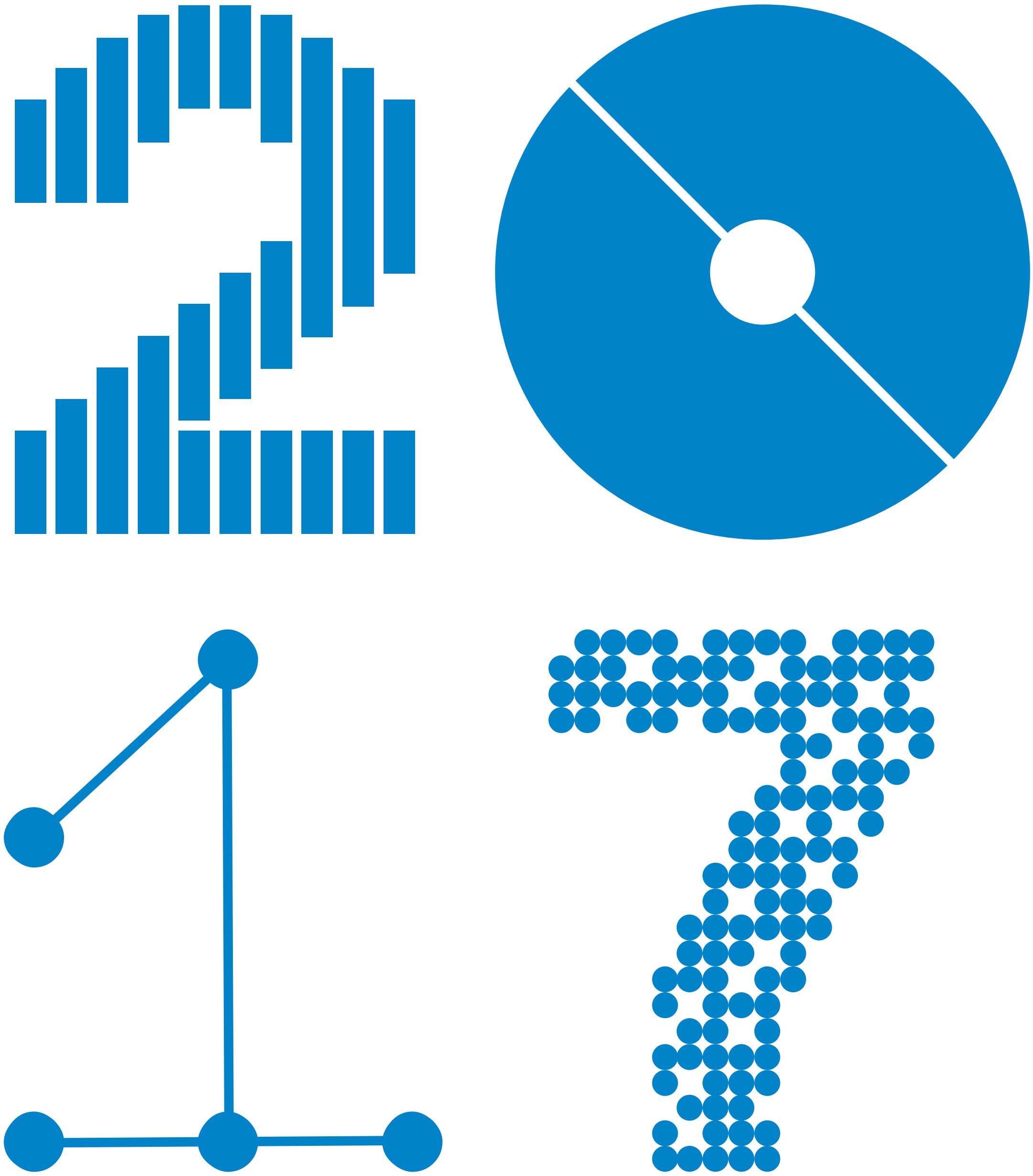
Banco Sabadell
Annual Report 2017
136th Year



Banco Sabadell
Annual Report 2017
136th Year

Banco Sabadell
Annual Report 2017
136th Year

Contents

Chairman's message

Josep Oliu Creus, Chairman

Dear shareholder,

Ordinary banking business performed well in 2017, coupled with sound management of the customer spread, control of recurring operating costs, and a steady reduction in non-performing assets. The Banco Sabadell group ended the year with €801.5 million in net profit, 12.8% more than the previous year and in line with the targets for the period.

The year was marked by major geopolitical events. After the change of government in the United States early in the year, the focus shifted to Europe, where Brexit negotiations commenced and there were elections in France, the UK and Germany. A stronger global economy and higher inflation than in previous years drove the central banks to take steps — incipient in the case of the European Central Bank — towards monetary normalisation. The financial markets performed well in a climate of considerable complacency. The markets will continue to be exposed to the outcomes of events such as Brexit, the United States and NAFTA, although the prospects are now clearer.

Global economic growth became more robust and more synchronised in the main developed economies during the year. The Euro area registered significant growth. The UK economy benefited from a favourable global economic environment, which helped to alleviate the economic effects associated with Brexit uncertainties. The UK achieved close to 2.0% growth in the year as a whole, similar to the previous year. The unemployment rate reached a 42-year low.

The Spanish economy proved very dynamic once again, achieving over 3% growth for the third consecutive year. Economic activity benefited once again from favourable funding conditions and also from private agents' improved financial situation. The political uncertainty in October had a limited and temporary impact on the economy. The labour market is benefiting from the good economic situation, and unemployment is at its lowest since the end of 2008.

The European banking system enhanced its capital position, improved asset quality and increased profitability in 2017. The Single Supervisory Mechanism continued to consolidate its position as supervisor during the year, applying high regulatory standards aligned with international best practices.

The Group's core banking revenues increased by 5.5% year-on-year in 2017 in constant consolidation scope terms. The customer spread remained strong, at 2.8%, as a result of intense commercial activity. Net interest income increased by 4.9% year-on-year in like-for-like terms, or 2.9% excluding TSB. Fees and commissions performed very well, rising 7.4% at constant exchange rates in 2017.

Recurring costs were contained as a result of proactive action. The year-on-year increase was due mainly to extraordinary technology costs at TSB. The Group's cost-to-income ratio reached 50% at year-end, in line with the target.

The NPL ratio continued to decline, reaching 5.1% at 31 December 2017, an improvement on the previous year.

A number of corporate transactions were completed successfully during the year, and the resulting extraordinary gains were allocated to increasing NPA coverage, which reached 49.8% at year-end, or 54.7% pro-forma IFRS 9.

Banco Sabadell ended the year with a strong capital position: a Common Equity Tier 1 ratio of 12.8% in fully-loaded terms. After the implementation of IFRS 9, the Common Equity Tier 1 fully-loaded ratio will be 12.0% (pro-forma).

Commercial activity performed very satisfactorily throughout the year and the volume of outstanding loans and advances increased despite fierce competition. The Group's outstanding loans and advances increased by 4.6% year-on-year adjusting for changes in consolidation scope, driven by strong growth in SMEs, combined with intense enrolment of new customers, both companies and individuals. That increase in customer numbers was achieved with a quality of service that exceeds the industry average. Banco Sabadell improved market share in its various products in Spain and strengthened its lead in customer experience among both SMEs and large corporates.

Customer funds, both on- and off-balance sheet, expanded during the year: by 5.0% in constant consolidation scope terms.

Banco Sabadell's firm commitment to digital transformation led to a number of initiatives in the distribution model, simplification of commercial and operational processes with customers, development of new capacities in the digital offering to enhance the user experience and create value for customers, and improvements in business decision-making.

The primary goal in the UK was to develop and implement TSB's new banking systems. TSB unveiled its new platform in November 2017, making it the first bank in the United Kingdom with a leading-edge platform adapted to the challenges of the digital era. TSB will occupy a distinctive position after the migration. The new platform will provide TSB with greater technological autonomy, drive new businesses and constitute an essential element in generating value for the franchise and shareholders.

Business in Mexico exceeded the targets for the year in both corporate and business banking. Early in November, Banco Sabadell announced plans to commence banking for individuals in Mexico in January 2018 using a 100% digital model that offers new prospects for business development in that country with the goal of continuing to create value for the franchise.

The market recognised the Bank's good performance in 2017, as reflected in upgrades to investment grade by the credit rating agencies and in the share's good performance in the year. Banco Sabadell attained the number-one position in terms of SME and large corporate customer experience, and TSB was recognised in the 2017 Banking Technology Awards.

The General Meeting of Shareholders will be asked to approve a €0.07 cash dividend out of 2017 profit, which represents an increase in the payout to 49%, from 40% in 2016. That €0.07 dividend per share includes the €0.02 interim dividend paid in December 2017 and a €0.05 supplementary dividend that will be paid once it has been approved by the General Meeting.

As a result of the goals attained in 2017, the Bank is soundly placed to undertake its Master Plan 2018-2020. The plan seeks to improve profitability while assuring business sustainability and value-creation for shareholders. To achieve the objectives set for the coming years, we can count on our employees, whose contribution, dedication and professionalism, demonstrated on a daily basis, enable us to take on future challenges with enthusiasm and affirm Banco Sabadell's position as a core component of the Spanish financial system.

Josep Oliu
Chairman

Key figures in 2017

2

Highlights

Net profit attributed to the Group

801.5€M

+13%

Gross operating income

5,737€M

Payout 49%

Customer Loans

147,325€M

NPL ratio[1] **down to**

5.1%

NPA coverage ratio[3]

54.7%

CET1 (fully-loaded)[2]

12%

Customers

Million customers

12.1

+1.7% 2017/2016

Branches

2,473

-10.7% 2017/2016

Service quality

Net promoter score (NPS)[4]

Sabadell quality index with respect to the industry

	2017	Ranking
Large corporates (turnover > 5 €M)	34%	1st
SMEs (turnover < 5 €M)	19%	1st
Personal Banking	29%	2nd
Retail Banking	5%	4th

Sabadell expanded its quality lead over the industry by attaining #1 position in customer experience among large corporates and SMEs

Shareholders

235,130

0.07€ Proposed dividend 100% in cash

Dividend yield after approval: 4.2%

Employees

25,845

89% received training in the year

55.6% 44.4%

34.6% of managers are women

1 Includes contingent risks. Sabadell NPLs (excl. TSB, foreclosed assets and NPA) include 20% of the NPLs included in the APS, since that risk is borne by Sabadell in accordance with the APS protocol.
2 Pro-forma data post-IFRS 9.
3 Pro-forma post-IFRS 9; includes contingent risks; Sabadell NPLs (excl.TSB, foreclosed assets and NPA) include 20% of the NPLs included in the APS, since that risk is borne by Sabadell in accordance with the APS protocol. Excludes provisions for interest rate floors.

4 Accenture NPS benchmark survey. The NPS is based on the question "On a scale of 0 to 10, where 0 is 'not at all likely' and 10 is 'I would definitely recommend it', how likely would you be to recommend Banco Sabadell to a relative or friend?". The NPS is the percentage of customers who answered 9 or 10, after eliminating those who answered between 0 and 6. Includes institutions that are comparable to the Group. Data for the most recent available month.

