
Impairment through profit or loss	41	778,838
Reversal of impairment through profit or loss	41	(495,648)
Utilisations		(49,010)
Other transfers	16	(12,623)
Balances at 31 December 2016		**844,464**
Net balances at 31 December 2015		**2,542,386**
Net balances at 31 December 2016		**4,578,695**

(*) Allowance arising from value adjustments made in relation to credit risk hedging.

Note 15 – Investments in joint ventures and associates

Movements in this item at 31 December 2016 and 2015 were as follows:

Thousand euro

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**
Scope additions/exclusions	(249)
Profit/(loss) for the year	74,573
Capital increase or acquisition (*)	8,953
Sale or dissolution	(21,365)
Dividends	(17,159)
Transfer	-
Impairment, valuation adjustments, translation differences and other	(5,077)
Balance at 31 December 2016	**380,672**

(*) See cash flow statement.

In the cash flow statement – cash flows from investment activities, the item on payments relating to investments in joint ventures and associates gives the sum of €21,365 thousand in sales and €17,159 thousand in dividends in the preceding table, plus the result of gains from investees no longer consolidated in Note 39 which amounted to 46,883 thousand.

The main investees included for the first time in the balance sheet and those no longer in the balance sheet in 2016 and 2015 are indicated in Schedule I, the most significant of which are described hereafter.

As disclosed in Note 2 to these consolidated annual accounts, in April 2016, Banco Sabadell transferred 100% of its stake in Dexia, for a total price of €52,390 thousand.

In April 2015 Banco Sabadell took part in the capital increase carried out by Metrovacesa, contributing €112 million and carrying an impairment of €59.2 million (see Note 37). In September 2015, 100% of the interests held in this company were sold (the derecognised net carrying value amounted to €270,027 thousand).

2015 includes €30.2 million from the recovery of the impairment of the stake in Ribera Salud, S.A.

Goodwill associated with investments in joint ventures and associates at 31 December 2016 amounted to €305 thousand (€14,473 thousand in 2015).

At 31 December 2016 and 2015 no support agreements or other type of significant contractual commitment had been provided by the bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "*Investments in joint ventures and associates*" is as follows:

Thousand euro

	2016	2015
Group investment in investees (Schedule I)	230,781	370,706
Contributions due to accumulated profits	162,200	199,821
Valuation adjustments (impairment and exchange differences)	(12,309)	(229,531)
Total	**380,672**	**340,996**

At 31 December 2016 and 2015, the aggregate book value of investments in associates considered as non-material on an individual basis was of €164,144 thousand and €144,986 thousand, respectively.

The main financial data of the investment considered to be individually significant, Bansabadell Vida, at 31 December 2016 and 2015 are as follows:

Thousand euro

	BanSabadell Vida (*)	
	2016	2015
Total assets	9,396,948	6,500,714
Of which: financial investments	*9,163,245*	*6,314,678*
Total liabilities	8,920,224	6,122,844
Of which: technical provisions	*8,501,287*	*5,765,573*
Result of the technical life account	105,434	96,528
Of which: premiums allocated to the year	*4,366,127*	2,829,184
Of which: claims ratio for the year	*(4,297,929)*	(2,768,577)
Of which: technical financial yield	*133,934*	108,566

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

Note 16 – Tangible assets

The composition of this heading in the consolidated balance sheets at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016				2015			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, Plant and Equipment:	3,567,707	(1,454,273)	(42,080)	2,071,354	3,223,624	(1,351,880)	(25,123)	1,846,621
For own use:	3,338,350	(1,409,450)	(41,366)	1,887,534	3,034,705	(1,300,962)	(24,220)	1,709,523
Computer equipment and related facilities	510,075	(362,317)	-	147,758	490,400	(352,834)	-	137,566
Furniture, vehicles and other facilities	1,276,676	(695,499)	-	581,177	1,275,207	(683,205)	(1,631)	590,371
Buildings	1,510,659	(344,634)	(41,366)	1,124,659	1,215,047	(256,076)	(22,589)	936,382
Work in progress	10,161	(0)	-	10,161	16,060	-	-	16,060
Other	30,779	(7,000)	-	23,779	37,991	(8,847)	-	29,144
Leased out under operating leases	229,357	(44,823)	(714)	183,820	188,919	(50,918)	(903)	137,098
Investment properties:	2,966,638	(181,841)	(380,551)	2,404,247	2,940,088	(149,513)	(448,670)	2,341,905
Buildings	2,929,488	(180,655)	(374,238)	2,374,594	2,918,157	(147,503)	(442,003)	2,328,651
Rural property, plots and sites	37,150	(1,186)	(6,312)	29,652	21,931	(2,010)	(6,667)	13,254
Total	6,534,345	(1,636,114)	(422,631)	4,475,601	6,163,712	(1,501,393)	(473,793)	4,188,526

Changes in the balance of the heading “*Tangible assets*” during 2016 and 2015 were as follows:

Thousand euro

		Property	Furnishings and equipment	Investment property	Assets leased out under operating leases	Total
Cost:	Note					
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
Included due to 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
Transfer of credit losses (*)		-	-	(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**
Scope additions / exclusions	2	290,922	80,183	133,547	-	504,652
Additions		44,295	124,940	301,663	110,179	581,077
Disposals		(41,392)	(172,720)	(381,063)	(50,016)	(645,191)
Other transfers		23,977	3,850	(19,494)	(15,701)	(7,368)
Transfer of credit losses (*)		-	-	(8,103)	-	(8,103)
Exchange rate		(35,301)	(15,109)	-	(4,024)	(54,434)
Balances at 31 December 2016		**1,551,599**	**1,786,751**	**2,966,638**	**229,357**	**6,534,345**
Accumulated depreciation:						
Balances at 31 December 2014		**198,413**	**933,411**	**114,576**	**31,365**	**1,277,765**
Scope additions / exclusions	2	-	3,728	-	-	3,728
Included due to 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**
Scope additions / exclusions	2	57,328	49,744	14,959	-	122,031
Included due to TSB	2	-	-	-	-	-
Additions		34,983	103,362	61,426	25,182	224,953
Disposals		(1,887)	(125,918)	(32,866)	(15,830)	(176,501)
Other transfers		8,690	3,613	(11,191)	(12,759)	(11,647)
Exchange rate		(12,403)	(9,024)	-	(2,688)	(24,115)
Balances at 31 December 2016		**351,634**	**1,057,816**	**181,841**	**44,823**	**1,636,114**
Impairment losses:						
Balances at 31 December 2014		**21,486**	**1,128**	**354,112**	**-**	**376,726**
Scope additions / exclusions	2	10,244	-	-	-	10,244
Impairment through profit or loss	38	3,646	-	263,328	903	267,877
Reversal of impairment through profit or lo:	38	(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**
Scope additions / exclusions	2	18,777	-	47,050	-	65,827
Impairment through profit or loss	38	-	-	403,856	41	403,897
Reversal of impairment through profit or lo:	38	-	-	(383,620)	-	(383,620)
Utilisations		-	(1,631)	(80,268)	(230)	(82,129)
Other transfers		-	-	(55,137)	-	(55,137)
Balances at 31 December 2016		**41,366**	**-**	**380,551**	**714**	**422,631**
Net balances at 31 December 2015		**981,586**	**727,937**	**2,341,905**	**137,098**	**4,188,526**
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Details of the source of the amortised cost of the transfers to the "*Tangible assets*" heading during 2016 are as follows:

En miles de euros

	Note	2016	2015
Inventories	18	13,932	65,835
Non-current assets and disposal groups classified as held for sale	14	45,484	72,871
Credit losses		(8,103)	(12,944)
Total		**51,313**	**125,762**

The gross value of own-use tangible assets that were fully depreciated and remained in use at 31 December 2016 and 2015 amounted to €477,722 thousand and €379,757 thousand, respectively.

The net book value of tangible assets corresponding to foreign operations amounted to €251,723 thousand at 31 December 2016 (€279,021 thousand at 31 December 2015).

The Group concluded property sales in which operating leases (maintenance, insurance and taxes borne by the bank) relating to those properties were simultaneously arranged with the purchasers. The main characteristics of the most significant lease contracts in effect at the end of 2016 are as follows:

	2016			
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 €37.5 thousand per month, is updated annually based on the Spanish CPI and with a minimum increase 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 effect during 2016 and 2015 amounted to €49,183 thousand and €49,131 thousand respectively, recognised under other general administrative expenses for property, plant and equipment under the heading "*Administrative expenses*" (see Note 36).

- As regards this set of operating lease contracts, the present values of minimum future rental payments to be incurred by the bank during the mandatory 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 2016 stood at €50,889 thousand for leases with terms of one year (€50,983 thousand in 2015), €155,778 thousand for one to five years (€168,370 thousand in 2015) and €232,017 for more than five years (€253,034 thousand in 2015).

With regard to the tangible assets leased out under operating leases heading, the bulk of the operating lease arrangements is carried out by BanSabadell Renting, S.A. and consists in vehicle leasing.

As regards the investment properties item, neither the rental income from these investment properties nor the associated direct costs, whether or not the investment properties were producing rental income during the year, were significant in relation to the consolidated annual accounts.

Note 17 – Intangible assets

The breakdown of this item at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016	2015
Goodwill:	**1,094,526**	**1,092,777**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
Sabadell United Bank, N.A.	72,960	70,645
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	17,020	17,586
Other intangible assets:	**1,040,689**	**987,793**
With a finite useful life:	1,040,689	987,793
Contractual relations with customers and brand (Banco Urquijo)	5,734	7,106
Contractual relations with customers (Banco Guipuzcoano)	21,753	26,960
Private Banking Business, Miami	29,725	25,783
Contractual relations with customers (Sabadell United Bank)	12,488	15,795
Contractual relations with TSB customers and brand	292,043	388,978
Computer applications	675,397	508,397
Other deferred expenses	3,549	14,774
Total	**2,135,215**	**2,080,570**

Goodwill

As set forth in the applicable regulatory framework, Banco Sabadell has performed an assessment to determine whether there is a potential for impairment to goodwill.

The valuation method used in the assessment has consisted in discounting the future attributable net profit associated with activities performed by the bank over a 5-year forecasting period (to 2021). It is expected that by 2021 the bank will have generated recurring profits and therefore, taking that year as a reference, the terminal value is estimated using a growth rate in perpetuity of 2%.

A discount rate of 9.5% was used, a figure reached through the CAPM (Capital Asset Pricing Model) methodology. This rate is comprised of a risk-free rate of return on Spanish bonds, plus one market risk premium.

The key variables on which the financial projections are based are: growth in brokerage margin (determined by expected trading volumes and interest rates) and changes of other items on the income statement and capital ratios.

Recoverable values, both overall and at the level of the CGUs, are higher than their respective book values and therefore no impairment has been recognised.

In addition, a sensitivity analysis has been conducted in which some key valuation variables were subjected to stress; again, there was no indication of any impairment. The variables on which this analysis was based include:

- A 15% haircut in recurring fees and commissions for 2021.
- A 50% increase in recurrent cost of risk for 2021.
- An increase in expenses for 2021 arising from the application of a multiplier of five times the expected inflation on 2020 expenses.
- An additional 1% increase in the premium when calculating the discount rate.
- A +0.5% increase in minimum capital requirements for each year.
- No growth rate has been applied.

Macroeconomic assumptions used in the assessment of goodwill impairment are as follows:

The Spanish economy will maintain relatively favourable growth trends in 2017 and will continue to stand out in a positive light from other Eurozone countries. The economy has room to continue growing above its potential and domestic demand will continue driving economic growth. GDP will be somewhat less dynamic than in the last two years due to: (i) the smaller positive impact of factors that have been boosting activity (oil, fiscal policies, low interest rates) and (ii) the consequences of uncertainty surrounding the process of the UK's withdrawal from the EU. In terms of the labour market, unemployment rates will continue to decline.

The adjustment of imbalances dating back to before the crisis (finalisation of the adjustments to the real estate sector, external surplus, significant reduction in private sector debts) has laid the foundations from which to move towards a more sustainable economic growth over time. The real estate sector will continue to improve as a result of the improved performance of the labour market and low mortgage interest rates. External surplus will prevail in a situation in which the internationalisation process of Spanish companies will continue. The deleveraging of the private sector will take place following the improved performance of nominal GDP, which will allow lending to stabilise.

The main domestic risk will continue to be the country's politics. The political situation will make it harder to adopt new structural reforms and comply with the fiscal goals set by the European Commission.

Inflation will increase positively, following its negative track record in recent years. This will be possible as the underlying effect linked to oil prices will dissipate and further steps will be taken to continue reducing surplus capacity.

Evaluation of whether there is any evidence of impairment to significant goodwill:

Banco Urquijo

Banco Urquijo's goodwill is allocated to the cash-generating units (CGUs) thought likely to benefit from the identified synergies. CGUs and their relative weight with respect to 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 entity were assigned to all CGUs (61.9%).

Banco Guipuzcoano

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking CGU and reflects the future profit-generating 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 consisted in discounting 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 2020) and the calculation of their a terminal value based on a zero growth rate in perpetuity. The discount rate used was 12.7%.

BMN-Penedès

The goodwill resulting from the business combination consisting of the acquisition of assets from BMN-Penedès was assigned to the Commercial Banking CGU.

Under the revised Spanish Corporate Income Tax Act, this goodwill is not tax deductible.

Other intangible assets

Banco Urquijo

Under other intangible assets, the main intangible assets associated with the purchase of Banco Urquijo were mainly 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 and credit, brokerage and securities custody), the values of deposits, and the value of the Banco Urquijo brand.

These intangible assets have finite useful lives of 12 years for Private Banking customers, seven years for Commercial Banking customers and five years for other categories. They are being amortised of these lives on a straight-line basis in a similar way to that used for tangible assets.

Banco Guipuzcoano

The intangible assets associated with the acquisition of Banco Guipuzcoano are largely made up of the value of contractual rights arising from relations with customers from Banco Guipuzcoano for core deposits and mutual funds. Core deposits were valued according to the income approach, using the cost saving method. The fair value was mainly determined 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 generated by fees and commissions from the sale of mutual funds. These assets are amortised over a period of 10 years from the date of acquisition of Banco Guipuzcoano.

Private Banking business Miami

Intangible assets associated with the 2008 acquisition of the Miami Private Banking business include the value of contractual rights 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.

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 thousand were recognised relating mainly to core deposits and contractual relations with certain customers. These are intangible assets 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 13,164 thousand and USD 17,196 thousand at 31 December 2016 and 31 December 2015, respectively.

TSB

Note 2 to these 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 customer 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 of developing the Group’s computer software and the purchase of software licences.

Movements in goodwill in 2016 and 2015 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance at 31 December 2014	**1,084,146**	**-**	**1,084,146**
Additions	683	-	683
Disposals	-	-	-
Exchange differences	7,948	-	7,948
Other	-	-	-
Balance at 31 December 2015	**1,092,777**	**-**	**1,092,777**
Additions	-	-	-
Disposals	-	-	-
Exchange differences	1,749	-	1,749
Other	-	-	-
Balance at 31 December 2016	**1,094,526**	**-**	**1,094,526**

Movements in other intangible assets in 2016 and 2015 were as follows:

Thousand euro

	Note	Cost	Depreciation	Impairment	Total
Balance at 31 December 2014		**1,387,652**	**(874,960)**	**(5,542)**	**507,150**
Included due to 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**
Additions		288,998	(170,943)	-	118,055
Disposals		(18,987)	6,880	52	(12,055)
Other		-	-	-	-
Exchange differences		(59,079)	5,975	-	(53,104)
Balance at 31 December 2016		**2,195,177**	**(1,154,487)**	**(1)**	**1,040,689**

(*) see Note 2.

The gross value of other intangible assets that were still in use and had been fully amortised at 31 December 2016 and 2015 totalled €420,775 thousand and €408,239 thousand, respectively.

Note 18 – Other assets

The composition of the heading "*Other assets*" at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016	2015
Insurance contracts linked to pensions	153.989	153.631
Inventories	2.924.459	3.655.548
Rest of other assets	1.358.817	943.855
Total	**4.437.265**	**4.753.034**

The "*Rest of other assets*" heading includes mainly unearned expenses paid, the accrual of customers' fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2016 and 2015 were as follows:

Thousand euro

	Notes	Land	Buildings under construction	Finished buildings	Total
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)
Impairment through profit or loss	38	(131,883)	(73,428)	(254,312)	(459,623)
Reversal of impairment through profit or loss		-	-	-	-
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**
Additions		182,646	56,381	385,950	624,977
Disposals		(277,711)	(110,769)	(415,782)	(804,262)
Impairment through profit or loss	38	(183,017)	(26,660)	(328,195)	(537,872)
Reversal of impairment through profit or loss		-	-	-	-
Other transfers	16	(29,868)	2,437	13,499	(13,932)
Other		-	-	-	-
Balance at 31 December 2016		**1,776,858**	**234,922**	**912,679**	**2,924,459**

At 31 December 2016 and 2015, there are no inventories associated with mortgage loans.

Note 19 – Deposits in credit institutions and central banks

The breakdown of deposits in credit institutions and central banks in the consolidated balance sheets at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
By heading:		
Financial liabilities measured at amortised cost	28,494,516	26,290,788
Total	**28,494,516**	**26,290,788**
By nature:		
Demand deposits	330,937	323,546
Deposits with agreed maturity	18,119,583	18,059,035
Sale of assets	9,858,488	7,181,238
Deposits redeemable at notice	-	551,116
Hybrid financial liabilities	-	10
Other accounts	170,165	180,233
Valuation adjustments	15,344	(4,390)
Total	**28,494,516**	**26,290,788**
By currency:		
In euro	22,678,036	22,622,578
In foreign currency	5,816,480	3,668,210
Total	**28,494,516**	**26,290,788**

Average annual rates of interest payable on deposits from credit institutions for 2016 and 2015 were 0.43% and 0.80% respectively (0.44% in 2016 excluding TSB).

Note 20 – Customer deposits

The deposits from customers reported on the consolidated balance sheets at 31 December 2016 and 2015 can be analysed as follows:

Thousand euro

	2016	2015
By heading:		
Financial liabilities measured at amortised cost	134,414,536	132,891,337
Total	**134,414,536**	**132,891,337**
By nature:		
Demand deposits	92,010,553	84,536,132
Current accounts	58,651,052	49,828,204
Savings accounts	32,292,578	33,622,239
Rest	1,066,923	1,085,689
Deposits with agreed maturity	35,290,208	43,144,910
Fixed term	32,057,280	39,576,739
Non-marketable covered bonds and bonds issued	2,691,720	3,427,124
Rest	541,208	141,047
Deposits redeemable at notice	30,384	-
Hybrid financial liabilities	4,833,384	3,246,439
Sale of assets	2,072,155	1,950,585
Valuation adjustments	177,851	13,271
Total	**134,414,536**	**132,891,337**
By sector:		
General governments	3,700,137	5,547,511
Other sectors	130,536,548	127,330,555
Other valuation adjustments (interest, fees and commissions, other)	177,851	13,271
Total	**134,414,536**	**132,891,337**
By currency:		
In euro	88,892,661	89,369,130
In foreign currency	45,521,875	43,522,207
Total	**134,414,536**	**132,891,337**

Average annual rates of interest payable on customer deposits for 2016 and 2015 were 0.39% and 0.67% respectively (0.30% in 2016 excluding TSB).

Note 21 – Debt securities issued

Details of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets at 31 December 2016 and 2015 are as follows:

Thousand euro

	2016	2015
Straight bonds	4,743,071	5,729,404
Straight bonds	*3,226,857*	*4,378,806*
Structured bonds	*457,164*	*291,548*
Government guaranteed ordinary bonds	*1,059,050*	*1,059,050*
Promissory notes	3,938,500	3,937,214
Covered bonds	10,856,100	9,999,800
Territorial bonds	-	-
Securitisation funds	5,345,117	6,601,999
Subordinated marketable debt securities	1,481,042	1,441,587
Subordinated liabilities	*1,462,642*	*1,423,187*
Preference shares	*18,400*	*18,400*
Valuation and other adjustments	169,708	154,367
Total	**26,533,538**	**27,864,371**

Schedule V shows details of the outstanding issues at 2016 and 2015 year-end.

On 22 December 2014, under the powers granted by the Board of Directors at its 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 Bank of Spain, to redeem the outstanding nominal balance of the following issues of preference shares and subordinated bonds:

€million

Name	Issuing entity	Redemption date	Outstanding nominal balance
Series I/2009 Preference Shares	Banco de Sabadell, S.A.	24/02/2015	10.84
Special Subordinated Debt Issue	Banco de Sabadell, S.A. (originally issued by CAM)	24/02/2015	6.13
Subordinated Bonds November 1988 Issue	Banco de Sabadell, S.A. (originally issued by Caja de Ahorros de	24/02/2015	0.1
First Issue Subordinated Bonds September 1988	Banco de Sabadell, S.A. (originally issued by CAM)	24/02/2015	0.62
Series A Preference Shares	Sabadell International Equity LTD.	24/02/2015	18.79
Series I Preference Shares	Guipuzcoano Capital, S.A.U.	24/02/2015	1.16
Series III Preference Shares	Guipuzcoano Capital, S.A.U.	19/02/2015	17.73
Series A Preference Shares	CAM Capital, S.A.U.	24/02/2015	6.07
Series B Preference Shares	CAM Capital, S.A.U.	24/02/2015	3.45
Series C Preference Shares	CAM Capital, S.A.U.	24/02/2015	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 redemption powers as provided in the terms and conditions of the relevant prospectuses approved and entered in the official registry of the Spanish 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 resolution 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 mandatory convertible subordinated bonds in Series III/2013 ("III/2013 Bonds") or Series IV/2013 ("IV/2013 Bonds"), depending on the type of Banco Gallego securities in their possession.

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 mandatory convertible subordinated bonds are as follows:

Thousand euro

Mandatory convertible bonds	Opening nominal balance	Outstanding nominal balance	
		2016	2015
Bonds III/2013	50,954	-	42,238
Bonds IV/2013	70,720	17,680	35,360

III/2013 Bonds matured on 28 October 2016. The IV/2013 Bonds mature on 28 October 2017, and 25% of the initial nominal value must be converted annually. The annual nominal interest rate corresponding to the III/2013 and IV/2013 bonds is 5%.

On 27 October 2015, at the end of the second voluntary conversion period for holders of mandatory 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 at its meeting held on 30 September 2013 in order to satisfy 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 mandatory partial conversion of the Banco Sabadell mandatory convertible subordinated bonds issue IV/2013 took place, and accordingly 25% of the initial nominal amount of the 70,720,450 IV/2013 Bonds was converted through a reduction of 25% in their initial nominal value, which is equivalent to a total of 9,261,430 shares of Banco Sabadell for a nominal amount of €1,157,678.75. To complete the mandatory 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 amount 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.

On 28 October 2016, the final maturity was reached of the Series III/2013 Mandatory Convertible Subordinated Bond issue, resulting in the mandatory conversion of the 42,237,846 III/2013 Bonds which remained in circulation into ordinary shares of Banco Sabadell. As a result, on 7 November 2016, the public deed for the capital increase of a nominal amount of €4,396,034.125 was registered with the Barcelona Mercantile Registry, agreed by the Executive Committee of Banco Sabadell on 3 November 2016, to attend to the mandatory total conversion arising from the maturity of the issue of Mandatory Convertible Subordinated Bonds Series III/2013, which gave rise to the conversion of the 42,237,846 bonds still in circulation and to the issue and allotment of a total of 35,168,313 new ordinary shares of Banco Sabadell. On 15 November 2016, the Spanish National Securities Market Commission (CNMV) verified that the requirements were satisfied for the admission to trading of the aforementioned new shares, with a nominal value of €0.125 each, issued by Banco Sabadell. Lastly, on 16 November 2016, the Governing Bodies of the Stock Exchanges in Barcelona, Bilbao, Madrid and Valencia agreed to the admission to trading of the aforementioned new shares, therefore the effective purchase of these new shares in the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia via the electronic trading system (*Mercado Continuo*) was initiated on 17 November 2016.

On 28 October 2016 the third mandatory partial conversion of the Banco Sabadell mandatory convertible subordinated bonds issue IV/2013 took place, and accordingly 25% of the initial nominal amount of the 70,720,450 IV/2013 Bonds were converted through a reduction of 25% in their initial nominal value. On 7 November 2016, the public deed for the capital increase of a nominal amount of €1,840,141.25 was registered with the Barcelona Mercantile Registry, agreed by the Executive Committee of Banco Sabadell on 3 November 2016, to attend to the third mandatory partial conversion arising from Mandatory Convertible Subordinated Bonds Series IV/2013, and accordingly 25% of the initial nominal amount of the 70,720,450 bonds were converted through a reduction of 25% of their initial nominal value, giving rise, in consecutive order, to the issue and allotment of a total of 14,721,130 new ordinary shares of Banco Sabadell. On 15 November 2016, the Spanish National Securities Market Commission (CNMV) verified that the requirements were satisfied for the admission to trading of the aforementioned new shares, with a nominal value of €0.125 each, issued by Banco Sabadell. Lastly, on 16 November 2016, the Governing Bodies of the Stock Exchanges in Barcelona, Bilbao, Madrid and Valencia agreed to the admission to trading of the aforementioned new shares, therefore the effective purchase of these new shares in the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia via the electronic trading system (*Mercado Continuo*) would be initiated on 17 November 2016.

The capital increases implemented as a result of the voluntary and mandatory partial conversions in 2016 and 2015 are as follows:

Issue	Conversion/ maturity date	Reason for conversion	Bonds converted (*)	Shares issued	Capital increase at nominal value (thousand euro)	Date of admission to quotation
OSNC III/2013	28/10/2016	mandatory total conversion	42,237,846	35,168,313	4,396	16/11/2016
OSNC IV/2013	28/10/2016	mandatory partial conversion	-	14,721,130	1,840	16/11/2016
Total 2016 (**)					**6,236**	
OSNC III/2013	28/10/2015	voluntary conversion	2,018,480	1,050,719	131	26/11/2015
OSNC IV/2013	28/10/2015	mandatory partial conversion	-	9,261,430	1,158	26/11/2015
Total 2015 (**)					**1,289**	

(*) In the OSNC (mandatory convertibles) IV/2013 issue, each year 25%of the nominal value of the 70,720,450 bonds was converted through a reduction of 25%of the initial nominal value..

(**) See Statement of changes in equity for 2016 and 2015.

Expenses due to the payment of mandatory convertible subordinated bonds amounted to €2,345 thousand and €30,989 thousand at 31 December 2016 and 2015.

Note 22 – Other financial liabilities

The balance of other financial liabilities on the consolidated balance sheets at 31 December 2016 and 2015 is analysed below.

Thousand euro

	2016	2015
By heading:		
Financial liabilities measured at amortised cost	2,568,434	2,422,181
Total	**2,568,434**	**2,422,181**
By nature:		
Debentures payable	331,680	409,601
Guarantee deposits received	56,423	60,895
Clearing houses	626,516	313,492
Collection accounts	889,252	883,596
Other financial liabilities (*)	664,564	754,597
Total	**2,568,434**	**2,422,181**
By currency:		
In euro	2,391,198	2,298,309
In foreign currency	177,236	123,872
Total	**2,568,434**	**2,422,181**

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 Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2016	2015
Days		
Average payment period for suppliers	31.51	27.75
Ratio of paid operations	31.52	27.74
Ratio of operations pending payment	18.69	39.34
Amount		
Total payments made	937,522	1,018,008
Total payments pending	323	1,076

Note 23 – Liabilities under insurance and reinsurance contracts

In December 2015, liabilities under insurance and reinsurance contracts mainly included balances corresponding to Mediterráneo Vida, S.A.U. de Seguros y Reaseguros. In 2016, these have been reclassified under the heading "*Liabilities included in disposal groups classified as held for sale*" (see Note 14).

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 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 a contingency covered by the policy arises.

The purpose of 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 accumulating at that date, without this sum being guaranteed.

Casualty insurance products are aimed at retail customers in which the principal risk is death or absolute permanent disability due to an accident.

The balance at 31 December 2016 and 2015 of liabilities under insurance and reinsurance contracts is as follows:

Thousand euro

	2016	2015
Unearned premiums and unexpired risks	1,396	1,785
Non-life insurance		
Benefits	55	147
Life insurance:		
Mathematical reserves	1,874,810	1,873,147
Benefits	20,584	23,034
With profits insurance and returned premiums	4,738	5,536
Life insurance in which the investment risk is borne by the policyholders	44,311	81,704
Implicit adjustments due to accounting mismatches	248,026	232,942
Total	**2,193,920**	**2,218,295**
Of which recognised as Non-current liabilities included in disposal groups classified as held for sale	*2,159,084*	-

Income and expenses of assets and liabilities under insurance and reinsurance contracts have been recorded under the headings "*Income from assets under insurance and reinsurance contracts*" and "*Expenses on liabilities under insurance or reinsurance contracts*", respectively, on the consolidated income statement.

Income from insurance and reinsurance contracts issued include the amount of premiums accrued corresponding to the insurers 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.).

Expenses under insurance and reinsurance contracts issued 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 income*" in the income statement for the year, amounting to €83,810 thousand in 2016 (€88,424 thousand in 2015).

The gains and losses generated by the Group's insurance companies by type of product sold are as follows:

Thousand euro

	2016	2015
Life insurance	**18,712**	**23,082**
Life Risk	255	1,387
Life Saving	18,434	21,777
Unit linked	23	(82)
Casualty Insurance	**406**	**529**
Non-technical account	**1,479**	**2,129**
Total	**20,597**	**25,740**

Given the volume that the insurance companies represent within the parameters of the Group and the high concentration of business involving 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 with a weighted average rating of BBB+, the level of which is expected to be maintained in the future in accordance with the maximum credit quality policy established internally. Regarding liquidity, 91.40% of total investments is positioned in liquid assets, this amount being 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 market price performance of their financial assets and any latent capital gains/losses in the investments managed.

- The Group uses reinsurers to transfer risks that exceed the limits set forth in the Group's internal policies.

Note 24 – Provisions

Movements in the "*Provisions*" heading during 2016 and 2015 are shown below:

Thousand euro

	Pensions and other post-employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance at 31 December 2014	**77,916**	**44,525**	**51,821**	**131,861**	**89,092**	**395,215**
Scope additions/exclusions (*)	**-**	**-**	**-**	**-**	**47,090**	**47,090**
Interest and similar charges - pension commitments	**1,427**	**632**	**-**	**-**	**-**	**2,059**
Allowances charged to income statement - staff expenses	**4,950**	**13**	**-**	**-**	**-**	**4,963**
Allowances charged to income statement - provisions	**(2,931)**	**374**	**210**	**(22,630)**	**(14,121)**	**(39,098)**
Provisions	1,902	4,117	2,732	(22,630)	398	(13,481)
Reversal of provisions	-	-	(2,522)	-	(14,519)	(17,041)
Actuarial losses / (gains)	(4,833)	(3,743)	-	-	-	(8,576)
Exchange differences	**-**	**-**	**-**	**2,757**	**(1,440)**	**1,317**
Utilisations:	**3,692**	**(17,069)**	**(60)**	**-**	**(21,204)**	**(34,641)**
Contributions of the promoter	(1,031)	2	-	-	-	(1,029)
Pension payments	(10,025)	(17,060)	-	-	-	(27,085)
Other	14,748	(11)	(60)	-	(21,204)	(6,527)
Other movements	**1,251**	**238**	**-**	**1,691**	**(33,860)**	**(30,680)**
Balance at 31 December 2015	**86,305**	**28,713**	**51,971**	**113,679**	**65,557**	**346,225**
Scope additions/exclusions (*)	**-**	**-**	**-**	**-**	**(977)**	**(977)**
Interest and similar charges - pension commitments	**1,410**	**400**	**-**	**-**	**-**	**1,810**
Allowances charged to income statement - staff expenses	**2,311**	**11**	**-**	**-**	**-**	**2,322**
Allowances charged to income statement - provisions	**546**	**8,109**	**(949)**	**(27,116)**	**16,366**	**(3,044)**
Provisions	-	11,148	1,771	63,195	24,990	101,104
Reversal of provisions	-	-	(2,720)	(90,311)	(8,624)	(101,655)
Actuarial losses / (gains)	546	(3,039)	-	-		(2,493)
Exchange differences	**-**	**-**	**-**	**(893)**	**(2,611)**	**(3,504)**
Utilisations:	**(11,268)**	**(13,050)**	**(10,797)**	**-**	**(18,647)**	**(53,762)**
Contributions of the promoter	-	(1,335)	-	-	-	(1,335)
Pension payments	(9,796)	(11,689)	-	-	-	(21,485)
Other	(1,472)	(26)	(10,797)	-	(18,647)	(30,942)
Other movements	**10,167**	**371**	**9,179**	**(1,638)**	**(935)**	**17,144**
Balance at 31 December 2016	**89,471**	**24,554**	**49,404**	**84,032**	**58,753**	**306,214**

(*) see Note 2.

The heading "*Pension funds and other post-employment defined benefit obligations*" 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 commitments and guarantees given*" includes the amount of provisions for the coverage of guarantees given as a result of financial guarantees or other types of contract.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary, in order to determine the probability of the Group being faced with a disbursement situation. For those cases in which this disbursement is considered likely, a provision is created corresponding to the amount of the best estimate of the current value of said disbursement, recorded under the heading "*Pending legal issues and tax litigation*" or under the heading "*Other provisions*". At 31 December 2016 and 2015, this heading mainly includes:

- Provisions for tax contingencies of €49 million at 31 December 2016 (€52 million at 31 December 2015) which mainly include tax office inspection records of the tax authority signed on a contested basis (see Note 43) and appealed tax settlements.

- At 31 December 2016, operating losses from the sale of products to TSB customers of €12 million (€19 million at 31 December 2015). TSB is protected from the incurred losses due to historic operations through a hedge provided by Lloyds Bank Plc, and an account receivable of the equivalent amount is therefore recognised under the heading "*Other assets*".

- Liabilities due to legal contingencies valued at €32 million (€13 million at 2015 year-end).

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.

As regards potential impacts for Banco Sabadell of the repayment of amounts received due to the application of the 'floor clauses', whether as a result of the hypothetical nullity of floor clauses imposed by courts of law, or as a result of enforcing Royal Decree-Law 1/2017 of 20 January on urgent measures to protect consumers regarding floor clauses, the following considerations should be taken into account:

Banco Sabadell believes that its floor clauses are transparent and clear-cut. The aforementioned floor clauses have not been definitively and generically declared null and void by any final ruling, as the entity has legal and procedural arguments that should be reviewed and taken into consideration before filing such an action before the Court of Appeal in Madrid (*Audiencia Provincial de Madrid*) to appeal the ruling of the mercantile court no. 11 of Madrid (*juzgado mercantil nº11 de Madrid*) on the nullity of interest rate floor clauses.

Our assessment is that the probability of the risk of Banco Sabadell floor clauses being definitively and generically declared null and void by higher instance courts materialising is remote, both for substantial and temporary reasons, for which reason no provisions have been established pursuant to IAS 37.

The above notwithstanding, the publication of Royal Decree-Law 1/2017, of 20 January, on urgent measures to protect consumers regarding floor clauses sets forth a series of measures which Banco Sabadell will apply within the time frames set out in this Royal Decree-Law, and although they have no direct economic impact nor do they presuppose or prejudge the validity of floor clauses in Banco Sabadell's mortgage contracts, for each case that is presented, an assessment will be made of each individual clause to determine whether they meet the transparency requirements set out by the Supreme Court.

The maximum estimated impact in the event that all floor clauses were to be declared null and void, and considering full retroactive effects, would be €490 million, an amount which would be reduced in line with the specific terms of the ruling, its method of enforcement and the number of claims addressed through extrajudicial proceedings.

Pensions and similar commitments

The items giving rise to defined benefit pension liabilities recognised in the Group balance sheet are as follows:

Thousand euro

	2016	2015	2014	2013	2012
Obligations arising from pension commitments	862,218	858,877	1,044,326	1,036,360	950,952
Assets recognised on balance sheet	-	-	-	696	-
Fair value of scheme assets	(749,295)	(744,256)	(922,165)	(889,575)	(752,281)
Net liability recognised on balance sheet	**112,923**	**114,621**	**122,161**	**147,481**	**198,671**

The yield on the Banco Sabadell pension scheme was negative at -0.91% and the yield on the E.P.S.V. was 0.15% for 2016.

The yield on the Banco Sabadell pension scheme was 0.33% and the yield on the E.P.S.V. was negative, at -0.16% for 2015.

