

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%.

€ 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	—

T2 Markets and Private Banking

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

Human resources and infrastructure

Bankers

181

Specialist branches

12

Customer information centres

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

11.80%

Ranking

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.

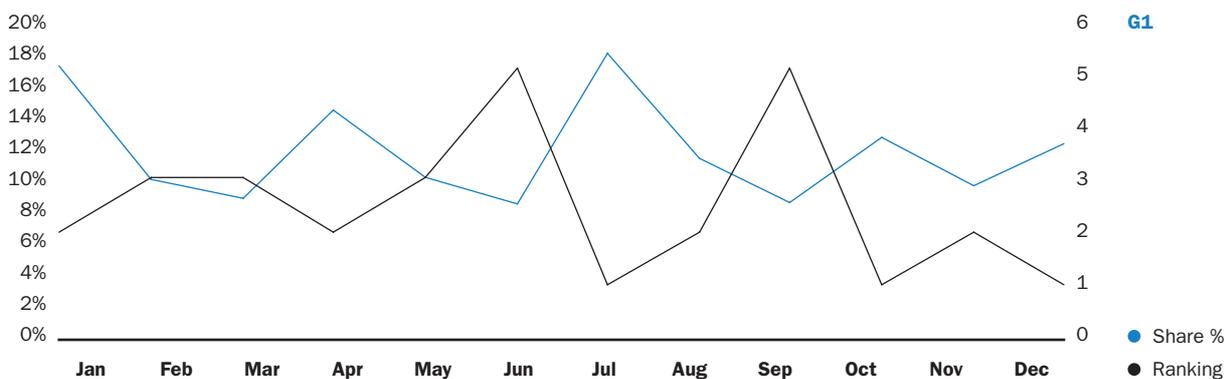
Trading in equities on the Spanish stock market totalled €652,907 million in 2016, a fall of 32.1% compared with the previous year, mirroring the general slide in market trading volumes around the world. The volume of trading at the close of the year was €48,987 million, down 27.5% on the figure for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



€ million

	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.