Digital and commercial transformation

Digital customer numbers increased by 10% in 2017 to 4.4M

This is the result of our firm commitment to the digital transformation

4.4M
(+10% YoY)
Group digital customers

3.3M
(+17% YoY)
Group mobile customers

88%
(+2pp YoY) **Out-of-branch transactions in Spain**

20%
(+1pp YoY) **Digital sales in Spain**

59%
(+9pp YoY) **Digital sales in the UK**

26,725
(+68% YoY) **Digital sales of unsecured finance in Spain**

35M
(+19% YoY) **Monthly web + mobile traffic in Spain**

14%
Share of Bizum registrations in Spain

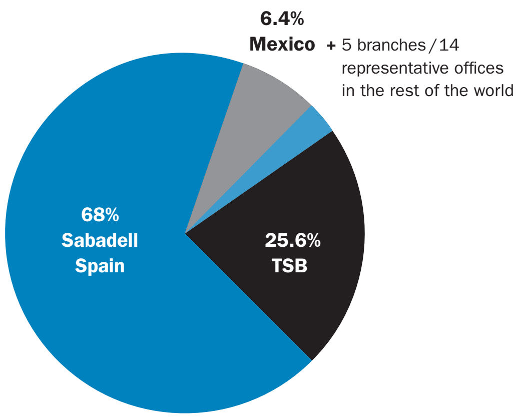
332,000
(+108% YoY) **Sabadell Wallet downloads in Spain**

Banco Sabadell regained investment grade.

Banco Sabadell Group
Global presence

Lending, by geography

Spain: Sabadell | United Kingdom: TSB | Mexico: Sabadell Capital



Financial data

Sound capital position

Balance sheet	€M	2017/2016
Total on-balance sheet assets	221,348	4.2
Customer loans	147,325	(1.8)
Funds under management	204,420	1.4
Own funds	13,426	3.9
Results		
Core banking revenues (comparable data)[5]	5,025.8	5.5
Net profit attributed to the Group	801.5	12.8
Risks		
NPLs	7,925	(18.7)
NPA coverage ratio (%)[6]	49.8	
Capital ratios (%)		
CET1 phase-in	13.4	
CET1 fully loaded	12.8	
Liquidity (%)		
Loan-to-deposit (LtD) ratio	104.3	

Quality certificates

MADRID EXCELENTE | ISO 14001 CERTIFICATION | ISO 9001 CERTIFICATION | EFQM EUROPEAN EXCELLENCE

5 Net interest income and commissions; calculated in like-for-like terms assuming constant exchange rates and excluding Sabadell United Bank.
6 Pre-IFRS 9; excludes provisions for interest rate floors.

Banco Sabadell Group

3

Banking since 1881.

Founded 136 years ago, Banco Sabadell is a member of the IBEX 35 index and an international banking group with a network of 2,473 branches and over 12.1 million customers. Banco Sabadell is today one of the leading banks in the Spanish financial system and occupies a pre-eminent position in personal and business banking.

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

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

Banco Sabadell has also proven to be an agile customer-focused institution that adapts its business model to different market needs through a range of brands and business lines that represent distinctive value propositions.

Banco Sabadell's strategic aims have traditionally been set out in three-year business plans. However, 2017 was a transition year in which the Bank prioritised implementing the final phase of TSB's technological migration, as well as improving its bottom line, in order to lay solid foundations for the business plan for the 2018-2020 period.

Successfully completing the migration of TSB to a newly created autonomous IT platform will enable it to respond more quickly and efficiently to customer needs and to expand into new lines of business, such as banking for companies in the United Kingdom. In short, this will enhance the customer experience, which is a lever for competitive differentiation, while also providing significant synergies.

During 2017, Banco Sabadell also concentrated on improving its bottom line. To this end, the Bank focused on generating sales, protecting margins and increasing fees and commissions, while consolidating its business in core markets: Spain and the United Kingdom. In 2017, the Bank arranged the sale of Sabadell United Bank, its subsidiary in Florida, for $1,025 million,

And maintaining the trend of previous year, Banco Sabadell continued to improve its credit quality. This was evident in the reduction in the balance of non-performing assets, which were cut by close to €3.5 billion (including €1.252 billion of NPAs carved out to the new Solvia Desarrollos Inmobiliarios business line), and in the NPL ratio, which is now around 5%. In parallel, the Bank strengthened its capital during the year, achieving a fully-loaded CET1 capital ratio of close to 13%.

The improvement in the Bank's earnings, credit quality and capital during 2017 met with a very good reception in the market. This is reflected in the fact that Banco Sabadell has regained an investment grade rating from three credit rating agencies: Standard & Poor's, Moody's and DBRS.

Banco Sabadell also continued to lead the digital transformation and accelerate its commercial transformation with the aim of improving the excellent customer experience that has always characterised it.

In 2017, Banco Sabadell gave priority to strengthening its bottom line with the aim of laying solid foundations for the next three-year business plan, for 2018-2020.

G1 Landmarks in Banco Sabadell's history

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

1965
Expansion into nearby towns.

1996
Acquisition of NatWest Spain Group and Banco de Asturias.

2001
Banco Sabadell is floated. Acquisition of Banco Herrero.

2003
Successful bid for Banco Atlántico.

2004
Capital increase and entry in the IBEX-35. Banco Atlántico integrated in technological and operating terms.

2006
Acquisition of Banco Urquijo.

2007
Acquisition of TransAtlantic Bank (Miami).

2008
Acquisition of BBVA's private banking business in Miami (US). Sale of 50% of the insurance business.

2009
Acquisition of Mellon United National Bank.

2010
Takeover bid for 100% of Banco Guipuzcoano.

2011
Acquisition of the assets and liabilities of Lydian Private Bank (Florida) and announcement of the adjudication of Banco CAM.

2012
Acquisition of Banco CAM.

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

2014
Commencement of operations in Mexico.

2015
TSB acquisition.

Bank licence in Mexico.

2017
Sale of Sabadell United Bank (US).

T1 Changes in key numbers

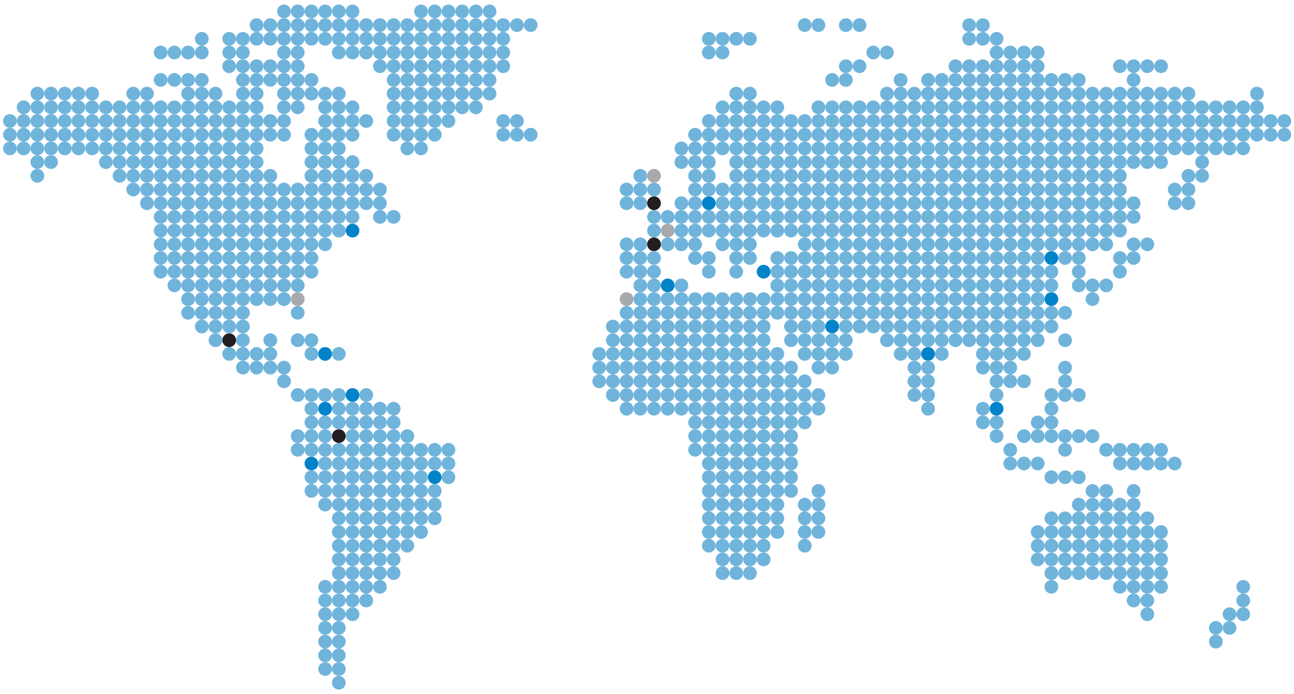
€M

	2007	2010	2017	2017/2007
Assets	76,776	97,099	221,348	**X 2.9**
Lending (*)	63,165	73,058	145,323	**X 2.3**
Deposits (**)	34,717	49,374	132,096	**X 3.8**
Branches	1,249	1,467	2,473	**X 2.0**
Employees	10,234	10,777	25,845	**X 2.5**

The EUR/GBP exchange rate used for the balance sheet is 0.8872 as of 31.12.2017.
(*) Gross loans and advances, excluding repos.
(**) Customer funds on the balance sheet.

Banco Sabadell now operates in 19 countries through branches, representative offices, subsidiaries and investees; 32% of its loan book is located outside Spain (G2).

G2 Banco Sabadell - foreign market presence



● **Subsidiaries and affiliates**
Andorra
Bogotá (Colombia)
Mexico City (Mexico)
London (United Kingdom)

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

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

Jaime Guardiola Romojaro, Managing Director

Board of Directors

Chairman
Josep Oliu Creus (E)
Deputy Chairman
José Javier Echenique Landiribar (I)
Managing Director
Jaime Guardiola Romojaro (E)
Director – General Manager
José Luis Negro Rodríguez (E)
Directors
Anthony Frank Elliott Ball (I)
Aurora Catá Sala (I)
Pedro Fontana García (I)
M. Teresa Garcia-Milà Lloveras (LI)
George Donald Johnston (I)
José Manuel Lara García (EX)
David Martínez Guzmán (P)
José Manuel Martínez Martínez (I)
José Ramón Martínez Sufrategui (I)
Manuel Valls Morató (I)
David Vegara Figueras (I)
Secretary
Miquel Roca i Junyent
Deputy Secretary
María José García Beato

Board committees

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

Audit and Control Committee
Manuel Valls Morató (C) (I)
Pedro Fontana García (I)
M. Teresa Garcia-Milà Lloveras (LI)
José Manuel Lara García (EX)
José Ramón Martínez Sufrategui (I)
Miquel Roca i Junyent (S)

Appointments Committee
Aurora Catá Sala (C) (I)
Anthony Frank Elliott Ball (I)
Pedro Fontana García (I)
M. Teresa Garcia-Milà Lloveras (LI)
Miquel Roca i Junyent (S)

Remuneration Committee
Aurora Catá Sala (C) (I)
Anthony Frank Elliott Ball (I)
M. Teresa Garcia-Milà Lloveras (LI)
George Donald Johnston (I)
María José García Beato (S)