Movements in 2016 and 2015 in obligations due to pension commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations arising from pension commitments	Fair value of scheme assets
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 scheme assets excluding interest income	-	(7,417)
Other movements	(2,884)	(2,884)
Balance at 31 December 2015	**858,877**	**744,256**
Interest costs	14,520	-
Interest income	-	12,710
Normal cost in year	2,322	-
Past service cost	9,813	-
Benefit payments	(58,620)	(37,135)
Settlements, reductions and terminations	(12,544)	(13,092)
Contributions made by the institution	-	(924)
Actuarial gains and losses due to changes in demographic assumptions	-	-
Actuarial gains and losses due to changes in financial assumptions	47,694	-
Actuarial gains and losses due to changes in experience assumptions	3,098	-
Yield on scheme assets excluding interest income	-	46,422
Other movements	(2,942)	(2,942)
Balance at 31 December 2016	**862,218**	**749,295**

The Group's pension commitments at 31 December 2016 and 2015 based on their financing vehicle, coverage and interest rate applied in their calculation, are set out below:

Thousand euro

		2016	
Financing vehicle	Coverage	Amount	Interest rate
Pension schemes		**459,487**	
Insurance policies with related parties	Matched	50,204	1.25%
Insurance policies with unrelated parties	Matched	409,283	1.25%
Insurance policies		**379,596**	
Insurance policies with related parties	Matched	98,272	1.25%
Insurance policies with unrelated parties	Matched	281,324	1.25%
Internal funds	Without cover	**23,135**	1.25%
Total commitments		**862,218**	

Thousand euro

		2015	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension schemes		**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	Without cover	**26,392**	1.75%
Total commitments		**858,877**	

The amount of the obligations covered by matched insurance policies at 31 December 2016 stands at €839,083 thousand (€832,485 thousand at 31 December 2015) and therefore in 97.32% of its commitments (96.93% at 31 December 2015) there is no survival risk (mortality tables) or profitability (interest rate) for the Group. Therefore, the interest rate fluctuations throughout the year have not had an impact on the entity’s financial situation.

Obligations covered by specific assets totalled €839,083 thousand (of which €711 thousand covered commitments for early retirements) at 31 December 2016 and €832,485 thousand (of which €2,158 thousand covered commitments for early retirements) at 31 December 2015.

The sensitivity analysis for each main actuarial assumption at 31 December 2016 and 31 December 2015 shows how the commitment and cost of the services in the current year would have been affected by reasonably possible changes at that date.

%

	2016	2015
Sensitivity analysis	**% change**	
Discount rate		
Discount rate -50 basis points:		
Assumption	0.75%	1.25%
Change in obligation	6.13%	6.27%
Change in cost of services in current year	9.09%	9.50%
Discount rate +50 basis points:		
Assumption	1.75%	2.25%
Change in obligation	(5.58%)	(5.67%)
Change in cost of services in current year	(8.04%)	(8.38%)
Salary increase rate		
Salary increase rate -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.34%)	(0.98%)
Change in cost of services in current year	(3.42%)	(3.75%)
Salary increase rate +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	0.34%	1.04%
Change in cost of services in current year	3.50%	3.81%

Estimates of probability-weighted present values at 31 December 2016 of benefits payable over the next ten years are shown below:

Thousand euro

	Years										
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
Probable pensions	18,867	16,189	13,240	10,618	9,416	8,663	8,081	7,723	7,444	7,166	**107,407**

The fair value of pension-linked assets reported in the Group balance sheet stood at €153,989 thousand at 31 December 2016 and €153,631 thousand at 31 December 2015.

The main categories of scheme assets as a proportion of total scheme assets were as follows:

%	2016	2015
Own equity items	0.02%	0.02%
Other equity instruments	0.00%	0.00%
Debt instruments	2.51%	4.02%
Investment funds	1.07%	0.04%
Deposits and current accounts	0.74%	0.99%
Other (insurance policies with unrelated parties)	95.66%	94.93%
Total	**100.00%**	**100.00%**

The fair value of scheme assets includes the following financial instruments issued by the bank:

Thousand euro	2016	2015
Equity instruments	131	161
Debt instruments	-	-
Deposits and current accounts	517	-
Total	**648**	**161**

Note 25 – Own funds

Own funds recognised in the consolidated balance sheets at 31 December 2016 and 2015 are analysed below:

Thousand euro	2016	2015
Capital	702,019	679,906
Share premium	7,882,899	7,935,665
Equity instruments issued other than capital	-	-
Other equity	38,416	14,322
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	3,805,065	3,175,065
(-) Treasury shares	(101,384)	(238,454)
Profit/(loss) attributable to owners of the parent company	710,432	708,441
(-) Interim dividends	(111,281)	-
Total	**12,926,166**	**12,274,945**

Capital

Share capital at year-end

The bank's share capital at 31 December 2016 amounted to €702,108,899.50, divided into 5,616,151,196 registered shares with a par value of €0.125 each (€679,905,624 divided into 5,439,244,992 registered shares with the same par value at 31 December 2015). All shares have been fully disbursed and are numbered in sequential order from 1 through 5,616,151,196, both included.

The bank's shares are quoted on the Madrid, Barcelona, Bilbao and Valencia stock exchanges via the electronic stock market (*mercado continuo*) managed by the Sociedad de Bolsas, S.A.

None of the other companies included in the consolidated group is quoted on a stock exchange.

The rights attaching to equity instruments are those regulated by the Spanish Capital Companies Act. At the General Meeting of Shareholders, shareholders may cast votes in a number that reflects their proportional holding in share capital.

Changes in share capital during 2016

Thousand euro

	Number of shares	Capital
Balances at 31 December 2015	**5,439,244,992**	**679,906**
Capital Increase due to Scrip Dividend - April 2016	127,016,761	15,877
Conversion of mandatory convertible bonds III/2013 - November 2016 (*)	35,168,313	4,396
Conversion of mandatory convertible bonds IV/2013 - November 2016 (*)	14,721,130	1,840
Balances at 31 December 2016	**5,616,151,196**	**702,019**

(*) see Note 21

At its meeting on 31 March 2016, the Board of Directors of Banco Sabadell resolved to implement the resolution to increase capital charged to reserves as approved by the Ordinary General Meeting of Shareholders on 31 March 2016 under the first proposal of item three of the agenda, in order to pay flexible remuneration to shareholders (scrip dividend) for an amount of approximately €0.05 per share, the nominal value of the capital increase being €19,997,224.125, by issuing and allotting 159,977,793 new shares with a nominal value of €0.125 each.

On 19 April 2016, the negotiation period for rights to free assignment corresponding to the capital increase having expired, the Executive Committee of Banco Sabadell, at its meeting on 25 April 2016, exercised the powers conferred to it by the Board of Directors on 31 March 2016, under the delegation of powers conferred to the Board by the General Ordinary Meeting of Shareholders, carried out a capital increase of €15,877,095.125, by means of the issue and allotment of 127,016,761 new ordinary shares at a nominal value of €0.125 each, with no share premium, rendering the unsubscribed and unpaid portion of the capital increase null and void, which amounted to €4,120,129.

The public instrument corresponding to the capital increase was registered with the Barcelona Mercantile Registry on 27 April 2016, and the 127,016,761 ordinary shares with a nominal value of €0.125 that had been issued and allotted were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia stock exchanges through Spain's electronic trading system (*Mercado Continuo*) on 4 May 2016.

Significant investments 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 investments in Banco Sabadell (i.e. investments amounting to 3% or more of the share capital or voting rights) at 31 December 2016.

Company	Direct holding	Number of shares	Indirect holding
Various subsidiaries of BlackRock Inc.	3.00%	208,735	BlackRock Inc.
Fintech Investment Ltd.	3.42%	192,209	Winthrop Securities Ltd.

The sources for the information provided are communications sent by shareholders to the Spanish Securities Exchange Commission (CNMV) or directly to the institution.

Share premium

The balance in the share premium account at 31 December 2016 amounted to €7,882,899 thousand (€7,935,665 thousand at 31 December 2015).

Movements in 2016 and 2015 were as follows:

Thousand euro

Balance at 31 December 2014	**5,710,626**
Capital increase	1,470,867
Conversion of subordinated bonds (equity)	738,621
Conversion of subordinated bonds (financial liabilities)	18,409
Dividend payment	(50,678)
Reclassification of capital increase expenses to reserves	47,691
Rest	129
Balance at 31 December 2015	**7,935,665**
Capital increase	-
Conversion of subordinated bonds (equity)	-
Conversion of subordinated bonds (financial liabilities)	53,681
Dividend payment	(106,448)
Reclassification of capital increase expenses to reserves	-
Rest	-
Balance at 31 December 2016	**7,882,898**

Other reserves

The balance of this heading breaks down as follows on the consolidated balance sheets at 31 December 2016 and 2015:

Thousand euro

	2016	2015
Restricted reserves:	**377,792**	**328,049**
Legal reserve	135,981	100,612
Reserves for treasury shares pledged as security	194,477	216,281
Capitalisation reserve Law 27/2014	35,985	-
Canary Island investment reserve	8,234	8,041
Reserve for capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,317,763**	**2,694,720**
Reserves for investments in joint ventures and associates	**109,510**	**152,296**
Total	**3,805,065**	**3,175,065**

The contributions of consolidated companies to Group reserves are shown in Schedule I.

Equity instruments issued other than capital

At 31 December 2016 and 2015, the bank had no equity instruments issued other than capital.

Other equity items

Other equity items include the amounts of instruments associated with remuneration paid through incentives plans in 2016 and 2014 (see Note 36 "*Staff expenses*") which, at 31 December 2016 and 2015 amounted to €38,416 thousand and €14,322 thousand (see Note 36 under "*Staff expenses*").

Transactions in own equity instruments

Movements in the parent company's shares acquired by the bank were as follows:

	No. of shares		Nominal value *(in thousand euro)*	Average price *(in euro)*	% Holding
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**
Purchases	238,760,796		29,845.10	1.34	4.25
Sales	301,703,766	(**)	37,712.97	1.52	5.37
Balance at 31 December 2016	**51,901,666**		**6,487.71**	**1.72**	**0.92**

(*) Includes the delivery of 21,486,946 shares as supplementary shareholder remuneration.
(**) Includes the delivery of 63,803,147 shares as supplementary shareholder remuneration (see Note 3).

Net gains and losses arising on transactions in own equity instruments have been included under the heading "*Own funds - Other reserves*" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to sales or cancellations of treasury shares.

At 31 December 2016, TSB owned 7,686,005 Banco Sabadell shares (4,497,443 at 2015 year-end), at a cost of €12,004 thousand (€9,764 thousand at 2015 year-end), which are recognised as treasury shares in the consolidated balance sheet.

At 31 December 2016, a total of 146,996,917 shares of the bank with a nominal value of €18,375 thousand were pledged as security (132,281,811 shares with a nominal value of €16,535 thousand at 31 December 2015).

The number of Banco de Sabadell, S.A. own equity instruments held by third parties but under management by Group companies at 31 December 2016 and 2015 was 16,886,009 and 20,294,304, respectively, with a nominal value of €2,111 thousand and €2,537 thousand. In both years, all securities correspond to Banco Sabadell shares.

Note 26 – Accumulated other comprehensive income

The composition of this Group item at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016	2015
Items that will not be reclassified to profit or loss	13,261	12,212
Actuarial gains or (-) losses on defined benefit pension schemes	13,261	12,212
Non-current assets and disposal groups classified as held for sale	-	-
Share of the income and expenses of investments in joint ventures and associates	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	93,881	443,394
Hedge of net investments in foreign operations (effective portion)	151,365	17,927
Foreign currency translation	(428,650)	(23,690)
Hedging derivatives. Cash flow hedges (effective portion)	(21,521)	16,412
Available-for-sale financial assets	280,548	416,235
Debt instruments	229,008	495,688
Equity instruments	51,540	83,607
Other value adjustments	-	(163,060)
Non-current assets and disposal groups classified as held for sale	96,299	-
Share of the income and expenses of investments in joint ventures and associates	15,840	16,510
Total	107,142	455,606

The heading "*Items which may be reclassified to profit or loss - Other value adjustments*" included, at 31 December 2015, mainly adjustments made by the Group's insurance companies for the purpose of correcting accounting mismatches arising from the different valuation of financial assets and associated insurance commitments. At 31 December 2016, all items included under "*Accumulated other comprehensive income of Mediterráneo Vida, S.A.*" have been reclassified under the heading "*Non-current assets and disposal groups classified as held for sale*" (see Notes 2 and 14).

The breakdown of taxes on gains relating to each item on the statement of recognised income and expenses at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016			2015		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	1,499	(450)	1,049	(14,738)	4,421	(10,317)
Actuarial gains or (-) losses on defined benefit pension plans	1,499	(450)	1,049	(14,738)	4,421	(10,317)
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Share of other recognised income and expenses of investments in joint ventures and associates	-	-	-	-	-	-
Other valuation adjustments	-	-	-	-	-	-
Items that may be reclassified to profit or loss	(382,349)	33,047	(349,302)	(675,162)	202,112	(473,050)
Hedge of net investments in foreign operations (effective portion)	133,438	-	133,438	25,611	(7,684)	17,927
Foreign currency translation	(404,960)	-	(404,960)	(38,401)	11,521	(26,880)
Hedging derivatives. Cash flow hedges (effective portion)	(54,190)	16,257	(37,933)	(315,914)	94,774	(221,140)
Available-for-sale financial assets	(193,537)	58,061	(135,476)	(345,004)	103,501	(241,503)
Debt instruments	(380,670)	114,201	(266,469)	(471,736)	141,522	(330,214)
Equity instruments	(45,810)	13,743	(32,067)	92,139	(27,642)	64,497
Other value adjustments	232,943	(69,883)	163,060	34,593	(10,379)	24,214
Non-current assets and disposal groups classified as held for sale	137,570	(41,271)	96,299	-	-	-
Share of other recognised income and expenses of investments in joint ventures and associates	(670)	-	(670)	(1,454)	-	(1,454)
Total	(380,850)	32,597	(348,253)	(689,900)	206,533	(483,367)

Note 27– Minority interests (non-controlling interests)

The companies included under this heading are as follows:

Thousand euro

	2016			2015		
	% Non-controlling	Amount	*Of which: Profit/ (loss) attributed*	% Non-controlling	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	39,081	*4,659*	49.03%	36,163	*3,785*
Aurica III, Fondo de Capital Riesgo	38.68%	1,064	(223)	-	-	-
Business Services for Operational Support, S.A.U.	20.00%	2,163	916	-	-	-
Xeresa Golf, SA	20.00%	5,919	0			
Rest	0.00%	1,441	*69*	-	947	*19*
Total		49,668	*5,421*		37,110	*3,804*

Movements in this heading in 2016 and 2015 were as follows:

Thousand euro

Balances at 31 December 2014	54,793
Valuation adjustments	(1,556)
Rest	(16,127)
Scope additions/exclusions	(20,777)
Percentage holding and other	846
Profit/(loss) for the year	3,804
Balances at 31 December 2015	**37,110**
Valuation adjustments	211
Rest	12,347
Scope additions/exclusions	7,650
Percentage holding and other	(724)
Profit/(loss) for the year	5,421
Balances at 31 December 2016	**49,668**

Dividends paid to the minority shareholders of the Group companies in 2016 totalled €1,288 thousand (BancSabadell d'Andorra, S.A.) and €1,226 thousand in 2015.

In 2016, the company Xeresa Golf, SA is assigned to the Real Estate Asset Transformation business, and Aurica III, Fondo de Capital Riesgo and Business Services for Operational Support, S.A.U to banking business in Spain.

BancSabadell d'Andorra, S.A. is assigned to a non-reported business segment, due to its materiality.

Note 28 – Guarantees given

The breakdown of this Group heading is as follows:

Thousand euro

	2016	2015
Financial guarantees	1,872,647	1,874,676
Assets under third party obligations	-	-
Non-revocable documentary credit	1,119,550	1,112,265
Additional settlement guarantee	20,000	19,000
Other bonds and guarantees given	5,517,157	5,350,226
Other contingent liabilities	-	-
Total	**8,529,354**	**8,356,167**

Non-performing guarantees given

Movements in the balance of non-performing guarantees given were as follows:

Thousand euro

Balances at 31 December 2014	195,073
Additions	15,206
Disposals	(120,452)
Balances at 31 December 2015	**89,827**
Additions	77,472
Disposals	(63,160)
Balances at 31 December 2016	**104,139**

The breakdown of the balance of non-performing guarantees given by geography at 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Spain	103,728	89,406
Rest of European Union	12	396
Ibero-America	111	20
Rest of OECD	-	5
Rest of the world	288	-
Total	**104,139**	**89,827**

Credit risk hedging for non-performing guarantees given is as follows:

Thousand euro

	2016	2015
Specific coverage determined individually:	**12,236**	**15,542**
Hedging of customer insolvency risk	12,236	15,542
Specific coverage determined collectively:	**13,125**	**30,978**
Hedging of customer insolvency risk	10,865	29,646
Allowances for country risk	2,260	1,332
IBNR coverage (*)	**35,510**	**67,159**
Total	60,871	113,679

(*) Collective value adjustments for losses incurred but not reported (see Note 13.4).

Movements of this hedge, together with the heading "*Contingent commitments given*", included under the liabilities heading "*Provisions*", are detailed in Note 24.

Note 29 – Contingent commitments given

The breakdown of this item at 31 December 2016 and 2015 was as follows:

Thousand euro

	2016	2015
Drawable by third parties	19,567,289	19,306,331
By credit institutions	660	652
By general governments	518,018	615,956
By other resident sectors	11,522,581	10,567,226
By non-residents	7,526,029	8,122,497
Financial asset forward purchase commitments	2,675,004	426,102
Conventional financial asset purchase contracts	2,779,198	652,802
Subscribed securities pending disbursement	1,939	-
Securities placement and subscription commitments	-	-
Other contingent commitments given	185,257	745,379
Total	25,208,687	21,130,614

Note: Hedge of contingent commitments of €23,161 thousand, the movements of which are given in Note 24, together with movements of guarantees given.

Total commitments drawable by third parties at 31 December 2016 included credit commitments secured with a mortgage in the amount of €2,180,435 thousand (€1,845,200 thousand at 31 December 2015). Regarding other commitments, in the majority of cases there are other guarantees in place in line with the Group's risk management policy.

The balance of forward purchase commitments of financial assets includes the amount of forward purchases of debt securities which will be classified in the available-for-sale financial assets portfolio.

Note 30 – 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 as follows:

Thousand euro

	2016	2015
Under Group management:	**20,223,209**	**19,460,848**
Investment funds and companies	16,571,928	15,458,944
Asset management	3,651,281	4,001,904
Investment funds sold but not managed	**6,022,265**	**5,968,308**
Pension funds (*)	**4,116,997**	**4,305,121**
Insurance (*)	**10,243,421**	**7,646,801**
Financial instruments deposited by third parties	**66,438,327**	**58,394,937**
Total	**107,044,219**	**95,776,015**

(*) The balance in pension funds and insurance relates to those sold by the Group.

Note 31 – Interest income and expenses

These headings on the consolidated income statement include interests accrued during the year on all financial assets and liabilities whose yield, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are valued at fair value or otherwise, and using product adjustments due to accounting hedges. Interests are recorded at gross value, without deducting any tax withholdings exercised at the source.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through equity.

The quarterly net interest income since 2015 and the average income and costs of the various components that make up the total investment and funds is broken down as follows:

Thousand euro

	2016												
	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	**204,805,768**	**2.62**	**1,332,686**	**207,152,833**	**2.53**	**1,301,850**	**206,477,426**	**2.42**	**1,255,294**	**206,618,507**	**2.40**	**1,244,039**	**5,133,869**
Cash, cash balances at central banks and other demand deposits	8,715,273	0.40	8,573	10,281,886	0.35	9,067	10,294,580	0.27	6,920	10,300,469	0.21	5,351	**29,911**
Loans and advances	138,493,620	3.28	1,129,678	139,254,470	3.21	1,112,814	137,426,703	3.10	1,071,244	137,648,550	3.03	1,047,551	**4,361,287**
Fixed-income portfolio (*)	27,244,720	2.60	175,880	27,415,453	2.34	159,309	28,008,522	2.25	158,193	28,410,351	2.31	165,047	**658,429**
Equity portfolio	966,252	-	-	980,312	-	-	1,057,539	-	-	1,012,966	-	-	**-**
Tangible and intangible assets	4,801,034	-	-	5,282,354	-	-	5,241,423	-	-	5,060,240	-	-	**-**
Rest of other assets	24,584,869	0.30	18,555	23,938,358	0.35	20,660	24,448,659	0.31	18,937	24,185,931	0.43	26,090	**84,242**
Average cost of resources	**204,805,768**	**(0.70)**	**(358,793)**	**207,152,833**	**(0.65)**	**(333,268)**	**206,477,426**	**(0.59)**	**(306,918)**	**206,618,507**	**(0.57)**	**(297,138)**	**(1,296,117)**
Credit institutions	18,204,599	(0.60)	(27,174)	18,622,667	(0.60)	(28,004)	17,393,074	(0.22)	(9,406)	17,972,285	(0.31)	(13,790)	**(78,374)**
Customer deposits	126,728,578	(0.44)	(139,626)	129,503,193	(0.40)	(128,697)	128,777,499	(0.38)	(123,142)	126,933,935	(0.34)	(108,179)	**(499,644)**
Capital markets	30,640,997	(2.12)	(161,610)	30,264,910	(1.89)	(142,108)	30,440,556	(1.88)	(143,630)	29,515,748	(1.87)	(138,411)	**(585,759)**
Assignments fixed income portfolio	6,825,602	(0.64)	(10,822)	5,797,497	(0.79)	(11,442)	5,850,037	(0.22)	(3,186)	8,744,762	0.00	63	**(25,387)**
Other liabilities	9,832,268	(0.80)	(19,561)	10,046,358	(0.92)	(23,017)	10,807,323	(1.01)	(27,554)	10,427,589	(1.39)	(36,821)	**(106,953)**
Own funds	12,573,724	-	-	12,918,208	-	-	13,208,937		-	13,024,188	-	-	-
Net interest income			**973,893**			**968,582**			**948,376**			**946,901**	**3,837,752**
Total ATAs			**204,805,768**			**207,152,833**			**206,477,426**			**206,618,507**	**-**
Ratio (margin/ATA)			**1.91**			**1.88**			**1.83**			**1.82**	**-**

(*) Includes €6,670 thousand corresponding to interest from financial assets designated at fair value through profit or loss (financial assets held for trading).

Financial income or expenses deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading under liabilities includes income from negative interest on liability balances with credit institutions, mainly those relating to TLTRO II.

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, cash balances at central banks and other demand deposits	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	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**
Equity portfolio	1,466,208	-	-	1,765,119	-	-	1,291,662	-	-	1,207,389	-	-	**-**
Tangible and intangible assets	3,712,828	-	-	3,486,114	-	-	4,795,049	-	-	4,900,001	-	-	**-**
Rest of 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 markets	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 portfolio	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 thousand corresponding to interest from financial assets designated at fair value through profit or loss (financial assets held for trading).

In 2016, the net interest margin over average total assets has continued to improve, due to various factors, the most noteworthy of which are the increase in customer spreads (due to reduced financing costs of customer deposits), the reduction in capital market costs, the reduction of problematic assets and the improvement in profitability as a result of the acquisition of TSB.

In annual average terms, the net interest margin as a percentage of average total assets stood at 1.86% (1.71% excluding TSB), increasing by 14 basis points compared with the previous year (1.72% in 2015). In terms of the quarterly changes in this item, the net interest margin as a proportion of average total assets in the fourth quarter of 2016 stood at 1.82% (1.69% excluding TSB). In the fourth quarter 2015 it stood at 1.83%.

The following table shows, for investment positions and deposits in the business in Spain - branch network operations, excluding subsidiaries' operations, the contractual spread on transactions arranged in each quarter in 2016 and 2015 (new business additions) and the resulting final portfolio (stock) at the end of each period:

Basis point spread	**Additions (quarterly average)**				**Stock**			
	2016				**2016**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Credit	225	257	249	258	243	234	249	247
Loans	243	261	306	253	232	238	239	240
Home mortgage loans	179	163	175	138	101	104	105	106
Leasing	294	297	290	284	214	218	221	223
Renting	532	429	524	434	558	521	513	512
Discounting	316	296	297	278	342	315	323	302
Confirming	261	265	283	275	255	252	264	254
Forfaiting	469	438	470	362	534	457	435	396
Lending	**263**	**261**	**269**	**250**	**175**	**178**	**180**	**181**
1-month term deposit	54	76	84	83	60	76	81	77
3-month term deposit	61	69	86	85	60	71	84	77
6-month term deposit	49	79	75	75	39	64	60	65
12-month term deposit	42	30	25	20	39	36	35	32
+12-month term deposit	54	46	54	42	64	53	47	44
Term deposits	**50**	**49**	**56**	**50**	**51**	**45**	**42**	**40**

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
Renting	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
Lending	**293**	**282**	**278**	**272**	**181**	**178**	**176**	**175**
1-month term deposit	33	32	33	34	34	30	34	35
3-month term deposit	38	39	38	48	38	37	37	49
6-month term deposit	26	19	26	31	41	24	23	27
12-month term deposit	45	40	30	34	54	47	41	39
+12-month term deposit	36	30	34	39	118	106	92	71
Term deposits	**37**	**34**	**32**	**37**	**93**	**79**	**66**	**54**

With respect to the existing home mortgages portfolio at 31 December 2016, the breakdown on the basis of when the interest rate on the transaction is to be revised is as follows:

Thousand euro

Mortgage repricing schedule	1Q17	2Q17	3Q17	4Q17	Total
Home mortgages	8,162,137	7,975,802	5,945,708	7,252,711	**29,336,358**

Corresponds to Business Spain - branch network operations.

New deposits to 31 December 2016 and 2015, broken down by contractual maturity, are as follows:

€million

	Additions			
Deposits by maturity	2016			
	Q1	Q2	Q3	Q4
Up to 3M	2,653	2,797	3,058	3,186
3 to 6M	664	635	429	572
6 to 12M	4,112	4,359	2,867	2,749
12 to 18M	629	771	824	532
More than 18M	2,671	2,257	2,379	4,054
Total deposits	**10,729**	**10,819**	**9,557**	**11,093**
%				
Up to 3M	24.7	25.9	32.0	28.7
3 to 6M	6.2	5.9	4.5	5.2
6 to 12M	38.3	40.3	30.0	24.8
12 to 18M	5.9	7.1	8.6	4.8
More than 18M	24.9	20.9	24.9	36.5
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business Spain - branch network operations.

€million

Deposits by maturity	Additions 2015			
	Q1	Q2	Q3	Q4
Up 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**
%				
Up 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 Spain - branch network operations.

Note 32 – Fee and commission income and expenses

Fee and commission income and expenses on financial operations and the provision of services are as follows:

Thousand euro

	2016	2015
Fees derived from risk operations	**316,676**	**273,725**
Asset operations	215,700	169,708
Guarantees	100,976	104,017
Service fees	**520,028**	**455,530**
Cards	191,219	172,324
Payment orders	50,408	48,287
Securities	50,392	52,846
Sight accounts	89,854	91,698
Rest	138,155	90,375
Asset management fees	**311,878**	**274,089**
Investment funds	145,714	146,887
Sale of pension funds and insurance products	140,863	94,631
Asset management	25,301	32,571
Total	**1,148,582**	**1,003,344**
Memorandum item		
Fee-related income	1,376,364	1,166,677
Fee-related expenses	(227,782)	(163,333)
Net fees and commissions	**1,148,582**	**1,003,344**

Note 33 – Net trading income

Net trading income consists in a group of headings from the consolidated income statement for the years ended 31 December 2016 and 2015, which are shown below:

Thousand euro

	2016	2015
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	476,217	1,052,288
Gains or (-) losses on financial assets and liabilities held for trading, net	107,593	150,440
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	114	109
Gains or (-) losses from hedge accounting, net	25,798	5,324
Total	**609,722**	**1,208,161**
By type of financial instrument:		
Net gain/(loss) on debt securities	385,194	1,051,570
Net gain/(loss) other equity instruments	100,933	29,983
Net gain/(loss) on derivatives	130,987	149,562
Net gain/(loss) on other items (*)	(7,392)	(22,954)
Total	**609,722**	**1,208,161**

(*) Mainly includes income from the sale of various credit portfolios sold during the year.

In 2016 and 2015 the Group sold certain debt securities from its portfolio of available-for-sale financial assets, generating profits of €382,538 thousand at 31 December 2016 (€1,045,492 thousand at 31 December 2015). This included profits of €362,211 thousand (€1,020,466 thousand in 2015) on sales of debt securities held with general governments.

As explained in Note 9 to these consolidated annual accounts, in June 2016 the offer to purchase 100% of Visa Europe shares materialised, generating capital gains of €109 million.

Note 34 – Other operating income

The composition of this item of the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Income from operation of investment properties	108,195	95,856
Sales and other income from the provision of non-financial services	92,537	61,507
Other operating income	85,993	59,355
Total	**286,725**	**216,718**

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios from other entities (Sareb, the Spanish company for the management of assets proceeding from the restructuring of the banking system).

Income recorded under other products is mainly derived from income of Group entities involved in non-financial activities (mainly operating leases).

Note 35 – Other operating expenses

The composition of this item of the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Contribution to deposit guarantee funds	(94,880)	(85,997)
Other items	(371,994)	(212,114)
Of which: Contribution to resolution fund	(47,661)	(43,510)
Total	**(466,873)**	**(298,111)**

Expenses recognised under the heading "*Contribution to deposit guarantee funds*" correspond to the contributions made by Banco Sabadell (€84,119 thousand and €82,968 thousand in 2016 and 2015, respectively). They also include expenses recorded by TSB (€7,614 thousand in 2016, corresponding to the contribution to the UK Financial Services Compensation Scheme) and by Sabadell United Bank, N.A. (contribution to the Deposit Guarantee Fund established by the US Federal Deposits Insurance Corporation), of €2,929 thousand in 2016 and €3,029 thousand in 2015.

The heading "*Other items*" included, at 31 December 2016, estimated financial contributions for the conversion of deferred tax assets into credit receivable by the Spanish Tax Authority amounting to €57 million, as well as expenses corresponding to tax on deposits in credit institutions amounting to €27,590 thousand in 2016 (€27,450 thousand in 2015). The other items included in this heading largely correspond to expenses associated with non-financial activities.

Note 36 – Administrative expenses

This heading on the consolidated profit and loss statement includes expenses incurred by the Group in respect of staff and other general administrative expenses.

Staff expenses

The staff expenses charged to the consolidated income statement for the periods ended 31 December 2016 and 2015 are as follows:

Thousand euro

	2016	2015
Payrolls and bonuses for active staff	(1,217,862)	(1,075,803)
Social Security payments	(241,201)	(220,457)
Contributions to defined benefit pension schemes	(2,322)	(4,963)
Contributions to defined contribution pension schemes	(68,534)	(49,772)
Other staff expenses	(133,135)	(106,346)
Total	**(1,663,053)**	**(1,457,341)**

At 31 December 2016 and 2015, the distribution of the average workforce for all companies within the Group by category and gender is as follows:

Average number of employees

	2016			2015		
	Men	Women	Total	Men	Women	Total
Management staff	490	146	636	439	106	545
Technical staff	9,403	9,670	19,073	8,425	8,338	16,763
Administrative staff	1,643	4,670	6,313	1,335	3,236	4,571
Total	**11,536**	**14,486**	**26,022**	**10,199**	**11,680**	**21,879**

The breakdown of the bank's average workforce with a disability of at least 33% by category at 31 December 2016 and 2015 is as follows:

Average number of employees with a disability	2016	2015
Management staff	4	4
Technical staff	149	127
Administrative staff	108	74
Total	**261**	**205**

At 31 December 2016 and 2015, the distribution of employees by category and gender is as follows:

Number of employees	2016			2015		
	Men	Women	Total	Men	Women	Total
Management staff	491	154	645	490	137	627
Technical staff	9,339	9,756	19,095	9,375	9,560	18,935
Administrative staff	1,610	4,595	6,205	1,714	4,814	6,528
Total	11,440	14,505	25,945	11,579	14,511	26,090

Of the total workforce at 31 December 2016, 263 were recognised as having some form of disability (254 at 31 December 2015).

The increase in the average workforce is due to the inclusion of TSB’s workforce during the second half of 2015.

Non-recurring staff expenses amounted to €67,988 thousand at 31 December 2016. Expenses which do not form part of the entity’s ordinary activities are considered non-recurring. Expenses tied to the new structure and commercial transformation are considered staff expenses.

Deferred payment system for variable remuneration accrued in previous years

- At the General Meeting of Shareholders held on 26 March 2013, shareholders approved a payment system for the payment of variable remuneration accrued during 2012 to the Executive Directors and a group of management staff, through the delivery of Banco de Sabadell, S.A. stock options (“SREO 2012”). Executive Directors could choose to receive up to 100% of their variable remuneration in options, and other directors up to 50%. This plan was concluded in March 2016, and its settlement gave rise to the delivery in cash of €2,414 thousand.

- At the General Meeting of Shareholders held on 27 March 2014, shareholders approved a payment system for the approved amounts of variable remuneration accrued during 2013 to be paid to the bank’s Executive Directors through the delivery of the equivalent value of that remuneration in Banco de Sabadell, S.A. stock options (hereinafter, “the System”).

Each option grants the holder the right to receive, in cash, after a three-year period, the difference between the Final Value of the Banco de Sabadell, S.A. 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 option’s exercise price is €2.015, 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 under the heading “*Financial liabilities held for trading – Derivatives*” on the liability side of the balance sheet and at 31 December 2016 the recorded amount amounted to €4 thousand (€425 thousand at 2015 year-end).

Long-term supplementary incentive system based on shares

- At the General Meeting of Shareholders held on 27 March 2014, shareholders approved a long-term supplementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for executive directors, five senior management members and 419 management staff (hereinafter, "the Incentive").

The Incentive consists of the assignment of a certain number of rights to the beneficiaries, which include the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a three-year period, taking as a reference their listed share price, to be paid in the form of bank shares. The termination date is 31 March 2017. The exercise price is €1.75 and the maximum number of rights to shares covered by the Incentive is currently 38,932,447 (39,242,000 at the time of their issue).

The fair value of services received has been calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance level for the personal target called "Professional Efficiency Appraisal" set by the bank's Remuneration Committee.

Rights	
Balance at 31 December 2014	37,529,000
Granted (*)	3,123,730
Cancelled	(580,536)
Balance at 31 December 2015	40,072,194
Granted	-
Cancelled	(1,139,747)
Balance at 31 December 2016	38,932,447

(*) Resulting from capital increase.

- At the General Meeting of Shareholders held on 31 March 2016, shareholders approved a long-term supplementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for three executive directors, seven senior management members and 472 Group management staff (hereinafter, ICLP Plan 2016).

The ICLP Plan 2016 consists of the assignment of a certain number of rights to the beneficiaries which include the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a three-year period, taking as a reference their listed share price, to be paid in the form of bank shares. The termination date is 30 April 2019. The exercise price is €1.494 and the maximum number of rights to shares covered by the Incentive will be 30,000,000.

The fair value of services received has been calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance level for the personal target called "Professional Efficiency Appraisal" set by the bank's Remuneration Committee.

Dutys	
Balance at 30 April 2016	30,000,000
Granted	-
Cancelled	(1,505,000)
Balance at 31 December 2016	28,495,000

- TSB Banking Group employees have a supplementary incentive linked to a target fulfilment plan between 2016 and 2020, and this remuneration is paid in Banco Sabadell, S.A. shares and in cash.

In terms of staff expenses associated with share-based incentive schemes (see Note 1.3.15), their expenses in 2016 and 2015 totalled €18,271 thousand and €9,129 thousand, respectively; the counterparty is reflected in equity (see statement of changes in equity in the row corresponding to payments based on shares).

Other administrative expenses

This includes all other administrative expenses incurred during the year:

Thousand euro	2016	2015
Property, plant and equipment	(249,682)	(211,020)
Information technology	(246,396)	(102,157)
Communication	(47,156)	(63,674)
Publicity and propaganda	(111,148)	(87,497)
Subcontracted administrative services	(99,097)	(72,308)
Contributions and taxes	(95,748)	(101,134)
Technical reports	(40,341)	(86,170)
Security services and fund transfers	(21,042)	(19,267)
Business entertainment expenses and staff travel expenses	(20,357)	(19,148)
Membership fees	(16,788)	(20,159)
Other expenses	(52,539)	(46,640)
Total	**(1,000,294)**	**(829,174)**

Fees from Auditing Institutions

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2016 for account auditing services and other audit-related services provided in Spain amounted to €1,666 thousand and €485 thousand, respectively (€1,456 thousand and €341 thousand in 2015). Auditing services provided by other companies in the PwC network in relation to branches and subsidiaries abroad totalled €2,782 thousand in 2016 (€2,296 thousand in 2015).

Fees received by other auditors in 2016 for account auditing and other audit-related services provided in Spain amounted to €112 thousand and €0 thousand, respectively (€121 thousand and €0 thousand in 2015). Fees for the audit of branches and subsidiaries abroad amounted to €0 thousand and €25 thousand in 2016, respectively (€24 thousand and €0 thousand in 2015).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2016 amounted to €183 thousand and €1,179 thousand. Fees for these services in 2015 amounted to €116 thousand and €1,232 thousand, respectively.

Other information

At 31 December 2016, non-recurring administrative expenses amounted to €19,073 thousand, including expenses associated with specific cost-reduction programmes and expenses relating to special projects associated with changes in the scope of consolidation.

The cost-to-income ratio at 2016 year-end (staff and general expenses / gross income) stood at 48.68% (48.96% in 2015), and at 42.66% excluding TSB (44.59% in 2015), improving in respect of the cost-to-income ratio in 2015. For the purpose of calculating this ratio for 2015, recurring net trading income of €400 million per year has been considered.

