

Profit performance

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%

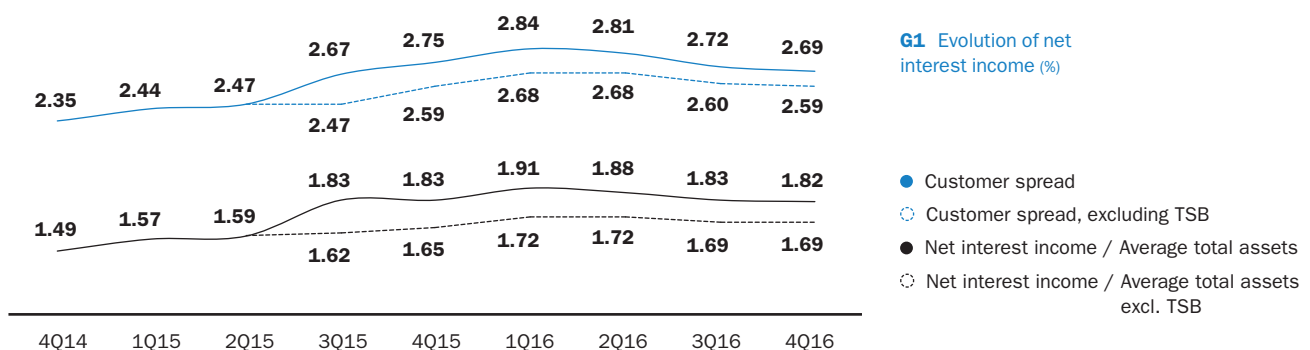
T3 Revenues and expenses

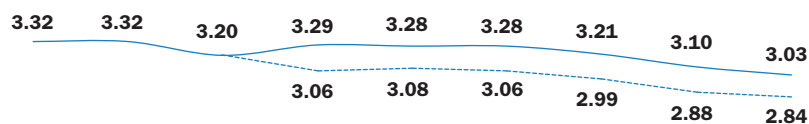
€ million

	2015			2016			16/15		Effect		Days
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume	
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

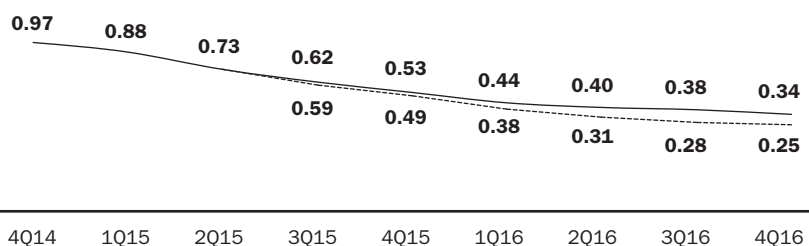
Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most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





G2 Customer spread (%)



- Customer loan yield
- Customer loan yield excl. TSB
- Cost of customer deposits
- Cost of customer deposits excl. TSB

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.

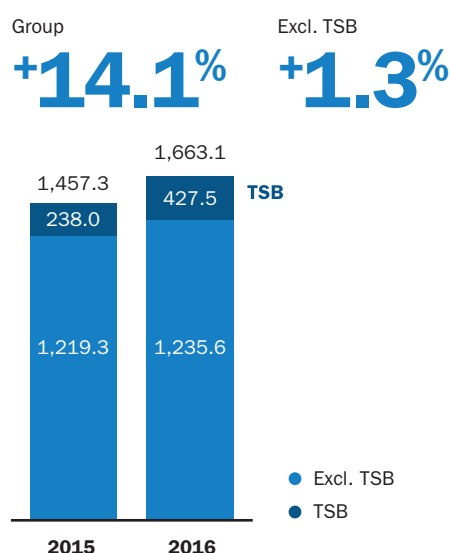
Other operating revenues and expenses amounted to -€226.9 million (-€209.1 million excluding TSB), compared with -€125.6 million in 2015 (-€123.4 million excluding TSB). Notable components of this item include the contribution to the Spanish Deposit Insurance Scheme (-€87.3 million), the contribution 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

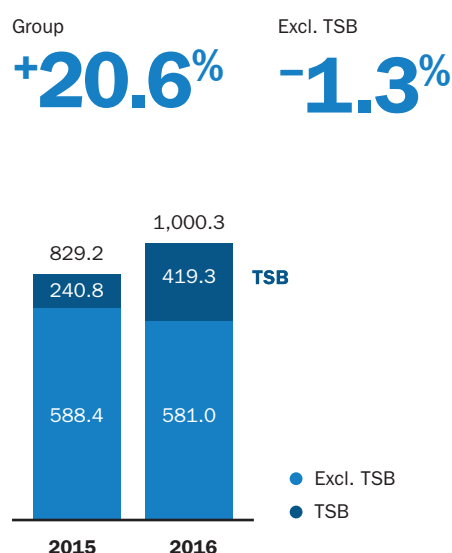
€ million



Administration expenses

€ million

G3



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%

€ 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

T5 Operating expenses

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.