Risk Committee
David Vegara Figueras (C) (I)
M. Teresa Garcia-Milà Lloveras (LI)
George Donald Johnston (I)
Manuel Valls Morató (I)
María José García Beato (S)

Senior Management

Chairman
Josep Oliu Creus
Managing Director
Jaime Guardiola Romojaro
Director – General Manager
José Luis Negro Rodríguez
General Secretary
María José García Beato
General Manager (CFO)
Tomás Varela Muiña
General Manager – Operations, Organisation and Resources
Miguel Montes Güell
General Manager – Commercial Banking
Carlos Ventura Santamans
Deputy General Manager - Risk Management
Rafael García Nauffal
Deputy General Manager – Private Banking and Asset Management
Ramón de la Riva Reina
Deputy General Manager – Asset Transformation and Industrial and Real Estate Investees
Enric Rovira Masachs
Deputy General Manager – Business Transformation and Marketing
Manuel Tresánchez Montaner
Deputy General Manager - Corporate & Investment Banking
José Nieto de la Cierva
Deputy General Manager and CEO TSB
Paul Pester
Deputy General Manager and CFO TSB
Ralph Coates

Composition at 15 March 2018

(E) Executive / (LI) Lead independent / (I) Independent / (P) Proprietary / (EX) External / (C) Chairman / (S) Secretary

Deputy General Management

Corporate Service divisions

Internal Audit
Nuria Lázaro Rubio
Corporate Transactions
Joan M. Grumé Sierra
Risk Control
Joaquín Pascual Cañero
Legal
Gonzalo Barettino Coloma
Compliance
Federico Rodríguez Castillo
Global Finance and CFO Spain
Sergio Palavecino Tomé
Global Financial Controller
Anna Bach Portero
Chief Economist
Sofía Rodríguez Rico
Human Resources
Conchita Álvarez Hernández
Organisation and Services
Adrià Galian Valldeneu
Global IT and Operations
Rüdiger Schmidt
Risk Transformation
Xavier Comerma Carbonell
Chief Analytics Officer
Alfonso Ayuso Calle

Business Areas

Commercial Banking
Bancassurance
Silvia Ávila Rivero
Products and Distribution
Albert Figueras Moreno
Institutional Business
Blanca Montero Corominas
Sabadell Consumer Finance
Miquel Costa Sampere
Catalonia Region
Luis Buil Vall
Central Region
Eduardo Currás de Don Pablos
Eastern Region
Jaime Matas Vallverdú
Northwest Region
Pablo Junceda Moreno
Northern Region
Pedro E. Sánchez Sologaistua
Southern Region
Juan Krauel Alonso

Markets and Private Banking
Asset Management and Research
Cirus Andreu Cabot
Trading and Custody
Javier Benzo Perea
Sabadell Urquijo Banca Privada
Pedro Dañobeitia Canales
Treasury and Capital Markets
Guillermo Monroy Pérez

Corporate & Investment Banking
Corporate Banking EMEA
Ana Ribalta Roig
Corporate America & Asia and SIB
Maurici Lladó Vila
Structured Finance
David Noguera Ballús

Mexico
Francesc Noguera Gili

Asset Transformation and Industrial and Real Estate Investees
Real Estate and Institutional Markets
Jaume Oliu Barton
Solvia
Javier García del Río

Board of Directors

With the exception of matters falling within the remit of the General Meeting, the Board of Directors is the highest decision-making body in the Group and is responsible under the law and the Articles of Association for managing and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and control, and it delegates the management of ordinary business matters to the executive organs and management team.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and the Board's own rules of procedure, and it conforms to best practices in the area of corporate governance.*

The composition of the Board of Directors of Banco de Sabadell, S.A. is diverse and efficient. It is of the appropriate size to perform its functions effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and efficacy and in a participatory way. The Board has the necessary range of skills, knowledge and professional experience, since its members have knowledge of the Group itself, banking, auditing and the financial sector in general, and international and business experience, all in sectors that are germane to the bank's activities.

The composition of the Board of Directors has an appropriate balance between the various categories of director. For the benefit of the general oversight function that is the Board's mission, it has an optimal balance between executive and non-executive directors: non-executive directors account for a broad majority and the number of independent directors is sufficient to properly defend the interests of minority shareholders, in accordance with the corporate governance rules. In 2017, the Board of Directors strengthened the position of independent directors within the Board and its sub-committees (G3).

At 31 December 2017, the Board of Directors had 15 members: three were executive directors, and twelve non-executive, of whom 10 were independent, one was proprietary and one was non-executive. In 2017, independent directors Manuel Valls Morató, Anthony Frank Elliott Ball, George Donald Johnston and Pedro Fontana García joined the Board, while proprietary director António Vítor Martins Monteiro, independent director Joan Llonch Andreu and external director Joaquín Folch-Rusiñol Corachán stepped down.

At the end of 2017, the Bank's Board of Directors resolved to transfer its registered office to the city of Alicante. This decision, adopted to protect the interests of our customers, shareholders and employees, means that the Bank will continue to operate normally, serving companies and families through the territories where it operates under the supervision of the European Central Bank and the regulation of the European Banking Authority.

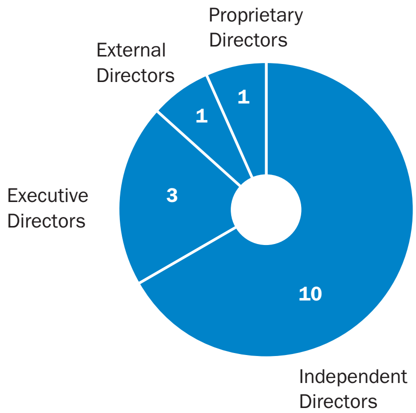
G3 Corporate governance
Composition of the Board of Directors

Diversity of profiles and experience

- 20% International
- 13% Women
- 66% Independent

Committed to the highest standards of quality, among others

- Ongoing training
- Assessment by an external consultant
- Continuous assessment of Board member fitness and suitability



* See the Articles of Association, the Board's rules of procedure and the Annual Report on Corporate Governance on the Bank's web site.

Board committees

There are currently five Board committees to which the Board of Directors delegates its functions making use of the powers vested in it by the Articles of Association; committee meetings are attended by senior management.

Executive Committee

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

Name	Position	Category
Josep Oliu Creus	Chair	Executive
José Javier Echenique Landiribar	Director	Independent
Jaime Guardiola Romojaro	Director	Executive
José Manuel Martínez Martínez	Director	Independent
José Luis Negro Rodríguez	Director	Executive
María José García Beato	Secretary	

Audit and Control Committee

The Audit and Control Committee comprises five non-executive directors, four of whom are independent directors; it meets at least once per quarter. Its main function is to oversee the efficacy of the Bank's internal control, internal audit and risk management systems, supervise the process of drafting and presenting regulated financial disclosures, advise on the Bank's annual and mid-year financial statements, liaise with the external auditor, and ensure that suitable measures are taken to address any conduct or methods that could be inappropriate. It is also a watchdog, ensuring that the measures, polices and strategies determined by the Board are duly implemented.

Name	Position	Category
Manuel Valls Morató	Chair	Independent
Pedro Fontana García	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
José Manuel Lara García	Director	External
José Ramón Martínez Sufrategui	Director	Independent
Miquel Roca i Junyent	Secretary	

Appointments Committee

The main functions of the Appointments Committee, which comprises four independent directors, are to ensure that the quality requirements for members of the Board of Directors are fulfilled, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. The Committee also sets a representation target for the gender less represented on the Board of Directors and draws up guidelines on how the target should be achieved; it advises on proposals for

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Anthony Frank Elliott Ball	Director	Independent
Pedro Fontana García	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
Miquel Roca i Junyent	Secretary	

the appointment and removal of senior executives and members of the identified staff, as well as on the basic contractual conditions for executive directors and senior executives.

Remuneration Committee

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

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Anthony Frank Elliott Ball	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
George Donald Johnston	Director	Independent
María José García Beato	Secretary	

Risk Committee

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

The Bank has published its Annual Report on Corporate Governance, which is attached to the financial statements for 2017, and its Report on Director Remuneration, on the CNMV and Banco Sabadell websites.*

The annual performance assessment of the Board of Directors and its sub-committees for 2017 was entrusted to an independent external expert.**

Name	Position	Category
David Vegara Figueras	Chair	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
George Donald Johnston	Director	Independent
Manuel Valls Morató	Director	Independent
María José García Beato	Secretary	

*** See the Annual Report on Corporate Governance and the Annual Report on Director Remuneration on the Bank's website.**
**** See the Committees' reports on their performance and activities in 2017 on the Bank's website.**

Strengthening the bottom line. The Group exceeded all its objectives and laid the foundations for its Business Plan.

The market has recognised the Bank's good performance in 2017.

2017 was a transition year in which Banco Sabadell gave priority to strengthening its bottom line and to creating TSB's technology platform, the goal being to lay a solid foundation for the business plan for 2018-2020.

Banco Sabadell successfully exceeded all the objectives established at the beginning of 2017, an achievement that was widely recognised by the market.

Banco Sabadell's top priority in 2017 was to enhance earnings. To this end, the Bank focused on generating commercial activity, defending its margins and increasing fees and commissions, as well as consolidating its position in the main markets in which it operates (Spain and the United Kingdom); the result was that net profit amounted to €801.5 million.

And maintaining the trend of previous year, Banco Sabadell continued to improve its credit quality. In parallel, the Bank strengthened its capital in 2017, achieving a fully-loaded CET1 capital ratio of close to 12.8%.

Stronger earnings (G4) and a sound capital position enabled Banco Sabadell to continue increasing shareholder remuneration, with a total dividend of €0.07 per share in the year, i.e. an increase in the payout to 49% (from 40% in 2016).

Profitability

There was a sharp increase in banking revenues (net interest income plus fees and commissions) in 2017: +5.5% in like-for-like terms. Net interest income performed well as a result of dynamic commercial performance and an increase in customer spreads. Fees and commissions also performed very positively due to strong performance by the asset management business and to the commercial strategy designed to sell more products to existing customers. As anticipated, the cost:income ratio was affected by extraordinary technology expenditure at TSB, which was partially offset elsewhere in the group.

Commercial activity

Outstanding loan volumes were driven by the good performance by SMEs and large corporates, offsetting the ongoing decline in home mortgages.

As a result, the Bank continued to improve market share in various products and segments, maintaining a high level of service quality and seeking to offer the best customer experience (G5 & G6).

G4 Milestones in 2017

★ Rating upgraded to investment grade by the three rating agencies

★ #1 position in NPS[1] among SMEs and large corporates

★ Best share performance among Spanish banks in 2017

★ TSB was an award-winner at the 2017 Banking Technology Awards and the NPS reached +25 points at the end of the year (from +16 points in 2015)[1]

1. Bank objective quality survey Source: NPS Accenture Benchmark Report. Includes institutions that are comparable to the group. Data for the most recent available month.