Information about the Group's branches is given below:

Number of branches	2016	2015
Branches	**2,767**	**2,873**
Spain	2,119	2,204
Outside Spain	648	669

Note 37 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss

The composition of this item of the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

	Note	2016	2015
Available- for-sale financial assets		(112,284)	(132,390)
Debt securities	8	521	1,719
Other equity instruments	9	(112,806)	(134,109)
Loans and receivables (*)	11	(441,414)	(1,396,177)
Total		(553,698)	(1,528,567)

(*) This figure equates to the sum of provisions/reversals through profit or loss of value adjustments made for credit risk hedging, depreciation through profit or loss of financial assets no longer classified as assets and the recovery of write-offs.

Note 38 – Impairment or (-) reversal of impairment on non-financial assets

The breakdown of this heading in the consolidated balance sheets for the years ended 31 December 2016 and 2015 was as follows:

Thousand euro

	Note	2016	2015
Property plant and equipment	16	(41)	(3,011)
Investment property	16	(20,236)	(155,615)
Goodwill and other intangible assets		-	(1)
Inventories	18	(537,872)	(459,623)
Total		(558,148)	(618,250)

The total investment property impairment provision in 2016 and 2015 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounts to €2,404,246 thousand and €2,341,905 thousand in 2016 and 2015, respectively.

Of the total inventory impairment provision for 2016 and 2015, €328,195 thousand and €168,492 thousand was calculated based on Level 2 valuations, respectively, and €209,677 thousand and €291,131 thousand based on Level 3 valuations, respectively. The fair value of impaired assets stood at €2,924,459 thousand and €3,655,548 thousand at the end of 2016 and 2015.

Note 39 – Gains or (-) losses on derecognition of non-financial assets and interests, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2016 and 2015 is as follows:

Thousand euro

	2016	2015
Gains or (-) losses on derecognition of non-financial assets, net	**35,108**	**(16,960)**
Property, Plant and Equipment	(29,766)	(6,252)
Investment Properties	-	14,578
Intangible assets	-	-
Interests (*)	46,883	(31,087)
Other capital instruments	-	-
Other items	17,991	5,801

(*) see Schedule I - Companies no longer consolidated.

In both years, the amount corresponding to property, plant and equipment included losses from the sale of branches which had already closed. 2015 also included gains on the sale of the building located in Príncipe de Vergara in Madrid for €21.2 million.

Note 40– Negative goodwill recognised in profit or loss

The negative consolidation difference in 2015 corresponds to the business combination with TSB, which is detailed in Note 2 to these consolidated annual accounts.

Note 41 – Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The breakdown of this heading for the years ended 31 December 2016 and 2015 was as follows:

Thousand euro

	Note	2016	2015
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, net		**(314,519)**	**(180,868)**
Property, plant and equipment for own use and foreclosed		(313,810)	(180,868)
Gains/losses on sales		(30,620)	(79,607)
Impairment/Reversal	14	(283,190)	(101,261)
Investment properties		(556)	-
Intangible assets		-	-
Interests		(41)	-
Other capital instruments		(99)	-
Other items		(14)	-

The impairment of non-current assets held for sale excludes income from the increase in fair value less sale costs.

The total provision for the impairment of non-current assets held for sale in 2016 and 2015 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounts to €2,103,086 thousand and €2,521,979 thousand at the end of 2016 and 2015.

Note 42 – Segment reporting

Segmentation criteria

The business units described below have been created based on the different business lines established in line with the Group's organisation and structure.

Segment information is first broken down by geography and then broken down based on the management characteristics of each of the customers to which each segment is aimed.

Segmentation by geography and business unit

As regards the bases of presentation and methodologies used, information for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expense where particular business lines are allocated to one or more legal entities, which allows income and expense to be allocated to each customer in line with the business to which they are assigned.

Each business unit is treated as an independent business, for which reason flows of income and expenses are generated between them when providing services for the distribution of products, services and systems. The final impact on the Group's income statement is zero.

Each business bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of corporate units.

Capital is allocated in such a way that each business is assigned capital equivalent to the minimum regulatory capital requirements to cover its risk exposure. This minimum regulatory requirement depends on the body responsible for supervising each business.

The capital assigned to each business in order to align them with the 12% capital requirement placed on the Group has been updated for 2016, and the capital assigned during 2015 has therefore been recalculated for the purpose of comparability.

Details of profit before tax and other key figures for each business unit for the years 2016 and 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:

	2016			
Thousand euro	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Banking Business Americas (*)
Net interest income	**2,554,248**	**(30,990)**	**1,050,862**	**249,933**
Net fees and commissions	966,983	(1,390)	122,741	41,914
Other income	336,880	92,294	35,176	14,446
Gross income	**3,858,111**	**59,914**	**1,208,779**	**306,293**
Operating expenses	(1,837,278)	(167,844)	(874,546)	(164,827)
of which staff expenses	*(1,068,707)*	*(66,038)*	*(426,461)*	*(94,677)*
Provisions (net)	2,399	1,386	-	41
Profit/(loss) and losses on problematic assets	(502,265)	(801,941)	(106,913)	(14,867)
Other profit/(loss)	39,251	-	(4,431)	538
Profit/(Loss) before taxes by segment	**1,560,218**	**(908,485)**	**222,889**	**127,178**
Ratios (%)				
ROE (earnings divided by average equity)	13.7%	-26.1%	7.0%	7.0%
Cost-to-income (administrative expenses divided by gross income)	40.2%	-	72.6%	50.6%
Other data				
Employees	15,973	915	8,060	868
Branches in Spain and abroad	2,138	-	587	35

Reconciliation of profit/(loss) before taxes	Consolidated
Total business units	1,001,800
(+/-) Other profit/(loss) (**)	17,622
Profit/(loss) before taxes	**1,019,422**

(*) Banking Business United Kingdom applying an exchange rate in 2016 of GBP 0.8166 to the balance sheet and GBP 0.8562 to the income statement (year average). In 2015, an exchange rate of GBP 0.7340 was applied to the balance sheet and GBP 0.7201 to the income statement (average of last six months). 2015 only includes 6 months of results. For ROE, considering shareholders' equity.

(*) Business Americas applying an average exchange rate in 2016 of USD 1.1052 and MXN 20.7365 to the income statement, and applying USD 1.0541 and MXN 21.7719 to the balance sheet. The exchange rate used in 2015 was USD 1.0887 and MXN 18.9145.

(**) Corresponds to unreported results from other geographies.

	2015			
Thousand euro	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Banking Business Americas
Net interest income	**2,479,316**	**(44,772)**	**539,620**	**216,096**
Net fees and commissions	867,878	(1,584)	78,829	37,080
Other income	1,161,305	107,853	(3,721)	2,209
Gross income	**4,508,499**	**61,497**	**614,728**	**255,385**
Operating expenses	(1,821,970)	(143,180)	(493,566)	(142,338)
of which staff expenses	*(1,078,081)*	*(50,491)*	*(238,036)*	*(83,636)*
Provisions (net)	18,350	(71)	-	2,938
Profit/(loss) and losses on problematic assets	(1,571,893)	(762,453)	(59,500)	(29,152)
Other profit/(loss)	283,689	-	-	4,769
Profit/(Loss) before taxes by segment	**1,416,675**	**(844,207)**	**61,662**	**91,602**
Ratios (%)				
ROE (earnings divided by average equity)	10.4%	-13.6%	5.3%	7.1%
gross income)	42.5%	-	77.9%	54.1%
Other data				
Employees	16,260	712	8,224	764
Branches in Spain and abroad	2,224	-	614	28

Reconciliation of profit/(loss) before taxes	Consolidated
Total business units	725,733
(+/-) Other profit/(loss) (**)	19,028
Profit/(loss) before taxes	**744,761**

(*) Only includes TSB Banking Group PLC and 6 months of results. Exchange rate of GBP 0.7340 applied to the balance sheet and GBP 0.7201 applied to the income statement (average of last six months). For ROE, considering shareholders' equity.

(**) Corresponds to unreported results from other geographies.

Average total assets for the entity as a whole at 31 December 2016 amounted to €206,265,187 thousand, compared with €186,538,365 thousand on the same date in the preceding year.

The types of products and services from which ordinary income is derived are described below for each business unit:

- Banking Business Spain includes the following business units for customers:

- Retail and Business Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, current assets and loans is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and deposits with agreed maturity), investment funds, savings insurance and pension schemes.

  Insurance protection products and payment services are also noteworthy, such as credit cards and transfers, amongst others.

- 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 offers and designs products and services with a high added-value with a view to achieving a high rate of return for the customer, increasing and diversifying the customer base and ensuring consistency of investment processes through a rigorous analysis and with high-quality management, while taking the customer relationship model to a multichannel level.

- Asset Transformation comprehensively manages abnormal risk and real estate exposure, and also sets out and implements the strategy of real estate investees, such as Solvia. In terms of abnormal risk and real estate exposure, the unit focuses on developing its asset transformation strategy and integrating the overall vision of the Group's real estate balance sheet in order to maximise its value.

- Banking Business United Kingdom: The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages. For 2015, it only includes TSB Banking Group PLC and 6 months of results.

- Banking Business Americas: Offers all types of banking and financial services, from the most complex and specialist services for large enterprises, such as project finance operations, to products for individual customers, offering all products and services that professionals and companies of all sizes might need.

Ordinary income generated by each business unit for 2016 and 2015 is shown below:

Thousand euro

	Consolidated					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
SEGMENTS	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Banking Business Spain	4,501,233	4,629,242	175,709	245,005	4,676,942	4,874,247
Asset Transformation	243,965	377,195	2,748	27,168	246,714	404,363
Banking Business UK	1,471,662	798,311	-	-	1,471,662	798,311
Banking Business Americas	394,242	310,976	-	-	394,242	310,976
(-) Adjustments and disposals of ordinary income between segments	-	-	(181,042)	(276,617)	(181,042)	(276,617)
Total	6,611,103	6,115,724	(2,584)	(4,444)	6,608,518	6,111,280

The table below shows the balances, net interest income and income from net fees and commissions generated by each business unit as a percentage of the total for 2016 and 2015:

%	2016				
	Breakdown net interest income and net fees and commissions				
	Customer lending		Customer deposits		Income from (*) services
	% of average balance	% Yield to total	% of average balance	% Yield to total	% of total balance
SEGMENTS					
Banking Business Spain	67.3%	60.8%	69.1%	40.3%	82.7%
Asset Transformation	4.1%	2.4%	0.1%	0.1%	0.2%
Banking Business UK	22.5%	29.3%	25.3%	48.5%	13.8%
Banking Business Americas	6.2%	7.6%	5.4%	11.2%	3.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(*) Percentage by segment over total fees and commissions.

%	2015				
	Breakdown net interest income and net fees and commissions				
	Customer lending		Customer deposits		Income from (*) services
	% of average balance	% Yield to total	% of average balance	% Yield to total	% of total balance
SEGMENTOS					
Banking Business 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 UK	23.7%	16.4%	31.1%	16.7%	12.3%
Banking Business Americas	4.8%	6.7%	4.6%	6.8%	3.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(*) Percentage by segment over total fees and commissions.

Furthermore, the breakdown by geography of interest and similar income during 2016 and 2015 is shown below:

Thousand euro	Distribution of interest and similar income by geography			
	Individual		Consolidated	
	2016	2015	2016	2015
Domestic market	3,352,651	3,769,230	3,416,633	3,828,512
Exports:				
European Union	50,202	44,347	1,399,788	728,561
OECD countries	116,713	80,653	337,330	267,633
Other countries	3,999	3,727	16,349	17,650
Total	3,523,565	3,897,957	5,170,100	4,842,356

Section 2 of the Directors' Report gives a more detailed assessment of each of these business units.

Note 43 – Tax situation (tax on gains from continued activities)

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 corporate income tax on an individual basis.

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 taxable Corporate Income Tax income is as follows:

Thousand euro

	2016	2015
Profit/(loss) before taxes	1,019,422	744,761
Increases in tax base	1,949,598	2,161,120
From profits	1,949,598	2,161,120
From equity	-	-
Decreases in tax base	(958,341)	(951,151)
From profits	(954,991)	(866,445)
From equity	(3,350)	(84,706)
Taxable base	**2,010,679**	**1,954,730**
Tax payable (30%)	**603,204**	**586,419**
Deductions for double taxation, training and other	(2,152)	(1,452)
Tax payable	**601,052**	**584,967**
Due to temporary differences (net)	(306,173)	(499,886)
Adjustments for tax credits	-	-
Other adjustments (net) (*)	8,690	(52,565)
Tax expense or (-) income related to profit or loss from continuing operations	**303,569**	**32,516**

(*) Includes €9 million from impact of Royal Decree 3/2016.

The "*Other adjustments*" heading includes €9 million (loss) from the impact of Royal Decree-Law 3/2016, whereby losses from sales of certain interests are not tax-deductible as from 1 January 2017 in Spain. In 2015, €45.3 million (GBP 32 million) were included, corresponding to the effect of changes in tax regulations in the United Kingdom affecting TSB Bank PLC. The legislative change introduced a surcharge of 8%, effective as of 1 January 2016, and applicable to the tax bases in excess of GBP 25 million per year, and also reduced 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 statement is as follows:

Thousand euro

	2016	2015
Profit/(loss) before taxes	1,019,422	744,761
Domestic tax rate (30%)	305,827	223,428
Tax-exempt income (negative consolidation difference)	-	(79,807)
Difference in effective tax rate on companies outside Spain (*) (**)	14,024	(49,588)
Capitalisation reserve / Generated deductions / Non-deductible expenses	(7,222)	(8,786)
Income subject to lower tax rates (dividends and international source income)	-	(426)
Income from associates	(22,372)	(14,639)
Rest	13,312	(37,668)
Tax expense or (-) income related to profit or loss from continuing operations	**303,569**	**32,516**
Effective tax rate	*30%*	*4%*

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.
(**) Includes €45.3 million due to 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

	2016	2015
Permanent difference	46,748	23,311
Temporary difference arising during the year	1,804,878	1,701,251
Temporary difference arising in previous years	97,972	436,558
Increases	**1,949,598**	**2,161,120**
Permanent difference	(76,069)	(479,627)
Temporary difference arising during the year	(4,437)	-
Temporary difference arising in previous years	(877,835)	(471,524)
Decreases	**(958,341)**	**(951,151)**

Deferred tax assets and liabilities

Under current tax and accounting regulations certain timing differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Royal Decree-Law 14/2013 gave rise to the condition of assets guaranteed by the Spanish State, tax assets generated by 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 (hereinafter, “monetisable tax assets”).

Monetisable tax assets can be converted into a loan enforceable before the Spanish Tax Authority in cases where the taxpayer incurs accounting losses or the entity is liquidated or judicially declared insolvent. Similarly, they can be exchanged for Government Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were included in the accounting records. In order to maintain the guarantee offered by the Spanish State, these are subject to an annual contribution of 1.5% of their amount as from 2016 (see Note 35).

Royal Decree-Law 3/2016, of 2 December, introduced a series of amendments to Law 27/2014, of 29 November, on Corporate Income Tax, in force for the tax periods started on 1 January 2016. The most significant changes and their impact on Banco Sabadell Group at 31 December 2016 are described below:

- Limitation on the inclusion of monetisable tax assets in the tax base and on the offsetting of tax losses at 25% for 2015. No significant impacts for the Group are expected in terms of the expected period for offsetting tax loss carry-forwards and non-monetisable tax assets.

- A new limit for the application of deductions due to double taxation, calculated at 50 per cent of the full amount, for companies with a net turnover in excess of €20 million. This measure is applied for tax periods started in 2016. No impact on Banco Sabadell Group.

- Impairments in the value of stakes which were tax deductible in tax periods prior to 2013 will be included, at least, in equal amounts in the tax base for the first five subsequent tax periods. The expected impact will not affect the Group's financial position, and will only affect the cash flow over the next four years by approximately €160 million.

- As from 2017, losses on the transfer of stakes, provided that they meet the requirements in respect of the right to be exempt from paying tax on the profits obtained, shall not be tax deductible. The impact for the Group amounts to €9 million.

The sources of the deferred tax assets / liabilities recognised in the balance sheets at 31 December 2016 and 2015 are as follows:

Thousand euro

Deferred tax assets	2016	2015
Monetisable	**5,806,136**	**5,521,558**
Due to credit impairment	3,916,675	3,555,130
Due to real estate asset impairment	1,762,269	1,836,497
Due to pension funds	127,192	129,931
Non-monetisable	**611,883**	**618,348**
Due to merger funds	128,716	141,965
Due to credit impairment outside of Spain	72,044	77,236
Due to other non-deductible provisions	10,664	13,139
Due to impairment of capital and debt instruments	15,130	136,787
Due to real estate asset impairment	179,918	-
Other	205,411	249,221
Tax credits for losses carried forward	**350,261**	**430,598**
Deductions not applied	**7,057**	**6,008**
Total	**6,775,337**	**6,576,512**

Deferred tax liabilities	2016	2015
Property restatements	70,239	74,081
Adjustments to value of wholesale debt issuances arising on business combinations	78,628	104,177
Other financial asset value adjustments	322,230	244,048
Other	71,168	69,837
Total	**542,265**	**492,143**

The breakdown of deferred tax assets and liabilities by country is as follows:

Thousand euro

	2016		2015	
Country	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Spain	6,586,676	530,948	6,314,494	487,073
UK	116,287	10,796	168,683	107
US	58,708	472	79,374	4,564
Mexico	13,417	0	13,371	244
Other	249	49	590	155
Total	6,775,337	542,265	6,576,512	492,143

As indicated in Note 1.3.21, according to the information available at the end of the year, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate a tax base which shall be sufficient to offset tax loss carry-forwards over the next four years and non-monetisable assets when these are deductible in line with current fiscal regulations.

Monetisable tax assets are guaranteed by the Spanish State, therefore their recoverability does not depend on the generation of future tax deductions.

Other information

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
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

As explained in Note 3 to these consolidated annual accounts, the Annual General Meeting held on 31 May 2016 approved a reserve for investments in the Canary Islands of €192 thousand. This reserve was fully materialised in 2015 by means of investments carried out in that same year in various items of property, plant and equipment classified as facilities. The reclassification of voluntary reserves as a restricted reserve over a period of five years to serve as a capitalisation reserve was approved (the reclassified amount covers the reduction of the tax base carried out in 2015 and that estimated for 2016).

Years open to inspection

In July 2016, the Spanish Tax Authority notified Banco de Sabadell, S.A. of the start of verification and investigation activities related to the following items and periods:

Items	Periods
Withholdings/Payments on Work/Professional Income Account	07/2012 to 12/2014
Withholdings/Payments on Investment Income Account	07/2012 to 12/2014
Corporate Income Tax	01/2011 to 12/2014
Value Added Tax	07/2012 to 12/2014

These activities are under way and are currently in the documents submission stage, and no proposed tax settlement exists to date. The review of all taxes not verified and not legally required is still pending for other companies which are not taxed within the tax consolidation group in Spain.

The inspections in previous years by the Spanish Tax Authority led to assessments being raised for a total tax liability of €43,971 thousand, 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 settlements.

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 materialising is remote, and if they did materialise the resulting tax charge would not be such as to have any significant impact on these consolidated annual accounts.

Note 44 – Related-party transactions

No transactions that could be described as significant were entered into with administrators and management staff of the bank. Those that did take place were in the normal course of the company'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 at market prices, involving any person or entity connected in any way to an administrator or to Senior Management.

The most significant balances recognised by the Group in its dealings with related parties, and the effect on the income statement of related-party transactions, are shown below:

Thousand euro

	2016					2015
	Joint control or signif. Influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	207,934	16,177	146,911	371,022	1,379,108
Liabilities:						
Customer deposits and other financial liabilities	-	1,231,351	13,459	83,902	1,328,712	1,334,649
Memorandum accounts:						
Contingent exposures	-	8,781	-	1,613	10,394	243,383
Contingent commitments		582	3,331	26,291	30,204	165,190
Income statement:						
Interest and similar income	-	6,152	122	4,734	11,008	19,934
Interest and similar charges	-	(9,964)	(42)	(527)	(10,533)	(27,916)
Return on capital instruments	-	-	-	-	-	49
Net fees and commissions	-	30,814	23	650	31,487	35,240
Other operating income	-	3,268	-	-	3,268	29,157

(*) Includes employee pension schemes.

Note 45 – Remuneration of and balances with members of the Board of Directors and senior management

The following table shows, for the years ended 31 December 2016 and 2015, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2016	2015	2016	2015	2016	2015
José Oliu Creus (*)	214	214	32	32	246	246
José Manuel Lara Bosch (1)	-	4	-	-	-	4
José Javier Echenique Landiribar (2)	182	184	-	-	182	184
Jaime Guardiola Romojaro (*)	92	92	-	-	92	92
Aurora Catá Sala (3)	117	83	-	-	117	83
Héctor María Colonques Moreno (4)	81	119	-	16	81	135
Joaquín Folch-Rusiñol Corachán	108	102	16	16	124	118
M. Teresa Garcia-Milà Lloveras (5)	155	130	-	-	155	130
José Manuel Lara García (6)	92	48	-	-	92	48
Joan Llonch Andreu	126	130	16	16	142	146
David Martínez Guzmán	83	83	-	-	83	83
José Manuel Martínez Martínez	158	148	-	-	158	148
José Ramón Martínez Sufrategui	107	107	-	-	107	107
António Vítor Martins Monteiro	83	87	-	-	83	87
José Luis Negro Rodríguez (*)	92	92	16	16	108	108
José Permanyer Cunillera (7)	-	67	-	-	-	67
David Vegara Figueras (8)	159	88	-	-	159	88
Total	**1,849**	**1,778**	**80**	**96**	**1,929**	**1,874**

(*) Perform executive functions.

(1) On 30 September 2013, the Board of Directors approved his appointment as First Deputy Chairman, a position which he held until his death on 31 January 2015.

(2) Held a position as lead independent director between 23 April 2015 and 21 April 2016.

(3) On 29 January 2015, the Board of Directors approved her appointment as member of the Board of Directors in the capacity of independent director. The Annual General Meeting held on 28 May 2015 confirmed the appointment through co-option made by the Board of Directors and approved her appointment as member of the Board of Directors.

(4) On 22 September 2016, he submitted his resignation in effect from the end of the Board of Directors' Meeting on the same date.

(5) On 21 April 2016, the Board of Directors approved her appointment as lead independent director.

(6) On 19 March 2015, the Board of Directors approved his appointment as member of the Board of Directors in the capacity of independent director. The Annual General Meeting held on 28 May 2015 confirmed the appointment through co-option made by the Board of Directors and approved his appointment as member of the Board of Directors. On 21 April 2016 he was given the capacity of non-executive director.

(7) On 23 April 2015 submitted his resignation as director in effect from the Annual General Meeting held on 28 May 2015.

(8) The Annual General Meeting held on 18 May 2015 approved his appointment as member of the Board of Directors in the capacity of independent director.

Aside from the items mentioned above, the members of the Board of Directors have received €64 thousand as fixed remuneration in 2016 (€71 thousand in 2015) 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 insurance premiums covering contingent pension commitments in respect of pension rights accruing in 2016 amounted to €4,036 thousand (€3,780 thousand in 2015), of which €80 thousand are detailed in the table above and €3,956 thousand correspond to directors for the performance of executive functions.

Emoluments paid to directors for performing executive functions during 2016 totalled €5,254 thousand (€6,021 thousand in 2015).

Loan and guarantee risks undertaken by the bank and consolidated companies for the directors of the parent company totalled €10,866 thousand at 31 December 2016, of which €8,232 thousand comprised loans and receivables and €2,634 thousand related to guarantees and documentary credit (€14,155 thousand in 2015, consisting of €11,657 thousand in loans and receivables and €2,498 thousand in guarantees and documentary credit). The average interest rate charged was 0.79% (0.91% in 2015). Balances of liabilities in 2016 amounted to €12,172 thousand (€8,047 thousand in 2015).

Total Senior Management remuneration accrued during 2016 amounted to €7,312 thousand. Under the applicable regulations, this amount includes the remuneration of the seven Senior Management members plus that of the Internal Audit Director.

Risks undertaken by the bank and consolidated companies for Senior Management (other than executive directors, for whom details are provided above) totalled €8,642 thousand at 31 December 2016 (€8,904 thousand in 2015), comprising €7,946 thousand in loans and receivables and €696 thousand in guarantees and documentary credit (and in 2015, of which €7,832 thousand relate to loans and receivables and €1,072 thousand to guarantees and documentary credit). Balances of liabilities amounted to €1,287 thousand (€678 thousand in 2015).

Share appreciation rights granted to members of the Senior Management, including executive directors, under the 2016 remuneration incentive schemes (see Note 36) resulted in staff expenses of €2.7 million during the year (€2.2 million in 2015).

Details of existing agreements between the company and administrators and management staff with regard to compensation upon severance of contracts are set out in the Annual Report on Corporate Governance, which forms part of the Directors' Report.

The administrators and management staff mentioned above are specified below with their positions in the bank at 31 December 2016:

Executive Directors	
José Oliu Creus	Chairman
Jaime Guardiola Romojaro	CEO for Sabadell Group
José Luis Negro Rodríguez	Director-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

Pursuant to Article 229 of Law 31/2014 of 3 December, amending the revised Spanish Capital Companies Act in order to improve corporate governance and strengthen transparency in public limited companies, the directors have notified the company that, during 2016, they and persons related to them, as defined in Article 231 of the revised Spanish Capital Companies Act:

a. Have not carried out transactions with the Company, without taking into account ordinary operations performed in standard conditions for customers and which were not material, these being understood as those the reporting of which is not necessary to give a true and fair view of the Company's equity, financial position and results.

b. Have not used the Company's name or used their capacities as directors to unduly influence the course of private transactions.

c. Have not used corporate assets, including the Company's confidential information, for private purposes.

d. Have not taken advantage of the Company's business opportunities.

e. Have not obtained benefits or remuneration from third parties other than the Company and its Group associated with the performance of their duties, except in cases of items in which mere courtesy is involved.

f. Have not carried out activities directly or on behalf of a third party involving competition with the Company, whether on an isolated or potential basis, or which might otherwise place them in permanent conflict with the Company's interests.

The bank has signed a liability insurance policy for the period from 31-12-2015 to 31-12-2016, which covers the entity's administrators and senior management. The total premium paid was €651 thousand.

Note 46 – Other information

Transactions with significant shareholders

No material transactions took place with significant shareholders during the years 2016 and 2015, except as described below; those transactions that did take place were in the company's normal course of business 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. The majority shareholder of Banco GNB Sudameris is Gilex Holding, B.V., a subsidiary of Starmites Corporation, S.A.R.L., a company owned by the Gilinski family. On the date of this transaction, Mr Jaime Gilinski Bacal was a significant shareholder of the bank, a capacity which he ceased to hold at the end of 2016.

Environmental disclosures

All global Group operations are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these legal requirements and has procedures in place to encourage and guarantee such compliance.

The Group has taken appropriate measures relating to environmental protection and improvement and to minimise possible environmental impacts, as required by law. A number of Group-wide waste management, consumable recycling and energy saving schemes continued to be implemented during the year. Given the absence of any environment-related contingencies, it was not thought necessary to make any provision for risks or expenses related to environmental protection and improvement.

Section 3 of the Directors' Report provides more details of the bank's environmental policies and actions.

Customer Care Service (SAC)

The Customer Care Service 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 from 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 regulations or good banking practices.

Cases handled

During 2016, the Customer Care Service received 24,529 complaints and claims (21,517 in 2015), of which 22,565 (19,773 in 2015) were accepted, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. The number of cases handled, however, was 22,131 (19,650 in 2015) due to the resolution of cases pending from the previous year (663 cases, against 1,097 in 2016). By type, 12.1% were complaints (14.7% in 2015) and 87.9% were claims (85.3% in 2015).

Of the total complaints and claims examined by the Customer Care Service, 57.3% resulted in a decision that was favourable to the customer or user (51.9% in 2015), 1.5% were settled by agreement with the customer or user (3.9% in 2015), in 1.2% of cases the customer withdrew the claim (1.6% in 2015) and 35.1% were resolved in favour of the entity (38% in 2015). At 31 December, 2.6% of cases had yet to be ruled on by the regulatory bodies and the Customer and Stakeholder Ombudsman. Lastly, the Customer Care Service declared itself not to be authorised to resolve 2.3% of the cases.

In addition to its main activity, the Customer Care Service 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 Users of Financial Services of Banco Sabadell Group. In this respect, the Service has handled 1,057 requests for assistance and information during 2016, compared to 408 in 2015.

The average response time to complaints and claims was as follows: 10,078 cases were resolved within 15 days (12,011 cases in 2015), 9,360 cases were resolved between 15 and 30 days (5,046 cases in 2015) and 2,693 cases were resolved in a period of over 30 days (2,593 cases in 2015). The Finance Ministry Order and the bank's Regulations for the Protection of Customers and Users of Financial Services sets forth a maximum response period of 60 days.

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 has the legal capacity to resolve complaints brought by customers and users of Banco Sabadell Group, both in the first and second instances, and for settling issues that are passed on to him by the Customer Care Service.

The Customer and Stakeholder Ombudsman received 1,087 complaints and claims in 2016 (1,284 in 2015), of which 1,074 were accepted. During the year, the Ombudsman has processed and resolved 996 claims (1,150 in 2015), as certain cases had remained unresolved from the previous year. At 31 December 2016, 88 claims remained to be resolved by the Ombudsman (132 in 2015). In 26 cases, the Customer Care Service had yet to submit the corresponding complaints and claims.

Of the total complaints and claims resolved by the Ombudsman, 38.0% were resolved in favour of the entity (32.4% in 2015) and 2.3% in favour of the customer (2.2% in 2015). Of the remaining cases to be processed and resolved, the bank agreed to customer petitions in 40.3% of the cases (43.7% in 2015). In 17.9% of the cases (17.1% in 2015) the Ombudsman did not issue any judgements due to a lack of authority (without prejudice to the claimants' option to pursue their claims elsewhere). 0.1% of the cases were settled by agreement with the customer or user (0.5% in 2015) and in 1.4% of the cases the customer withdrew the complaint (4.0% in 2015).

Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Schemes

Under current legislation, customers and users can submit their claims and complaints to the Bank of Spain Market Conduct and Complaints Department, to the CNMV (Spanish National Securities Market Commission) and to the Directorate General for Insurance and Pension Schemes. In any event, it is a prerequisite that the parties concerned first address their complaints to the entity concerned in order to attempt to resolve the conflict.

