

Equity

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

€ million

	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

T12

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%.

	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.

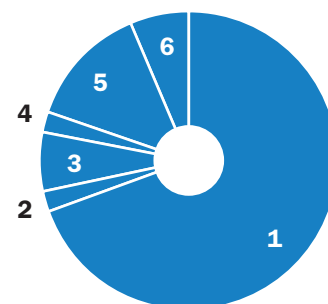
During 2016, the funding gap continued to widen, as it had in previous years, which enabled the bank to continue its policy of partially refinancing maturities in the capital markets and, at the same time, the downward trend in the loan to deposits (LtD) ratio (from 147% at 2010 year-end to 105.1% at 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.

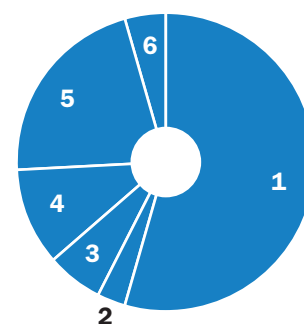
The group has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs. The Liquidity Coverage Ratio (LCR) entered into force on 1 October 2015 and will be phased in until 2019. The required ratio was 70% in 2016. All the bank's Liquidity Management Units (LMUs) 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%.*

T13



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).

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

T14

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(**) Refers to senior debt and deposits, respectively.