G5 Product market share

%

● Dec. 2017
● Dec. 2016

		Dec. 2017	Dec. 2016
Companies	Loans[1]	11.59%	11.17%
	Export documentary credit	32.09%	31.32%
	PoS turnover	15.33%	14.15%
	Transactions[2]	9.88%	9.70%
Individuals	Credit card turnover	7.58%	7.45%
	Life insurance[3]	5.43%	5.10%
	Household sight accounts	6.10%	6.06%
	Mutual funds	6.25%	6.00%

Note: Data for 2017 are for December 2017 or most recent available month. YoY change.
Sources: ICEA (life insurance), Bank of Spain (loans and demand deposits for households), Servired (POS and card turnover), Iberpay (transactions) and Swiftwatch (export documentary credit).
1 Excludes real estate services and repos.
2 Transaction calculated in terms of volume.
3 Insurance expressed as number of contracts.

The Bank has strengthened its position in the Spanish market through excellent quality of service.

Banco Sabadell expanded the quality gap that separates it from the rest of the industry and ranks first in customer experience for large corporates and SMEs.

Service quality **Net promoter score (NPS)**[1]

Sabadell quality index with respect to the industry

G6

	2017	Ranking
Large companies (turnover >5 €M)	34%	1st
SMEs (turnover < 5 €M)	19%	1st
Personal Banking	29%	2nd
Retail Banking	5%	4th

Source: NPS Accenture Benchmark Report. The NPS is based on the question “On a scale of 0 to 10, where 0 is ‘not at all likely’ and 10 is ‘I would definitely recommend it’, how likely would you be to recommend Banco Sabadell to a relative or friend?”
The NPS is the percentage of customers who answered 9 or 10, after eliminating those who answered between 0 and 6. Includes institutions that are comparable to the Group. Data for the most recent available month.

Credit quality and capital adequacy

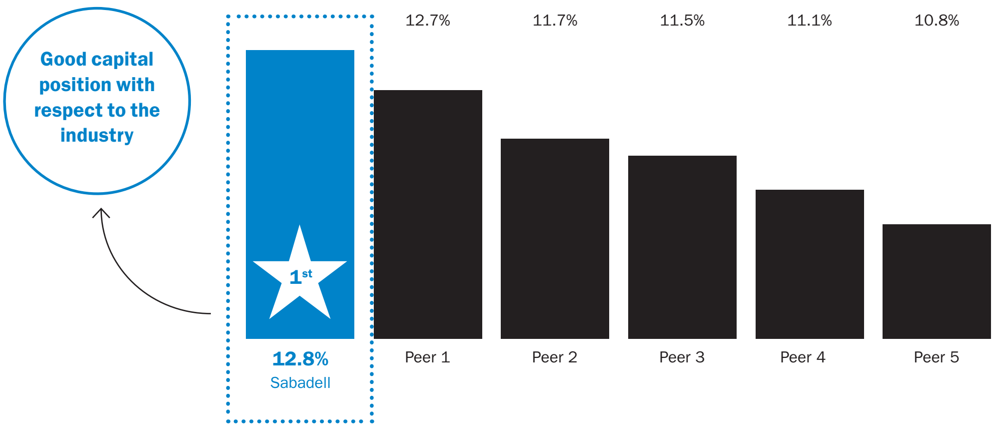
Maintaining the trend of previous years, Banco Sabadell continued to improve its credit quality. This was evident in the reduction in NPAs by €2.2 billion in the year, exceeding the initial objective. Additionally, a new business line was created to focus on developing real estate (Solvia Desarrollos Inmobiliarios), with assets worth €1.3 billion under management (€0.7 billion net of provisions); this, coupled with the preceding actions, resulted in a €3.5 billion reduction in NPAs (including €1.252 billion of NPAs in the carve-out for the new Solvia Desarrollos Inmobiliarios business line), while the NPL ratio was cut from 6.14% to 5.14%. During 2017, the Bank carried out several successful corporate transactions, enabling it to increase provisions by close to €900 million, thus reinforcing coverage of non-performing assets to 49.8% while, at the same time, putting an end to losses on the sale of foreclosed assets.

Those corporate operations also made it possible to continue strengthening the bank’s sound capital position, achieving a fully-loaded CET1 ratio of close to 13% (G7).

Additionally, the implementation of IFRS 9 in January 2018 will entail €900 million in provisions and increase coverage of NPAs to 54.7% in pro forma terms (excluding interest rate floors; including provisions for interest rates floors, coverage of NPAs stands at 51.1%, or 56.0% pro forma IFRS 9) while bringing the fully-loaded CET1 ratio to 12.0% in pro forma terms.

As for the capital market, Banco Sabadell placed its first two issues of contingently convertible preferred securities (AT1), amounting to €750 million and €400 million. As a result, the Bank completed the 1.5% AT1 buffer in its capital structure as required by the ECB. Those issues enabled Banco Sabadell to optimise its capital structure.

Leader in capital adequacy among Spanish banks.



G7 Peer group fully-loaded CET1

% Data for 4Q2017

Data from bank earnings presentations.
From December 2013 to December 2017.

TSB technology migration

In 2017, Banco Sabadell built a new cutting-edge technology platform for TSB, which was presented to analysts and the press in November. The final phase of TSB's technology migration has begun, which will enable the bank to finally disconnect from its former parent company, Lloyds Banking Group. After the migration, TSB will become the first bank in the United Kingdom with a leading-edge platform adapted to the challenges of the digital era.

Successfully completing the technology migration to a newly-created free-standing platform will provide TSB with a strong competitive advantage and drive its commercial transformation, while significantly reducing the time-to-market for new products and services and offering notable synergies.

The first visible milestone of the migration is the new TSB mobile app, which gives customers an interface adapted to their needs, with enhanced user experience and innovative features. In fact, TSB is the first bank in Europe to use iris recognition built into its mobile app, based on an agreement with Samsung.

Commercial and digital transformation

Banco Sabadell continues to drive its commercial transformation by developing new distribution models: Active Management, multilocation branches, branches with shared managers, etc. Additionally, the implementation of pull models based on data & analytics and of targeted marketing will enable us to increase the relevance and improve the density of the relationship with customers (G8).

Banco Sabadell is also keenly aware of the technological challenges faced by financial institutions in the digital era. For this reason, in 2017 the Bank continued focusing on advancing an efficient management model, deploying the necessary technological capabilities to develop digital businesses.

To this end, in 2017, Banco Sabadell founded InnoCells, a hub for new digital businesses, and its corporate venture arm, InnoCapital, aimed at making strategic digital and technology investments in businesses in the seed phase and in series A and B rounds, always in areas of interest for the Banco Sabadell Group.

As part of its overall strategy of supporting startups, in 2017 the Bank, through InnoCapital, co-led a first round of investment in Bud, a leading UK fintech in the integration of financial products and solutions in a single marketplace.

Also, in collaboration with InnoCells, Banco Sabadell launched Kelvin Atlas, the most complete public open data portal in the Spanish financial sector, which gives any user detailed economic, commercial and tourist statistics via an interactive map that is constantly kept up to date. Using anonymous fully-shielded data, it is possible to ascertain consumer trends in any territory (G9).

G8 Digital and commercial transformation

Digital customer numbers increased by 10% in 2017 to 4.4M

This is the result of our firm commitment to the digital transformation

4.4M
(+10% YoY)
Group digital customers

3.3M
(+17% YoY)
Group mobile customers

88%
(+2pp YoY) **Out-of-branch transactions in Spain**

20%
(+1pp YoY) **Digital sales in Spain**

59%
(+9pp YoY) **Digital sales in the UK**

26,725
(+68% YoY) **Digital sales of unsecured finance in Spain**

35M
(+19% YoY) **Monthly web + mobile traffic in Spain**

14%
Share of Bizum registrations in Spain

332,000
(+108% YoY) **Sabadell Wallet downloads in Spain**

Corporate transactions

In 2017, Banco Sabadell created significant value through a number of successful transactions (G10):

— In July, Banco Sabadell completed the sale of subsidiary Sabadell United Bank (SUB). The buyer, Iberiabank Corporation (IBKC), paid USD 796 million in cash and 2.6 million IBKC shares, representing 4.87% of its share capital, worth USD 209 million on the basis of the closing price on 28 July 2017. This sale provided a net capital gain of €370 million. Subsequently, during the fourth quarter of the year, the Bank disposed of its holding in IBKC for USD 205 million.

— Also in June, BanSabadell Vida, a company owned 50% by Banco Sabadell, signed a reinsurance contract with reinsurer Swiss Re Europe, S.A. for its portfolio of individual life and casualty policies. This transaction generated €253.5 million in net revenues for the Banco Sabadell Group.

— In October, Banco Sabadell subsidiary Hotel Investment Partners, S.L. sold its hotel management platform (HI Partners Holdco Value Added, S.A.U.) to The Blackstone Group L.P. This transaction provided a net capital gain of approximately €51 million in Banco Sabadell's P&L for 2017.

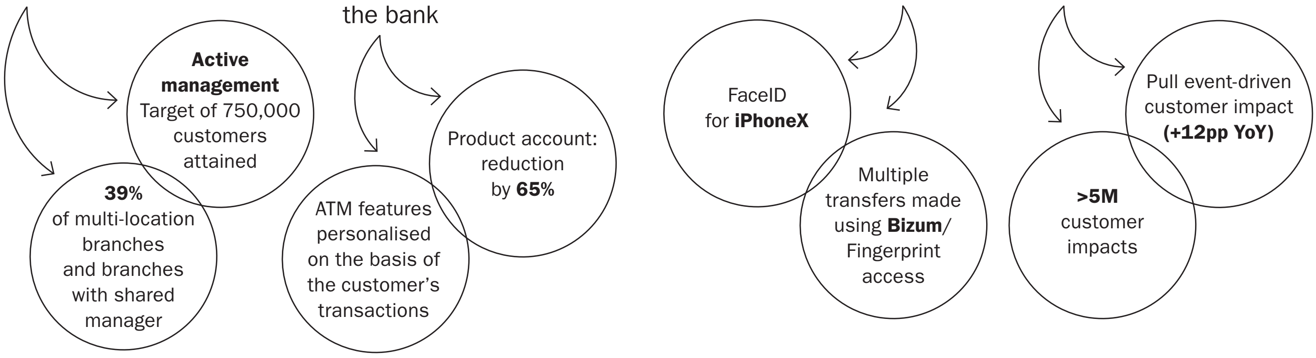
The number of customers using digital channels increased by 10% in 2017, to 4.4 million, as a result of our firm commitment to the digital transformation.

The Bank continues to advance with the commercial and digital transformation.

G9 Digital and commercial transformation

Initiatives ➔ Annual performance

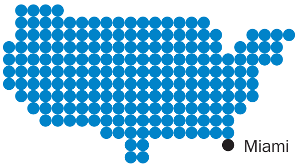
Distribution model	Simplification	Digital offering	Data driven processes
Offer greater efficiency and more convenience as well as an improved customer experience	Facilitate commercial and operational processes for our customers and simplify their interaction with the bank	Develop new capabilities and promote their use to provide our customers with the best user experience	Provide value to our customers and enhance our business decision-making process



Successful corporate transactions reinforced the Group's capital and coverage levels in 2017.