Note 47 – Post-balance sheet events

Since 31 December 2016, there have been no post-balance sheet events worthy of mention.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
AC Dos Lerida, S.L.U.	Real estate development	Barcelona		100.00		2,793	(3,292)	3,083	-	2,706	2,290	-	-	12/16
AC Dos Malaga S.L.U.	Real estate development	Pozuelo de Alarcón	0.00	100.00		2,404	(9,766)	(943)	-	11,024	22,985	-	-	12/16
Acteon siglo XXI, S.A.	Real estate development	Barcelona	0.00	100.00	No	13,130	(16,723)	15,210	-	13,325	11,030	-	-	12/16
Alfonso XII, 16 Inversiones, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	No	11,400	(25,005)	116	-	6,389	15,939	(16,185)	226	12/16
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real estate	Alicante	100.00	0.00	Yes	100	10,943	(769)	-	10,306	20,038	(9,219)	96	12/16
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra	0.00	50.97	No	602	311	68	-	35,843	602	159	34	12/16
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS	Barcelona	100.00	0.00	Yes	3,601	92	84	-	4,245	4,445	(753)	84	12/16
Aurica III, Fondo de Capital Riesgo	Other regulated companies	Barcelona	0.00	61.31	No	3,329	-	(578)	-	2,757	2,041	-	(354)	12/16
Aurica IIIB, Soc. de Capital Riesgo, S.A	Other regulated companies	Barcelona	0.00	63.00	No	1,200	(2)	(229)	-	974	756	(1)	(144)	12/16
Aurica Xxi, S.C.R. De R.S., S.A.U.	Other regulated companies	Barcelona	100.00	0.00	Yes	14,200	30,768	(3,367)	-	42,082	17,492	37,122	(3,367)	12/16
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Bahamas	99.99	0.01	No	1,598	1,197	(29)	-	3,542	2,439	848	(137)	06/15
Banco De Sabadell, S.A.	Credit institution	Sabadell	0.00	0.00	Yes	702,019	11,662,454	380,557	-	166,590,720	-	9,533,480	566,772	12/16
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico	99.99	0.01	No	93,549	(17,740)	(13,131)	-	342,006	91,554	(6,202)	(13,244)	12/16
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra	50.97	0.00	No	30,069	39,244	8,491	1,339	703,222	15,326	20,075	4,046	12/16
Sabadell Strategic Consulting, S.L.U. (1)	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	3	252	142	-	934	3	252	142	12/16
Bansabadell Factura, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	100	(2,721)	252	-	1,290	299	(2,912)	244	12/16
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell	100.00	0.00	Yes	24,040	27,372	1,611	-	688,405	24,040	27,372	1,611	12/16
Bansabadell Holding, S.L.U.	SPE	Sant Cugat del Vallès	100.00	0.00	Yes	330,340	(435,133)	(68,073)	-	168,186	239,544	(375,946)	(68,073)	12/16
Bansabadell Inversió Desenvolupament, S.A.U	SPE	Barcelona	100.00	0.00	Yes	16,975	117,972	4,805	-	198,561	108,690	26,649	14,052	12/16
Sabadell Asset Management, S.A., S.G.I.I.C (2)	Other regulated companies	Sant Cugat del Vallès	100.00	0.00	Yes	601	148,545	36,858	-	260,742	607	148,539	25,774	12/16
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	30,761	24,217	78,195	524	10,323	30,761	12/16
Bansabadell Renting, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	2,000	18,878	12,043	-	414,882	3,861	17,747	12,043	12/16
Bansabadell Securities Services, S.L.U	Other investees with their own business	Sabadell	100.00	0.00	Yes	2,500	24,326	7,700	-	38,677	2,500	24,000	7,700	12/16
Bitarte, S.A.	Other investees with their own business	San Sebastian	99.99	0.01	No	6,506	3,267	(633)	-	9,289	9,272	(3,463)	(633)	12/16
Bstartup 10, S.L.U.	SPE	Barcelona	0.00	100.00	Yes	1,000	(1,090)	(428)	-	1,595	1,000	(1,744)	(605)	12/16
SABADELL INFORMATION SYSTEMS, S.A. (3)	Other investees with their own business	Sabadell	81.00	0.00	Yes	240	62,906	14,028	-	839,145	3,687	40,251	25,821	12/16
Business Services For Operational Support, S.A.U.	Services	Sant Cugat del Vallès	80.00	0.00	Yes	530	2,161	4,580	-	29,009	3,259	2,137	3,664	12/16
Cam Global Finance, S.A.U.	Other regulated companies	Alicante	100.00	0.00	Yes	61	79	58	-	100,922	2,059	67	58	12/16
Subtotal									**25,556**		**606,282**	**9,472,596**	**606,571**	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Cam International Issues, S.A.U.	Other regulated companies	Alicante	100.00	0.00	Yes	61	337	34	98	66,560	114,079	(42,413)	(7,433)	12/16
Caminsa Urbanismo, S.A.U.	Real estate	Alicante	0.00	100.00	Yes	2,000	(1,606)	(52)	-	1,368	800	(233)	(21)	12/16
Cape Holdings No.1 Limited	Fund	London	0.00	100.00	No	1	-	-	-	1	1	-	-	12/16
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	Dominican Republic	0.00	100.00	No	5,016	(4,226)	-	-	809	-	18	-	12/16
Creativ Hotel Catarina, SA.	Real estate development	Barcelona	0.00	100.00	No	1,232	2,993	1,401	-	11,211	42,400	-	-	12/16
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Alicante	0.00	100.00	No	1,942	(86,364)	(3,233)	-	59	13,085	(62,556)	(14,898)	12/16
Duncan 2016 -1 Holdings Limited	Holding company	London	0.00	100.00	No	1	-	-	-	1	1	-	-	12/16
Duncan de Inversiones SICAV, S.A.	Collective investment undertakings, Funds and	Barcelona	87.35	0.00	No	7,842	1,177	(46)	-	2,791	2,560	(85)	(41)	12/16
Duncan Holdings 2015-1 Limited	Fund	London	0.00	100.00	No	1	-	-	-	1	1	-	-	12/16
Ederra, S.A.	Real estate	San Sebastian	97.85	0.00	No	2,036	24,257	7,206	-	34,079	36,062	(10,335)	7,051	12/16
Empire Properties Spain, S.L.	Real estate	Sant Cugat del Vallès	60.54	39.46	Yes	4,963	44,643	306	-	50,667	49,607	(1)	306	12/16
Eólica De Cuesta Roya, S.L.	Services	Zaragoza	50.97	0.00	No	3	(15)	-	-	2	2	-	-	11/15
Europa Invest, S.A.	Other regulated companies	Luxembourg	22.00	78.00	No	125	392	97	-	708	336	180	97	12/16
Europea Pall Mall Ltd.	Real estate	London	100.00	0.00	No	20,843	(4,063)	82	-	17,103	20,843	(1,885)	(3,846)	12/16
Exel Broker Seguros, S.A.	Other regulated companies	San Sebastian	99.40	0.60	No	100	748	1,494	1,230	4,976	3,940	(1,192)	1,494	12/16
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante	99.97	0.03	Yes	180	285	115	-	817	240	228	115	12/16
Gala Domus, S.A.	Real estate	A Coruña	0.00	100.00	No	4,000	(29,131)	(2,636)	-	1,340	2,000	(20,078)	(2,624)	12/16
Galeban 21 Comercial, S.L.U.	SPE	A Coruña	100.00	0.00	Yes	10,000	(4,256)	(32)	-	5,712	14,477	(8,730)	(32)	12/16
Galeban Control Y Asesoramiento, S.L.U.	Services	A Coruña	100.00	0.00	Yes	8	27	(20)	-	15	80	-	-	12/16
Gazteluberri S.L.	Real estate	San Sebastian	0.00	100.00	No	53	(18,476)	(2,289)	-	8,752	23,891	(60,126)	(2,289)	12/16
Gest 21 Inmobiliaria, S.L.U	SPE	Sant Cugat del Vallès	100.00	0.00	Yes	7,810	(321)	342	-	7,857	80,516	(68,474)	340	12/16
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	33,850	(27,134)	(4,174)	-	10,426	32,832	(14,153)	1,835	12/16
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante	100.00	0.00	Yes	13,000	119,270	24,647	27,614	157,037	352,584	45,376	322	12/16
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastian	0.00	100.00	No	53	(76,486)	(769)	-	6,480	7,160	(101,430)	(441)	12/16
Guipuzcoano Valores, S.A.	Real estate	San Sebastian	99.99	0.01	No	4,514	2,706	118	-	7,416	10,833	(3,608)	114	12/16
Hi Partners Holdco Gestión Activa, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	11,070	(220)	1	-	37,382	9,398	-	-	12/16
Hi Partners Holdco Value Added, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	17,014	(86)	836	-	287,492	6,506	-	-	12/16
Hip Francia 184, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	(2)	(83)	-	83	3	-	-	12/16
Hobalear, S.A.U.	Real estate	Barcelona	0.00	100.00	Yes	60	654	18	-	756	414	654	18	12/16
Hondarriberri, S.L.	SPE	San Sebastian	99.99	0.01	No	41	(3,613)	(9,853)	-	58,570	110,169	(49,869)	(71)	12/16
Hotel Atocha 49, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	6,500	(24)	(32)	-	8,963	6,500	-	-	12/16
Hotel Autovia del Mediterraneo 165, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	(1)	(11)	-	57	3	-	-	12/16
Hotel Avenida Rhode 28, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	(1)	(12)	-	62	3	-	-	12/16
Hotel Calle de Los Molinos 10, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	2,077	(1)	(241)	-	2,409	3	-	-	12/16
Hotel Calle Mayor 34, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	(1)	(18)	-	109	3	-	-	12/16
Hotel Carretera de Taull, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	(1)	(9)	-	6	3	-	-	12/16
Hotel Carretera N 632, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	(195)	-	4,230	3	-	-	12/16
Hotel Cavall del Mar 25, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	(1)	(12)	-	10,946	3	-	-	12/16
Subtotal									28,942		941,341	(398,712)	(20,004)	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Hotel Héroe de Sostoa 17, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	10,511	(98)	220	-	11,809	3	-	-	12/16
Hotel Investment Partners S.L. (5)	Real estate	Barcelona	100.00	0.00	Yes	69,145	51,206	(1,238)	-	464,016	117,308	(2,872)	396	12/16
Hotel Jardín Tropical, SL.	Real estate development	Barcelona	0.00	100.00	No	8,288	2,169	4,411	-	32,931	71,500	-	-	12/16
Hotel Malaga Palacio S.A.U.	Real estate development	Malaga		100.00		3,140	(777)	1,708	-	7,093	-	-	-	12/16
Hotel Maria Tarrida 6, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	8,996	(1)	19	-	9,188	8,996	-	-	12/16
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	(16)	(273)	-	(14)	3	-	-	12/16
Hotel Paseo Marítimo 80, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	(65)	-	27,400	3	-	-	12/16
Hotel Sa Torre Mallorca, S.L.	Real estate development	Barcelona	0.00	100.00	No	76	(7,649)	22,683	-	16,125	13,519	-	-	12/16
Hotel Value Added Primera, S.L.U.	Real estate development	Barcelona	0.00	100.00	Yes	3	-	(92)	-	21,624	3	-	-	12/16
Interstate Property Holdings, Llc.	SPE	Miami	100.00	0.00	No	7,293	(11,965)	4,175	-	14,507	3,804	(11,855)	546	12/16
Inverán Gestión, S.L.	Real estate	Sant Cugat del Vallès	44.83	55.17	Yes	45,090	(55,173)	(660)	-	24,876	45,090	(34,504)	(660)	12/16
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante	100.00	0.00	Yes	308,000	171,076	7,159	-	488,358	589,523	(94,647)	(4,422)	12/16
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Murcia	0.00	55.06	No	299,090	(302,156)	-	-	881	175,124	-	-	12/16
Malbrouck, S.I.C.A.V.	Collective investment undertakings, Funds and	Madrid	99.99	0.00	No	14,554	-	(408)	-	16,703	16,679	-	-	12/16
Manston Invest, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	33,357	(4,689)	(4,946)	-	24,001	33,357	(8,147)	(3,518)	12/16
Mariñamendi, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	55,013	(90,911)	(6,151)	-	100,122	55,013	(93,495)	421	12/16
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Yes	85,000	113,996	8,668	312	207,745	632,713	(528,079)	179	12/16
Mediterráneo Vida, S.A.U. de Seguros Y Reaseguros	Other regulated companies	Alicante	0.00	100.00	Yes	102,044	174,958	27,246	8,489	2,521,494	127,827	6,250	27,246	12/16
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante	97.26	0.00	No	795	(474)	(8)	-	7,655	973	(366)	191	12/16
Parque Eólico Jaufil, S.L.U.	Wind energy	Madrid	100.00	0.00	No	163	(2,936)	651	-	6,504	163	-	-	12/16
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Madrid	100.00	0.00	No	83	(1,038)	304	-	3,739	83	-	-	12/16
Parque Eólico Lecrín, S.L.U.	Wind energy	Granada	100.00	0.00	No	4,003	(8,920)	(5,691)	-	16,819	4,003	-	-	12/16
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Madrid	100.00	0.00	No	163	(1,762)	1,565	-	7,803	163	-	-	12/16
Placements Immobiliers France, S.A.S.	Real estate	Paris	0.00	100.00	No	30,002	76,677	10	-	106,593	101,343	1,711	(65)	12/16
Puerto de Tamariu, AIE	Services	Santa Cruz de Tenerife	99.90	0.10	No	1	-	-	-	-	1	-	-	12/16
Rubí Gestión, S.L.U.	Other financial services	Barcelona	100.00	0.00	Yes	3	-	1,915	-	78,136	3	-	1,915	12/16
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	Sao Paulo	99.99	0.01	No	905	(795)	-	-	136	250	(164)	531	12/16
Sabadell Capital S.A De C.V. Sofom E.N.R.	Credit institution	Mexico	97.50	2.50	No	284,666	(39,652)	18,828	-	1,419,245	277,016	3,219	18,992	12/16
Sabadell Consumer Finance, E.F.C., S.A.U	Credit institution	Sant Cugat del Vallès	100.00	0.00	Yes	35,720	38,972	17,933	-	879,962	72,232	7,456	17,860	12/16
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid	100.00	0.00	Yes	70	1,510	892	381	3,199	9,373	67	892	12/16
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra	0.00	50.97	No	300	892	256	-	2,138	300	455	131	12/16
Sabadell Information Systems Limited	Provision of technology services	London	100.00	0.00	No	332	27	(185)	-	713	332	-	(185)	12/16
Subtotal									9,182		2,356,700	(754,971)	60,450	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	No	30,116	843,327	19,636	-	980,768	939,334	(62,191)	19,636	12/16
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	100,060	283,564	(25,608)	-	360,179	500,622	(116,997)	(21,019)	12/16
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	15,807	(740,256)	(527,637)	-	4,838,543	2,147,442	(2,834,744)	(310,468)	12/16
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	2,073	(1,281)	1,806	-	37,617	14,292	(13,500)	1,806	12/16
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	0.00	No	551	2,259	468	-	3,680	551	1,672	475	12/16
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados,	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	60	2,394	64	-	2,553	3,074	(619)	64	12/16
Sabadell United Bank, N.A.	Credit institution	Miami	100.00	0.00	No	3,003	536,619	43,888	-	5,490,936	371,241	103,301	50,165	12/16
Sabadell Venture Capital, S. L.U.	Holding company	Barcelona	0.00	100.00	No	3	(2)	(149)	-	3,871	3	(2)	(149)	12/16
Serveis d´Assessorament Bsa, S.A.U.	Other investees with their own business	Andorra	0.00	50.97	No	60	48	3	-	239	60	24	2	12/16
Sinia Renovables, S.A.U. (4)	Other regulated companies	Barcelona	100.00	0.00	Yes	15,000	(13,834)	(536)	-	15,861	15,000	(9,743)	(733)	12/16
Solvia Gestora de Vivienda Social, S.L.U.	Real estate	Alicante	0.00	100.00	Yes	3	481	1,506	-	4,396	3	709	1,279	12/16
Solvia Pacific, S.A. De C.V.	Real estate	Mexico	0.00	100.00	No	28,947	(14,927)	(1,418)	-	13,020	29,164	(10,312)	(1,418)	12/16
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante	100.00	0.00	Yes	660	15,493	36,890	-	138,874	5,023	14,849	41,688	12/16
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	60,729	549	(6,882)	-	54,702	60,729	(7,814)	(4,752)	12/16
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante	99.88	0.12	Yes	1,000	2,047	(667)	-	2,388	5,266	152	(667)	12/16
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante	100.00	0.00	Yes	296,092	(106,921)	(219,514)	-	2,295,111	2,564,914	(1,748,323)	39,345	12/16
Tierras Vega Alta Del Segura, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	4,550	(14,286)	(836)	-	15,568	16,823	(21,567)	1,741	12/16
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante	100.00	0.00	Yes	3,003	(354)	-	-	2,656	4,654	2,285	-	12/16
TSB Bank Plc	Credit institution	Edinburgh	0.00	100.00	No	92,796	1,723,948	156,944	-	50,246,247	1,856,372	-	-	12/16
TSB Banking Group Plc	Holding company	London	100.00	0.00	No	5,840	708,749	(122)	-	2,308,833	2,214,865	119,995	176,256	12/16
TSB Coverd Bonds Holdings Limited	Holding company	London		100.00	No	1	-	-	-	1	1	-	-	12/16
TSB Scotland (Investment) Nominees Limited	Other regulated companies	Scotland	0.00	100.00	NO	1	-	-	-	1	1	-	-	12/16
TSB Scotland Nominees Limited	Other regulated companies	Scotland	0.00	100.00	NO	1	-	-	-	1	1	-	-	12/16
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid	0.00	100.00	Yes	3,606	10,938	3,461	-	24,178	5,286	9,668	1,965	12/16
Urumea Gestión, S.L.	Other investees with their own business	San Sebastian	0.00	100.00	No	9	(2)	(3)	-	5	9	(9)	(3)	12/16
VeA Rental Homes SOCIMI, S.A	Independent lease of real estate assets	Sant Cugat del Valles	100.00	0.00	No	5,000	(3)	-	-	5,001	5,000	(3)	-	12/16
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Sant Cugat del Vallès	0.00	97.20	Yes	12,000	(38,609)	(4,562)	-	17,176	11,664	(30,116)	(4,562)	12/16
Viacarla Inversiones, S.A.	Services	Madrid	0.00	100.00	No	7,250	(8,381)	2,023	-	10,429	402	-	-	12/16
Xeresa Golf, SA	Real estate development	Alicante	0.00	80.00	No	4,531	36,511	(11,447)	-	63,057	24,300	-	-	12/16
Total									63,680		14,700,419	3,715,628	637,668	

(1) Formerly BanSabadell Consulting, S.L.U.

(2) Formerly Bansabadell Inversión, S.A.U., S.G.I.I.C

(3) Formerly Business Services For Information Systems, S.A.

(4) Formerly Sinia Renovables, S.C.R. De R.S., S.A.U.

(5) Formerly Hotel Investment Partnership, S.L.

Banco Sabadell Group companies at 31 December 2016 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Aviación Regional Cántabra, A.I.E.	Services	Madrid	26.42	0.00	16,918	2,527	10,388	2,352	-	4,472	(1,118)	4,528	12/16
Aviones Alfambra CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	1	4,132	423	-	12,225	1,060	(269)	402	10/16
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	1	4,158	421	-	-	1,060	(269)	401	10/16
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	1	4,175	416	-	12,130	1,060	(270)	399	10/16
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	1	4,190	417	-	12,083	1,060	(270)	398	10/16
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	7,813	59,497	(16,098)	2,908	57,722	40,378	(6,441)	(8,049)	12/16
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	10,000	66,941	13,060	9,750	203,641	45,000	(6,353)	6,072	12/16
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	43,858	328,318	104,548	-	9,396,948	27,106	125,723	53,577	12/16
Diana Capital, S.G.E.C.R., S.A.	Other regulated companies	Madrid	20.66	0.00	606	3,012	(29)	-	4,296	521	173	(167)	10/16
Emte Renovables, S.L.	SPE	Barcelona	0.00	62.11	7,050	(632)	(8)	-	-	4,379	(4,379)	-	11/15
Esus Energía Renovable, S.L.	Services	Vigo	0.00	45.00	50	(295)	(8)	-	-	23	(23)	-	10/15
Financiera Iberoamericana, S.A.	Credit institution	Havana	50.00	0.00	38,288	12,152	2,059	2,149	88,522	19,144	1,328	1,389	12/16
Gate Solar Gestión, S.L.	Services	Vitoria-Gasteiz	50.00	0.00	300	3,233	(137)	-	-	1,860	36	378	
Gesta Aparcamientos, S.L.	Real estate	Alicante	0.00	40.00	301	(244)	(17)	-	642	120	(1,047)	16	06/16
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante	0.00	40.00	1,000	(9,514)	(525)	-	27,607	7,675	(2,012)	-	09/16
Grupo Luxiona, S.L.	Other investees	Canovelles	0.00	20.00	2,561	9,846	(1,552)	-	65,490	10,835	(10,835)	-	09/16
Guisain, S.L.	Real estate	Vizcaya	0.00	40.00	4,200	(139)	(15)	-	6,829	2,593	(246)	(1,284)	03/16
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Real estate development	Barcelona	0.00	30.00	127	262	181	-	-	117	-	-	12/16
Hydrophytic, S.L.	Real estate	Vitoria	0.00	50.00	186	95	16	-	467	93	42	14	12/16
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia	28.70	0.00	6,800	(1,838)	(182)	-	4,799	2,026	(534)	517	09/16
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra	14.64	0.00	12,188	12,997	(25,360)	-	971,313	1,785	-	-	12/15
Parque Eólico Los Ausines, S.L	Alternative energy production	Ponferrada	0.00	50.00	4,465	(435)	(506)	-	47,218	2,282	-	(303)	12/16
Parque Tecnológico Fuente Álamo, S.A.	Services	Murcia	22.54	0.00	3,508	(1,076)	(118)	-	4,827	918	(385)	522	09/16
Planificació TGN2004, S.L. en liquidación	Real estate	Tarragona	0.00	25.00	3,309	(31,119)	24	-	7,488	827	(154)	-	12/15
Plaxic Estelar, S.L.	Real estate	Barcelona	0.00	45.01	3	(21,646)	(3)	-	31,998	2,738	(6,918)	-	09/16
Ribera Salud, S.A.	Services	Valencia	0.00	50.00	9,518	50,888	29,594	-	412,585	30,203	-	14,797	12/15
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg	45.89	0.00	-	-	-	-	43,800	16,400	3,052	-	11/16
Sbd Creixent, S.A.	Real estate	Sabadell	23.05	0.00	5,965	284	(55)	-	16,307	3,524	(1,134)	(804)	09/16
Subtotal								17,159		229,259	87,697	72,803	

Banco Sabadell Group companies at 31 December 2016 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Company data (a) Reserves	Company data (a) Profit/(loss) (b)	Company data (a) Dividends paid (c)	Company data (a) Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A.	Other associates	Sabadell	47.87	0.00	4,818	4,408	109	-	4,926	422	1,981	(55)	12/16
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona	0.00	35.78	2,540	(743)	(10)	-	1,791	915	(190)	27	09/16
Tremon Maroc Mediterraneo Services Immobiliers, S.A.R.L.	Real estate	Tangier	0.00	40.00	457	(405)	-	-		183	(49)	(12)	12/14
Visualmark Internacional, S.L.	Services	A Coruña	0.00	20.00	12	(5)	-	-	72	2	(2)	-	06/08
Total								17,159		230,781	89,437	72,763	
Total											3,805,065	710,431	

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group cannot take part in their management.

(a) Companies outside Spain have been translated to euros applying a historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending approval at the General Meeting of Shareholders.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to €776,581 thousand at 31 December 2016. The liabilities balance of associates at the end of 2016 totalled €10,699,214 thousand.

Associates and subsidiaries consolidated for the first time:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method
Rubí Gestión, S.L.U.	Subsidiary	31/01/2016	3	-	100.00%	100.00%	Direct	Full consolidation
AURICA IIIB, SOC. DE CAPITAL RIESGO, S.A	Subsidiary	29/02/2016	756	-	63.00%	63.00%	Indirect	Full consolidation
Hotel Value Added Primera, S.L.U.	Subsidiary	29/02/2016	3	-	100.00%	100.00%	Indirect	Full consolidation
Parque Eólico Los Ausines, S.L	Associate	29/02/2016	2,282	-	50.00%	50.00%	Indirect	Equity method
Duncan 2016 -1 Holdings Limited	Subsidiary	31/03/2016	1	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Carretera N 632, S.L.U.	Subsidiary	31/03/2016	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Paseo Marítimo 80, S.L.U.	Subsidiary	31/03/2016	3	-	100.00%	100.00%	Indirect	Full consolidation
Gate Solar Gestión, S.L.	Associate	31/03/2016	1,860	-	50.00%	50.00%	Direct	Equity method
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Associate	31/03/2016	117	-	30.00%	30.00%	Indirect	Equity method
TSB COVERED BONDS HOLDINGS LIMITED	Subsidiary	15/05/2016	1	-	100.00%	100.00%	Indirect	Full consolidation
ACTEON SIGLO XXI, S.A.	Subsidiary	31/07/2016	11,030	-	100.00%	100.00%	Indirect	Full consolidation
Creativ Hotel Catarina, SA.	Subsidiary	31/07/2016	42,400	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Jardín Tropical, SL.	Subsidiary	31/07/2016	71,500	-	100.00%	100.00%	Indirect	Full consolidation
HOTEL SA TORRE MALLORCA, S.L.	Subsidiary	31/07/2016	13,519	-	100.00%	100.00%	Indirect	Full consolidation
AURICA III, FONDO DE CAPITAL RIESGO	Subsidiary	30/09/2016	2,041	-	61.31%	61.31%	Indirect	Full consolidation
Empire Properties Spain, S.L.	Subsidiary	30/09/2016	49,607	-	100.00%	100.00%	Direct	Full consolidation
MALBROUCK, S.I.C.A.V.	Subsidiary	30/09/2016	16,679	-	99.99%	99.99%	Direct	Full consolidation
Sabadell Information Systems Limited	Subsidiary	30/09/2016	332	-	100.00%	100.00%	Direct	Full consolidation
VeA Rental Homes SOCIMI, S.A	Subsidiary	30/09/2016	5,000	-	100.00%	100.00%	Direct	Full consolidation
AC DOS LERIDA, S.L.U.	Subsidiary	31/10/2016	2,290	-	100.00%	100.00%	Indirect	Full consolidation
AC DOS MALAGA S.L.U.	Subsidiary	31/10/2016	22,985	-	100.00%	100.00%	Indirect	Full consolidation
HOTEL MALAGA PALACIO S.A.U.	Subsidiary	31/10/2016	-	-	100.00%	100.00%	Indirect	Full consolidation
Puerto de Tamariu, AIE	Subsidiary	05/12/2016	1	-	100.00%	100.00%	Direct	Full consolidation
Xeresa Golf, SA	Subsidiary	31/12/2016	24,300	-	80.00%	80.00%	Indirect	Full consolidation
Total newly consolidated subsidiaries (*)			**262,454**					
Total newly consolidated associates (*)			**4,259**					

(*) See cash flow statement - investment activities, under Investment Payments/Collections in joint ventures and associates.

Associates and subsidiaries no longer consolidated:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Activos Valencia I, S.A.U. In liquidation	Subsidiary	31/01/2016	100.00%	0.00%	(1,233)	Indirect	Full consolidation	b
Parque Eólico Loma del Capón, S.L.U.	Subsidiary	29/02/2016	100.00%	0.00%	(517)	Indirect	Full consolidation	a
Energías Renovables Sierra Sesnández, S.L.	Associate	29/02/2016	40.00%	0.00%	(61)	Indirect	Equity method	a
Sistema Eléctrico de Conexión Valcaire, S.L.	Associate	29/02/2016	46.88%	0.00%	0	Indirect	Equity method	a
Parque Eólico Magaz, S.L.	Associate	29/02/2016	49.00%	0.00%	(37)	Indirect	Equity method	a
Torre Sureste, S.L.	Associate	29/02/2016	40.00%	0.00%	(7)	Indirect	Equity method	b
Fomento de la Coruña, S.A.U.	Subsidiary	31/03/2016	100.00%	0.00%	6	Indirect	Full consolidation	a
Gate Solar, S.L.	Associate	31/03/2016	50.00%	0.00%	0	Direct	Equity method	d
Blue-Lor, S.L. (In liquidation)	Associate	31/03/2016	27.62%	0.00%	0	Indirect	Equity method	b
Dexia Sabadell , S.A.	Associate	30/04/2016	20.99%	0.00%	47,891	Direct	Equity method	a
Solvia Actividades y Servicios Inmobiliarios, S.A.U.	Subsidiary	31/05/2016	100.00%	0.00%	(6)	Direct	Full consolidation	b
Mirador del Segura 21, S.L. In liquidation	Subsidiary	31/05/2016	100.00%	0.00%	32	Indirect	Full consolidation	b
Vistas del Parque 21, S.L. In liquidation	Subsidiary	31/05/2016	100.00%	0.00%	30	Indirect	Full consolidation	b
CAM Capital, S.A.U. In liquidation	Subsidiary	31/05/2016	100.00%	0.00%	243	Direct	Full consolidation	b
Cantabria Generación, S.L.U.	Subsidiary	30/06/2016	100.00%	0.00%	8	Direct	Full consolidation	b
Sabadell Asia Trade Services, Ltd.	Subsidiary	30/06/2016	100.00%	0.00%	(152)	Direct	Full consolidation	b
Proteo Banking Software, S.L.U.	Subsidiary	30/06/2016	100.00%	0.00%	3	Direct	Full consolidation	b
Easo Bolsa, S.A.	Subsidiary	30/06/2016	100.00%	0.00%	15	Direct	Full consolidation	b
Desarrollo Y Ejecución Urbanística Del Mediterráneo, S.L.	Subsidiary	31/07/2016	100.00%	0.00%	(48)	Indirect	Full consolidation	b
Gest Galinver, S.L.	Subsidiary	31/07/2016	100.00%	0.00%	206	Indirect	Full consolidation	b
Herrero Internacional Gestión, S.L.U.	Subsidiary	31/07/2016	100.00%	0.00%	0	Indirect	Full consolidation	b
Procom Residencial Rivas, S.A.U.	Subsidiary	31/07/2016	100.00%	0.00%	2	Indirect	Full consolidation	b
Simat Banol, S.L.U.	Subsidiary	31/07/2016	100.00%	0.00%	450	Indirect	Full consolidation	b
Bajo Almanzora Desarrollos Inmobiliarios, S.L. In liquidation	Associate	31/07/2016	39.14%	0.00%	0	Indirect	Equity method	b
Intermas Nets, S.A.	Associate	31/07/2016	20.00%	0.00%	0	Indirect	Equity method	a
Promociones E Inmuebles Blauverd Mediterráneo, S.L.U.	Subsidiary	31/08/2016	100.00%	0.00%	409	Indirect	Full consolidation	b
Aviones Carraixet CRJ-200 Ii A.I.E.	Associate	30/09/2016	25.00%	0.00%	150	Direct	Equity method	b
Aviones Portacoli CRJ-200 Iii A.I.E.	Associate	30/09/2016	25.00%	0.00%	179	Direct	Equity method	b
Aviones Turia CRJ-200 I, A.I.E.	Associate	30/09/2016	25.00%	0.00%	185	Direct	Equity method	b
Ballerton Servicios, S.L.U.	Subsidiary	30/11/2016	100.00%	0.00%	(22)	Indirect	Full consolidation	b
Eólica De Valdejalón, S.L.	Subsidiary	30/11/2016	50.97%	0.00%	(2)	Direct	Full consolidation	a
Épila Renovables, S.L.	Subsidiary	30/11/2016	51.00%	0.00%	(74)	Direct	Full consolidation	a
Mursiya Golf, S.L.	Associate	15/12/2016	49.70%	0.00%	0	Indirect	Equity method	a
Promociones Y Financiaciones Herrero, S.A.	Subsidiary	16/12/2016	100.00%	0.00%	(313)	Direct	Full consolidation	b
Delta+A8:A38 Swing, S.A.U.	Subsidiary	31/12/2016	100.00%	0.00%	(10)	Indirect	Full consolidation	b
Other					(444)			
Total					**46,883**			

(a) Disposals from the scope of consolidation due to sale of shareholding.
(b) Disposals from the scope due to dissolution and/or liquidation.
(c) Disposals due to reclassification into non-current assets held for sale.
(d) Disposals due to merger.

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Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (1) Capital	Company data (1) Reserves	Company data (1) Profit/(loss) (2)	Company data (1) Dividends paid	Company data (1) Total assets	Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Activos Valencia I, S.A.U. en liquidación	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)	UCITS	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 Sebastian	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	Barcelona	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

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Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (1)					Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (2)	Dividends paid	Total assets				
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	No	-	-	-	-	-	-	-	-	12/15
Easo Bolsa, S.A.	Other investees with their own business	San Sebastian	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 Sebastian	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 Sebastian	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. en liquidación	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	A Coruña	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 Sebastian	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. en liquidación	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 Sebastian	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 Sebastian	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 Sebastian	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	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (1)					Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (2)	Dividends paid	Total assets				
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. en liquidación	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. en liquidación	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	Sao 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 investees with their own business	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

Banco Sabadell Group companies at 31 December 2015 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (1) Capital	Reserves	Profit/(loss) (2)	Dividends paid	Total assets	Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
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 company	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. (En Liquidación)	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. En Liquidación	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 company	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 Sebastian	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. en liquidación	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 which have changed their corporate name 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.

Banco Sabadell Group companies at 31 December 2015 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (1) Capital	Reserves	Profit/(loss) (2)	Dividends paid (3)	Total assets	Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
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. En Liquidación	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. (En Liquidación)	Real estate	Barcelona	0.00	27.62	No	1,858	(29,296)	(674)	-	28,391	4,138	-	-	07/14
Dexia Sabadell , S.A.	Credit institutions	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 institutions	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

Banco Sabadell Group companies at 31 December 2015 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (1)					Net Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (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 trading	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. en liquidación	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**	

The balance sheet date includes the last available date.

(*) Companies consolidated by the equity method as the Group cannot take part in their management.

(1) Data for companies outside Spain have been translated to euros using the fixing exchange rate at 31 December 2015.

(2) Results pending approval at the General Meeting of Shareholders.

(3) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to €363,943 thousand at 31 December 2015. The liabilities balance of associates at the end of 2015 totalled €7,036,457 thousand.

Changes in the Group scope in 2015

Associates and subsidiaries consolidated for the first time:

Thousand euro

			Cost of combination					
Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of acquisition	Fair value of 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	29/01/2015	57,375	-	100.00%	100.00%	Direct	Full consolidation
Solvia Actividades y Servicios Inmobiliarios, S.A.U.	Subsidiary	19/05/2015	60	-	100.00%	100.00%	Direct	Full consolidation
TSB Banking Group PLC	Subsidiary	30/06/2015	2,361,922	-	100.00%	100.00%	Direct	Full consolidation
TSB Bank PLC	Subsidiary	30/06/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Cape Holdings No.1 Limited	Subsidiary	30/06/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Duncan Holdings 2015-1 Limited	Subsidiary	30/06/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Tsb Scotland (Investment) Nominees Limited	Subsidiary	30/06/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Tsb Scotland Nominees Limited	Subsidiary	30/06/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Solvia Gestora de Vivienda Social, S.L.U.	Subsidiary	18/09/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
HI Partners Holdco Gestión Activa, S.L.U.	Subsidiary	01/10/2015	408	-	100.00%	100.00%	Indirect	Full consolidation
HI Partners Holdco Value Added, S.L.U.	Subsidiary	01/10/2015	6,503	-	100.00%	100.00%	Indirect	Full consolidation
Viacarla Inversiones, S.A.	Subsidiary	08/10/2015	402	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Atocha 49, S.L.U.	Subsidiary	23/10/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Héroe de Sostoa 17, S.L.U.	Subsidiary	23/10/2015	6,500	-	100.00%	100.00%	Indirect	Full consolidation
Parque Eólico Lecrín, S.L.U.	Subsidiary	30/10/2015	4,003	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	30/10/2015	83	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	30/10/2015	163	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Jaufil, S.L.U.	Subsidiary	30/10/2015	163	-	100.00%	100.00%	Direct	Full consolidation
HIP Francia 184, S.L.U.	Subsidiary	16/11/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Mirador del Valle, S.L.U.	Subsidiary	16/11/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Sabadell Venture Capital, S. L.	Subsidiary	23/11/2015	-	-	100.00%	100.00%	Indirect	Full consolidation
Nueva Pescanova, S.L.	Associate	30/11/2015	1,800	-	14.64%	14.64%	Direct	Equity method
Duncan de Inversiones SICAV, S.A.	Subsidiary	01/12/2015	2,560	-	87.35%	87.35%	Direct	Full consolidation
Hotel Autovia Del Mediterraneo 165, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Avenida Rhode 28, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Calle De Los Molinos 10, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Calle Mayor 34, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Carretera De Taull, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Cavall Del Mar 25, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Maria Tarrida 6, S.L	Subsidiary	17/12/2015	3	-	100.00%	100.00%	Indirect	Full consolidation

Associates and subsidiaries no longer consolidated:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method
Balam Overseas BV (a)	Associate	13/03/2015	40.00%	0.00%	1,320	Indirect	Equity method
Eólica Mirasierra, S.L. (a)	Associate	27/03/2015	50.00%	0.00%	1,012	Indirect	Equity method
Pemapro, S.L. (a)	Associate	31/03/2015	49.00%	0.00%	0	Indirect	Equity method
Inversiones Ahorro 2000 (a)	Associate	28/04/2015	20.00%	0.00%	3,922	Direct	Equity method
Sercacín, S.A. (a)	Associate	04/05/2015	20.00%	0.00%	19	Direct	Equity method
Villacarrilla FV (a)	Subsidiary	05/05/2015	100.00%	0.00%	61	Direct	Full consolidation
Casiopea Energia 1, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 10, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 11, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 12, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 13, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 14, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 15, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 16, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 17, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 18, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 19, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 2, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 3, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 4, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 5, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 6, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 7, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 8, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 9, S.L.U (a)	Subsidiary	05/05/2015	100.00%	0.00%	0	Direct	Full consolidation
Promociones y Desarrollos Ribera Mujeres S.A, de C.V. (a)	Subsidiary	01/06/2015	100.00%	0.00%	0	Direct	Full consolidation
Rocabella, S.L. (a)	Associate	26/06/2015	36.09%	0.00%	(47)	Indirect	Equity method
Queenford, S.L. (b)	Associate	26/06/2015	31.54%	0.00%	0	Indirect	Equity method
Hansa Mexico S.A. De C.V. (b)	Subsidiary	30/06/2015	82.40%	0.00%	(5,530)	Indirect	Full consolidation
Hansa Cabo, S.A. De C.V. (b)	Subsidiary	30/06/2015	80.00%	0.00%	5,712	Indirect	Full consolidation
Operadora Cabo De Cortes S.R.L. De C.V. (b)	Subsidiary	30/06/2015	81.22%	0.00%	205	Indirect	Full consolidation
Servicios Inmobiliarios Trecam, S.L. (b)	Associate	11/07/2015	30.01%	0.00%	0	Indirect	Equity method
Metalplast C.F.E. S.L. (In liquidation) (b)	Associate	21/07/2015	20.00%	0.00%	0	Indirect	Equity method
Adara Renovables S.L. (a)	Associate	22/07/2015	34.00%	0.00%	0	Direct	Equity method
Alze Mediterráneo, S.L. In liquidation (b)	Associate	29/07/2015	45.00%	0.00%	0	Indirect	Equity method
Inerzia Mediterráneo, S.L. (b)	Associate	01/08/2015	40.00%	0.00%	632	Indirect	Equity method
Metrovacesa, S.A. (a)	Associate	15/09/2015	13.04%	0.00%	0	Direct	Equity method
Hotelera Marina, S.A, De C.V. (a)	Subsidiary	01/10/2015	100.00%	0.00%	0	Indirect	Full consolidation
Playa Marina, S.A, De C.V. (a)	Subsidiary	01/10/2015	100.00%	0.00%	0	Indirect	Full consolidation
Banco Gallego Vida Y Pensiones, S.A. De Seguros Y Reaseguros (d)	Subsidiary	26/10/2015	100.00%	0.00%	0	Direct	Full consolidation
Residencial Kataoria, S.L. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	(6)	Indirect	Full consolidation
Gest Madrigal, S.L.U. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	6	Indirect	Full consolidation
Boreal Renovables 14, S.L.U. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	(636)	Direct	Full consolidation
Son Blanc Caleta S.L. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	(27)	Indirect	Full consolidation
Urdin Oria, S.A. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	(7)	Direct	Full consolidation
Tabimed Gestión De Proyectos, S.L. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	10	Indirect	Full consolidation

(a) Disposals from the scope of consolidation due to sale of shareholding.
(b) Disposals from the scope due to dissolution and/or liquidation.
(c) Disposals due to reclassification into non-current assets held for sale.
(d) Disposals due to merger.

