

# 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

# To be wherever the customer is.

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.

€ million

	2015	2016	% 16/15
<b>Net interest income</b>	<b>2,141.99</b>	<b>2,212.33</b>	<b>3.3</b>
Fees and commissions (net)	651.56	733.82	12.6
Other revenues	(55.64)	(127.51)	129.2
<b>Gross income</b>	<b>2,737.91</b>	<b>2,818.64</b>	<b>2.9</b>
Operating expenses	(1,395.26)	(1,383.80)	(0.8)
<b>Operating profit/(loss)</b>	<b>1,342.66</b>	<b>1,434.85</b>	<b>6.9</b>
Profit/loss on problematic assets	(642.93)	(301.39)	(53.1)
<b>Profit/loss before tax</b>	<b>699.73</b>	<b>1,133.46</b>	<b>62.0</b>
<b>Ratios (%)</b>			
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	—
<b>Business volumes</b>			
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)
<b>Other information</b>			
Employees	12,550	12,343	(1.6)
Spanish branches	2,190	2,105	(3.9)

T1 Commercial Banking

# 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<sub>2</sub>) 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 that 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 Iriberry 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's 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 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.