G10 Acquisitions and divestments

Sale of Sabadell United Bank



Crystallising tangible book value

×1.95

1,025$M

Sale amount

Reinsurance of the BanSabadell Vida value-in-force

Agreement with the world's second-largest reinsurer

Risk management by monetising the future value of the portfolio

254€M

Deal amount

Sale of HI Partners

Located in the main tourist destinations

Hotel management platform focused on vacation hotels

631€M

Deal amount

Strategic Plan 2018-2020

G11 Strategic Plan 2020

ROTE **13%**

Profitability	Sustainability	Value
Business growth	Technological capabilities as an opportunity to evolve the value proposition	Brand and Customer experience as differentiating factors
Efficiency enhancement	Attractive organisation and people with the necessary skills	Consolidation of the Bank's internationalisation process
NPA normalisation		

Under the three-year Strategic Plan 2020, the Bank will have adapted its strategic programmes to the degree of maturity of each market in which it operates: Spain, United Kingdom and Mexico (G11, G12, G13 & G14).

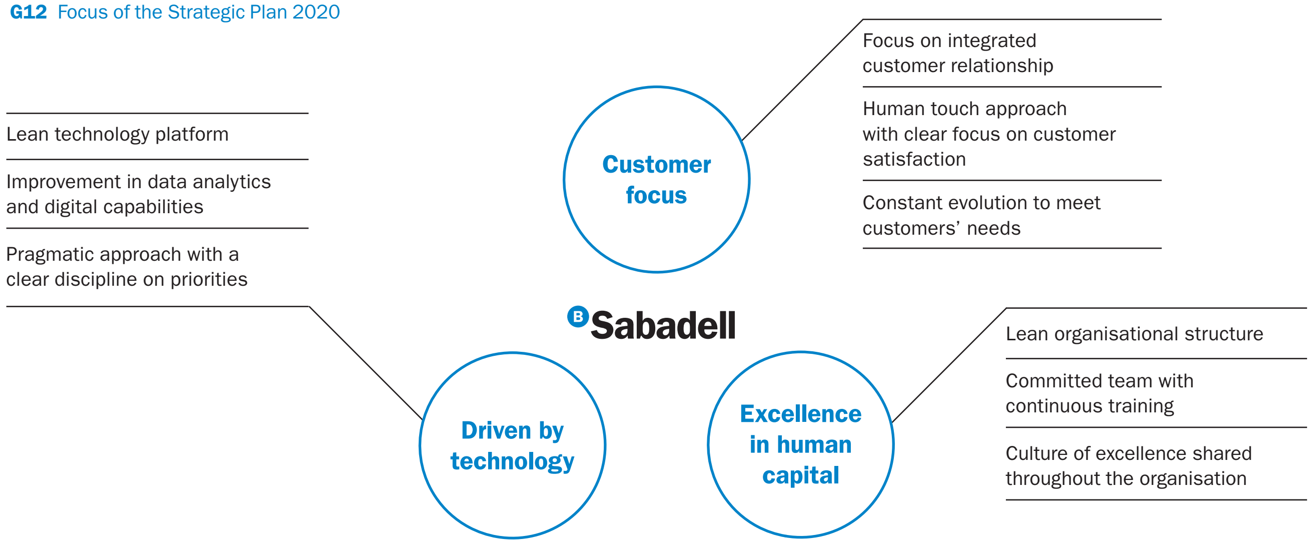
In Spain, the vision for 2020 is to develop the current business by focusing on specific aspects to expand market share among both individuals and companies, increase spreads, and gain efficiency. This will be achieved with a coherent, consistent brand both internally and externally, offering a distinctive customer experience, transforming the business to be more relevant and convenient for our customers, developing new digital businesses, and adopting a more proactive risk management approach. Another priority will be to continue managing non-performing assets in order to normalise the classification of assets as delinquent, accelerate the reduction of non-performing stock, cease incurring losses on the sale of foreclosed assets and, in this way, attain a normalised cost of risk in 2020.

In the United Kingdom, Banco Sabadell will focus on achieving significant business growth, taking advantage of technological autonomy as a lever for differentiation, improving efficiency by maintaining a focus on managing costs, and taking advantage of the Group's knowledge and leadership in the SME and corporate segment to kickstart this business in the United Kingdom.

Efforts in Mexico will focus on boosting the corporate and corporate banking business with an ambitious growth plan, building on the positive track record and solid foundations already laid in that country. The bank will also enter the banking for individuals business with an innovative digital proposal.

Because of their importance for the Group, those three markets will share a strategic focus on the brand and customer experience as distinguishing features, an effective, efficient management model, deploying the necessary technological capabilities to develop digital businesses and lead the transformation within the company and the development of internal talent.

G12 Focus of the Strategic Plan 2020



G13 Base of the Plan

Enhancing profitability

Positive core business evolution	Superior efficiency in Spain	State-of-the-art technology
Strong franchise	Good NPA coverage	Geared to rate increases
Leadership in SMEs	International growth momentum	

Customers and shareholders are at the core of Banco Sabadell's culture

Anticipate and engage

Share performance and share ownership

Market attention in 2017 was focused on central banks' monetary policy decisions, geopolitical risk and its potential economic impact, and financial regulation.

In the first seven months of the year, share performance was shaped mainly by investor expectations that the European Central Bank would bring forward its calendar of interest rate increases, uncertainty about negotiations over the terms of Brexit, and the resolution and subsequent sale of Banco Popular.

Meanwhile, the strength of Banco Sabadell's banking business, and the improvement in its capital position and balance sheet quality, led to an upward revision of the rating on its long-term debt by Standard & Poor's, with the result that it attained investment grade from the three rating agencies. These factors, together with the announcement of one-time transactions such as the sale of Sabadell United Bank and the reinsurance agreement for the BanSabadell Life value-in-force portfolio, enabled the share to reach its high for the year.

In subsequent months, postponement of ECB interest rate hikes, heightened regulatory uncertainty, and rising political tension in Catalonia undermined the gains by the share (G15).

Overall, in 2017, Banco Sabadell's share appreciated by 29% (adjusted for capital increases and dividends), the best performance in the Spanish banking sector.

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

In parallel, at the end of 2017, more than 80% of the analysts covering Banco Sabadell recommended buying or holding the share.

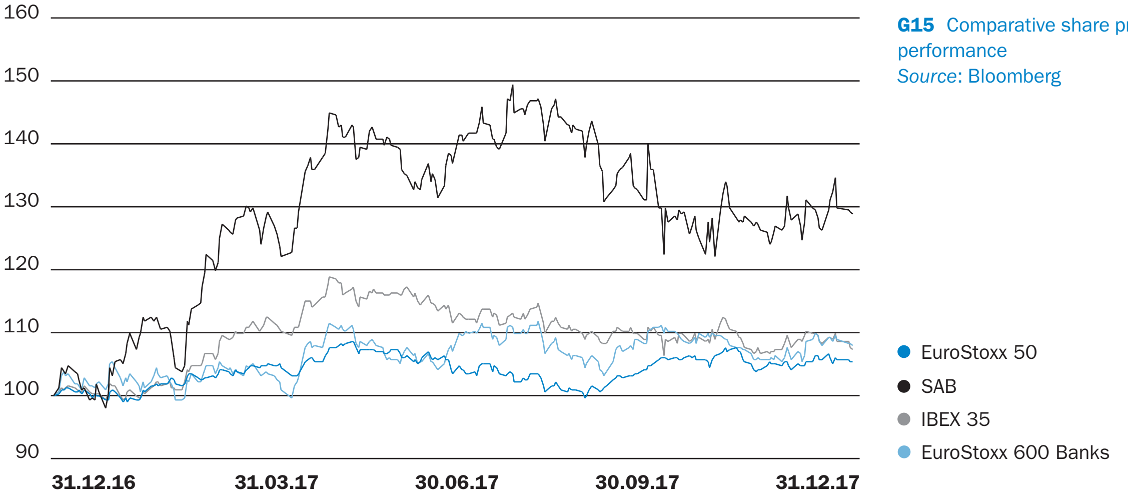
In the course of the year, institutional investors significantly increased their share of Banco Sabadell's equity, from 43.9% in December 2016 to 54.3% in December 2017 (G16, T2 & T3).

As part of ongoing efforts by the Bank in recent years to ensure a degree of transparency and communication appropriate to the Group's increased scale, Banco Sabadell management continued to maintain a high level of interaction with institutional investors. As a result, bank management attended nineteen conferences in 2017, organised four earnings roadshows, two fixed-income deal roadshows, and meetings with more than seven hundred investors in more than ten countries, all record figures.

At the end of the year, Banco Sabadell's market capitalisation stood at €9,224 million, with a price-to-book ratio of 0.69.

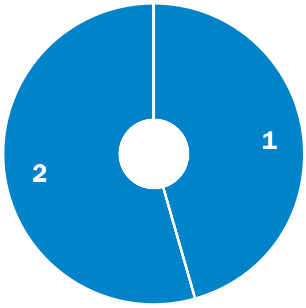
The Board of Directors will recommend that the General Meeting of Shareholders approve the distribution of a gross dividend for 2017 of €0.07 per share in cash.

Top share performance among Spanish banks in 2017.



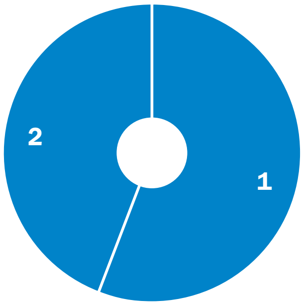
G15 Comparative share price performance
Source: Bloomberg

Note: share price adjusted for dividends and capital increases.



G16
Ownership structure
31.12.2017 (%)

1	Retail investors	45.7
2	Institutional investors	54.3



Ownership structure
31.12.2016 (%)

1	Retail investors	56.1
2	Institutional investors	43.9

T2 Analysis of shareholdings by size at 31 December 2017

No. of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	191,049	568,067,780	10.10%
12,001 to 120,000	41,430	1,255,935,409	22.32%
120,001 to 240,000	1,572	255,423,290	4.54%
240,001 to 1,200,000	882	384,358,991	6.83%
1,200,001 to 15,000,000	159	490,753,568	8.72%
More than 15,000,000	38	2,672,425,663	47.49%
TOTAL	**235,130**	**5,626,964,701**	**100.00%**

T3 Analysis of shareholdings by size at 31 December 2016

No. of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	210,724	637,613,634	11.35%
12,001 to 120,000	47,192	1,434,418,837	25.54%
120,001 to 240,000	1,815	298,083,930	5.31%
240,001 to 1,200,000	1,016	447,346,950	7.97%
1,200,001 to 15,000,000	165	465,697,498	8.29%
More than 15,000,000	36	2,332,990,347	41.54%
TOTAL	**260,948**	**5,616,151,196**	**100.00%**

T4 Earnings per share and book value per share 2014-2017

	M	€M	€	€M	€
	No. of shares	**Profit attributable to the Group**	**Earnings per share attributed to the Group**	**Equity**	**Book value per share**
2014	4,024	372	0.092	10,224	2.54
2014 (*)	4,290	372	0.087	10,224	2.38
2015	5,439	708	0.130	12,275	2.26
2015 (**)	5,472	708	0.129	12,275	2.24
2016	5,616	710	0.126	12,926	2.30
2016 (***)	5,624	710	0.126	12,926	2.30
2017	5,627	802	0.142	13,426	2.39

(*) With dilution effect of convertible bonds (265.27 million shares).
(**) With dilution effect of convertible bonds (33.01 million shares).
(***) With dilution effect of convertible bonds (7.52 million shares).