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method
Servicio De Administración De Inversiones, S.A. In liquidation (b)	Subsidiary	27/10/2015	100.00%	0.00%	(392)	Direct	Full consolidation
Gestión Mediterránea Del Medio Ambiente, S.A. In liquidation (b)	Subsidiary	05/11/2015	100.00%	0.00%	404	Direct	Full consolidation
Guipuzcoano Capital, S.A. Unipersonal (b)	Subsidiary	05/11/2015	100.00%	0.00%	1	Direct	Full consolidation
Eco Resort San Blas, S.L.U. (a)	Subsidiary	19/11/2015	100.00%	0.00%	(3,461)	Indirect	Full consolidation
Gdsur Alicante, S.L. In liquidation (b)	Associate	20/11/2015	27.75%	0.00%	(155)	Indirect	Equity method
Galenova Sanitaria, S.L. (b)	Associate	26/11/2015	50.00%	0.00%	49	Indirect	Equity method
Bluesky Property Development, S.L. In liquidation (b)	Subsidiary	30/11/2015	100.00%	0.00%	(175)	Indirect	Full consolidation
Gazteluberri Gestión S.L. In liquidation (b)	Subsidiary	30/11/2015	100.00%	0.00%	2,683	Indirect	Full consolidation
Grao Castalia, S.L. In liquidation (b)	Subsidiary	30/11/2015	100.00%	0.00%	(126)	Indirect	Full consolidation
Promociones Y Desarrollos Creaziona Levante, S.L. In liquidation (b)	Subsidiary	30/11/2015	100.00%	0.00%	(242)	Indirect	Full consolidation
Hotelera H.M., S.A. De C.V. (a)	Subsidiary	07/12/2015	88.00%	0.00%	(148)	Indirect	Full consolidation
Luzentia Fotovoltaica Sl (a)	Associate	10/12/2015	25.93%	0.00%	0	Direct	Equity method
Sabadell International Equity, Ltd. (b)	Subsidiary	18/12/2015	100.00%	0.00%	156	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 106, S.L.U. (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 113, S.L.U. (a)	Subsidiary	22/12/2015	100.00%	0.00%	80	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 119, S.L.U. (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 121, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 127, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 130, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 131, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 144, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	80	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 162, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 163, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 164, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 165, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 166, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 167, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 168, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 169, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 170, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	77	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 171, S.L. (a)	Associate	22/12/2015	50.00%	0.00%	20	Direct	Equity method
Fotovoltaica De La Hoya De Los Vicentes 189, S.L. (a)	Associate	22/12/2015	25.00%	0.00%	17	Direct	Equity method
Fotovoltaica De La Hoya De Los Vicentes 195, S.L. (a)	Subsidiary	22/12/2015	75.00%	0.00%	31	Direct	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 200, S.L.U (a)	Subsidiary	22/12/2015	100.00%	0.00%	80	Direct	Full consolidation
Espais Arco Mediterráneo, S.L.U. (b)	Subsidiary	24/12/2015	100.00%	0.00%	0	Indirect	Full consolidation
Artemus Capital, S.L.U. (b)	Subsidiary	31/12/2015	100.00%	0.00%	(28,900)	Indirect	Full consolidation
Costa Mujeres Investment B.V. (b)	Subsidiary	31/12/2015	100.00%	0.00%	(6,842)	Direct	Full consolidation
Playa Caribe Holding Iv B.V. (b)	Subsidiary	31/12/2015	100.00%	0.00%	0	Direct	Full consolidation
Playa Caribe Holding V B.V. (b)	Subsidiary	31/12/2015	100.00%	0.00%	0	Direct	Full consolidation
Rest+A101+A61:A100+A60:A100+A101+A61:A61:A100	Subsidiary	31/12/2015	100.00%	0.00%	0	Direct	Full consolidation
Rest	-	-	-	-	(2,048)		
Total					(31,087)		

(a) Disposals from the scope of consolidation due to sale of shareholding.
(b) Disposals from the scope due to dissolution and/or liquidation.
(c) Disposals due to reclassification into non-current assets held for sale.
(d) Disposals due to merger.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Consolidated securitisation funds	Entity	Total securitised assets at 31/12/2016
2004	GC SABADELL 1, F.T.H	Banc Sabadell	192,508
2004	TDA CAM 3	Banco CAM	136,334
2004	FTPYME TDA CAM 2 F.T.A	Banco CAM	23,840
2005	TDA 23, F.T.A	Banco Guipuzcoano	48,647
2005	TDA CAM 4 F.T.A	Banco CAM	388,749
2005	TDA CAM 5 F.T.A	Banco CAM	615,224
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	123,339
2006	TDA CAM 6 F.T.A	Banco CAM	419,933
2006	EMPRESAS HIPO TDA CAM 3 F.T.A	Banco CAM	74,738
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	197,513
2006	TDA CAM 7 F.T.A	Banco CAM	637,543
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	312,038
2007	TDA 29, F.T.A	Banco Guipuzcoano	149,028
2007	TDA CAM 8 F.T.A	Banco CAM	625,638
2007	TDA CAM 9 F.T.A	Banco CAM	584,135
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	82,528
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	243,184
2008	IM SABADELL RMBS 2, F.T.A	Banc Sabadell	517,464
2008	IM SABADELL RMBS 3, F.T.A	Banc Sabadell	592,059
2008	FTPYME TDA CAM 7 F.T.A	Banco CAM	262,637
2008	TDA CAM 11 F.T.A	Banco CAM	815,946
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	112,646
2009	TDA CAM 12 F.T.A	Banco CAM	956,074

Schedule III –Information required to be kept by issuers of mortgage market securities and regarding 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, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Asset operations

Details of the aggregate nominal values of the portfolio of mortgage loans and credit at 31 December 2016 and 2015 backing issues, 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)

	2016	2015
Total mortgage loan and credit portfolio	**60,284,332**	**66,147,385**
Participation mortgages issued	**5,144,462**	**5,530,881**
Of which : Loans held on balance sheet	4,835,597	5,166,060
Mortgage transfer certificates	**3,963,115**	**4,370,275**
Of which: Loans held on balance sheet	3,768,861	4,180,536
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**51,176,755**	**56,246,229**
Ineligible loans	15,411,370	19,382,351
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	12,290,896	14,389,421
Rest	3,120,474	4,992,930
Eligible loans	35,765,385	36,863,878
Non-qualifying portions	107,768	146,914
Qualifying portions	35,657,617	36,716,964
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	35,657,617	36,716,964
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues

	2016		2015	
	Total	*Of which:* Eligible loans	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Origin of operations	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Originated by the Bank	50,346,578	35,295,368	55,382,031	36,376,744
Subrogated from other entities	269,891	224,558	273,461	218,221
Rest	560,286	245,459	590,737	268,913
Currency	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Euro	51,045,668	35,705,266	55,593,779	36,810,879
Other currencies	131,087	60,119	652,450	52,999
Payment status	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Satisfactory payment	41,444,636	32,026,465	43,807,302	32,165,666
Other situations	9,732,119	3,738,920	12,438,927	4,698,212
Average residual period to maturity	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Up to 10 years	14,278,937	8,669,175	16,958,565	8,983,758
10 to 20 years	17,327,453	13,335,178	18,041,830	13,031,187
20 to 30 years	14,651,158	10,747,915	15,529,950	11,333,611
More than 30 years	4,919,207	3,013,117	5,715,884	3,515,322
Interest rate	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Fixed	9,321,347	6,334,684	3,443,868	1,382,883
Variable	41,855,408	29,430,701	52,802,361	35,480,995
Mixed			-	-
Holders	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Legal entities and individual entrepreneurs	19,786,398	10,745,538	24,582,556	11,860,390
Of which: Real estate developments	*6,539,086*	*2,537,346*	*8,088,495*	*3,102,456*
Other individuals and NPISHs	31,390,357	25,019,847	31,663,673	25,003,488
Type of guarantee	**51,176,755**	**35,765,385**	**56,246,229**	**36,863,878**
Assets /finished buildings	46,669,023	34,402,220	50,519,701	35,093,621
Residential	*37,442,623*	*28,517,150*	*40,175,606*	*28,875,792*
Of which: Subsidised housing	*1,744,996*	*1,233,156*	*1,520,057*	*1,026,431*
Commercial	*9,088,092*	*5,783,908*	*10,245,126*	*6,145,363*
Other	*138,308*	*101,162*	*98,969*	*72,466*
Assets/ buildings under construction	535,955	312,429	690,409	483,774
Residential	*495,870*	*278,110*	*643,299*	*443,712*
Of which: Subsidised housing	*63*	-	*3,009*	*2,935*
Commercial	*36,568*	*30,804*	*45,517*	*38,470*
Other	*3,517*	*3,515*	*1,593*	*1,592*
Land	3,971,777	1,050,736	5,036,119	1,286,483
Developed	*2,158,151*	*452,427*	*2,934,471*	*724,994*
Rest	*1,813,626*	*598,309*	*2,101,648*	*561,489*

The nominal values of drawable funds (i.e. undrawn loan commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Drawable balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds

	2016	2015
Potentially eligible	1,057,382	1,131,564
Ineligible	1,537,366	962,059

The distribution of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of covered mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds	2016	2015
Secured on residential property	**28,928,427**	**29,509,448**
Of which LTV ≤ 40%	*8,594,798*	*8,733,958*
Of which LTV 40%-60%	*11,062,573*	*11,065,725*
Of which LTV 60%-80%	*9,271,056*	*9,709,765*
Of which LTV > 80%	-	-
Secured on other properties	**6,836,958**	**7,354,430**
Of which LTV ≤ 40%	*4,131,633*	*4,441,514*
Of which LTV 40%-60%	*2,705,325*	*2,912,916*
Of which LTV > 60%	-	-

Changes during 2016 and 2015 in the nominal values of mortgage loans that back issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	Eligible	Ineligible
Balance at 31 December 2014	**38,986,881**	**20,497,568**
Derecognised during the year	**(6,461,478)**	**(5,263,151)**
Terminations at maturity	(2,445,835)	(719,117)
Early terminations	(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**
Derecognised during the year	**(6,365,271)**	**(6,806,531)**
Terminations at maturity	(2,439,564)	(550,120)
Early terminations	(1,190,892)	(558,712)
Subrogations by other entities	(28,495)	(8,661)
Rest	(2,706,320)	(5,689,038)
Additions during the year	**5,266,778**	**2,835,550**
Originated by the Bank	3,256,162	1,593,583
Subrogations from other entities	27,712	12,309
Rest	1,982,904	1,229,658
Balance at 31 December 2016	**35,765,385**	**15,411,370**

B) Liability operations

Information on issues carried out and collateralised by Banco Sabadell’s mortgage loans and credit portfolio is provided in the following table, analysed by residual maturity and according to whether the sale was by public offering or otherwise.

Thousand euro

Nominal value	2016	2015
Covered bonds isued	**23,457,544**	**22,352,359**
Of which: Not reflected under liabilities on the balance sheet	9,556,900	8,133,200
Debt securities. Issued through public offering	**7,600,000**	**7,250,000**
Time to maturity up to one year	1,500,000	1,750,000
Time to maturity from one to two years	1,000,000	1,500,000
Time to maturity from two to three years	-	1,000,000
Time to maturity from three to five years	3,100,000	1,750,000
Time to maturity from five to ten years	2,000,000	1,250,000
Time to maturity more than ten years		-
Debt securities. Other issues	**12,813,000**	**10,883,000**
Time to maturity up to one year	500,000	420,000
Time to maturity from one to two years	1,150,000	500,000
Time to maturity from two to three years	3,150,000	1,150,000
Time to maturity from three to five years	6,380,000	7,530,000
Time to maturity from five to ten years	1,633,000	1,283,000
Time to maturity more than ten years	-	-
Deposits	**3,044,544**	**4,219,359**
Time to maturity up to one year	330,000	1,174,815
Time to maturity from one to two years	593,710	330,000
Time to maturity from two to three years	524,146	593,710
Time to maturity from three to five years	445,833	669,980
Time to maturity from five to ten years	1,130,855	1,430,855
Time to maturity more than ten years	20,000	20,000

	2016		2015	
	Nominal value (thousand euro)	Average residual term (years)	Nominal value (thousand euro)	Average residual term (years)
Mortgage transfer certificates	**3,963,115**	**17**	**4,370,275**	**18**
Issued through public offering	-	-	-	-
Other issues	3,963,115	17	4,370,275	18
Participation mortgages	**5,144,462**	**16**	**5,530,881**	**17**
Issued through public offering	-	-	-	-
Other issues	5,144,462	16	5,530,881	17

Banco de Sabadell, S.A.'s over-collateralisation ratio (the nominal value of all the mortgage loans and credit backing the issue of mortgage bonds and covered bonds, divided by the nominal value of issued covered bonds) stood at 218% at 31 December 2016 (258% at 30 June 2016).

As required by Royal Decree 716/2009, implementing 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 related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with the mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 4 on Financial Risk Management). In terms 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 assets that make up the Group's lending and particularly those secured by mortgages, which serve as cover for the Group's issued covered bonds, are described in detail below for each type of loan applicant.

Individuals

Analyses and decisions on risks undertaken with individuals are based on the scoring tools described in Note 4 on financial risk management. 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. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and the degree to which these applications are in line with their possibilities; customers' ability to pay based on their current and future position; the value of the property provided as security (as determined by an appraisal carried out by valuation firms authorised by Bank of Spain and 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 guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the assessed value of the assets submitted as security (hereinafter, loan-to-value, or LTV). As a general rule, under internal Group policies the maximum LTV is applicable to purchases by individuals of properties for use as their usual 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 regard 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 loan. 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 Note 4 on financial risk management, the Group has an integrated monitoring system in place 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 guarantees provided.

Businesses (other than construction and/or real estate development)

Analyses and decisions concerning the undertaking of risks are based on rating tools and "basic management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4 on financial risk management. A range of other data and parameters is 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 valuation firms authorised by Bank of Spain and 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' own funds, examinations of internal and external databases of defaulters, etc.

Business loans are likewise subject to processes to evaluate any charges associated with the security provided any mortgages given must be 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 has a “basic management team", one member of which will be on the business side and one on the risks side. All loan approvals must be the result of a joint decision. As with individual customers, a set of exceptional circumstances has been drawn up for borrowers and sectors, and these are provided for in the Group's internal regulations.

As in the case of individuals, operations are monitored using early warning tools. There are also procedures in place to ensure that the borrower's security and guarantees are constantly being reviewed and validated.

Businesses (construction/real estate development)

Real estate assets and real estate developer loans are handled by the bank’s Asset Transformation and Industrial and Real Estate Holding division. This 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 assessments are carried out by teams of specialist analysts 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 customers.

Factors influencing the decision include the borrower’s credit rating assessment together with a series of other considerations such as the financial position and net worth of the 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 loan, quality of the developer and an internal appraisal of the development.

Decision-making 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 entity’s internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the state of progress of the work. Constant checks are made that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

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 the Group’s funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the bank’s portfolio of loans secured by real estate mortgages granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the mortgage and financial system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves maintaining special accounting records of all mortgage loans and credit — and any assets that replace them — used to back issues of covered bonds and mortgage bonds, as well as records of any financial derivatives associated with them). There are also procedures in place to verify that all loans and other assets meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV – Information required to be kept by issuers of territorial bonds and regarding the special territorial bonds record

Details of the data from the special accounting record of territorial bonds of Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Circular 4/2015 of the Bank of Spain, are given below:

A) Asset operations

Details of the aggregate nominal values of the portfolio of loans and credit with general governments at 31 December 2016 and 2015 backing issues, their eligibility and the extent to which they qualify as such for territorial bond hedging purposes are presented in the following table:

Thousand euro

	2016		
	Total	Residents in Spain	Residents in other countries in the European Economic Area
Central governments	278,620	278,620	-
Regional governments or governments in autonomous communities	1,206,406	1,206,406	-
Local governments	739,232	739,232	-
Total loans and credit portfolio	**2,224,258**	**2,224,258**	**-**

Thousand euro

	2015		
	Total	Residents in Spain	Residents in other countries in the European Economic Area
Central governments	236,245	236,245	-
Regional governments or governments in autonomous communities	770,350	770,350	-
Local governments	785,879	785,879	-
Total loans and credit portfolio	**1,792,474**	**1,792,474**	**-**

B) Liability operations

Information on issues carried out and collateralised by the bank's portfolio of loans and credit to general governments is provided in the following table, analysed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2016	2015
Territorial bond in issue	**900,000**	**900,000**
Of which: Not reflected under liabilities on the balance sheet	900,000	900,000
Issued through public offering	**-**	**-**
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-
Other issues	**900,000**	**900,000**
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	900,000	900,000
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-

The over-collateralisation ratio (the nominal value of all the loans and credit to general governments backing the issue of territorial bonds divided by the nominal value of territorial bonds issued) for Banco de Sabadell, S.A. stood at 247.14% at 31 December2016 (199.16% at 31 December 2015).

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 ensure compliance with regulations governing the issue of these securities (see Note 4 on financial risk management).

In terms 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 loans and receivables and particularly assets with public entities, which back the Group's territorial covered bond issues.

Schedule V – Details of outstanding issues and subordinated liabilities of the Group

Debt securities issued

The breakdown of the Group's issues at 31 December 2016 and 2015 is as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell. S.A.	04/10/2006	-	50,000	EURIBOR 3M +0.14	04/10/2016	Euro	Institutional
CAM Global Finance S.A.U.	05/12/2006	-	107,000	EURIBOR 3M +0.225	05/12/2016	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	2.50%	05/12/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/03/2014	-	1,022	3.00%	10/03/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/03/2014	-	1,287	2.99%	10/03/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/03/2014	-	1,486	EURIBOR 6M +2.30	10/03/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/03/2014	1,495	3,281	EURIBOR 6M +3.50	10/03/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/03/2014	2,604	3,348	EURIBOR 6M +3.50	10/03/2020	Euro	Institutional
Banco de Sabadell. S.A.	18/03/2014	5,000	5,000	EURIBOR 3M +1.30	18/03/2019	Euro	Institutional
Banco de Sabadell. S.A.	18/03/2014	11,500	11,500	EURIBOR 3M +1.60	18/03.2019	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	-	3,550	2.89%	10/04/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	-	2,479	2.98%	10/04/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	-	711	2.92%	10/04/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	-	767	3.02%	10/04/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	-	3,558	EURIBOR 6M +2.30	10/04/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	1,109	1,810	4.30%	10/04/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/04/2014	1,994	9,391	EURIBOR 6M +3.50	10/04/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	-	2,891	2.82%	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	-	2,604	2.84%	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	-	1,597	2.91%	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	-	811	2.87%	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	-	6,627	EURIBOR 6M +2.30	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	1,270	2,074	4.18%	10/05/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	1,309	2,175	4.22%	10/05/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	4,455	7,648	EURIBOR 6M +3.50	10/05/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	3,180	8,611	4.42%	10/05/2020	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2014	4,452	9,563	EURIBOR 6M +3.50	10/05/2020	Euro	Institutional
Banco de Sabadell. S.A.	13/05/2014	20,000	20,000	EURIBOR 3M +0.80	13/05/2019	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	2,537	2.31%	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	500	2.33%	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	2,860	2.58%	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	492	2.60%	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	2,192	EURIBOR 6M +1.85	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	-	1,893	EURIBOR 6M +2.10	10/06/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	1,309	2,146	3.39%	10/06/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	2,577	4,220	3.63%	10/06/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	1,284	2,141	EURIBOR 6M +2.75	10/06/2018	Euro	Institutional

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell. S.A.	10/06/2014	1,972	3,287	EURIBOR 6M + 3.00	10/06/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	2,216	2,977	EURIBOR 6M + 2.75	10/06/2020	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2014	3,005	3,863	EURIBOR 6M + 3.00	10/06/2020	Euro	Institutional
Banco de Sabadell. S.A.	27/06/2014	20,000	20,000	EURIBOR 3M + 0.75	27/06/2019	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	-	4,555	2.47%	10/07/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	-	4,984	2.40%	10/07/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	-	2,834	2.44%	10/07/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	-	8,541	EURIBOR 6M + 1.85	10/07/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	1,643	2,422	3.52%	10/07/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	2,613	4,385	3.61%	10/07/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	4,904	7,974	EURIBOR 6M + 2.75	10/07/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/07/2014	5,705	7,474	EURIBOR 6M + 2.75	10/07/2020	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	-	4,164	2.50%	10/08/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	-	1,709	2.54%	10/08/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	-	3,532	2.55%	10/08/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	-	5,718	EURIBOR 6M + 1.85	10/08/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	3,157	4,924	3.64%	10/08/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	1,736	2,679	3.73%	10/08/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	4,184	6,277	EURIBOR 6M + 2.75	10/08/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/08/2014	4,458	6,730	EURIBOR 6M + 2.75	10/08/2020	Euro	Institutional
Banco de Sabadell. S.A.	10/09/2014	-	2,557	2.53%	10/09/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/09/2014	-	2,400	EURIBOR 6M + 1.85	10/09/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/09/2014	1,853	2,730	3.71%	10/09/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/09/2014	2,289	3,490	EURIBOR 6M + 2.75	10/09/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/10/2014	-	1,959	2.27%	10/10/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/10/2014	-	2,141	2.67%	10/10/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/10/2014	-	1,306	EURIBOR 6M + 1.55	10/10/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/10/2014	-	2,825	EURIBOR 6M + 1.85	10/10/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/10/2014	1,922	2,750	EURIBOR 6M + 2.35	10/10/2020	Euro	Institutional
Banco de Sabadell. S.A.	04/11/2014	-	360,000	1.10%	04/05/2016	Euro	Retail
Banco de Sabadell. S.A.	10/11/2014	-	2,376	2.26%	10/11/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/11/2014	-	4,462	2.24%	10/11/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/11/2014	-	4,213	EURIBOR 6M + 1.55	10/11/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/11/2014	1,705	2,516	3.34%	10/11/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/11/2014	5,630	8,445	EURIBOR 6M + 2.35	10/11/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/11/2014	3,681	4,601	EURIBOR 6M + 2.35	10/11/2020	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	-	6,659	EURIBOR 6M + 1.55	10/12/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	-	5,571	2.13%	10/12/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	-	3,349	2.19%	10/12/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	5,985	9,064	EURIBOR 6M + 2.35	10/12/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	1,934	2,857	3.19%	10/12/2018	Euro	Institutional
Banco de Sabadell. S.A.	10/12/2014	4,512	5,640	EURIBOR 6M + 2.35	10/12/2020	Euro	Institutional
Banco de Sabadell. S.A.	30/12/2014	-	500,000	0.90%	30/06/2016	Euro	Retail
Banco de Sabadell. S.A.	02/02/2015	-	200,000	0.80%	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	1.50%	29/12/2016	Euro	Retail
Banco de Sabadell. S.A.	14/07/2015	-	300,000	1.50%	14/10/2016	Euro	Retail
Banco de Sabadell. S.A.	04/08/2015	-	250,000	125.00%	04/11/2016	Euro	Retail
Banco de Sabadell. S.A.	16/10/2015	300,000	300,000	0.75%	16/01/2017	Euro	Retail
Banco de Sabadell. S.A.	26/11/2015	300,000	300,000	0.75%	26/05/2017	Euro	Retail
Banco de Sabadell. S.A.	03/02/2016	300,000	-	0.75%	03/05/2017	Euro	Retail
Banco de Sabadell. S.A.	05/04/2016	300,000	-	0.65%	05/07/2017	Euro	Retail
Banco de Sabadell. S.A.	14/06/2016	300,000	-	0.60%	14/06/2018	Euro	Retail
Banco de Sabadell. S.A.	26/07/2016	316,371	-	0.50%	26/07/2018	Euro	Retail
Banco de Sabadell. S.A.	20/09/2018	256,479	-	0.40%	20/09/2018	Euro	Retail
Banco de Sabadell. S.A.	05/12/2016	500,000	-	0.65%	05/03/2020	Euro	Retail
Banco de Sabadell. S.A.	12/12/2016	15,000	-	MAX(EURIBOR 3M; 0.5%)	12/12/2019	Euro	Retail
Banco de Sabadell. S.A.	29/12/2016	500,000	-	0.30%	29/06/2018	Euro	Institutional
Subscribed by Group companies		(9,820)	(312,087)				
Total straight bonds		**3,226,857**	**4,378,806**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco Guipuzcoano. S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euro	Institutional
CAM Global Finance. S.A.U.	04/06/2008	100,000	100,000	ref. underlying assets	04/06/2018	Euro	Institutional
Banco de Sabadell. S.A.	25/07/2012	3,000	3,000	ref. underlying assets	25/07/2022	Euro	Retail
Banco de Sabadell. S.A.	10/10/2012	-	1,600	ref. underlying assets	10/10/2016	Euro	Retail
Banco de Sabadell. S.A.	10/10/2012	1,425	1,425	ref. underlying assets	10/10/2017	Euro	Retail
Banco de Sabadell. S.A.	20/12/2012	3,000	3,000	ref. underlying assets	20/12/2019	Euro	Retail
Banco de Sabadell. S.A.	02/04/2013	-	4,000	ref. underlying assets	02/06/2016	Euro	Retail
Banco de Sabadell. S.A.	16/04/2013	-	1,170	ref. underlying assets	18/04/2016	Euro	Retail
Banco de Sabadell. S.A.	16/05/2013	5,000	5,000	ref. underlying assets	16/05/2018	Euro	Retail
Banco de Sabadell. S.A.	27/05/2014	5,000	5,000	ref. underlying assets	27/05/2019	Euro	Retail
Banco de Sabadell. S.A.	14/07/2014	10,000	10,000	ref. underlying assets	15/07/2024	Euro	Retail
Banco de Sabadell. S.A.	14/07/2014	3,000	3,000	ref. underlying assets	14/07/2021	Euro	Retail
Banco de Sabadell. S.A.	16/07/2014	5,000	5,000	ref. underlying assets	16/07/2019	Euro	Retail
Banco de Sabadell. S.A.	24/07/2014	4,000	4,000	ref. underlying assets	24/07/2019	Euro	Retail
Banco de Sabadell. S.A.	10/10/2014	-	6,000	ref. underlying assets	10/11/2016	Euro	Retail
Banco de Sabadell. S.A.	18/12/2014	5,000	5,000	ref. underlying assets	18/12/2019	Euro	Retail
Banco de Sabadell. S.A.	03/02/2015	7,000	7,000	ref. underlying assets	03/02/2020	Euro	Retail
Banco de Sabadell. S.A.	15/04/2015	4,000	4,000	ref. underlying assets	15/04/2020	Euro	Retail
Banco de Sabadell. S.A.	15/04/2015	-	8,500	ref. underlying assets	15/04/2020	Euro	Retail
Banco de Sabadell. S.A.	15/04/2015	8,000	8,000	ref. underlying assets	15/04/2020	Euro	Retail
Banco de Sabadell. S.A.	22/05/2015	-	10,000	ref. underlying assets	22/05/2020	Euro	Retail
Banco de Sabadell. S.A.	06/07/2015	1,800	15,000	ref. underlying assets	06/07/2020	Euro	Retail
Banco de Sabadell. S.A.	24/07/2015	39,998	39,998	ref. underlying assets	24/07/2018	Euro	Retail
Banco de Sabadell. S.A.	14/10/2015	-	10,500	ref. underlying assets	14/10/2020	Euro	Retail
Banco de Sabadell. S.A.	18/12/2015	8,200	8,200	ref. underlying assets	18/12/2020	Euro	Retail
Banco de Sabadell. S.A.	12/02/2016	13,500	-	ref. underlying assets	12/02/2021	Euro	Retail
Banco de Sabadell. S.A.	15/03/2016	10,500	-	ref. underlying assets	15/03/2021	Euro	Retail
Banco de Sabadell. S.A.	01/04/2016	13,200	-	ref. underlying assets	01/04/2022	Euro	Retail
Banco de Sabadell. S.A.	01/04/2016	10,000	-	ref. underlying assets	01/04/2022	Euro	Retail
Banco de Sabadell. S.A.	13/05/2016	11,600	-	ref. underlying assets	13/05/2021	Euro	Retail
Banco de Sabadell. S.A.	01/06/2016	6,000	-	ref. underlying assets	03/06/2019	Euro	Retail
Banco de Sabadell. S.A.	17/06/2016	75,000	-	ref. underlying assets	17/06/2019	Euro	Retail
Banco de Sabadell. S.A.	20/06/2016	8,000	-	ref. underlying assets	20/06/2019	Euro	Retail
Banco de Sabadell. S.A.	21/06/2016	8,500	-	ref. underlying assets	17/06/2019	Euro	Retail
Banco de Sabadell. S.A.	23/06/2016	19,300	-	ref. underlying assets	23/06/2021	Euro	Retail
Banco de Sabadell. S.A.	30/11/2016	45,000	-	ref. underlying assets	30/11/2021	Euro	Retail
Subscribed by Group companies		(1,859)	(1,845)				
Total structured bonds		**457,164**	**291,548**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	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 ordinary government guarantee b		**1,059,050**	**1,059,050**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell. S.A. (London office) (*)	18/12/2015	246,089	291,918	Entre 0.13% y 1.86%	Various	Euro	Institutional
Banco de Sabadell. S.A. (**)	03/03/2016	6,024,080	5,699,452	Entre 0.13% y 1.49%	Various	Euro	Institutional
Subscribed by Group companies		(2,331,669)	(2,054,156)				
Total promissory notes		**3,938,500**	**3,937,214**				

(*) Promissory notes (ECP).

(**) Prospectus for €7.000.000 thousand, extendable to €9.000.000 thousand, filed with the Spanish National Securities Exchange Commission (CNMV).

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell. S.A.	19/01/2006	-	1,750,000	3.50%	19/01/2016	Euro	Institutional
Banco de Sabadell. S.A.	10/05/2006	-	300,000	4.13%	10/05/2016	Euro	Institutional
Banco de Sabadell. S.A.	16/05/2006	-	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.	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 de Sabadell. S.A.	23/01/2013	1,000,000	1,000,000	3.38%	23/01/2018	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	1,350,000	1,250,000	0.88%	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	1,250,000	EURIBOR 12 M + 0.232	29/01/2019	Euro	Institutional
Banco de Sabadell. S.A.	23/04/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.08	23/04/2019	Euro	Institutional
Banco de Sabadell. S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0.13	04/05/2023	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2015	750,000	750,000	0.38%	10/06/2020	Euro	Institutional
Banco de Sabadell. S.A.	18/06/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.05	18/06/2020	Euro	Institutional
Banco de Sabadell. S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0.20	03/07/2023	Euro	Institutional
Banco de Sabadell. S.A.	20/07/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.05	20/07/2020	Euro	Institutional
Banco de Sabadell. S.A.	16/09/2015	1,000,000	1,000,000	EURIBOR 12 M + 0.07	16/09/2020	Euro	Institutional
Banco de Sabadell. S.A.	03/11/2015	1,000,000	1,000,000	0.63%	03/11/2020	Euro	Institutional
Banco de Sabadell. S.A.	26/01/2016	550,000	-	EURIBOR 3M + 0.80	26/01/2024	Euro	Institutional
Banco de Sabadell. S.A.	24/05/2016	50,000	-	EURIBOR 3M + 0.535	24/05/2024	Euro	Institutional
Banco de Sabadell. S.A.	10/06/2016	1,000,000	-	0.625%	10/06/2024	Euro	Institutional
Banco de Sabadell. S.A.	20/10/2016	1,000,000	-	0.125%	20/10/2023	Euro	Institutional
Banco de Sabadell. S.A.	15/12/2016	1,000,000	-	EURIBOR 12M + 0.24	15/12/2020	Euro	Institutional
Banco de Sabadell. S.A.	21/12/2016	500,000	-	EURIBOR 12M + 0.27	21/12/2021	Euro	Institutional
Banco de Sabadell. S.A.	29/12/2016	250,000	-	0.969%	27/12/2024	Euro	Institutional
Subscribed by Group companies		(9,556,900)	(8,133,200)				
Total covered bonds		**10,856,100**	**9,999,800**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell. S.A.	23/04/2015	500,000	500,000	EURIBOR 12M + 0.13	23/04/2019	Euro	Institutional
Banco de Sabadell. S.A.	16/12/2015	400,000	400,000	EURIBOR 12M + 0.33	16/12/2019	Euro	Institutional
Subscribed by Group companies		(900,000)	(900,000)				
Total territorial bonds		**-**	**-**				

(*) Companies merged with Banco Sabadell.

Securitisations

The following table shows the bonds issued by securitisation funds of assets pending depreciation at 31 December 2016 and 2015, respectively.

Thousand euro

		Issue		Liability outstanding		
Year	Type of assets securitised	Number of securities	Amount	2016	2015	Yield
2004	TDA CAM 3.FTA (*) (A)	12,000	1,200,000	117,948	146,580	EURIBOR 3M + (between 0.23% and 0.70%)
2004	GC SABADELL 1. F.T.H. (A)	12,000	1,200,000	134,309	159,515	EURIBOR 3M + (between 0.06% and 0.78%)
2004	FTPYME TDA CAM 2 F.T.A(*) (A)	1,968	196,800	8,748	14,527	EURIBOR 3M + (between 0% and 0.70%)
2005	TDA CAM 4.FTA (*) (A)	20,000	2,000,000	255,169	321,190	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5.FTA (*) (A)	20,000	2,000,000	250,566	289,145	EURIBOR 3M + (between 0.12% and 0.35%)
2005	TDA 23. FTA (**) (A)	8,557	289,500	24,747	30,934	EURIBOR 3M + (between 0.09% and 0.75%)
2006	TDA CAM 6 F.T.A (*) (A)	13,000	1,300,000	171,566	205,117	EURIBOR 3M + (between 0.13% and 0.27%)
2006	IM FTGENCAT SABADELL 2. F.T.A. (C)	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	21,079	45,582	EURIBOR 3M + (between 0.18% and 0.80%)
2006	TDA CAM 7 F.T.A (*)(A)	15,000	1,500,000	202,119	291,599	EURIBOR 3M + (between 0.14% and 0.30%)
2006	CAIXA PENEDES 1 TDA. FTA (***) (A)	10,000	1,000,000	82,962	93,796	EURIBOR 3M + (between 0.14% and 0.55%)
2006	TDA 26-MIXTO. FTA (**) (A)	6,783	435,500	5,079	6,062	EURIBOR 3M + (between 0.14% and 3.50%)
2006	FTPYME TDA CAM 4 F.T.A (*) (A)	11,918	1,191,800	103,915	137,791	EURIBOR 3M + (between 0.02% and 4%)
2007	TDA CAM 8 F.T.A(*) (A)	17,128	1,712,800	188,620	339,552	EURIBOR 3M + (between 0.13% and 3.50%)
2007	CAIXA PENEDES PYMES 1 TDA, FTA (***) (A)	7,900	790,000	9,183	20,712	EURIBOR 3M + (between 0.19% and 0.80%)
2007	GC FTPYME SABADELL 6, F.T.A. (C)	10,000	1,000,000	-	37,951	EURIBOR 3M + (between -0.005% and 0.75%)
2007	TDA CAM 9 F.T.A (*) (A)	15,150	1,515,000	220,748	332,655	EURIBOR 3M + (between 0.12% and 3.50%)
2007	TDA 29. FTA (**) (A)	8,128	452,173	116,097	132,867	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%)
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	-	-	EURIBOR 3M + (between 0.35% 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 (**) (C)	3,000	300,000	-	-	EURIBOR 3M + (between 0.30% and 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%)
2014	CAPE FUNDING 2014-1 PLC (****)	1	3,315,420	2,235,915	3,209,094	3M £ LIBOR + 0.6%
2015	DUNCAN FUNDING 2015-1 PLC (*****) (B)	21,638	2,940,691	601,347	741,579	EURIBOR 3 M +0.48% y £ LIBOR 3 M + (between 0% and 1.5%)
2016	DUNCAN FUNDING 2016-1 PLC (*****) (B)	33,895	4,354,356	595,000	-	EURIBOR 3 M +0.40% y £ LIBOR 3 M + (between 0.77% and 2.5%)
2016	IM SABADELL PYME 10. F.T. (A)	17,500	1,750,000	-	-	EURIBOR 3M + (between 0.75% and 0.90%)
Subtotal				**5,345,117**	**6,601,999**	

(*) Banco CAM securitisation funds in effect.
(**) Banco Guipuzcoano securitisation funds in effect.
(***) Securitisation funds in effect derived from acquisition of assets from BMN-Penedés.
(****) TSB securitisation fund in effect. The fund was fully drawn down in November.
(*****) TSB securitisation fund in effect.
(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.
(B) Issues quoted on the LSE market.
(C) Securitisation funds liquidated during 2016.

Subordinated liabilities

The subordinated liabilities issued by the Group at 31 December 2016 and 2015 are as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity / cancellation date	Issue currency	Target of offering
Banco Guipuzcoano. S.A. (*)	21/03/2006	-	12,600	-	21/03/2016	Euro	Institutional
Banco de Sabadell. S.A.	25/05/2006	-	206,600	-	25/05/2016	Euro	Institutional
CAM International Issues. S.A.U.	29/09/2006	-	80,250	-	29/09/2016	Euro	Institutional
CAM International Issues. S.A.U.	26/04/2007	66,050	66,050	RIBOR 3M + 0.80%	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	RIBOR 3M + 4.00%	25/02/2021	Euro	Institutional
Banco de Sabadell. S.A. (**)	28/10/2013	-	42,238	-	28/10/2016	Euro	Retail
Banco de Sabadell. S.A. (**)	28/10/2013	17,680	35,360	5.000%	28/10/2017	Euro	Institutional
TSB Banking Group Plc	01/05/2014	449,672	547,921	5.750%	06/05/2021	Pound sterling	Institutional
Banco de Sabadell. S.A.	06/05/2016	500,000	-	5.625%	06/05/2026	Euro	Institutional
Subscribed by Group companies		(35,760)	(32,832)				
Total subordinated bonds		**1,462,642**	**1,423,187**				

(*) Currently merged with Banco de Sabadell. S.A.
(**) Convertible subordinated bonds.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2016	Amount 31/12/2015	Interest rate ruling at 31/12/2016	Maturity / cancellation date	Issue currency	Target of offering
Banco de Sabadell. S.A.	20/09/2006	18,400	18,400	RIBOR 3M + 2.17%	-	Euro	Institutional
Subscribed by Group companies							
Total preference shares		**18,400**	**18,400**				

The issues included in subordinated liabilities, for the purpose of credit priority, are placed after all the unsecured creditors of the Group. All issues have been made in euros.

Schedule VI - Concentration of risks by geography

The risk concentration broken down by activity and at the level of Spanish autonomous communities at 31 December 2016 and 2015, respectively, is as follows:

Thousand euro

	2016									
		AUTONOMOUS REGIONS								
	TOTAL	Andalusia	Aragón	Asturias	aric Islands	ary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Credit institutions	**8,058,200**	**159,408**	**268**	**21,191**	**660**	**530**	**67,007**	**667**	**810**	**963,535**
General Governments	19,758,603	**262,488**	**102,732**	**198,955**	**77,310**	**46,294**	**27,866**	**34,531**	**455,564**	**908,625**
Central Governments	14,395,295	-	-	-	-	-	-	-	-	-
Rest	5,363,308	262,488	102,732	198,955	77,310	46,294	27,866	34,531	455,564	908,625
Other financial institutions	**2,700,955**	**3,485**	**573**	**2,568**	**1,192**	**336**	**243**	**10,912**	**6,356**	**1,103,938**
Non-financial companies and individual entrepreneurs	**51,874,700**	**3,022,132**	**920,867**	**1,783,544**	**1,744,371**	**918,666**	**248,723**	**772,935**	**1,344,358**	**15,452,306**
Real estate construction and development	7,008,309	809,916	131,480	162,490	168,889	121,984	20,999	87,377	76,785	1,516,773
Civil engineering construction	1,820,929	66,313	33,551	62,007	9,993	3,569	4,935	10,701	29,719	457,671
Other purposes	43,045,462	2,145,903	755,836	1,559,047	1,565,489	793,113	222,789	674,857	1,237,854	13,477,862
Large companies	16,496,530	623,660	202,157	505,496	606,523	274,833	106,154	309,685	356,569	4,218,630
SMEs and individual entrepreneurs	26,548,932	1,522,243	553,679	1,053,551	958,966	518,280	116,635	365,172	881,285	9,259,232
Non-profit institutions serving househol	**39,866,067**	**2,676,893**	**491,153**	**1,251,325**	**1,547,361**	**601,614**	**113,166**	**603,886**	**696,765**	**13,926,972**
Housing	31,112,369	2,120,396	385,655	932,183	1,244,639	438,654	86,041	477,313	545,996	10,843,832
Consumer loans	5,764,952	394,163	79,137	208,159	194,390	130,065	20,591	85,630	101,401	2,184,199
Other purposes	2,988,746	162,334	26,361	110,983	108,332	32,895	6,534	40,943	49,368	898,941
TOTAL	**122,258,525**	**6,124,406**	**1,515,593**	**3,257,583**	**3,370,894**	**1,567,440**	**457,005**	**1,422,931**	**2,503,853**	**32,355,376**

Thousand euro

	2016								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Credit institutions	**57**	**16,192**	**6,257,400**	**5,194**	**96**	**140,057**	**425,039**	**59**	**30**
General governments	**51,105**	**111,799**	**1,395,725**	**50,704**	**135,033**	**801,309**	**648,641**	**46,504**	**8,123**
Central governments									
Rest	51,105	111,799	1,395,725	50,704	135,033	801,309	648,641	46,504	8,123
Other financial institutions	**105**	**4,410**	**1,331,397**	**3,860**	**388**	**144,341**	**86,757**	**-**	**94**
Non-financial companies and individual	**142,876**	**1,788,990**	**12,409,279**	**1,655,492**	**566,155**	**5,476,742**	**3,408,825**	**196,008**	**22,431**
Real estate construction and development	12,010	114,673	1,399,907	673,205	25,821	1,429,989	218,541	33,275	4,195
Civil engineering construction	4,013	119,996	802,568	9,541	9,767	66,475	129,163	947	-
Other purposes	126,853	1,554,321	10,206,804	972,746	530,567	3,980,278	3,061,121	161,786	18,236
Large companies	40,352	368,535	5,699,514	205,117	213,023	1,124,970	1,606,150	34,866	296
SMEs and individual entrepreneurs	86,501	1,185,786	4,507,290	767,629	317,544	2,855,308	1,454,971	126,920	17,940
Non-profit institutions serving househo	**124,839**	**733,164**	**4,702,056**	**2,732,930**	**162,883**	**8,414,576**	**962,429**	**71,437**	**52,618**
Housing	96,037	514,363	3,809,902	2,029,706	119,493	6,592,794	773,925	55,165	46,275
Consumer loans	22,327	157,083	525,936	427,443	24,594	1,082,532	110,169	12,132	5,001
Other purposes	6,475	61,718	366,218	275,781	18,796	739,250	78,335	4,140	1,342
TOTAL	**318,982**	**2,654,555**	**26,095,857**	**4,448,180**	**864,555**	**14,977,025**	**5,531,691**	**314,008**	**83,296**

Thousand euro

	2015									
	TOTAL	AUTONOMOUS REGIONS								
		Andalusia	Aragón	Asturias	aric Islands	ary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Credit institutions	**6,403,443**	**66,554**	**12,766**	**33,476**	**25,840**	**10,135**	**2,617**	**7,002**	**16,072**	**3,757,280**
General governments	**18,361,763**	**295,734**	**9,411**	**144,030**	**101,402**	**77,956**	**27,674**	**47,420**	**182,844**	**962,002**
Central governments	13,590,809	-	-	-	-	-	-	-	-	-
Rest	4,770,954	295,734	9,411	144,030	101,402	77,956	27,674	47,420	182,844	962,002
Other financial institutions	**3,720,607**	**33,695**	**6,891**	**15,483**	**15,209**	**5,708**	**1,691**	**4,277**	**16,613**	**410,437**
Non-financial companies and individual entrepreneurs	**53,899,509**	**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	45,376,391	1,515,019	626,730	1,447,984	1,172,636	460,200	169,704	258,338	864,660	16,934,220
Large companies	18,951,422	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 househo	**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	31,926,681	2,086,178.00	378,962	965,836	1,283,895	435,331	70,564	395,120	520,832	11,170,364
Consumer loans	5,607,390	357,901.00	76,262	197,081	196,978	101,932	17,146	64,106	88,618	2,141,084
Other purposes	2,832,669	140,013.00	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	122,752,062	5,167,621	1,285,007	3,150,029	3,073,670	1,232,889	315,426	844,643	1,859,388	37,919,886

Thousand euro

	2015								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	ue Country	La Rioja	Ceuta y Melilla
Credit institutions	**1,656**	**22,521**	**1,522,237**	**60,996**	**9,760**	**708,912**	**35,711**	**109,476**	**430**
General governments	**52,777**	**408,216**	**908,307**	**57,780**	**62,232**	**912,111**	**503,970**	**17,087**	**-**
Central governments	-	-	-	-	-	-	-	-	-
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	**40,974**	**1,441,997**	**8,052,634**	**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	6,015,357	595,263	452,877	11,079,067	2,334,007	179,360	11,215
Large companies	5,316	288,870	2,790,482	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 househo	**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	15,690,652	4,203,823	714,443	26,261,665	4,194,889	407,787	47,958

Schedule VII – 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 2016:

	Turnover (thousand euro)	No. equivalent full time employees	Gross income before tax	Corporate income tax
Spain	4,034,753	16,680	665,161	(187,738)
United Kingdom	1,209,891	7,239	253,442	(81,216)
United States	159,176	683	86,880	(35,694)
Rest	66,878	396	13,939	1,079
Total	**5,470,698**	**24,998**	**1,019,422**	**(303,569)**

At 31 December 2016, income from the Group's assets calculated dividing the consolidated gains/(losses) during the year between total assets amounts to 0.34%.

This information is available in Schedule I to these consolidated Annual Accounts for the year ended 31 December 2016, 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 2016. Data on full-time equivalent employees have been obtained from the template of each company/country at the end of 2016.

The amount of public grants and aid received is not material.

CONSOLIDATED REPORT OF THE DIRECTORS FOR 2016

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.

CONTENTS

GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisation structure

The Group is organised into the following business units:

- Banking business Spain includes the following business units for customers:

    - Retail and Business Banking: this is the largest single business line in the Group; it focuses on offering financial products and services to large and medium-sized enterprises, SMEs, retailers and sole proprietors, individuals and professional groups, Consumer Finance and Bancassurance.

      Sabadell is the reference brand which operates in the majority of the Spanish market. It also operates under the following brands;

        - SabadellHerrero in Asturias and Leon.
        - SabadellGuipuzcoano in the Basque Country, Navarre and La Rioja.
        - SabadellGallego in Galicia.
        - SabadellSolbank in the Canary Islands, Balearic Islands, and coastal regions in the South and the Levante region.
        - ActivoBank focuses its activity on customers who operate exclusively over the Internet and/or by phone.

    - Corporate Banking; this unit offers products and services to large enterprises and financial institutions, both national and international. Its activities encompass corporate banking, structured finance, and Trade Finance & IFI.

    - 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 asset 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.

Asset Transformation manages the bank's real estate balance sheet with a general overview of the entire transformation process, providing services to the real estate portfolio of the Group and of third parties, with a commitment to business and maximising value.

- Banking business United Kingdom: The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages. For 2015, it only includes TSB Banking Group PLC and 6 months of results.

- Banking business Americas: this area is made up of a number of business units, investees and representative offices that engage in corporate banking, private banking and retail 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 enterprises, such as structured project finance operations, to products for individuals. The business is carried out 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: Banco Sabadell holds a 50.97% stake in BancSabadell d'Andorra, an entity incorporated in the Principality of Andorra and which targets individuals with medium-to-high earnings and leading companies in the Principality of Andorra.

Banco Sabadell is the parent company of a group of companies which at 31 December 2016 numbered a total of 159, of which 127 are considered part of the group and 32 are associates (at 31 December 2015, they numbered 170, of which 127 were considered Group companies and 43 were associates).

The Board of Directors is the highest decision-making body of the company and its consolidated group, as it is responsible under the law and the Articles of Association for managing and representing the bank. The Board of Directors is basically configured as a supervision and control instrument, delegating the management of ordinary business to executive bodies and the management team.

The Board of Directors is governed by clear-cut and transparent governance regulations, specifically the Articles of Association and Board Regulations in accordance with corporate governance standards.

Its responsibilities include:

a) Approving the Company's general strategies;

b) Appointing and, if appropriate, discharging management staff in the various subsidiaries;

c) Identifying the Company's main risks and implementing and monitoring the appropriate internal control and reporting systems;

d) Setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;

e) Setting policies on the treasury portfolio in accordance with any guidelines laid down at the General Meeting of Shareholders;

f) Approving the Annual Report on Corporate Governance;

g) Authorising transactions between the Company and its management staff and significant shareholders that may pose a conflict of interest; and

Generally deciding on business or financial transactions that are of particular importance for the Company.

The composition of the Board of Directors as of 31 December 2016 is as follows:

José Oliu Creus	Chairman
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	CEO for Banco Sabadell
Aurora Catá Sala	Director
JoaquÍn Folch-Rusiñol Corachán	Director
María Teresa Garcia-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
António Vítor Martins Monteiro	Director
José Luis Negro Rodríguez	Director-General Manager
David Vegara Figueras	Director
Miquel Roca i Junyent	Non-voting Secretary
María José García Beato	Non-voting Deputy Secretary

The Board of Directors has implemented a series of clear-cut and transparent rules and regulations on corporate governance, which are in line with Spanish regulations on corporate governance. The majority of the Board members (11 of 14) are non-executive directors, including 7 independent directors.

On 22 September 2016, the Board of Directors approved the appointment of Mr Manuel Valls Morató as Independent Director. On 20 January 2017, his suitability was confirmed by the European Central Bank and this appointment was registered with the Bank of Spain official Senior Officers Register (*Registro de Altos Cargos*), but it has not yet been registered with the Mercantile Registry.

On 20 January 2017, Proprietary Director Mr António Vítor Martins Monteiro submitted his voluntary resignation from his post of Director.

At present, there are five delegated committees in operation 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 the General 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 2016 is shown in the table below:

Composition of Committees

Position	Executive	Audit y Control	Appointments	Remuneration	Risk
Chair	Josep Oliu Creus	María Teresa Garcia-Milà Lloveras	Aurora Catá Sala	Aurora Catá Sala	David Vegara Figueras
Member	José Javier Echenique Landiribar	Joan Llonch Andreu	Joaquín Folch-Rusiñol Corachán	Joaquín Folch-Rusiñol Corachán	Maria Teresa Garcia-Milà Lloveras
Member	Jaime Guardiola Romojaro	José Ramón Martínez Sufrategui	Joan Llonch Andreu	Maria Teresa Garcia-Milà Lloveras	Joan Llonch Andreu
Member	José Manuel Martínez Martínez	-	-	-	-
Member	José Luis Negro Rodríguez	-	-	-	-
Non-voting Secretary	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2016	36	7	12	11	9

Executive Committee

The Executive Committee is responsible for coordinating 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 during Committee meetings are reported to the Board of Directors, 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 Audit and Control Committee is responsible for functions established by Law, including:

a) Reporting to the General Meeting of Shareholders 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 account auditors or auditing firms any significant internal control weaknesses identified in the course of the audit;

c) Overseeing the preparation and presentation of regulated financial information;

d) Making recommendations to the Board of Directors, for submission at the General Meeting of Shareholders, on the appointment of external account auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the renewal or non-renewal of their engagement; overseeing compliance with the audit 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, to be reviewed by the Committee, and any other matters related to the account auditing process and auditing standards;

g) Advising on any issues referred to the Committee by the Board of Directors that are within its remit;

h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any of their implementing regulations, or under any generally applicable rules on good governance.

Pursuant to its Regulations, the Audit and Control Committee performs functions related to the process of financial reporting and internal control systems, functions related to account auditing, functions related to economic and financial information, functions related to internal audit servicing and functions related to compliance with regulatory requirements, legal requirements and good governance codes, specifically:

a) Overseeing compliance with the law, internal regulations and regulatory provisions concerning Company activities;

b) Assessing the effectiveness of, and compliance with, the Regulations of the General Meeting of Shareholders, the Board of Directors' Regulations, the Company's Code of Conduct and, particularly, the Internal Code of Conduct for Securities Market Trading;

c) Reviewing compliance with the Company's rules on corporate governance and submitting recommendations for improvement to the Board as it sees fit; and

d) Supervising the corporate governance report to be approved by the Board of Directors and included 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, the Board of Directors and the Board's Regulations:

a) Make recommendations to the Board of Directors on the appointment of independent directors for their co-opted appointment or for their subjection to the decision at the General Meeting of Shareholders, in addition to any proposals for re-electing or discharging these directors;

b) Submit the proposals for the appointment of the remaining directors for their co-opted appointment or for their subjection to the decision at the General Meeting of Shareholders, in addition to any proposals for re-electing or discharging these directors;

c) Ensure compliance with the qualitative composition of the Board of Directors, in accordance with the provisions of Article 53 of the Articles 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 staff and of the Designated Group;

f) Report the basic terms and conditions of the contracts of the executive directors and senior management staff;

g) 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;

h) 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 Remuneration Committee by Law, in the Articles of Association, by the Board of Directors and the Board's Regulations:

a) Propose to the Board of Directors the directors' remuneration policy;

b) Propose to the Board of Directors the remuneration policy of General Managers and those performing Senior Management functions who directly report to the Board, Executive Committee members or CEOs, and the individual remuneration and other contractual conditions of the Executive Directors, 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, ensuring that the latter are in line with these principles;

f) Ensure that remuneration is transparent;

g) Ensure that any potential conflicts of interest do not hinder the impartiality of external consultants;

h) Verify the information on remuneration contained in the various corporate documents, including the Directors' Remuneration Report.

Risk Committee

The Risk Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Risk Committee by Law, in the Articles of Association, the Board of Directors and the Board's Regulations:

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 different types of such investments;

c) Reporting to the full Board on the performance of its functions, in accordance with this Article and any other applicable legal provisions or provisions in the Articles of Association;

d) Making quarterly reports to the full Board on the levels of risk 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 their 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 Programmes are consistent with the bank's risk, capital and liquidity levels.

1.2. Operation: main objectives achieved and actions implemented

The development of the Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile within the framework of ethical and professional codes and taking into account the interests of different stakeholders.

The bank's management model is focused on long-term customer retention, through on-going efforts designed to build customer loyalty by taking initiatives and being proactive in its relationship with customers. The bank has a comprehensive offering of products and services, a qualified work force, a technology platform that supports growth and a constant focus on the pursuit for quality.

Since the onset of the financial crisis, Spain's banking sector has been undergoing an unprecedented process of consolidation. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from capital markets are some of the factors that have driven Spanish entities to merge and thus expand their footprint, maximise efficiency and strengthen their balance sheets.

During the last decade, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to significantly 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 2014, Banco Sabadell is well positioned to grow organically and to benefit from the economic recovery in Spain.

In terms of the completed acquisitions, synergies from the Banco CAM merger exceeded expectations, and the technological and operational integration of the Penedès branch network into that of Banco Sabadell was successfully completed 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 strengthen 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. Based on the most recent information available, Banco Sabadell's market share in Spain stands at 7.6% in lending and 6.8% in deposits (November 2016). Furthermore, Banco Sabadell stands out in products such as ICO funding, with a market share of 35.6% (December 2016); trade credit with a market share of 9.7% (November 2016); payrolls with a market share of 9.1% (December 2016) and POS turnover with a market share of 14.4% (September 2016).

In terms of international business, Banco Sabadell has always been exemplary. This has not changed in 2016 and Sabadell has continued being present in strategic areas and has accompanied companies in their international activity, reaching market shares of 29.4% and 15.1 % in documentary credit for exports and imports, respectively (November 2016).

As regards internationalisation, the current plan has represented Banco Sabadell's definitive leap towards becoming a global bank. Over the last three years, we have expanded our international footprint, and our main milestones have been: the acquisition of British bank TSB and the entry into the Mexican market, after obtaining a licence to operate in this country as a commercial bank. During this period, we have also opened two representative offices in Colombia and Peru, with the purpose of originating corporate business. Thus, at December 2016, more than 30% of the Group's lending was generated outside of Spain (24% in the United Kingdom and 8% in the Americas and other countries/regions), comfortably exceeding the objective that we had set ourselves of having 10% of our lending outside of Spain by the end of the TRIPLE Plan.

Short-term priorities in TSB are the implementation of its current business plan on one hand, and technology migration and integration on the other. In the medium term, the high market share of Banco Sabadell in the SMEs sector in Spain, together with its international experience, will be a sound added-value tool to support TSB in the development of efficient and high-quality services for SMEs in the United Kingdom.

In 2016, Banco Sabadell has maintained its policy of removing problematic assets, reducing them by €2,962 million, and it has implemented allowances of €1,427 million, allowing it to achieve an NPL coverage ratio of 51.6%.

2 – BUSINESS PERFORMANCE AND RESULTS

2.1. Economic and financial background

2016 began with significant turbulence in financial markets in a situation in which oil prices declined to minimums not seen in over a decade and in which concerns arose regarding China and, in general, the well-being of the world economy. Actions by central banks then began to calm the situation. In fact, financial markets have managed to be relatively successful in overcoming the principal, and in some cases unpredictable, political events which have taken place throughout the year.

Politics have increasingly taken centre stage and have been a clear conditioning factor for financial assets. Events which particularly stood out include the holding and subsequent outcome of the referendum in the United Kingdom on the country's membership of the European Union (EU), the surprising victory of Republican candidate Donald Trump in the United States presidential elections and Italy’s referendum on Senate reforms.

The outcome of the referendum in the United Kingdom, which was held on 23rd June, was a vote in favour of leaving the EU with 51.9% of the votes. This result led to David Cameron standing down as Prime Minister, and the appointment of Theresa May as his successor. The British government has announced its intention to trigger Article 50, which is the official notification of a country’s request to withdraw from the European Union, before the end of March 2017. The UK has also indicated that its priorities in the negotiations will be to control immigration and maintain the greatest possible access to the European market.

In the United States, Republican candidate Donald Trump won the presidential elections held on 8th November, and the Republican Party maintained control over Congress and the Senate. Trump has proposed interventionist and protectionist policies. In fiscal terms, he intends to adopt an expansionary policy focused on tax cuts and an increase in expenditure on defence and infrastructures.

In Italy, a majority voted against Senate reforms in a referendum held on 4th December (with 59.1% of the votes). Following the outcome, Matteo Renzi announced his resignation as Prime Minister and a new continuist government was formed under the leadership of former Minister of Foreign Affairs, Paolo Gentiloni.

In terms of economic activity, global growth has remained at relatively low levels in a context of lower potential growth rates than those observed prior to the international financial crisis. The euro area has not been overly affected by the UK referendum and its growth has continued to be driven by domestic demand. In the UK, the impact of the referendum on economic activity has been limited and has mainly affected the construction industry and, to a lesser extent, the manufacturing industry. In the US, activity has become increasingly dynamic over the year, and the labour market has performed well. As regards Japan, economic growth has been relatively slow despite new fiscal stimulus measures.

In emerging economies, the growth of the main countries has continued to be slow or has even declined compared to one year previously, in an environment in which further steps have been taken in the deleveraging process. In the first instance, concerns regarding the economic and financial situation in China and Brazil led to a significant increase in risk aversion and capital outflows in emerging countries were intense. Subsequently, however, this situation calmed down, supported by: (i) more lax approaches exhibited by central banks in developed countries; (ii) stimulus policies introduced in China to support growth and (iii) optimism in terms of the change in government in Brazil. As a result of this, the deleveraging process in emerging economies started to progress in a more orderly fashion. Towards the end of the year, Trump’s victory in the United States resulted in a downward revision of economic outlooks for Mexico, insofar as that this electoral victory could constitute a step backwards in the process of integrating both economies that has taken place in recent decades.

The Spanish economy has maintained a positive trend, with an increase in GDP in excess of 3.0% and with unemployment rates at minimum levels not seen since 2009. As regards the real estate market, this has improved, and housing prices have continued to grow positively. In terms of the external sector, current accounts will have closed the year with a surplus for the fourth consecutive year. In politics, the failure to form government following the general elections held in December 2015 led to another election being called for 26th June. In June, the Spanish Conservative Party, PP, was once again victorious, obtaining more votes and MPs than in December, although they again failed to achieve an absolute majority. The investiture of Mariano Rajoy was possible thanks to the support of Ciudadanos and the abstention of PSOE following the latter’s internal crisis which arose during the attempts to form government, and which ended with the resignation of its General Secretary, Pedro Sánchez.

Inflation has continued to be below the targets of the monetary policies in the main developed economies. In the euro area, inflation returned to negative figures at the beginning of the year as a result of the fall in oil prices. Inflation then recovered, reaching positive figures, coinciding with the upturn in crude oil prices. In the UK, the devaluation of the pound as a result of the referendum has driven prices upwards. In the US, the underlying index (index excluding food products and energy) reached maximum levels last reached in 2012 in an environment in which surplus economic capacity has continued to be reduced.

Global financial markets started the year with a very negative tone due to the fall in oil prices, continued capital outflows from China and concerns over the US economy. The situation was later corrected thanks to reduced fears of a global economic recession, the upturn in crude oil prices, lax monetary measures adopted by China and the European Central Bank (ECB) and the more lax tone of the US Federal Reserve (Fed). Following the referendum in the UK at the end of June and Trump's election as President of the United States in November, significant changes also took place in financial markets. However, these events did not lead to any poor performance of financial markets or liquidity problems.

Central banks in the main developed economies have generally maintained an accommodating tone, although in some regions this is beginning to change. The ECB announced new lax monetary measures throughout the year. In March, it cut the deposit interest rate to -0.40% and the benchmark interest rate to 0.00%. It also announced an increase in the monthly rate of asset purchases (to €80 billion per month) and included corporate bonds as an eligible asset under this programme. In December, the ECB announced an extension of its asset purchase programme to the end of 2017 (from March 2017), with a reduction in purchase rates from April (down to €60 billion). It also introduced various technical changes in its programme to ease its implementation (e.g. the possibility of buying government bonds with a lower yield than the marginal deposit interest rate). Furthermore, in 2016 new targeted long-term financing operations have been held to encourage banks to grant credit to the private sector. In the UK, Bank of England introduced a significant stimulus package in August, designed to offset the potential negative effects of Brexit. In particular, it announced a decrease in the benchmark interest rate to 0.25%, a reactivation of the asset purchase programme (public and corporate debt) and a new programme to stimulate the granting of credit to the real economy. Subsequently, coinciding with the upward revision of inflation outlooks, it adopted a neutral approach and indicated that its monetary policy can respond in either direction. In the US, the Fed increased its Fed funds rate in December, to 0.50-0.75%, one year after the previous increase. Lastly, Bank of Japan, after placing its marginal deposit interest rate in negative figures (-0.10%) for the first time in January, announced a significant change to the implementation of its monetary policy in September. In particular, it set a target level for the long-term yield of Japanese government bonds of close to 0.00%.

Yields of long-term government bonds in the main developed economies have remained at reduced levels. Throughout the year, yields reached historical minimums. The yield of 10-year German government bonds went so far as to reach negative figures for the first time in history. Yields of government bonds were subjected to downward pressure during the first half of the year due to international financial turbulence at the start of the year and uncertainty surrounding the results of the referendum in the UK. In the case of Germany, the downward slide of inflation forecasts and the ECB asset purchase programme also contributed to contain yields. After the summer months, there was a general upturn in returns, boosted by the increase in the number of expected hikes in Fed funds rates, the lower economic impact expected from Brexit, the election of Trump as President of the United States and the possibility of tapering the ECB asset purchase programme in 2017.

Risk premiums in countries in the European periphery ended the year at levels similar to or above those of the previous year. Risk premiums have been driven upwards by factors such as financial instability during the first quarter and the outcome of the US elections. By countries, significant differences have been observed. Performance in Spain, where the spread has barely increased, was clearly better than Italy and Portugal. The risk premium in Italy has been affected by concerns regarding the domestic financial system and uncertainty surrounding the referendum on Senate reforms. The risk premium in Portugal, aside from being affected by politics and the situation of the banking system, has been exposed to fears that the credit rating agency DBRS might withdraw the investment grade from Portuguese government bonds.

In Forex markets, the performance of the sterling pound has particularly stood out, as it has significantly depreciated against its main currency pairs as a result of uncertainty associated with the referendum on the UK's membership of the EU and its subsequent outcome. The US dollar has appreciated against the euro, largely explained by fluctuations in the final quarter of the year, in which the dollar benefited from growing expectations surrounding increases in the Fed funds rate. Lastly, the yen continued its upward trend until summer, boosted by financial instability at the beginning of the year and the increase in uncertainty regarding Brexit, and despite Bank of Japan adopting negative deposit interest rates. In the last quarter of the year, however, the yen was able to almost fully return to its previous situation as a result of the Fed being more willing to increase its Fed funds rate.

In equity markets, European stock markets performed differently in different countries. Improvements in indices in Germany and France are in sharp contrast with the declines in Spain and, especially, Italy. In general, following the declines at the beginning of the year, the performance of the various indices in the European continent did not exhibit clear trends in any particular direction, aside from the improvements at the end of the year. Indices have proven to be resilient to events such as the outcome of the UK referendum. The large volume of liquidity from the main central banks have contributed to this. S&P in the US and the FTSE 100 in the UK ended the year with significant improvements. In euros, however, the UK index declined slightly due to the devaluation of the pound.

Lastly, financial markets in emerging countries exhibited volatile performance throughout the year. Following the sharp upturn of risk premiums that took place in January and February, risk premiums then normalised and in August they reached minimum levels not seen since 2014, in an environment characterised by an increase in global liquidity thanks to monetary policies in developed countries. A the end of the year, however, Trump's victory and greater expectations of interest rate hikes in the US led to a new increase in risk premiums, with premiums reaching pre-Brexit referendum levels. Markets in Mexico were negatively and substantially affected by Trump's electoral victory in the US. In the final quarter of the year, Turkey also stood out in a negative light due to uncertainty surrounding its political situation and economic management.

2.2. Key financial and non-financial indicators

The key figures for the bank, including financial and non-financial data of critical importance for the management of the bank, are set out below:

		2016	2015	Change (%) year-on-year
Balance sheet (thousand euro)	(A)			
Total assets		212,507,719	208,627,771	1.9
Gross lending to customers excluding repos		150,087,283	152,696,839	(1.7)
Gross lending to customers		150,095,213	153,425,314	(2.2)
On-balance sheet funds	(1)	160,982,910	162,974,003	(1.2)
Of which: on-balance sheet customer funds	(2)	133,456,633	131,489,191	1.5
Mutual funds		22,594,193	21,427,252	5.4
Pension funds and insurance products sold by the Group		14,360,418	11,951,922	20.2
Funds under management	(3)	201,588,802	200,355,081	0.6
Own funds		12,926,165	12,274,945	5.3
Income statement (thousand euro)	(B)			
Net interest income		3,837,752	3,202,830	19.8
Gross income		5,470,698	5,478,370	(0.1)
Pre-provisions income		2,411,455	2,862,993	(15.8)
Profit attributed to the Group		710,432	708,441	0.3
Ratios (%)	(C)			
ROA	(4)	0.35%	0.38%	
ROE	(5)	5.84%	6.34%	
ROTE	(6)	7.01%	7.58%	
Cost-to-income	(7)	48.68%	48.96%	
Core capital / Common Equity	(8)	12.0%	11.5%	
Tier I	(9)	12.0%	11.5%	
BIS ratio	(10)	13.8%	12.9%	
Risk management	(D)			
Non-performing loans (thousand euro)		9,746,034	12,560,805	
Loan loss ratio (%)		6.14	7.79	
Reserves for NPLs and real estate (thousand euro)		9,873,054	11,344,044	
NPL coverage ratio (%)		51.6	53.6	
Shareholders and shares (figures at year-end)	(E)			
Number of shareholders		260,948	265,935	
Number of shares		5,616,151,196	5,439,244,992	
Share price (euro)		1.323	1.635	
Market capitalisation (thousand euro)	(11)	7,430,168	8,893,166	
Net attributed earnings per share (EPS)(euro)		0.13	0.13	
Book value per share (euro)	(12)	2.30	2.26	
Price/book value		0.57	0.72	
PER (share price / EPS)		10.46	12.55	
Other data				
Branches		2,767	2,873	
Employees		25,945	26,090	
Number of customers (million)		11.9	11.4	

(A) The purpose of these key figures is to provide a general overview of year-on-year changes in the main items on the Group's consolidated balance sheet, focusing especially on data related to lending 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 management within the Group, as well as the most significant ratios related to risk.
(E) This section provides information related to the share price and other stock market ratios and indicators.

(1) Includes customer deposits, debt securities issued and liabilities under insurance and reinsurance 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, promissory notes and others.
(3) Includes on-balance sheet funds, mutual funds, pension funds, asset management and insurance products sold by the Group.
(4) Consolidated income during the financial year / average total assets.
(5) Profit attributable to the Group / average own funds (not treating profit attributable to the Group as part of own funds).
(6) Profit attributable to the Group / average own funds (not treating profit attributable to the Group as part of own funds and deducting goodwill).
(7) Staff expenses and other administrative expenses /gross income. To calculate these ratios, in 2015 gross income was adjusted considering only recurrent net trading income (NTI).
(8) Core capital / risk-weighted assets (RWA).
(9) Tier 1 capital / risk-weighted assets (RWA).
(10) Total capital / risk-weighted assets (RWA).
(11) Number of shares by quoted market price at year-end.
(12) Own funds / Number of shares.

2.3. Financial review

Balance sheet and income statement

The process to acquire 100% of shares in TSB and thereby become holder of 100% of its share capital was completed in 2015 (see Note 2 to these annual accounts).

As a result, the income statement accumulated figures at 2016 are not comparable with those of the previous year.

Banco Sabadell and its group ended 2016 with a net attributed profit of €710.4 million (€531.1 million excluding TSB).

Positive performance of the ordinary business, strict control of recurring operating expenses, judicious management of customer spreads and the continuous reduction of problematic assets were the main factors underlying Banco Sabadell's business performance in 2016.

Balance sheet

At the end of 2016, total assets for Banco Sabadell and its group amounted to €212,507.7 million (€168,787.3 million excluding TSB), compared with the 2015 year-end figures of €208,627.8 million (€165,249.6 million excluding TSB).

Thousand euro

	2016	2015	Change (%) year-on-year
Cash and cash balances at central banks and other demand deposits (**)	11,688,250	7,343,481	59.2
Financial assets held for trading	3,484,221	2,312,118	50.7
Financial assets designated at fair value through profit or loss	34,827	77,328	(55.0)
Available-for-sale financial assets	18,718,339	23,460,356	(20.2)
Loans and receivables	150,384,445	153,550,281	(2.1)
Debt securities	918,584	1,732,478	(47.0)
Loans and advances	149,465,861	151,817,803	(1.5)
Held-to-maturity investments	4,598,190	0	--
Investments in joint ventures and associates	380,672	340,996	11.6
Tangible assets	4,475,600	4,188,526	6.9
Intangible assets	2,135,215	2,080,570	2.6
Other assets	16,607,960	15,274,115	8.7
Total assets	**212,507,719**	**208,627,771**	**1.9**
Financial liabilities held for trading	1,975,806	1,636,826	20.7
Financial liabilities measured at amortised cost	192,011,024	189,468,677	1.3
Deposits	162,909,052	159,182,125	2.3
Central banks	11,827,573	11,566,070	2.3
Credit institutions	16,666,943	14,724,718	13.2
Customers	134,414,536	132,891,337	1.1
Debt securities issued	26,533,538	27,864,371	(4.8)
Other financial liabilities	2,568,434	2,422,181	6.0
Liabilities under insurance and reinsurance contracts	34,836	2,218,295	(98.4)
Provisions	306,214	346,225	(11.6)
Other liabilities	5,096,863	2,190,087	132.7
Total liabilities	**199,424,743**	**195,860,110**	**1.8**
Own funds	12,926,166	12,274,945	5.3
Accumulated other comprehensive income	107,142	455,606	(76.5)
Attributable to minority interest (non-controlling interest)	49,668	37,110	33.8
Equity	**13,082,976**	**12,767,661**	**2.5**
Total equity and liabilities	**212,507,719**	**208,627,771**	**1.9**
Guarantees given	8,529,354	8,356,167	2.1
Contingent commitments given	26,376,666	21,130,614	24.8
Total off-balance sheet items	**34,906,020**	**29,486,781**	**18.4**

Gross performing loans amounted to €140,557.3 million at 2016 year-end (€106,304.6 million excluding TSB). Year-on-year, they increased by 0.1% (1.7% excluding TSB), and the reduction of non-performing assets was -22.7% (the same reduction excluding TSB). Secured mortgage loans formed the largest single component of gross loans and receivables, amounting to €88,430.6 million at 31 December 2016, representing close to 60% of total gross loans and receivables.

Thousand euro

	2016	2015	Change (%) year-on-year	Ex TSB 2016	Ex TSB 2015	Change (%) year-on-year
Loans and credit secured with mortgages	88,430,561	90,538,646	(2.3)	56,692,260	57,835,895	(2.0)
Loans and credit secured with other collateral	2,262,944	2,201,305	2.8	2,262,944	2,201,305	2.8
Trade credit	5,530,045	5,665,062	(2.4)	5,530,045	5,410,519	2.2
Finance leases	2,168,803	2,070,028	4.8	2,168,803	2,070,028	4.8
Loans on demand and miscellaneous	42,164,947	39,892,786	5.7	39,650,527	37,018,900	7.1
Gross performing loans	**140,557,300**	**140,367,827**	**0.1**	**106,304,579**	**104,536,647**	**1.7**
Non-performing assets	9,641,526	12,470,413	(22.7)	9,478,033	12,253,836	(22.7)
Accrual adjustments	(111,543)	(141,401)	(21.1)	(142,280)	(155,715)	(8.6)
Gross lending to customers excluding repos	**150,087,283**	**152,696,839**	**(1.7)**	**115,640,332**	**116,634,768**	**(0.9)**
Repos	7,930	728,475	(98.9)	7,930	728,475	(98.9)
Gross lending to customers	**150,095,213**	**153,425,314**	**(2.2)**	**115,648,262**	**117,363,243**	**(1.5)**
Allowances for loan losses and country risk	(4,921,348)	(6,609,577)	(25.5)	(4,835,226)	(6,425,973)	(24.8)
Loans and advances to customers	**145,173,865**	**146,815,737**	**(1.1)**	**110,813,036**	**110,937,270**	**(0.1)**

The evolution of problematic assets has shown improvement throughout 2016. Quarter-on-quarter changes in these assets ex-TSB (non-performing assets plus real estate assets not covered by the Asset Protection Scheme) were as follows:

Million euro

	2016				2015			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Ordinary net inflows	(457)	(969)	(333)	(474)	(802)	(731)	(540)	(544)
Change in real estate assets	(41)	71	(158)	(73)	211	167	1	7
Ordinary net inflows + properties	**(498)**	**(898)**	**(491)**	**(547)**	**(591)**	**(564)**	**(539)**	**(537)**
Write-offs	213	70	144	101	245	170	300	234
QoQ ordinary change in balance of non-performing and real estate assets	**(711)**	**(968)**	**(635)**	**(648)**	**(836)**	**(734)**	**(839)**	**(771)**

The reduction in non-performing assets was reflected in a loan loss ratio of 6.14% at the end of 2016, compared with 7.79% at the end of 2015 – a fall of 165 basis points. The NPL coverage ratio at 31 December 2016 was 51.6%, compared with 53.6% one year earlier.

During 2016, customer funds performed well and overall increased by 3.1% year-on-year (4.6% excluding TSB), mainly due to the steady growth of off-balance sheet funds, in particular in terms of assets managed and traded in mutual funds and insurance products sold by the Group.

At 2016 year-end, on-balance sheet customer funds totalled €133,456.6 million (€99,123.0 million excluding TSB), compared with €131,489.2 million at 2015 year-end (€96,227.0 million excluding TSB). The balances of sight accounts amounted to €92,010.6 million (€62,624.0 million excluding TSB), representing a year-on-year change of 8.8% (16.3% excluding TSB) and customer deposits with agreed maturity amounted to €40,154.0 million (€35,206.9 million excluding TSB), 13.4% lower than in the previous year (15.8% lower excluding TSB).

Total off-balance sheet customer funds amounted to €40,605.9 million, an 8.6% increase compared with the end of the previous year. Within this chapter, particularly worthy of note was the uninterrupted growth in assets in Undertakings for Collective Investment in Transferable Securities (UCITS), which at 31 December 2016, stood at €22,594.2 million, a 5.4% increase compared to 2015 year-end, and insurance products sold by the Group, which amounted to €10,243.4 million, representing a 34.0% increase compared to 2015 year-end.