The Customer

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

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

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

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

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

A multichannel strategy that combines the human touch with the best of the digital world will enable Banco Sabadell to build relationships based on trust and designed to meet the real needs of each and every customer (G17).

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

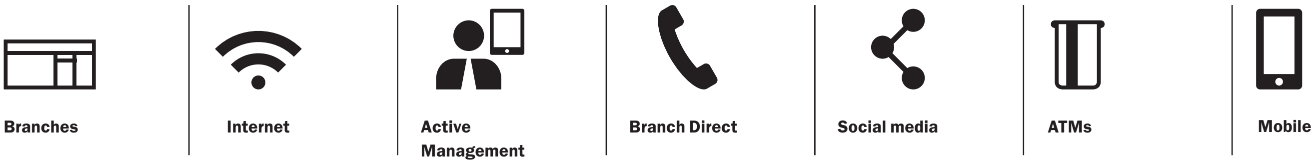
The results of these surveys testify to the Bank's prioritisation of a quality service to the customer, with all indicators showing a continuous improvement (G18).

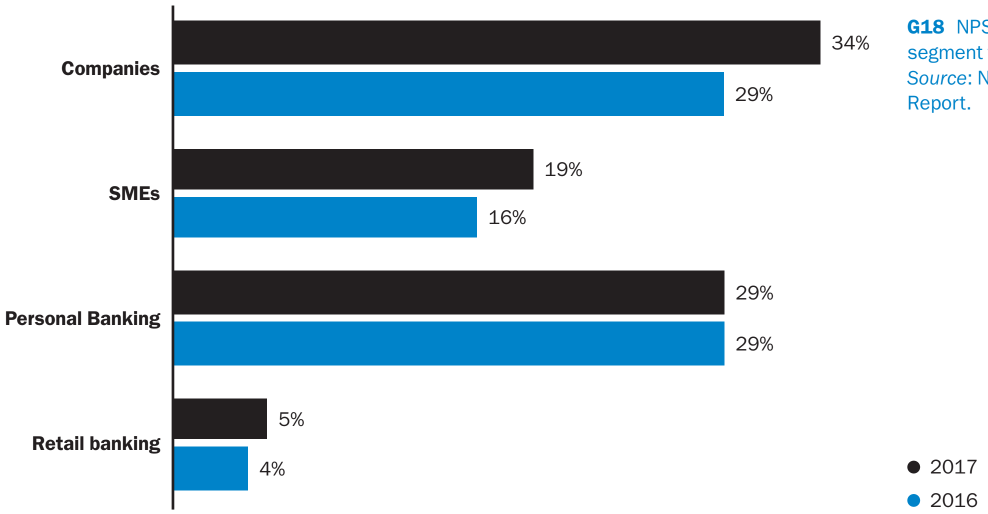
These excellent NPS scores strengthen our position as first among our peers in the business customer segment, among the top four among individual retail customers, and in second place among personal banking customers.

Focus groups and in-depth customer surveys are routinely carried out to obtain detailed customer feedback on how particular Bank processes have affected them, thus providing us with their insights into how the customer experience can be improved.

Banco Sabadell seeks to protect the interests of its customers and has control mechanisms in place to review the products and services it offers. Before a product or service is launched, an assessment is made of its suitability,

G17 Omnichannel strategy





G18 NPS scores by customer segment for Banco Sabadell
Source: NPS Accenture Benchmark Report.

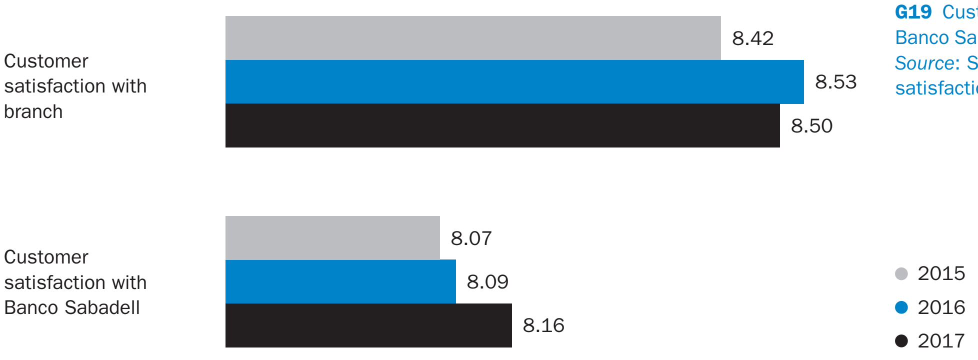
Note: The NPS is based on the question "On a scale of 0 to 10, where 0 is 'not at all likely' and 10 is 'I would definitely recommend it', how likely would you be to recommend Banco Sabadell to a relative or friend?" The NPS is the percentage of customers who answered 9 or 10, after eliminating those who answered between 0 and 6. Includes institutions that are comparable to the Group. Data for the most recent available month.

and branches provide customers with product factsheets before any commitment is made. Additionally, where a complex financial product is to be marketed, the Bank conducts a test of its appropriateness and suitability as required by the Markets in Financial Instruments Directive (MiFID).

Banco Sabadell performs regular checks to identify areas susceptible to improvement. The results of these surveys reflect the Bank's focus on customer service quality in the form of a steady improvement in all indicators (G19).

The Group's customers and users may contact the Customer Service Department (CSD) with any complaints or issues that have not been resolved satisfactorily at their local branch. The CSD is independent from the business and operational side of the Group and is governed by the Banco Sabadell Group's own rules and procedures on the protection of customers and users of financial services. Customers and users may also appeal to the Customer Ombudsman, an independent unit that is competent to resolve any issues referred to it either directly or on appeal. Decisions by the CSD or the Ombudsman are binding on all the Bank's branches and other units.

In 2017, the CSD handled 65,964 complaints and claims, 198.06% more than in the previous year. The CSD also provides assistance and information to customers and users with regard to a range of issues. In 2017, it handled 1,917 requests for assistance and information, compared with 1,057 the previous year.*



G19 Customer satisfaction with Banco Sabadell
Source: STIGA customer satisfaction surveys

Note: Data as of December 2015, 2016 and 2017.

* For more detail, see note 43 to the consolidated financial statements for 2017.

Our strengths

The strengths of the Banco Sabadell Group are described in the various chapters of this annual report, except for those detailed below, which are marked with an asterisk (*).

- **Organisation by business***
- **Multibrand and multichannel strategy***
- **Cutting-edge technology and innovation***
- **Quality of service***
- **Focus on companies and personal banking**
- **A leading player in international business**
- **Strict management of capital and risk**
- **Defined, transparent corporate governance**

Organisation by business

The banking business is divided into the following business units.

Commercial Banking

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

It offers products for both borrowers and savers. Products for borrowers include mortgage and other loans, credit facilities and working capital finance. For savers, the product range includes demand and term deposit accounts, mutual funds, savings plans and pension plans (G20).

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

Markets and Private Banking

Through a transition to a multichannel relationship with customers based on personalized face-to-face service and remote channels, customers are offered an end-to-end solution with a full range of products and services. We analyse the specific needs of customers that require specialised and customised services and attention, combining the value of Private Banking with the financial strength and product capabilities of a universal bank.

The result is a value-added service of acknowledged quality in the design and management of savings and investment products, ranging from analysis of the most efficient investment options through advisory and execution services in the markets to active asset management and custody.

UK banking business (TSB)

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

Corporate & Investment Banking

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

Other Regions

The Other Regions business comprises mainly Mexico, offices in other countries and representative offices that offer all kinds of banking and financial services in corporate banking, private banking and commercial banking.

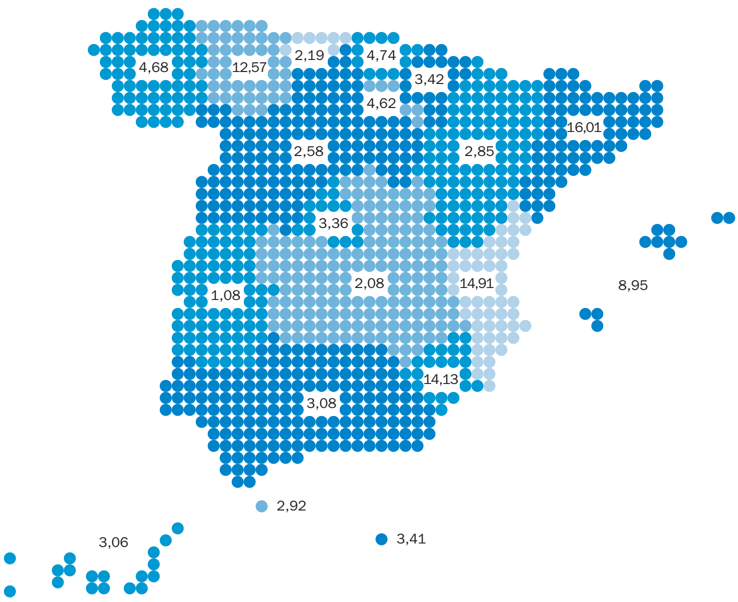
Asset Transformation

Manages the Group's non-performing and real estate exposure across all its businesses, and sets and implements the strategy with regard to real estate investees, including Solvia. The approach to non-performing and real estate exposure is to develop an asset transformation strategy based on a comprehensive vision of the Group's real estate portfolio with the goal of maximising its value.

G20 Market share by autonomous region

Banco Sabadell market share in Spain

7.58%



Percentages as of September 2017.
Note: the Asturias share includes León.

Multibrand strategy

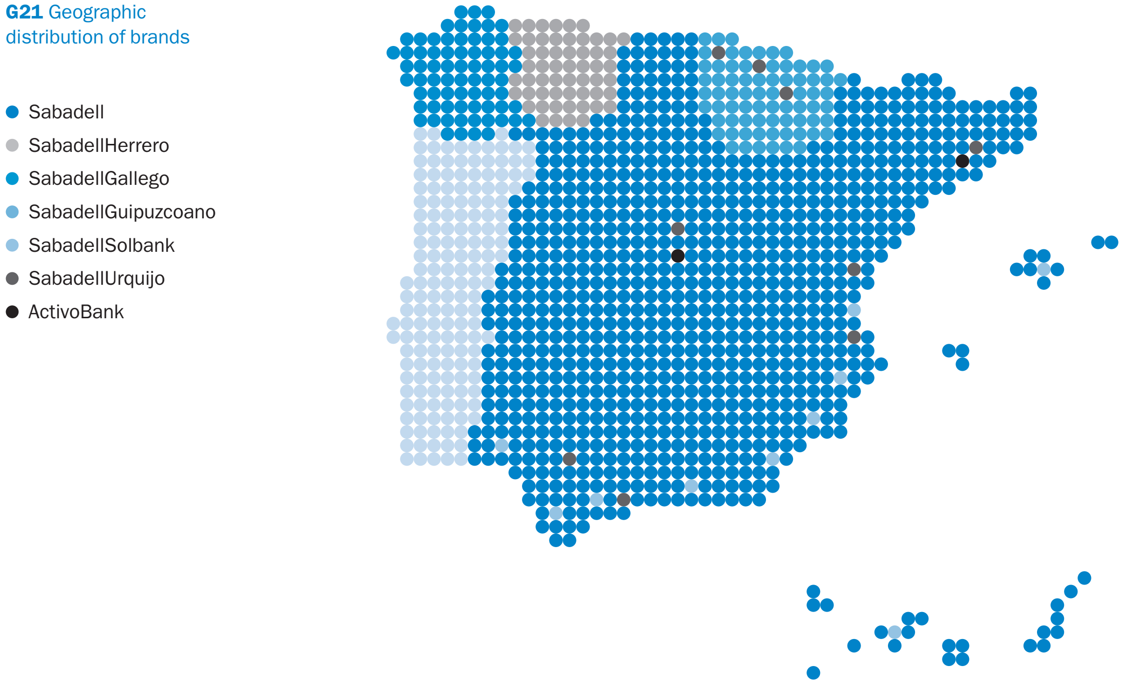
The Bank operates under the Sabadell brand, combined with a well-known local brand in some territories (T5).