Issued debt securities amounted to €24,987.5 million at 2016 year-end, compared with €26,406.6 million at 31 December 2015.

Total funds under management at 31 December 2016 amounted to €201,588.8 million (€162,548.9 million excluding TSB), compared with €200,355.1 million at 31 December 2015 (€160,605.2 million excluding TSB), representing an increase during 2016 of 0.6% (1.2% excluding TSB).

Thousand euro

	2016	2015	Change (%) year-on-year	Ex TSB 2016	Ex TSB 2015	Change (%) year-on-year
On-balance sheet customer funds (*)	**133,456,633**	**131,489,191**	**1.5**	**99,122,992**	**96,227,003**	**3.0**
Customer deposits	134,414,536	132,891,337	1.1	99,325,679	97,640,089	1.7
Current and savings accounts	92,010,553	84,536,132	8.8	62,623,976	53,849,513	16.3
Deposits with agreed maturity	40,153,977	46,391,349	(13.4)	35,206,913	41,815,779	(15.8)
Assets sold under repurchase agreements	2,072,155	1,950,585	6.2	1,302,980	1,950,586	(33.2)
Accrual adjustments and hedges using derivatives	177,851	13,271	--	191,810	24,211	--
Borrowing operations and other marketable securities	24,987,494	26,406,617	(5.4)	21,555,232	22,455,945	(4.0)
Subordinated liabilities	1,546,044	1,457,754	6.1	1,063,294	909,833	16.9
Liabilities under insurance contracts (**)	34,836	2,218,295	(98.4)	34,836	2,218,295	(98.4)
On-balance sheet funds	**160,982,910**	**162,974,003**	**(1.2)**	**121,979,041**	**123,224,162**	**(1.0)**
Investment funds	22,594,193	21,427,252	5.4	22,594,193	21,427,252	5.4
Equity investment funds	1,313,045	1,417,574	(7.4)	1,313,045	1,417,574	(7.4)
Mixed investment funds	4,253,352	4,271,899	(0.4)	4,253,352	4,271,899	(0.4)
Fixed income investment funds	4,773,219	4,327,692	10.3	4,773,219	4,327,692	10.3
Guaranteed investment funds	4,057,238	3,380,152	20.0	4,057,238	3,380,152	20.0
Real estate investment funds	88,334	67,407	31.0	88,334	67,407	31.0
Investment companies	2,065,362	1,994,220	3.6	2,065,362	1,994,220	3.6
Venture capital investment funds	21,378	-	--	21,378	-	--
UCITS schemes sold but not managed	6,022,265	5,968,308	0.9	6,022,265	5,968,308	0.9
Asset management	3,651,281	4,001,904	(8.8)	3,651,281	4,001,904	(8.8)
Pension funds	4,116,997	4,305,121	(4.4)	4,116,997	4,305,121	(4.4)
Individuals	2,620,950	2,759,773	(5.0)	2,620,950	2,759,773	(5.0)
Corporates	1,481,408	1,529,575	(3.1)	1,481,408	1,529,575	(3.1)
Associates	14,639	15,773	(7.2)	14,639	15,773	(7.2)
Insurance products sold	10,243,421	7,646,801	34.0	10,243,421	7,646,801	34.0
Funds under management	**201,588,802**	**200,355,081**	**0.6**	**162,584,933**	**160,605,240**	**1.2**

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: mandatory convertible bonds, non-convertible Banco Sabadell bonds, promissory notes and others.

(**) The decline mainly corresponds to €2,159 million from Mediterráneo Vida, classed as non-current liabilities included in disposal groups classified as held for sale.

Income statement

Thousand euro

	2016	2015	Change (%) year-on-year	Ex TSB 2016	Ex TSB 2015	Change (%) year-on-year
Interest and similar income	5,170,100	4,842,356	6.8	3,820,513	4,158,143	(8.1)
Interest and similar charges	(1,332,348)	(1,639,526)	(18.7)	(1,033,622)	(1,494,933)	(30.9)
Net interest income	**3,837,752**	**3,202,830**	**19.8**	**2,786,891**	**2,663,210**	**4.6**
Return on capital instruments	10,037	2,912	244.7	10,037	2,912	244.7
Share of profit/(loss) of companies accounted for by equity method	74,573	48,795	52.8	74,573	48,795	52.8
Net fees and commissions	1,148,582	1,003,344	14.5	1,022,771	924,515	10.6
Net trading income	609,722	1,208,161	(49.5)	556,168	1,207,108	(53.9)
Exchange differences (net)	16,902	137,926	(87.7)	16,902	137,926	(87.7)
Other operating income and expenses	(226,870)	(125,598)	80.6	(209,053)	(123,377)	69.4
Gross income	**5,470,698**	**5,478,370**	**(0.1)**	**4,258,289**	**4,861,089**	**(12.4)**
Staff expenses	(1,663,053)	(1,457,341)	14.1	(1,235,646)	(1,219,305)	1.3
Recurring (*)	(1,595,065)	(1,417,493)	12.5	(1,186,378)	(1,183,777)	0.2
Non-recurring	(67,988)	(39,848)	70.6	(49,268)	(35,528)	38.7
Other general administrative expenses	(1,000,294)	(829,174)	20.6	(581,033)	(588,418)	(1.3)
Recurring (**)	(981,221)	(805,201)	21.9	(581,033)	(579,645)	0.2
Non-recurring	(19,073)	(23,973)	(20.4)	-	(8,773)	(100.0)
Depreciation	(395,896)	(328,862)	20.4	(323,242)	(289,588)	11.6
Pre-provisions income	**2,411,455**	**2,862,993**	**(15.8)**	**2,118,368**	**2,763,778**	**(23.4)**
Provisions for loan losses and other impairments	(1,427,141)	(2,333,163)	(38.8)	(1,399,030)	(2,333,163)	(40.0)
Gains from the sale of assets	35,108	(16,960)	--	39,539	(16,960)	--
Negative goodwill	-	231,891	(100.0)	-	231,891	(100.0)
Income from discontinued operations	-	-	--	-	-	--
Profit/(loss) before tax	**1,019,422**	**744,761**	**36.9**	**758,877**	**645,546**	**17.6**
Corporate income tax	(303,569)	(32,516)	--	(222,350)	(55,318)	301.9
Consolidated profit/(loss) for the year	**715,853**	**712,245**	**0.5**	**536,527**	**590,228**	**(9.1)**
Profit/(loss) attributed to non-controlling interests	5,421	3,804	42.5	5,421	3,804	42.5
Profit attributed to the Group	**710,432**	**708,441**	**0.3**	**531,106**	**586,424**	**(9.4)**
Memorandum item:						
Average total assets	206,265,187	186,538,365	10.6	163,325,693	165,826,790	(1.5)
Earnings per share (euro)	0.13	0.13		0.09	0.11	

Net interest income in 2016 amounted to €3,837.8 million, a 19.8% increase compared to the net interest income obtained in the previous year. Excluding TSB, net interest income amounted to €2,786.9 million at 2016 year-end, a 4.6% increase compared with the previous year.

In cumulative average terms, the net interest margin as a percentage of total assets stood at 1.86% (1.72% in 2015). The increase in average returns on average total assets was due to many factors, mainly the increase in the customer spread (due mainly to the reduced cost of funding of customer deposits), cheaper capital market costs, the reduction of problematic assets and the improved profitability of the completed acquisitions.

Thousand euro

	2016			2015			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit in	9,900,235	29,911	0.30	7,363,259	42,204	0.57	2,536,976	(12,293)	17,293	(29,691)	105
Lending to customers	138,202,184	4,361,287	3.16	121,382,919	3,973,834	3.27	16,819,265	387,453	712,130	(329,928)	5,251
Fixed-income portfolio	27,772,164	658,429	2.37	27,388,253	763,530	2.79	383,911	(105,101)	4,123	(110,605)	1,381
Subtotal	**175,874,583**	**5,049,627**	**2.87**	**156,134,431**	**4,779,568**	**3.06**	**19,740,152**	**270,059**	**733,546**	**(470,224)**	**6,737**
Equity portfolio	1,004,437	-	-	1,431,499	-	-	(427,062)	-	-	-	-
Tangible and intangible fixed ass	5,096,560	-	-	4,228,316	-	-	868,244	-	-	-	-
Other assets	24,289,607	84,242	0.35	24,744,119	62,788	0.25	(454,512)	21,454	-	21,454	-
Total Lending	**206,265,187**	**5,133,869**	**2.49**	**186,538,365**	**4,842,356**	**2.60**	**19,726,822**	**291,513**	**733,546**	**(448,770)**	**6,737**
Credit institutions	18,046,159	(78,374)	(0.43)	17,508,806	(140,619)	(0.80)	537,353	62,245	18,076	44,577	(408)
Customer deposits	127,985,090	(499,644)	(0.39)	110,217,214	(738,986)	(0.67)	17,767,876	239,342	(37,071)	277,000	(587)
Capital markets	30,214,256	(585,759)	(1.94)	26,792,153	(660,394)	(2.46)	3,422,103	74,635	(110,734)	187,051	(1,682)
Sales of fixed-income portfolio	6,807,168	(25,387)	(0.37)	9,623,242	(41,567)	(0.43)	(2,816,074)	16,180	11,364	4,944	(128)
Subtotal	**183,052,673**	**(1,189,164)**	**(0.65)**	**164,141,415**	**(1,581,565)**	**(0.96)**	**18,911,258**	**392,401**	**(118,365)**	**513,572**	**(2,806)**
Other liabilities	10,280,237	(106,953)	(1.04)	10,148,335	(57,961)	(0.57)	131,902	(48,992)	-	(48,992)	-
Own funds	12,932,277	-	-	12,248,615	-	-	683,662	-	-	-	-
Total funds	**206,265,187**	**(1,296,117)**	**(0.63)**	**186,538,365**	**(1,639,526)**	**(0.88)**	**19,726,822**	**343,409**	**(118,365)**	**464,580**	**(2,806)**
Total ATAs	**206,265,187**	**3,837,752**	**1.86**	**186,538,365**	**3,202,830**	**1.72**	**19,726,822**	**634,922**	**615,181**	**15,809**	**3,932**

Financial income or costs deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions item under liabilities includes negative interest from balances of liability headings of credit institutions, the most significant of which is income from TLTRO II.

Dividends charged and profit from companies consolidated under the equity method together amounted to €84.6 million, compared with €51.7 million in 2015. These revenues mainly include income from the insurance and pensions business.

Income from net fees and commissions amounted to €1,148.6 million (€1,022.8 million excluding TSB), increasing by 14.5% year-on-year (10.6% excluding TSB). This increase was mainly due to the positive performance of fees from insurance and pension sales, which increased by 48.9% compared with the previous year.

Net trading income amounted to €609.7 million (€556.2 million excluding TSB), including, amongst others, €382.5 million in gains on the sale of available-for-sale fixed-income financial assets, €109.5 million from the sale of 100% of Visa Europe shares and €-8.3 million from the sale of BCP shares. At the end of 2015, total net trading income amounted to €1,208.2 million (€1,207.1 million excluding TSB), including €1,045.5 million in gains on the sale of available-for-sale fixed-income financial assets. In 2015, the high level of trading income deriving from the management of the ALCO portfolio up to June 2015 is also noteworthy, as it allowed the levels of coverage to be strengthened.

Net income from exchange differences amounted to €16.9 million, compared with €137.9 million in 2015.

Other operating income and expenses amounted to €-226.9 million (€-209.1 million excluding TSB), compared with €-125.6 million in the first half of 2015 (€-123.4 million excluding TSB). Within this heading, particularly noteworthy were contributions to the Deposit Guarantee Fund of €-87.3 million, contributions to the national resolution fund of €-47.7 million and TSB's contribution to the Financial Services Compensation Scheme of €-7.6 million, the contribution of tax on deposits in credit institutions amounting to €-27.6 million and €-57.0 million in financial contributions for converting deferred tax assets into credit receivable by the Spanish Tax Authority.

Operating expenses (staff and general) in 2016 amounted to €2,663.3 million (€1,816.7 million excluding TSB), of which €87.1 million were non-recurring items (consisting essentially of redundancy payments to employees); in 2015, operating expenses amounted to €2,286.5 million (€1,807.7 million excluding TSB) and included €63.8 million in non-recurring expenses.

The increase in gross income in 2016, as well as operating expenses containment policies, led to an improvement in the cost-to-income ratio, which, at the end of 2016 stood at 48.68% (42.66% excluding TSB), compared to 48.96% (44.59% excluding TSB) in 2015. For the purpose of calculating this cost-to-income ratio, recurring trading income of €400 million per year has been considered for 2015.

As a result of the foregoing, pre-provisions income at 2016 year-end amounted to €2,411.5 million (€2,118.4 million excluding TSB), compared with €2,863.0 million in 2015 (€2,763.8 million excluding TSB).

Allowances for loan losses and other impairments (primarily real estate and financial assets) amounted to €1,427.1 million, compared with €2,333.2 million in 2015. Allowances during 2016 of €92.3 million for the impaired shareholding in BCP are particularly noteworthy.

Capital gains on asset disposals amounted to €35.1 million and mainly included gross gains of €52 million on the sale of the stake held in Dexia Sabadell. In 2015, gains on sales of assets amounted to €-17.0 million.

Profit before tax increased by 36.9% (17.6% excluding TSB), compared with that obtained in 2015.

After deducting income tax and non-controlling interests, net profit attributed to the Group amounted to €710.4 million at the end of 2016, a 0.3% increase compared with the previous year. Excluding TSB, net profit attributable to the Group amounted to €531.1 million at 2016 year-end, a 9.4% decrease compared to the same period in 2015.

2.4. Business review

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the segment reporting described in Note 42 to these consolidated annual accounts.

Banking business Spain

Within banking business in Spain, the most significant businesses should be noted, on which information is shown regarding changes in income and key figures.

Commercial Banking

Thousand euro

	2016	2015	Change (%) year-on-year
Net interest income	**2,212,327**	**2,141,985**	**3.3**
Net fees and commissions	733,823	651,564	12.6
Other income	(127,506)	(55,635)	129.2
Gross income	**2,818,644**	**2,737,914**	**2.9**
Operating expenses	(1,383,799)	(1,395,259)	(0.8)
Operating income	**1,434,845**	**1,342,655**	**6.9**
Gains and losses on problematic assets	(301,387)	(642,929)	(53.1)
Profit/(loss) before taxes	**1,133,458**	**699,726**	**62.0**
Ratios (%):			
ROE (earnings divided by average own funds)	15.7%	8.9%	-
Cost-to-income (administrative expenses divided by gross income)	48.1%	49.9%	-
Loan loss ratio	7.4%	9.0%	-
NPL coverage ratio	38.6%	52.7%	-
Customer volumes (million euro)			
Lending	76,928	77,708	(1.0)
Funds	95,726	94,053	1.8
Deposited securities	6,873	9,008	(23.7)
Other data			
Employees	12,343	12,550	(1.6)
Branches in Spain	2,105	2,190	0.0

The Group's largest business line is Retail and Business Banking, which focuses its activity on providing a range of financial products and services for large and medium-sized enterprises, SMEs and retailers, individuals (including private banking, personal banking and mass market customers), non-residents and professional groups, with a degree of specialisation that provides customers with tailored care depending on their requirements, whether from experts throughout its multi-brand branch network or via other channels intended to support the customer relationship and give access to remote banking services.

In terms of individuals, in 2016 the Group has worked towards maintaining the high rate of acquisition of new customers of previous years and towards becoming the primary bank for all of its customers, building long-term relationships and offering a high service quality. During 2016, a new model has been implemented involving Hub & Spoke branches, and Remote Management has been deployed to Retail Banking, with a view to addressing our customers' needs remotely.

In addition, new services have been implemented to improve customers' daily transactions and operations, such introducing our new Digital Signature for all individual customers, as well as mobile payments in retailers (Sabadell Wallet) and between individuals (Bizum).

In corporates, during 2016 the bank has consolidated its new relationship model based on its Companies Commitment Plan. With this Plan, the bank places customers at the centre of the relationship, and commits, in writing and together with the customer, to a series of aspects of this relationship that are in the common interest of both parties.

This relationship model has been positively valued by the bank's customers, as reflected in surveys that have been conducted, and is the main pillar for turning the bank into the primary financial supplier of its customers.

In 2016, net interest income attributed to Retail and Business Banking stood at €2,212.3 million, and income before tax stood at €1,133.4 million. The ROE ratio stood at 15.7% and the cost-to-income ratio at 48.1%. The bank's turnover amounted to €76,928 million in loans and receivables and €95,726 million in funds under management.

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large enterprises and financial institutions, both national and international. Its activities encompass corporate banking, structured finance, and Trade Finance & IFI.

Thousand euro

	2016	2015	Change (%) year-on-year
Net interest income	**162,391**	**164,053**	**(1.0)**
Net fees and commissions	39,609	25,492	55.4
Other income	12,732	7,445	71.0
Gross income	**214,732**	**196,990**	**9.0**
Operating expenses	(37,879)	(29,660)	27.7
Operating income	**176,853**	**167,330**	**5.7**
Gains/(losses) on problematic assets	(87,349)	(96,720)	(9.7)
Profit/(loss) before taxes	**89,504**	**70,610**	**26.8**
Ratios (%):			
ROE (earnings divided by average own funds)	5.2%	5.5%	-
Cost-to-income (administrative expenses divided by gross income)	17.5%	14.8%	-
Loan loss ratio	2.0%	3.2%	-
NPL coverage ratio	76.0%	65.0%	-
Customer volumes (million euro)			
Lending	11,432	11,702	(2.3)
Funds	6,431	6,191	3.9
Deposited securities	2,269	666	241.0
Other data			
Employees	130	124	4.8
Branches in Spain	2	2	-
Branches outside of Spain	3	3	-

2016 has been a year in which Global Corporate Banking teams have deployed a coordinated strategy across geographies, allowing Banco Sabadell to make significant progress towards its consolidation as “the best experience in Corporate Banking for its customers”.

The higher investment appetite of customers outside of Spain during 2016 (due to the higher rates of return that they receive on their assets), together with our capacity outside of Spain and our coordination between teams, allows us to continue to be there for our corporate customers in all geographies in which they intend to grow.

In 2016, net interest income attributed to Corporate Banking stood at €162.4 million, and income before tax stood at €89.5 million. The ROE ratio stood at 5.2% and the cost-to-income ratio at 17.5%.

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added-value with a view to achieving a high rate of return for the customer, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with high-quality management, while taking the customer relationship model towards a multichannel level.

Thousand euro

	2016	2015	Change (%) year-on-year
Net interest income	**49,251**	**44,884**	**9.7**
Net fees and commissions	188,057	183,414	2.5
Other income	48,961	6,895	610.1
Gross income	**237,018**	**235,193**	**0.8**
Operating expenses	(112,882)	(104,446)	8.1
Operating income	**124,136**	**130,747**	**(5.1)**
Gains/(losses) on problematic assets	313	(7,797)	(104.0)
Profit/(loss) before taxes	**124,449**	**122,950**	**1.2**
Ratios (%):			
ROE (earnings divided by average own funds)	42.3%	38.7%	-
Cost-to-income (administrative expenses divided by gross income)	47.2%	44.0%	-
Loan loss ratio	3.0%	4.3%	-
NPL coverage ratio	47.7%	62.1%	-
Customer volumes (million euro)			
Lending	938	981	(4.4)
Funds	15,554	16,854	(7.7)
Deposited securities	5,884	6,231	(5.6)
Assets managed by UCITS	16,572	15,459	7.2
Total assets including assets managed but not sold by UCITS	22,594	21,427	5.4
Other data			
Employees	525	529	(0.8)
Branches in Spain	12	12	0.0

In 2016, attributed gross income amounted to €237 million, and profit before tax was €124.4 million. The ROE ratio stood at 42.3% and the cost-to-income ratio at 47%. The volume of customer funds under management stands at €21,438 million.

SabadellUrquijo Private Banking has continued to contribute value through personalised advisory services and the offering of specific Private Banking products, such as investment funds, discretionary management portfolios or SICAVs, which have allowed SabadellUrquijo to achieve the highest rankings in Private Banking entities.

At the end of the year, Sabadell Asset Management had assets under management in investment funds under management of Spanish law which amounted to €14,122.1 million, 7.9% more than at the end of the previous year, and more than the sector increase of 7.0%. With this volume of assets under management, the Group has achieved a market share of 6% in assets managed by Spanish investment funds.

For Treasury and Capital Markets, 2016 has been a year of consolidation of activities, both traditional activities and those forming part of the development of the Triple Plan.

Within traditional activities and in a low interest rate environment, straight bonds are becoming more popular and have been consolidated as an attractive investment alternative. Even so, structured investment continues to be an interesting option when pursuing higher returns.

As part of the objective of developing and strengthening Capital Markets activity, the bank continues identifying potential operations and receiving mandates, both from issuers and from institutional customers who channel their financing and investment needs through us.

Lastly, in the current market environment in which European profitability is at an all-time low and excess liquidity at an all-time high, together with the bank's larger international footprint, has resulted in trading activity linked to the world of managing currency interest rates with different interest rate spreads continuing to gain in prominence in terms of total trading.

Securities Trading and Custody during this year has become more prominent in transactions with issuers, acting as an agent bank for different transactions, as brokers in liquidity contracts and in the execution of treasury portfolios, amongst others, both in terms of custody and brokerage.

This year, Banco Sabadell has managed to maintain its leadership position, allowing it to close the year as one of the top three market entities in terms of trading volume, with an 11.80% share, behind only Morgan Stanley and BBVA (with shares of 12.99% and 12.52%, respectively).

Banking business United Kingdom

Banking business in the United Kingdom corresponds to TSB Banking Group PLC and 6 months of results. The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

En miles de euros

	2016	2015	Change (%) year-on-year
Net interest income	**1,050,862**	**539,620**	**94.7**
Net fees and commissions	122,741	78,829	55.7
Other income	35,176	(3,721)	-1045.3
Gross income	**1,208,779**	**614,728**	**96.6**
Operating expenses	(874,546)	(493,566)	77.2
Operating income	**334,233**	**121,162**	**175.9**
Gains/(losses) on problematic assets	(106,913)	(59,500)	79.7
Other profit/(loss)	(4,431)	-	-
Profit/(loss) before taxes	**222,889**	**61,662**	**261.5**
Ratios (%):			
ROE (earnings divided by average own funds)	7.0%	5.3%	-
Cost-to-income (administrative expenses divided by gross income)	72.6%	77.9%	-6.8
Loan loss ratio	0.5%	0.6%	-21.0
NPL coverage ratio	52.7%	44.8%	17.6
Customer volumes (million euro)			
Lending	34,447	36,062	-4.5
Funds	34,320	35,249	-2.6
Other data			
Employees	8,060	8,224	-2.0
Branches	587	614	-4.4

(*) Applying an exchange rate in 2016 of GBP 0.8562 to the balance sheet and GBP 0.8166 to the income statement (year average).

Applying an exchange rate in 2015 of GBP 0.7340 to the balance sheet and GBP 0.7201to the income statement (average of last six months).

2015 only includes 6 months of results. For ROE, considering own funds.

Banking business United Kingdom includes TSB Banking Group PLC and 6 months of results for 2015. TSB is comprised of the following businesses:

- Retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, cards and mortgages, all under the TSB franchise.
- The "mortgage premium" which is a separate set of mortgages allocated to TSB as part of the restructuring of Lloyds.
- Ex-UKAR assets, which are comprised of a set of mortgages that were managed by the British government and which were purchased from Cerberus during the acquisition process effective from 8 December 2015.

Sources of funding are mainly the result of an increase in customer deposits and the success in their diversification. These funds are mainly used to increase the lending portfolio, following a successful launch of a mortgage brokering platform and the acquisition of ex-UKAR mortgages, as explained previously.

In 2016, funds have increased significantly thanks to the success of the "Classic Plus" account, which has allowed TSB to reach a share of 6.4% in terms of accounts opened in the UK during 2016.

This increase in funds has also helped to boost customer investment, supporting TSB's strategy and reflecting the success of TSB's mortgage brokering service.

Banking business Americas

En miles de euros

	2016	2015	Change (%) year-on-year
Net interest income	**249,933**	**216,096**	**15.7**
Net fees and commissions	41,914	37,080	13.0
Other income	14,446	2,209	554.0
Gross income	**306,293**	**255,385**	**19.9**
Operating expenses	(164,827)	(142,338)	15.8
Operating income	**141,466**	**113,047**	**25.1**
Provisions (net)	41	2,938	(98.6)
Gains/(losses) on problematic assets	(14,867)	(29,152)	(49.0)
Other profit/(loss)	538	4,769	(88.7)
Profit/(loss) before taxes	**127,178**	**91,602**	**38.8**
Ratios (%):			
ROE (earnings divided by average own funds)	7.0%	7.1%	-
Cost-to-income (administrative expenses divided by gross income)	50.6%	54.1%	-
Loan loss ratio	0.3%	0.6%	-
NPL coverage ratio	269.7%	142.6%	-
Customer volumes (million euro)			
Lending	9,261	7,374	25.6
Funds	7,815	6,769	15.5
Assets under management	2,562	1,996	28.3
Other data			
Employees	868	764	13.6
Branches	35	28	25.0

(*) Applying an exchange rate in 2016 of USD 1.1052 and MXN 20.7365 to the income statement and USD 1.0541 and MXN 21.7119 to the balance sheet.
Applying an exchange rate in 2015 of USD 1.0887 and MXN 18.9145.

The business of Sabadell Americas is comprised of various business units, three banking institutions, a stock market and investment broker, investees and representative offices, which together manage the financing business of corporate banking, retail and business banking and private banking. Furthermore, the bank provides services to its customers from operating centres, in coordination with the bank's representative offices in Colombia, Peru and Dominican Republic.

2016 was an important year for the consolidation of current business lines and allowed initiatives started in 2015 to be further developed, which in turn led to an increase in turnover.

In December, Sabadell International Branch (SIB) acquired a portfolio of close to USD 800 million in turnover from Itau Private Banking, thereby strengthening Sabadell's position as a reference institution in private banking for customers in Latin America. This acquisition marks the eighth corporate operation in the region in less than 10 years.

In terms of corporate banking, SIB continued to grow in new markets, with a growth totalling 65% in investments together with representative offices opened in Peru and Colombia in 2015.

In the US, through Sabadell United Bank (SUB), the bank achieved a turnover of USD 9.2 billion. Furthermore, its private banking and asset management division, Sabadell Bank and Trust (SB&T), emerged as the best bank for asset management in South Florida, according to the "Daily Business Review".

In Mexico, through Sabadell Capital, the bank managed financial corporate banking and structured finance operations with a significant increase in investment of USD 414 million, achieving USD 26 million in profit before tax. Additionally, and in line with the strategy for expansion in Mexico, at the end of 2015 a banking licence was obtained, allowing Banco Sabadell to be set up in this country. The bank began operating in January 2016, initially focusing on the provision of financial services relating to business banking. Less than a year since it began operating, the bank has already achieved a turnover of USD 313 million between loans and deposits.

Real Estate Asset Transformation

Thousand euro

	2016	2015	Change (%) year-on-year
Net interest income	**(30,990)**	**(44,772)**	**(30.8)**
Net fees and commissions	(1,390)	(1,584)	(12.2)
Other income	92,294	107,853	(14.4)
Gross income	**59,914**	**61,497**	**(2.6)**
Operating expenses	(167,844)	(143,180)	17.2
Operating income	**(107,930)**	**(81,683)**	**32.1**
Provisions (net)	1,386	(71)	(2,046.0)
Gains/(losses) on problematic assets	(801,941)	(762,453)	5.2
Other profit/(loss)	-	-	-
Profit/(loss) before taxes	**(908,485)**	**(844,207)**	**7.6**
Ratios (%):			
ROE (earnings divided by average own funds)	(26.1)%	(13.6)%	-
Cost-to-income (administrative expenses divided by gross income)	-	-	-
Loan loss ratio	70.2%	64.9%	-
NPL coverage ratio	54.9%	52.5%	-
Customer volumes (million euro)			
Lending	6,041	8,413	(28.2)
Funds	213	301	(29.4)
Real estate assets (gross)	9,035	9,234	(2.2)
Other data			
Employees	915	712	28.5
Branches in Spain	-	-	-

During the year, further progress has been made in the development and implementation of improvements in the asset transformation strategy established in previous years. The main lines of approach in this strategy are based on the following management principles:

In 2016, for the first time the bank achieved its milestone of reducing the total volume of properties in respect of the figures at the beginning of the year, showing that real estate market trends continue to improve at a rate which will continue to be positive in 2017. In terms of actions for the recovery of defaulted loans, it is particularly important to note that during 2016 Banco Sabadell has continued to pro-actively manage defaults on mortgage loans taken out by customers for their usual residence, seeking solutions to these situations which avoid having to resort to legal proceedings and without any forceful evictions.

As regards Banco Sabadell's real estate services, activity has continued to be extremely dynamic during 2016. Solvia is one of the main real estate servicing platforms, with a comprehensive offering of real estate services (from development and asset management through to sale, mainly to retail customers).

In terms of business development, the company has continued to diversify its customer portfolio. This year's incorporation of the real estate company Neinor, for which Solvia provides sale services, is particularly noteworthy. The portfolio of services provided to SAREB (the Spanish company for the management of assets proceeding from the restructuring of the banking system) has been extended, incorporating real estate development activities. Solvia also performs real estate advisory services, making use of its market expertise, for international funds acquiring portfolios in Spain.

A key milestone in terms of business development in 2016 was the decision to provide brokerage services (sale and rental) for individuals and corporates. For this purpose, Solvia is strengthening the skills of its teams and is focusing particularly on extending its own network of agents and consultants. With these purposes in mind, during the year Solvia has opened 11 offices on the high street and has started to franchise out its commercial network, and now has additional points of sale in its franchised network. Assets of individuals and corporates for which Solvia acts as broker have already been included in the available properties offering on solvia.es. The company continues to focus on developing its marketing channels, and has continued to be a leader in terms of brand awareness in 2016.

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 of the main international covenants on the environment and promotes a commitment to the environment globally.

Environmental policy

- Minimising the possible impact on the environment derived from processes, facilities and services.
- Managing environmental risks and opportunities inherent to the business in a suitable way.
- Encouraging all employees of the Group to be committed to environmental protection.

Global covenants and partnerships

- 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: inclusion of environmental and social governance (ESG) in the funding of large-scale projects.
- A signatory of the United Nations Principles for Responsible Investment in the "investment manager" category: inclusion of environmental, social and good 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.
- 6 corporate offices certified to ISO 14001 standards. 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 corporate headquarters in Sant Cugat del Vallés.
- A member of the European Commission's GreenBuilding Programme: Banco Sabadell is a partner in the European 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 item that can provide an overview of environment-related costs and investment.

Key environmental action areas

Renewable energy – finance and investment

Banco Sabadell promotes the development of a sustainable energy model through direct investment and as a provider of finance for renewable energy projects.

Banco Sabadell provides finance to companies 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 out 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 entity 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 entity has an environmental management system which was set up in 2006 according to the ISO 14001:2004 standard. Currently 16.05% 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 work centres 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 the bank has taken to reduce consumption and emissions are as follows:

- Inventory of CO2 emissions: In 2009 the bank compiled an independently verified inventory of corporate CO2 emissions. We are continuing to apply our target reduction of 3% for the 2015-2020 period of scope 1 and 2 emissions, taking 2014 as a base. In 2016, emissions have been reduced by 94.77%, mainly by purchasing electrical power generated from renewable sources.

- Electrical power consumption; overall consumption of electrical power in Spain in 2016 was 89,808 MWh from 97,575 MWh at the end of 2015. It should be noted that Banco Sabadell continues to contract renewable energy sources through Nexus Renovables, which has provided 99.84% of the total electricity provided to the Group this year.

- The majority of Group branches are equipped with centralised lighting and climate control systems. Lighting systems fitted with LED lamps and presence detectors have been installed in some areas of the corporate centres.

- Widespread use of energy-efficient light fixtures and billboard lighting systems fitted with daylight switching systems.

- Energy recovery climate control systems are installed in corporate centres and larger branches.

- Branches use Thin Client lightweight computers that consume 90% less energy than conventional PCs.

- Paper consumption: reduce, reuse and recycle. Paper consumption by the Group in Spain in 2016 was 1,062 tonnes, a 27.72% reduction from the 1,469 tonnes in 2015. At the same time, the main actions taken 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 2016 this made it possible for 29 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: The Group's water consumption in Spain is limited to sanitary uses and to some watering of gardens. 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 headquarters have a cistern for collecting rainwater and greywater for watering plants. Landscaped areas have been planted with autochthonous drought-resistant plants.

- Waste: in all Group premises, used paper is treated as confidential waste for shredding and 100% is recycled through authorised waste managers. All corporate centres 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 the completion of which is mandatory for staff at certified corporate centres.

Banco Sabadell also keeps all its suppliers informed of 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 processes, 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 specifications 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 workforce by developing their talent, managing their expectations and fully leveraging their capabilities.

Throughout the Triple Plan, talent management and human capital have been crucial in order to support the main pillars of the strategic plan.

The Triple plan included 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 and updated model that allows people's performance to be actively managed); and involving and engaging all employees in the Group's development.

Key human resources data

Number of employees

	2016	2015
Average equivalent workforce	26,022	21,879
Spanish workforce at year-end	16,771	16,869
Workforce at year-end	25,945	26,090
Turnover rate (%) (*)	0.92%	1.02%
Absenteeism (%) (**)	2.60%	2.45%
Hours of training per employee (***)	32.68	20.99

The average equivalent workforce is calculated based on the average number of employees at the end of each month.

(*)Unwanted staff turnover: number of dismissals and voluntary extended leaves of absence divided by the average workforce x100.

(**)This figure is the absenteeism severity rate of the absenteeism (workdays missed / total workdays * 100).

(***)In Spanish workforce

Number of employees

	Men	Women	Total
National workforce	8,307	8,464	16,771
International workforce	3,133	6,041	9,174
By gender (%)	44.1%	55.9%	100%
Average age (*)	42.92	42.12	42.72
Average length of service (*)	16.31	15.46	16.09

Data calculated based on Group workforce.

Number of employees

	Men	Women	Total
Administrative staff	1,610	4,595	6,205
Technical staff	9,339	9,756	19,095
Management staff	491	154	645
Total	**11,440**	**14,505**	**25,945**

Data calculated based on Group workforce.

Human resources management – policies and principles

Human Resources policy is grounded in respect for human dignity, fair and competitive remuneration, transparent and accurate information, and lasting cooperation.

Recruitment policy

In line with its human resources policy, Banco Sabadell has a staff recruitment 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 2016, work has been made on a number of actions and projects to strengthen and improve its procedures for attracting and recruiting talent.

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, make the internal recruitment service more dynamic, offer opportunities for career development and to favour internal movements of employees within the Group, the following measures have been taken:

- Increase in the flexibility of internal recruitment (and transfer) regulations, in order to attract more talent internally.
- Approval of a procedure to actively search for and recruit internal employees.
- Internationally, the pillars of an international internal recruitment policy have been described and shared, with a view to standardising and enhancing the efficiency of transfers of employees between the different regions in which the Group operates.

Between January and December 2016, 184 vacancies were filled internally and 77 externally.

In parallel, work has continued on the full digitalisation of the recruitment procedure, which has now been completed. Candidates are attracted, identified and assessed through a single technology platform. This change has allowed a more objective model to be defined and implemented, and has increased the overall quality and robustness of the process.

The bank is still working on the consolidation of a group of employees to selectively nurture future expansion, as well as the incorporation of international experience in management careers.

For this reason, a service unit has been created intended to design and manage programmes for attracting young talents with potential and develop this programme to work as a system that will expand together with the bank.

- Internship Programme
- Young Talents
- Talent Graduate Programme.

This year, 140 interns, 30 Young Talents and 40 Graduates have been recruited.

Great efforts have also been made to be present in the main forums and build closer, stronger relationships with universities and business schools considered to be of vital importance for Banco Sabadell. The bank has taken part in different activities including networking sessions, stands and presentations to students: AFI, BGSE, CUNEF, Deusto, ESADE, JOBarcelona, UEM, UPC, and IDEC amongst others.

These actions have also led to an improvement in external reputation, including the achievement, for the first time, of a place in the Mercopersonas Top 20 (ranked number 17), the Spanish corporate reputation monitor, which measures the appeal of institutions as employers.

Equality, work-life balance and integration

Banco Sabadell guarantees gender equality and equal opportunities in all areas of its activity affecting its workers: recruitment, training, promotions and career development, salaries, work-life balance, etc. These principles are set out in the Banco Sabadell Group Equality Plan, the Human Resources policy and code of conduct.

Gender equality

With the firm commitment of Senior Management, and in line with the objective set forth in the Equality Plan, which was signed by representatives of employees in 2010 (renewed in June 2016), Banco Sabadell has increased the presence of women in management positions by 2% during 2016.

The new equality plan, in the same way as its previous version, aims to prevent all forms of discrimination in the work-place between women and men in the company, and sets out new lines of approach, with perfected systems to monitor performance and evaluate objectives in the areas of training, promotions, career development, salaries, work/life balance, gender violence and sexual abuse.

	2016	2015
% of promotions given to women	53.77%	56.45%
% of women in management positions	23.88%	21.85%

Data calculated based on Group workforce.

Diversity and integration

Banco Sabadell promotes all types of employee diversity and encourages the integration of all of its partners in the workplace with non-discriminatory career development and recruitment processes.

The Group sets out actions relating to the suitability of positions in cases of functional diversity that require such actions, in line with the special sensitivity procedures of the occupational medicine service. The bank also assists employees with paperwork and procedures 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 General Disability Act (LGD, for its acronym in Spanish), the bank pursues other measures such as buying services and supplies from special employment centres.

In 2016, the Group had 263 employees with some form of disability (254 at the end of 2015).

Functional diversity is not the only diversity that is managed in a distinctive way by Banco Sabadell. Policies aimed at making the most of talent across generations have become particularly important during 2016, due to the evolution of the age pyramid in the Group.
Banco Sabadell has conducted a comprehensive study of the generational situation of its workforce, identifying the complexity of experiences, skills, abilities and training in each generation represented by that workforce and devising proposals for improvement that take into account their main interests, needs, expectations and concerns.

Work-life balance

Employees have at their disposal a series of social benefits agreed with Banco Sabadell and union representatives in agreements on measures aimed at achieving a healthy work/life balance. The full workforce has been notified of these benefits and they can be consulted on the employee portal on the Intranet, therefore they are widely known to the workers, who have been requesting and enjoying these benefits for a long time.

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 (for studies, personal reasons, inter-country adoption); extension of paternity leave; and flexitime arrangements.

With a view to improving the work/life balance of Banco Sabadell partners, in recent months, a pilot teleworking test has been implemented, and the aim is to deploy this remote working option throughout the Corporate Centre.

Banco Sabadell also offers a wide range of measures aimed at improving the work/life balance of its workforce, by offering an option to contract services and purchase items through the employee portal, which gives employees an opportunity to save both money and time, as they receive the items in their workplace, saving transportation expenses and avoiding having to run errands outside of their working hours.

In the corporate centres in Sant Cugat del Vallès and Madrid, various services are also put at the disposal of employees which allow them to save time and transportation expenses, including a gymnasium, dry-cleaning services, a parapharmacy (which sells typical pharmacy items but not prescription drugs), a travel agency, a hair salon, a banking branch, etc., thereby making it easier for employees to do certain activities.

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.

The 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, 88.47% of the workforce in Spain had salaries which included variable remuneration in 2016 (89.7% in 2015).

Other types of benefits are available to employees, including interest-free loans and grants to help with training or children's schooling.

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 individual workstations and common areas, facilities and aspects such as temperature, lighting, etc.

All Banco Sabadell staff 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 hazards which are specific to the bank's activities.

Employee development

New learning model

In 2016, given the challenges facing the organisation and the market, the training department has sought to promote the implementation of the new learning model of Banco Sabadell with the launch of the Sabadell Campus and its different Schools and Spaces. The pillars of Banco Sabadell's training model play out in this project, and are based on:

Innovation, with a flexible digital training model based on learning through experience and with a high emotional impact. To this end, the most innovative methodologies available at an international level have been analysed, to create new training programmes and redesign existing ones.

Personalisation of training, offering training that can be adapted to each pivotal moment in people's lives and to their individual way of learning, and which can help to achieve personal and professional challenges that they set themselves.

Alignment of business and training, with the latter acting as a driver for change and a key lever for the business. In order to construct each training programme and solution, we have worked with the different business areas, identifying which indicators they would like to improve and what impact they expect to achieve with the training.

Efficiency, a model which seeks efficiency both in economic terms and in terms of learning, to pro-actively meet requirements with a higher quality and greater transfer of knowledge.

	2016	2015
Employees who received training (%)	98%	98%
Investment in training per employee (euro)	371.8	257.1

Data for Spain.

Launch of the Digital Space

Sabadell Campus has put a Digital Space at the disposal of all its employees for them to develop their digital skills, with which it aims to help the digital transformation of all Banco Sabadell employees. During 2016, two training activities have been launched, which have been extremely successful and in which many employees have taken part: over 6,000 people have already taken part in *Digitalízate con Google* (Go Digital with Google) and *Digitalízate con LinkedIn* (Go Digital with LinkedIn).

Launch of the Business School

The launch of the Business School means that available training programmes are fully focused on challenges facing the branch network.

Specific online content has been created to help overcome cross-cutting business challenges and new in-person business skills workshops have been designed. There is a far more comprehensive, employee-oriented offering which can be adapted to the needs of each professional.

Furthermore, work has begun on redesigning the old training activities that were in place for each function, transforming them into a programme part of which employees attend in person, to welcome employees to their new position and recommending online and in-person training in line with their professional profile. This is a more modern programme focused on training in line with professional profiles, which allows each employee to tailor their training plans.

During 2016, this programme has already been implemented for the professional profiles of Branch Managers, Business Banking Directors and Relationship Managers, and we are still working on including more profiles in this programme next year.

Launch of the Management School and redesigning of MCP Programme

The new Management School has been launched with the objective of providing content to Banco Sabadell employees to enable them to develop skills with which to achieve their personal and professional objectives.

To this end, new online training formats have been included, such as videos, games, scenarios, etc., and programmes have been redesigned to include informal learning, networking, gamification and other innovative teaching methods, improving the impact of transformation in terms of both those taking part in the programme and the entity.

We have also launched a renewed MCP programme, which has been redesigned to allow more employees to make use of it, and to enable their final projects to have a greater impact within the organisation.

Launch of the Technical-Financial School

Lastly, the new Technical-Financial School has been started up, which aims to improve the financial culture of the entity, offering specialised training methods and placing an attractive offering of content and learning methods at the disposal of all employees.

As part of the Technical-Financial School, a new Risk Management Programme has been implemented, run by UPF (Pompeu Fabra University in Barcelona), for the bank's risk analysts.

Additionally, in the Technical-Financial School, all employees can access exclusive financial content created by professors from the Open University of Catalonia (Universitat Oberta de Catalunya), which has been adapted to the practical challenges faced by Banco Sabadell employees.

Launch of the Languages Space

As part of the ongoing objective to improve the level of foreign languages spoken and written by employees within the entity, a new Languages Space has been created in Sabadell Campus. This is a space in which employees can find information about the language learning options offered by the bank in line with their specific professional profile and requirements.

New Internal Trainers project

One of the key pillars of Banco Sabadell's new training model is its internal trainers, who enable the management of internal knowledge and talent and the model allows training to be available to all regions as and when it is required.

We understand the importance of internal trainers, and have therefore launched a campaign to recruit new internal trainers to form part of our new training plan. In parallel, a new training plan is being designed for trainers for use as a talent detection and development tool.

Leadership management

The new Strategic Talent Division has been consolidated, and its main challenge in 2016 has been implementing a new talent management model for management staff and staff considered for management positions. To this end, the HR information has been integrated into the model, and structured interviews have been carried out designed to determine employees' potential, adding new, highly reliable psychometric tools to the assessment. Based on this information, "people's committee" meetings have been held in each Division in order to identify and develop talent to meet the current and future needs of the bank. People's committee meetings have taken place in all divisions, 19 in total, between a total of 285 management staff and staff considered for management positions.

After holding these committee meetings, a feedback process was initiated and a development plan implemented for all employees involved in these meetings. The purpose was to build a culture of development in order to maximise future performance, under the guidance of their line managers and together with the Human Resources Business Partners (HRBP) to move forwards in identifying, developing and promoting talent.

In this context, the consolidation of the figure of the HRBP is notable under the leadership of the Strategic Talent Management Division. There are currently 10 employees who have taken on the new role of HRBP, and like the figure which already exists in the network through Regional Organisation and Resources Directors, their objective is three-fold: to be a strategic partner of the various divisions, to centralise activities relating to people and to pro-actively manage human capital.

We encourage our management staff 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 management staff as an example of quality and openness, both internally and in the external market.

One of the main outcomes of this exercise has been the continuation of the Corporate Management Programme, which is designed for new heads of department and corporate centre directors with subordinates working under them. The Programme is based on developing management and team-building skills, promoting joined-up management in corporate centres and improving familiarity with Human Resources policies as a way of managing professional development and promoting success-driven behaviours appropriate to each role. The sixth edition took place in 2016.

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. This year, we have improved the validity and reliability (rigour in the assessment – greater level of distinction) of the process, which has allowed us to focus particularly on employees who can perform better, with whom specific plans for improvement have been established, managed together with their line managers.

HR Operations

The HR Operations division, which includes the Shared Services Centre and the Employee Assistance Office, has started a stage of consolidation to hone skills in service provision and enhance the efficiency of processes. Within this division, to strengthen the management teams, a Human Resources Middle Office has been created aimed at giving specialised support to HRBPs during their activities. The creation of the HR Middle Office is the culmination of a series of HR processes which will lead to a greater focus and efficiency in the management of people throughout all corporate divisions.

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 through 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 entity 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, corporate 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 of the organisation (National Health and Safety Committee, Equal Opportunities Committee, Training Committee and the Pension Plan Oversight Committee). Workplaces with more than 50 workers have a workers council. Workplaces with between 6 and 10 workers may elect a union representative.

In response to the results of the workplace environment survey conducted in 2015, between May and September 2016 23 Focus Groups have been held, in which over 400 employees have taken part, the main objectives of which were: to identify the main needs and priorities of the bank in terms of improving its workplace environment and analyse more quantitative information based on the GPTW survey. These Focus Groups have been held in all of the bank's divisions and regional branches, and give a view of employees' thoughts about their workplace environment and the current and future outlooks of the bank. Based on the conclusions reached, plans of action have been defined at a global level and by divisions / regional branches, which will help to consolidate the bank as an "Excellent Place in which to Work" and improve the experience of the bank's employees.

Volunteer programme

In response to this line of approach, defined in the Corporate Social Responsibility Plan 2013, SabadellLife, a new internal portal, has been introduced, which incorporates all actions that involve our employees in terms of health, solidarity and sport.

The SabadellLife Portal 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 number of activities organised in 2016, many of which were proposed by the employees themselves.

Details of some of the most significant activities in 2016 are given below:

OxfamIntermon Trailwalker. 405 people representing Banco Sabadell took park in this year's Trailwalker, making Banco Sabadell the company with the largest number of employees taking part in Madrid, raising over €90,000 for water supply projects carried out by Oxfam in the Sahara region.

Together with Banc de Sang i Teixits, Banco Sabadell makes blood donations, where year after year the number of blood donations has increased significantly.

Success of the BSImparables campaign, which led to over €6,000 being raised for research into leukaemia by the Josep Carreras Foundation. Furthermore, 20 employees have registered with the Spanish registry of bone marrow donors (REDMO). This campaign saw high levels of employee involvement through social media (hasthag #BSImparables).

For the fourth consecutive year, 164 volunteers from the bank participated in workshops for students in their fourth (and final) year of compulsory secondary education as part of the Schools Financial Education Programme in Catalonia (EFEC). The cooperation agreement signed with Catalonia's regional government (Generalitat de Catalunya) and Instituto de Estudios Financieros covered 301 schools in Catalonia. Additionally, this year Banco Sabadell has taken part in the "Tus Finanzas, tu futuro" (Spanish Banking Association) programme, where 34 volunteers shared basic knowledge about finance with students in their second and third years of compulsory secondary education throughout Spain.

Through 'Sabadell en acción' (Sabadell in action), over €60,000 were raised for emergencies and charitable causes. 'Sabadell en acción' will soon be included under the item 'Actitud Solidaria' (Solidarity actions), which will expand the framework of our alliance with the startup Worldcoo.

This year, 580 letters were requested from the Magone Foundation, so that Banco Sabadell employees could become Wise Men and Women at Christmas for a day, sending a Christmas gift to children at risk of social exclusion.

COACH Foundation: a corporate volunteer initiative aimed at improving employability of young people at risk of social exclusion through coaching and mentoring. Twenty young people have benefited from the Programme this year, double last year's number.

Social Business Mentoring with the SHIP2B Foundation. 17 management staff of Banco Sabadell have taken part as mentors in the B-Ready programme to accelerate social start-ups.

The success of initiatives intended to provide healthcare tools to our employees should also be noted, in which over 1000 employees took part, particularly in initiatives concerning healthy eating and sport. In this context, the number of employees taking part in various races for women is also noteworthy, with over 140 employees signing up to take part.

5 – LIQUIDITY AND CAPITAL RESOURCES

5.1 Liquidity

The key aspects in the evolution of liquidity during the year at Group level have been as follows:

- The entity has continued to generate a liquidity gap in its commercial business, reducing total funding in wholesale markets and increasing its liquidity position.

- On-balance sheet customer funds increased by 1.5% compared to 2015 year-end.

- In 2016, the growing tendency of the generation of a gap between loans and deposits observed in recent years has continued. The Loan to Deposits (LtD) ratio of the Group at year-end stood at 105.1%.

- The level of funding in capital markets has been declining in recent years. Issues maturing during the year in capital markets amounted to €4,420 million. Banco Sabadell carried out issues under its Programmes totalling €7,658.5 million. Specifically, in March Banco Sabadell carried out two public issuances of covered bonds at eight and seven years in June and October 2016, totalling €1 billion, respectively; an extension of an existing covered bond issue by €100 million in March, three 8-year issuances of covered bonds totalling €850 million fully subscribed by the European Investment Bank (EIB); one issuance of 10-year subordinated bonds totalling €500 million in May, eight issuances of non-convertible bonds with a 1 to 3.25 year term totalling €2,488 million and 11 issuances of structured notes totalling €220.6 million and with terms varying between 1 and 5 years. In the first half of 2016, TSB launched a securitisation operation on the market with a value in euros of €664 million.

- In 2016 the three agencies that assessed the credit quality of Banco Sabadell were Standard & Poor's, Moody's Investors Service and DBRS. In December, the credit rating agency Moody's Investors Service announced an upgrade of one notch in its rating of the bank's senior debt, which has been given an investment grade once more after four years. This rating upgrade reflects the improvement in Banco Sabadell's fundamentals, particularly in terms of risk. In November, the credit rating agency Standard & Poor's changed its rating outlook of Banco Sabadell from stable to positive, as it considered that the bank is reducing the risks on its balance sheet and is gradually strengthening its solvency in a more positive economic environment, and that it is consolidating its market position in Spain and diversifying its sources of income in terms of geography.

- Banco Sabadell took part in the ECB's four-year liquidity auction in 2016 (TLTRO2 or Targeted Long Term Refinancing Operations 2) totalling €10,000 million at year-end, whilst simultaneously redeeming €11,000 million in its possession corresponding to the TLTRO auctions at the end of 2014.

- The entity has maintained a liquidity buffer in the form of liquid assets to meet eventual liquidity needs.

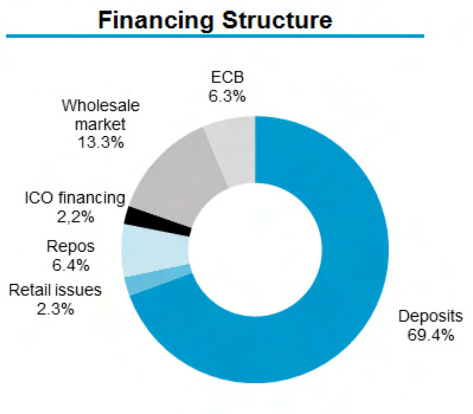
- On 1 October 2015, the Liquidity Coverage Ratio (LCR) came into force, with a phase-in enforcement period up to 2019. In 2016, the regulatory minimum requirement was 70%. All of the entity's Liquidity Management Units (UGLs, for their acronym in Spanish) comfortably surpassed this minimum. At Group level, the bank's LCR has consistently been above 100% throughout the year. As regards the Net Stable Funding Ratio (NSFR), the implementation date of which has been set for January 2018, the entity has continued to maintain stable levels above 100%.

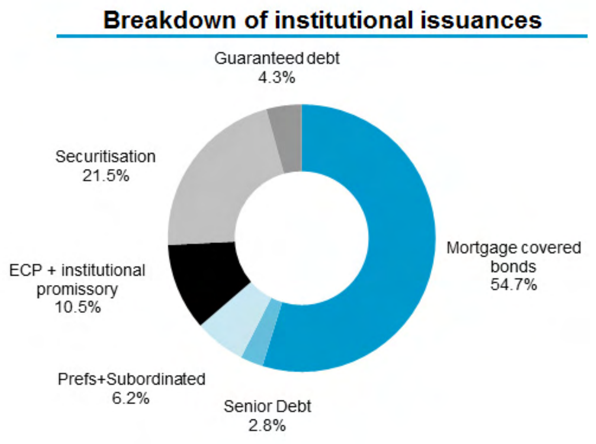
Key figures and basic liquidity ratios at the end of 2016 were:

€million	2016	2015	Ex TSB 2016	Ex TSB 2015
Gross loans and advances to customers, excluding repos	150,087	152,697	115,640	116,635
Provisions for insolvencies and country-risk	(4,921)	(6,610)	(4,835)	(6,426)
Brokered loans	(4,900)	(6,069)	(4,900)	(6,069)
Adjusted net loans	**140,266**	**140,018**	**105,905**	**104,140**
On-balance sheet customer funds	133,457	131,489	99,123	96,227
Adjusted loans to deposits ratio (%)	**105.1**	**106.5**	**106.8**	**108.2**

The EUR/GBP exchange rate used for the balance sheet is 0.8562 at 31.12.16 and 0.7340 at 31.12.15.

The Group’s principal sources of funding at the end of 2016 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, see Note 4 on Risks, under the Liquidity Risk section in the notes to the annual accounts.

5.2. Capital resources

Note 5, “*Own funds and capital management*” of the consolidated annual report of the Group, contains a detailed report of its capital management (regulatory framework, detailed data and capital activity).

The main figures related to capital management are shown below:

%/ €million	2016	2015
CET1	12.0	11.5
Tier I	12.0	11.5
Tier II	1.8	1.4
BIS ratio	13.8	12.9
Capital base	11,852	11,417
Minimum capital requirement	6,886	7,102
Risk weighted assets	86,070	88,769

Note 5 of the annual report 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.

In recent years, Banco Sabadell has been actively managing its capital, which is a crucial aspect for the entity's growth. In recent 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 preference and subordinated stock)	411	+68 bp of core tier I
February 2012	Preference share swap for ordinary shares	785	+131 bp of core tier I
March 2012	Capital increase	903	+161 bp of core tier I
July 2012	Preference debt instruments and subordinated Banco CAM debt swap for shares	1,404	+186 bp of core tier I
September 2013	Accelerated bookbuilding and capital increase with rights	1,383	+178 bp of core tier I
October 2013	Issue of Mandatory Convertible Subordinated Debentures for B. Gallego hybrid swap	122	+17 bp of core tier I
April 2015	Capital increase with pre-emptive rights - TSB	1,607	+181 bp of core tier I

Note: The impact on capital (in basis points) is calculated using figures at the close of each year, these figures have changed significantly due to the increase in the Group's scope during these years.

6 – RISKS

During 2016, Banco Sabadell Group has continued to strengthen its risk management framework, incorporating improvements which align it with the best practices in the financial sector.

For more details regarding the corporate risk culture, the risk appetite framework and the 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 2016.

This year's main milestones in terms of the Group's risk management have been the strengthening of the Risk Appetite Framework, giving it 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 annual report.

7 – POST-BALANCE SHEET EVENTS

Since 31 December 2016, there have been no significant events worthy of mention.

8 – EXPECTED FUTURE DEVELOPMENTS

Banco Sabadell adopts three-year strategic plans in which it sets out its objectives for subsequent years in line with the regulatory and macroeconomic environment.

The 2014-2016 business plan, called Triple, was based on three main pillars. The first pillar was based on improving profitability. In this regard, we have been able to consolidate our leadership in terms of domestic business and significantly improve our customer spread.

The second pillar of the Triple plan was based on transformation, of both the balance sheet and of the commercial and production model. In terms of the transformation of our balance sheet, it should be noted that the balance of both non-performing assets and that of problematic assets has been significantly reduced, surpassing our original objectives. In terms of commercial transformation, technological capacities have been developed which have allowed us to continue improving customers' experience (trust, service delivery, transparency and convenience), which allow us to be the current leaders in service quality in SMEs and Corporates. Lastly, the transformation of the production model has improved the efficiency of our entity, and we are now one of the best entities within the Spanish banking industry.

The final pillar of the Triple plan is based on internationalisation. Today, over 30% of the Group's lending is generated outside of Spain (amply surpassing the plan's objective of 10%). The main milestones that have been achieved include the acquisition of British bank TSB and the entry into the Mexican market, after obtaining a licence to operate in this country as a commercial bank.

Following the success of the Triple Plan, Banco Sabadell is starting 2017 with an even more ambitious strategic plan, which will be developed following a 1 + 3 structure, with 2017 as a transition year during which TSB will be fully integrated into the Group.

The strategic objectives set forth for the 2020 horizon include, amongst others, the consolidation of the business in markets in which we currently operate, together with the reduction of non-performing problematic assets, with a view to achieving a normalised cost of risk level. Banco Sabadell will also focus on establishing an efficient management model, by deploying the necessary technological capabilities to perform its digital business.

9 – RESEARCH, DEVELOPMENT AND INNOVATION

2016 has been characterised by the TSB project, with a strong impact on the technological organisation, which has been restructured to take on the project with the utmost guaranties. Internationally, the bank has continued working on its project in Mexico to develop a full-service bank for corporates and individuals.

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 for 2014-2016.

In terms of boosting commercial management, the implementation of the new campaign management tool has been completed and the project for developing a business portfolio of relationship managers and customer files has continued, and is already in its user testing phase ahead of its implementation in 2017. The 'Alta de Cliente Cuenta' project has been started up, the aims of which include simplifying the contracting of the basic Expansión Account package and optimising its functionality. This application is available both in branches and on tablets for relationship managers who travel frequently, allowing 100% of customer on-boarding to be carried out remotely, without the customer having to visit the branch, thanks to the incorporation of a biometric signature.

In terms of corporate mobility, the system whereby relationship managers can operate using tablets has been fully developed and deployed. Relationship managers can perform various operations using their tablet, including operations involving the product catalogue/offering, as well as operating, monitoring, reporting and contracting simulations, allowing relationship managers to perform all their activities whilst outside of their offices.

As regards Insurance Systems, a multi-simulator has been developed which uses minimum information about the customer in order to generate a proposition centred on five products: Car, Home, Health, Life and Funeral insurance, offering a package deal with optimum conditions, which allows relationship managers to interact with the generated proposition while negotiating with the customer, making the management of this type of operation extremely dynamic.

In terms of markets, the Proteox project has developed a new key feature for the distribution of Forex products in the field of Treasury. From the beginning, the application, which is built on the Reuters pricing service and a front-end web technology, HTML5 Responsive, has been easily adaptable to multi-channel environments (Treasury Room, Branches and Banco Sabadell Online) and multi-platform environments (desktop, mobile and tablet). It allows the bank's full distribution of Forex products to be centralised in a single application.

As regards the Corporate Administration Systems, the most noteworthy actions performed during the year are related to projects for the adaptation of hub and spoke branch management systems and the Remote Management Branch Network. Also worthy of mention in the field of Human Resources are new projects for internal talent management, training and recruitment.

10 – TREASURY SHARE SALES AND BUYBACKS

For information on treasury sales and buybacks see Note 25 to the annual report.

11 – OTHER RELEVANT INFORMATION

a) Shares and share price information

Some indicators of the bank's share performance are shown in the following table:

	2016	2015	Change (%) year-on-year
Shareholders and buybacks			
Number of shareholders	260,948	265,935	(1.9)
Number of shares	5,616,151,196	5,439,244,992	3.3
Average daily buybacks (number of shares)	29,994,232	32,155,802	(6.7)
Share price (euro)			
Start date	1.635	2.205	-
Maximum	1.810	2.499	-
Minimum	1.065	1.577	-
End date	1.323	1.635	-
Market capitalisation (thousand euro)	7,430,168	8,893,166	-
Market ratios			
Earnings per share (EPS) (euro)	0.13	0.13	-
Book value per share (euro)	2.30	2.26	-
Price / book value	0.57	0.72	-
PER (share price / EPS)	10.46	12.55	-

The bank's share price fell by -19.1% in 2016, a more significant decline than the average of listed Spanish banks (-1.9%), while the IBEX-35 share price depreciated by -2.0%.

b) Dividend policy

The bank's shareholder remuneration policy, in accordance with the bank's Articles of Association, is submitted to shareholders for approval on a yearly basis at the General Meeting of Shareholders.

In 2015, the bank compensated shareholders with €0.07 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 supplementary remuneration scheme consisting in the handover of shares from the treasury portfolio. This amount represented profits on the quoted share price at year-end of 4.3%.

On 27 October 2016, the Board of Directors agreed to distribute a dividend charged to the 2016 income statement totalling €111,281 thousand (€0.02 (gross) per share), paid on 30 December 2016.

Furthermore, the Board of Directors will submit a proposal at the General Meeting of Shareholders on the distribution of a €0.05 (gross) dividend per share for 2016.

Over the coming years, Banco Sabadell foresees a continuation of cash payments as remuneration to its shareholders.

c) Managing the credit rating

In 2016 the three agencies that assessed the credit quality of Banco Sabadell were S&P Global Ratings, 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 updated
DBRS	BBB (high)	R-1 (low)	Stable	02.08.2016
Standard & Poor's	BB+	B	Positive	02.11.2016
Moody's (*)	Baa3 / Baa2	P-3 / P-2	Stable	01.12.2016

(*) Corresponds to senior debt and deposits, respectively

On 2 November 2016, S&P Global Ratings raised Banco Sabadell's rating outlook to positive (from stable) and confirmed the long-term rating at BB+ and the short-term rating at B. The positive outlook is mainly due to the significant improvement in asset quality, strengthening capital and consolidating the market position in Spain, as well as the geographical diversity of the various sources of income.

On 2 August 2016, DBRS Ratings Limited confirmed Banco Sabadell's long-term rating at BBB (High) and its short-term rating at R-1 (low). The resilience of business in Spain is particularly notable, along with the positive integration of TSB's business and the ability of reducing problematic assets at a faster rate than the average of its competitors. Outlooks remain stable.

On 1 December 2016, Moody's Investor Service announced the upgrade of Banco Sabadell's deposit ratings from Baa3/Prime-3 to Baa2/Prime-2 and those of senior debt from Ba1 to Baa3. The outlook for long-term deposit ratings and senior debt is stable. This rating upgrade reflects, according to Moody's Investors Service, the improvement in Banco Sabadell's fundamentals, particularly in terms of risk, with a substantial decrease in problematic assets and its steady downward trend which will continue next year.

During 2016, Banco Sabadell has met with the three agencies. At these visits and teleconferences, the discussions have addressed subjects such as the bank's strategy, TSB's performance since its acquisition, results, capital, liquidity, risks, credit quality, and the management of problematic assets.

d) Branch network

At the end of 2016, Banco Sabadell was operating 2,767 branches (including 587 TSB branches), a net decrease of 106 branches compared with 31 December 2015 (79 fewer branches excluding TSB), that is mainly due to the optimisation of the branch network.

Of the total number of Banco Sabadell Group branches, 1,583 were operating under the Sabadell brand (including 47 business banking and 2 corporate banking branches); 123 were operating as Sabadell Gallego (including 3 business banking branches); 166 under Banco Herrero in Asturias and Leon (including 3 business banking branches); 128 were SabadellGuipuzcoano branches (including 5 business banking branches); 12 were SabadellUrquijo branches; 105 were Solbank branches; and there were 648 international branches, including 27 operated by Sabadell United Bank, 7 by BancSabadell d'Andorra and 587 by TSB. Additionally, ActivoBank has two "Active Centres" open to the public. The distribution of the Group's branches in Spain by autonomous community is as follows:

Autonomous Community	Branche	Autonomous Community	Branche
Andalusia	142	Valencia	381
Aragon	34	Extremadura	7
Asturias	134	Galicia	123
Balearic Islands	62	La Rioja	8
Canary Islands	30	Madrid	201
Cantabria	6	Murcia	141
Castilla-La Mancha	23	Navarre	18
Castilla y Leon	64	Basque Country	105
Catalonia	638	Ceuta and Melilla	2

The Group is present in the following countries:

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
Andorra			•
France	•		
Poland		•	
Turkey		•	
United Kingdom	•		•
Americas			
Brazil		•	
Colombia		•	•
Dominican Republic		•	
Mexico			•
Peru			
United States	•	•	•
Venezuela		•	
Asia			
China		•	
India		•	
Singapore		•	
United Arab Emirates		•	
Africa			
Algeria		•	
Morocco	•		

Corporate Governance

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared an annual report on Corporate Governance for the year 2016, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of this Directors' Report, included herein as a separate document, and which 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 is available on the Group's corporate website (www.grupobancosabadell.com), and can be accessed directly from the "Corporate Governance and remuneration policy" link on this website's homepage.

Glossary of terms on performance measures

In its presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance measures pursuant to the generally accepted accounting regulations (IFRS-EU), and also uses other non-audited measures commonly used in the banking sector (Alternative Performance Measures, or APMs) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other entities.

Following the ESMA guidelines on APMs (ESMA/2015/1415es of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, its definition and its use. The Group presents the reconciliation of components of APMs in the Directors' Report, with the items shown in the financial statements and their quantification for each period.

Performance indicator		Definition and calculation	Use or purpose
Loan to deposits ratio		Net loans and receivables divided by retail funding. Calculated by subtracting brokerage loans from the numerator. Retail funding and customer funds, defined in this table, are used as the denominator.	Measures a bank's liquidity by calculating the relationship between the funds available and the volume of loans and credit given to its customers. Liquidity is one of the key aspects which define an entity's structure.
Pre-provisions income		Comprised of gross income accounting entries plus administrative and depreciation expenses.	Significant indicator which reflects the evolution of the Group's consolidated profit/(loss).
Customer spread		Difference between returns and expenses of customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer loans and credit. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Indicator of the profitability of our purely banking activity.
NPL coverage ratio		Gives the percentage of non-performing loans covered by provisions. Calculated as the ratio between the impairment allowance for loans and advances to customers (including contingent liability funds) over total non-performing loans (including non-performing contingent loans).	One of the main indicators used in the banking industry to monitor the status and changes in the quality of credit risk incurred with customers and gives the coverage provided by provisions prepared by the entity for doubtful assets.
Cost-to-income ratio	(*)	Staff expenses and other general administrative expenses/gross income. To calculate this ratio, gross income is adjusted by linearising net trading income. The denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds except at year-end.	Main indicator of efficiency or productivity of banking activity. It is an indicator which is monitored and included in the Group's Strategic Plan for 2014-2016.
Loan loss ratio		Expresses non-performing loans as a percentage of total customer lending. All calculation components correspond to headings or sub-headings on financial statements. Calculated as the ratio between non-performing loans, including contingent liabilities, over total customer loans and contingent liabilities. Non-performing loans are described in this table. Contingent liabilities include guarantees given and contingent commitments given.	One of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk incurred with customers and to assess the management of that risk.
Gross customer lending		Includes loans and advances to customers excluding insolvency provisions and allowances for country risk.	Key figure and one of the main business indicators for financial institutions, and which is monitored.
Gross performing loans		Includes gross customer lending excluding repos, accrual adjustments and non-performing assets.	Key figure and one of the main business indicators for financial institutions, and which is monitored.

Glossary of terms on performance measures

In its presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance measures pursuant to the generally accepted accounting regulations (IFRS-EU), and also uses other non-audited measures commonly used in the banking sector (Alternative Performance Measures, or APMs) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other entities.

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Performance indicator		Definition and calculation	Use or purpose
Loan to deposits ratio		Net loans and receivables divided by retail funding. Calculated by subtracting brokerage loans from the numerator. Retail funding and customer funds, defined in this table, are used as the denominator.	Measures a bank's liquidity by calculating the relationship between the funds available and the volume of loans and credit given to its customers. Liquidity is one of the key aspects which define an entity's structure.
Pre-provisions income		Comprised of gross income accounting entries plus administrative and depreciation expenses.	Significant indicator which reflects the evolution of the Group's consolidated profit/(loss).
Customer spread		Difference between returns and expenses of customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer loans and credit. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Indicator of the profitability of our purely banking activity.
NPL coverage ratio		Gives the percentage of non-performing loans covered by provisions. Calculated as the ratio between the impairment allowance for loans and advances to customers (including contingent liability funds) over total non-performing loans (including non-performing contingent loans).	One of the main indicators used in the banking industry to monitor the status and changes in the quality of credit risk incurred with customers and gives the coverage provided by provisions prepared by the entity for doubtful assets.
Cost-to-income ratio	(*)	Staff expenses and other general administrative expenses/gross income. To calculate this ratio, gross income is adjusted by linearising net trading income. The denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds except at year-end.	Main indicator of efficiency or productivity of banking activity. It is an indicator which is monitored and included in the Group's Strategic Plan for 2014-2016.
Loan loss ratio		Expresses non-performing loans as a percentage of total customer lending. All calculation components correspond to headings or sub-headings on financial statements. Calculated as the ratio between non-performing loans, including contingent liabilities, over total customer loans and contingent liabilities. Non-performing loans are described in this table. Contingent liabilities include guarantees given and contingent commitments given.	One of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk incurred with customers and to assess the management of that risk.
Gross customer lending		Includes loans and advances to customers excluding insolvency provisions and allowances for country risk.	Key figure and one of the main business indicators for financial institutions, and which is monitored.
Gross performing loans		Includes gross customer lending excluding repos, accrual adjustments and non-performing assets.	Key figure and one of the main business indicators for financial institutions, and which is monitored.

Performance indicator		Definition and calculation	Use or purpose
On-balance sheet customer funds		Includes customer deposits (ex-repos) and other liabilities allocated by the branch network (Banco Sabadell non-convertible bonds, promissory notes and others).	Key figure and one of the main balances in the Group's consolidated balance sheet, and which is monitored.
Off-balance sheet customer funds		Includes mutual funds, equity management, pension funds and insurance products sold by the Group.	Key figure and one of the main business indicators for financial institutions, and which is monitored.
On-balance sheet funds		Includes accounting sub-headings of customer deposits, marketable debt securities, subordinated liabilities and liabilities under insurance and reinsurance contracts.	Key figure and one of the main business indicators for financial institutions, and which is monitored.
Funds under management		The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure and one of the main business indicators for financial institutions, and which is monitored.
Non-performing loans		The sum of accounting headings of non-performing assets within loans and advances to customers together with non-performing guarantees given.	Key figure and one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk incurred with customers and to assess the management of that risk.
Problematic assets		The sum of non-performing loans and foreclosed real estate assets.	Indicator of the total exposure to risks and non-performing assets, including real estate assets.
Foreclosed available-for-sale real estate assets coverage ratio		This calculation gives the ratio between impairment allowances for foreclosed real estate assets divided by total foreclosed real estate assets. The amount of foreclosed real estate assets includes properties classified in the portfolio of non-current assets and disposal groups classified as held for sale.	This indicator gives the entity's real estate asset exposure.
ROA	(*) (**)	Consolidated profit/(loss) during the year / average total assets. Considers annualised linearisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds. The total average are the weighted moving average of total assets during the last twelve calendar months.	Measurement commonly used in the financial industry to determine the accounting profitability of the Group assets.
ROE	(*) (***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds. The denominator excludes profit attributed to the Group as part of own funds.	Measurement commonly used in the financial industry to determine the accounting profitability of the Group's own funds.
RORWA	(*)	Consolidated results for the year/ risk-weighted assets (RWA).	An additional measurement of profit, calculated through risk-weighted assets divided by the Group's risk level.
ROTE	(*) (***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds. The denominator excludes profit attributed to the Group as own funds and goodwill.	Additional measure of profit obtained from equity, although goodwill is excluded from the calculation. This indicator is included in the Group's strategic plan for 2014-2016, and its evolution is monitored.
Market capitalisation		Calculated by multiplying the share price by the number of shares in circulation at the closing date of the period.	It is an economic market indicator or market ratio that gives the total value of a company in line with market prices.
Earnings per share		This divides net profit attributed to the Group by the number of shares in circulation at the closing date of the period. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds except at year-end.	It is an economic market indicator or market ratio that indicates the profitability of a company, and is one of the most commonly used measurements to measure performance.
Book value per share		Calculated by dividing the book value by the number of shares at the closing date of the period. Book value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at year-end.	It is an economic market indicator or market ratio that determines the "book" or carrying value of a company for each security in the possession of shareholders.
Price/book value		Calculated by dividing the share price by the book value.	An economic measurement or market ratio commonly used by the market, which compares the share price against the book value of that share.
Price/earnings ratio	(*)	Calculated by dividing the share price by the net attributable profit per share.	An economic measurement or market ratio commonly used by the market, which is representative of the market's assessment of a company's profit-generating capacity.

(*) The linear accrual of the contribution to deposit guarantee and resolution funds during the first three quarters of the year has been made based on the Group's best estimates.

(**) Average calculated based on average daily balances.

(***) Average calculated based on the last 13 positions at the end of the month.

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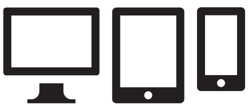
General Meeting of Shareholders 2016



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 its registered offices are in Sabadell, Plaza de Sant Roc, 20.

Credits

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Sabadell