Banco Sabadell is a leading player in international business. With a specialised offer and an effective value proposition, Banco Sabadell is present in strategic locations and collaborates with foreign trade promotion agencies, enabling it to support its customers in developing and expanding their international activities (G21).

T5 Brands used by Banco Sabadell in its home market

Sabadell	— Commercial and business banking — Coverage: all of Spain except of the territories covered by the other brands
SabadellGuipuzcoano	— Commercial and business banking — Coverage: Basque Country, Navarra and La Rioja
SabadellHerrero	— Commercial and business banking — Coverage: Asturias and Castilla-León
SabadellSolbank	— Commercial Banking for European residents in Spain's tourist zones — Coverage: the Mediterranean coast and the islands
SabadellUrquijo Banca privada	— Private banking. Created by merging Sabadell Banca Privada with Banco Urquijo — Coverage: all of Spain
SabadellGallego	— Commercial and business banking — Coverage: Galicia
Activobank	— Commercial banking — Branches in Madrid and Barcelona

G21 Geographic distribution of brands



BS brand perception indicators

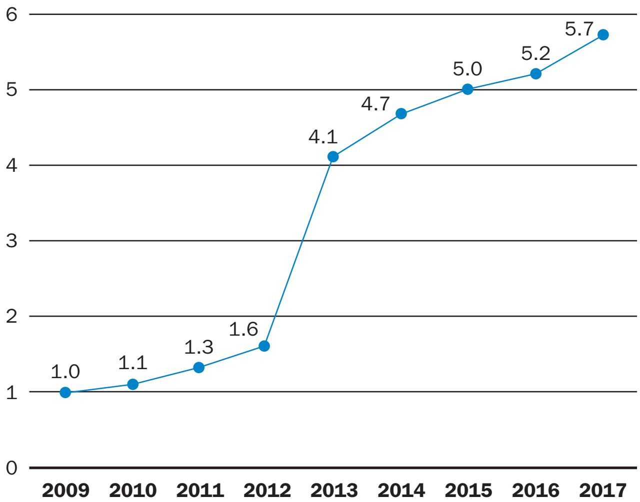
During 2017, the Bank continued its successful policy of raising brand awareness, which is key to increasing its capacity for growth in the retail market in Spain, where it aims to match the brand recognition achieved by the main competitors. In the course of the last six years, "top of mind" awareness of the Sabadell brand has increased from 1.3% to 5.7% (up 338%) and total brand awareness from 5.7% to 32.0% (up 461%), putting the brand in fifth place among Spanish financial institutions according to data from the FRS Inmark annual survey, a key industry benchmarking tool (G22 & G23).

Advertising campaigns and actions to enhance the Bank's image in 2017

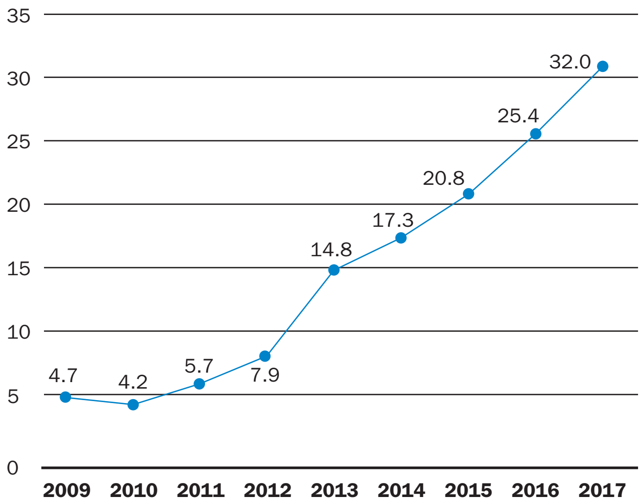
In 2017, the Bank maintained its characteristic style of advertising, which differentiates it from the competition and other advertisers.

It also advanced in its communication model and presence in the mass media, from sporadic and seasonal appearances to a more continuous presence through agreements and sponsorships in media related to our target customers.

G22 Top of mind brand awareness
Source: FRS Inmark



G23 Total brand awareness
Source: FRS Inmark



"Acompañarte" (Accompanying you) was the guiding thread for the whole year, since it defines very well the bank's service-oriented, customer-centric approach. It also emphasised the "There, wherever you are" claim, as a key driver.

In the first part of the year, this accompaniment idea was illustrated with the metaphor of music in a campaign led by singer and composer Pau Donés and cellist Andrea Amador. The campaign presented an updated Expansión Account that adapted to customers' evolving financial needs and life stages (childhood, teenage years and adulthood).

The advertising evolved from May to December 2017, with a video clip in which, through dance and music with lyrics written specifically to purpose, couples of different ages told a little story about spending their lives together.

In this vein, it was decided to strengthen the institution's position as an expert in banking for companies via the "Company Commitment" campaign, which highlighted the managers who are specialised in this segment, and the "Sabadell Protection" campaign, focused on insurance for individuals.

The "Servicing" campaign presented the convenience of digital features and innovation in customers' day-to-day lives.

Subsequently, advertising emphasised the agility and simplicity offered by the Expansión Loan product to respond to funding needs. To conclude the year, the "Personalised Plans for the Future" campaign presented multiple savings formulas for retirement which adapt to each individual's needs.

Rafael Nadal, the greatest clay-court tennis player of all time, is Banco Sabadell's ambassador. The positive qualities conveyed by his personality and successful sporting career further enrich the corporate values associated with the Banco Sabadell brand. His charisma and the international prestige of his sporting achievements contribute to enhancing our brand recognition throughout Spain and undoubtedly boost our image in other countries, where Nadal is revered. Values such as rigour and perseverance in training, hard work, eagerness to excel, teamwork, and others such as experience, fair play and respect for rivals, all of which are embodied by Rafa Nadal, coincide fully with the attributes that characterise the Group's corporate culture, grounded in professionalism, closeness to customers, ethics and excellence in service.

At the end of 2017, a new campaign featuring Nadal was launched to celebrate his attaining the #1 spot in world tennis and his long-standing relationship as a customer of the Bank since his early days.

Multichannel strategy

The year 2017 was one of transition after the completion of the Triple Plan and it served to stabilise and drive the institution's transformation plan, which had commenced in 2014 with the previous Master Plan. A key lever in this transformation process was the focus on enhancing the customer experience. The customer-Bank relationship has been adapting to our customers' spending habits so as to make the Bank a more convenient and agile option that is more closely attuned, adapting our services to customers' needs while pursuing excellence and conveying trust and transparency.

The new distribution model continued to be rolled out in 2017, based on greater specialisation among branch staff and a network of branches more adapted to the needs of our customers. There are currently 731 branches operating under this new model, in addition to six mobile offices that provide services to certain locations on a periodic but not permanent basis.

In parallel, the Active Management model continues to be deployed in retail banking, enabling customers to do their banking through multichannel interactions; the account manager continues to add value to the customer relationship with the support of distance channels (web, mobile and ATMs). A total of 750,000 customers nationwide can now bank at any time without having to visit a branch,

The distribution of 3,500 tablet computers in the branch network enables our managers to visit customers in their homes, enhancing the efficiency and efficacy of the commercial activity while also improving customer satisfaction.

During the year, we also worked on improving interactions between customers and the Bank by optimising processes and simplifying the product catalogue to make it easier to understand. Customer-Bank interactions are now more agile and transactions can be completed in less time (e.g. new customer registration, and the process of granting and formalising mortgage loans).

Digitalisation is another avenue for making our services more convenient and reducing the distance between us and our customers. Currently more than 48% of customers aged over 16 are digital users; 80% interact with the Bank using mobile devices and perform close to 88% of their transactions without visiting a branch, which eliminates obstacles in terms of time and distance.

This digitalisation was made possible by constant work to provide new features in our digital channels, enabling new functionalities for banking and acquiring products via remote channels; as a result, the Bank's app is rated as one of the best bank apps in the market.

You.

Your bank.

Branch network

The branch network in Spain is shown in table T6. Including the 593 branches in other countries, the Group had 2,473 branches at the end of 2017.

T6 Number of branches by region

Region	Branches	Region	Branches
Andalusia	135	Valencia	326
Aragón	31	Extremadura	6
Asturias	112	Galicia	109
Balearic Islands	57	La Rioja	8
Canary Islands	31	Madrid	184
Cantabria	5	Murcia	126
Castilla-La Mancha	23	Navarra	15
Castilla y León	59	Basque Country	92
Catalonia	559	Ceuta & Melilla	2

ATM network

At the end of 2016, the Group's network of self-service machines in Spain comprised 2,954 ATMs and 345 passbook updaters. This number is slightly lower than at the close of 2016 (3,494 machines),

The number of ATM transactions continues to increase year by year. In 2017, it increased by around 3% to a total of 113 million transactions. The proportions of transactions done using credit/debit cards and passbooks were the same as in 2016: 65% and 35%, respectively.

The most frequent transactions were cash withdrawals (more than 63% of the total), followed by passbook updates, account balance and payment enquiries, and cash deposits.

During 2017, we continued to improve transaction availability and speed, which contributed to enhancing customer satisfaction, as revealed by regular surveys.

A new feature in 2017 was personalisation of ATM menus based on the customer's history of transactions, achieved using Big Data techniques. The menu now offers the customer the specific amount that they usually withdraw or the transactions that they use most frequently. The overall graphic interface has also been improved, enhancing the customer experience. In the Sabadell Wallet application, the Instant Money option has been improved, resulting in a considerable increase in its use.

BS Online

Registered users of our online banking services increased by more than 8% with respect to 2016, with close to 4.5 million customers now able to access the service. BS Online users now account for 34% of the Group's active customers.

The number of transactions carried out on BS Online continues to increase: servicing transactions were up 5% in the company banking segment, while product acquisitions increased by 11%. Sabadell Móvil (BSM) experienced considerable growth in 2017: servicing transactions increased by 65% and product acquisitions by 85%.

The Digital Signature service began to be rolled out to business customers in 2017. We are improving the processes for applying for products on remote channels. This is an important step in the consolidation of self-service banking and remote servicing of customer requirements.

Growth in distance banking contracts

+8%

Sabadell Móvil

The number of Sabadell Móvil (BSM) users grew significantly, to 3 million customers; the number of users of this service has tripled in the last four years. This growth was spurred by the launch of new versions during the year offering ever greater capabilities, better usability and also a link-up with Digital Signature.

Significant growth was also seen in the number of active customers who use mobile devices only: from 425,000 to nearly 750,000 during the year. These users account for almost 30% of the Bank's active digital customers (G24).

During 2017, work continued based on data analytics to improve the customer experience by reducing points of friction and abandonment in the main transactions. The app's error messages were redefined in order to contextualize the error in the process, give options for resolution or enable the customer to request a call from the call centre.

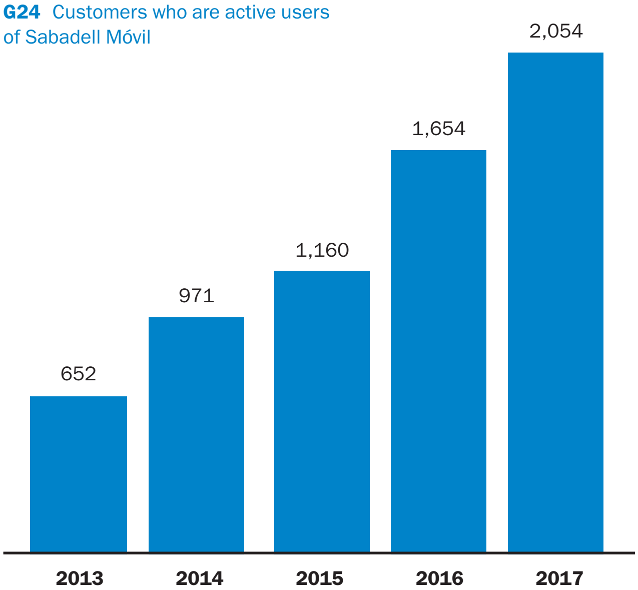
At the same time, improvements were made to the process of obtaining a pre-approved loan, in terms of both enhancing the product's visibility and the conversion of the application process.

Work was also done to raise the visibility and customer awareness of the option of financing purchases over €100 via a mobile phone. Notification messages linked to transactions were also added, and online account statements now contain action links. Sabadell Wallet developed a new process that displays to customers the range of options for financing purchases, including the instalments, putting finance just two clicks away from the till receipt.

Within the policy of "anticipating" customers' needs, a new location was developed to be able to display events of relevance to the customer from the app's home screen. A total of 50 events are in production; they are related to the customer's life cycle, age and financial situation.

In the fourth quarter, the focus was on updating BSM to enable it to comply with MiFID in a way that is optimal for the customer experience in terms of information and acquisition.

G24 Customers who are active users of Sabadell Móvil



Sabadell Wallet

Bizum, a service launched throughout the banking industry at the end of 2016, continues to expand; with 200,000 accesses per month, 60,000 customers are actively using Sabadell Wallet every month. Banco Sabadell users make up 13.7% of the total number of Bizum users and account for 15% of Bizum transactions.

As for Instant Money, improvements have been made to Sabadell Wallet in terms of both service visibility and usability, which has resulted in a ten-fold increase in the volume of instant money transactions with our Wallet app.

Branch Direct

Contacts with Branch Direct increased by 4.87% in 2017 with respect to 2016, to 3.8 million.

The contact channels that experienced fastest growth were telephone, chat and social media. Telephone accounted for 68% of total contacts, ahead of e-mail, chat and social media. Figure G25 shows the growth in contacts by channel.

The SLA (Service Level Agreement) ratio for telephone enquiries exceeded 96%, followed by chat (94.39%) and e-mail (86.56%). There were more than 521,000 mentions on social media, and the number of interactions exceeded 101,000, with an SLA of 95.40%.

x3 in 4 years

 # active users of Sabadell Móvil

The volume increases in 2017 were due to continual improvements in the various channels as well as initiatives undertaken to promote them:

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

Social media

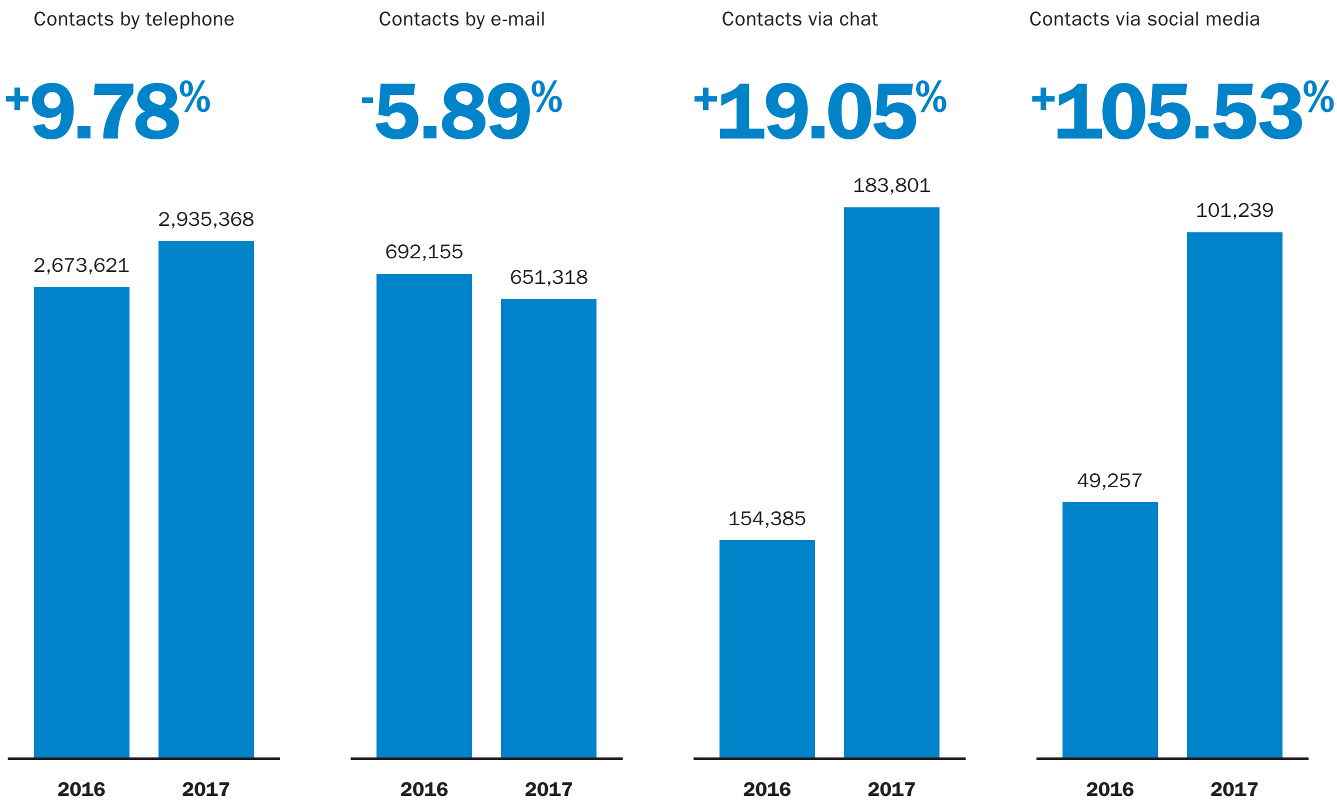
Social media are one of the main channels for managing customer relationships, in terms of both transactions and of broadcasting institutional, business and marketing messages. Their use is growing exponentially and the Bank sets a high priority on raising its social media profile.

As a channel, social media were used to publicise numerous events of a corporate nature or in which the Bank was a participant. Examples of this include presentations of earnings and the Shareholders' Meetings, both of which could be followed on Twitter, as well as the Barcelona Open Banc Sabadell Conde de Godó tennis tournament, conversations with Rafael Nadal, and the 4YFN Summit for start-ups at the Mobile World Congress.

Banco Sabadell increased its presence on social media during 2017 by launching an Instagram profile and a Twitter account for the digital business hub (@Innocells).

The number of followers on social media now exceeds 380,000 for all the channels on which the Bank maintains a presence: Twitter, Facebook, Instagram, YouTube, LinkedIn and Google+, in Spain, the United Kingdom and America. The production of our own content continued without interruption in 2017, including blog posts, videos on Banco Sabadell TV, and alliances with third parties to stream content and events.

G25 Contacts by channel type



Cutting-edge technology and innovation (InnoCells)

InnoCells, Banco Sabadell's digital business hub

New technologies and the arrival of new competitors in the financial sector have led to changes in the supply of products and services to meet the growing demand for personalisation and immediacy on the part of the new digital generations.

Banco Sabadell views this paradigm shift as an opportunity to strengthen its market position, while maintaining its focus on the good customer service that has characterised it since inception, coupled with technology and digital leadership.

Banco Sabadell's distinctive capabilities in the financial sector — extensive knowledge of its customers, a solid service-based brand, and proximity to the business, among others — facilitate its integration into the digital ecosystem, reinforced by a single model: InnoCells, its digital business hub and corporate venture arm.

InnoCells is the natural evolution of the institution's continued commitment to digital and commercial transformation in order to offer the best service to its customers. In InnoCells, Banco Sabadell combines the agility and innovation of the digital ecosystem with its own experience and track record.

InnoCells contributes actively to the Banco Sabadell Group's digital strategy through its knowledge of the digital ecosystem and market trends that are central or adjacent to the institution's core business. This new subsidiary also supports the development of new value propositions focused on customers needs in order to continue accompanying them in their daily lives.

InnoCells is part of the institution's entrepreneurship ecosystem, alongside BStartup, a programme designed to support entrepreneurs in the early stages, and Sabadell Venture Capital, focused on companies seeking to expand through A or B series investment rounds.

Business builder — creating and promoting new businesses

Business builder provides a hub for creating and expanding digital businesses in areas of strategic interest for the Banco Sabadell Group. It is a flexible model that both develops new businesses from scratch and offers the institution's best resources and capabilities to existing teams and startups to enable them to expand.

InnoCells develops new digital businesses through internal cells led by entrepreneurs in residence or CEOs with extensive market knowledge. In this way, it facilitates both the construction of strategic capabilities and businesses for the Group and provides access to talent from the digital ecosystem.

InnoCapital, the vehicle for strategic investments

InnoCells also makes strategic investments in digital and technology businesses through InnoCapital, its corporate venture fund.

Its focus is on acquiring stakes in startups, both B2B and B2C, at the seed, series A and series B stages, with a flexible average ticket of between €0.5 million and €3 million, which can be extended if strategically significant opportunities arise.

InnoCapital's strategy also includes co-investing with other venture capital firms and leading funding rounds. The goal of the investment is to accelerate the Group's transformation, build strategic know-how and give the Group access to distinctive talent.

For the moment, although the scope of action is international, investments are focused on Europe —particularly Spain, the United Kingdom and Germany, which are the main fintech hubs — as well as Israel and Mexico.

Strategic investments

In September 2017, the investment vehicle co-hosted its first investment: Bud, a UK technology provider that offers financial institutions a platform to accelerate their digital transformation and evolve towards platform models (PSD2).

Internationalisation

The InnoCells model is flexible and scalable to address the numerous locations in which Banco Sabadell operates. The capacity for internationalisation and idea portability are key features of the digital businesses we promote. For this reason, the first cells were set up in Spain, the United Kingdom — where we have the support of TSB — and Mexico.

Quality of service

For Banco Sabadell, quality is not just a strategic option; rather, it is a whole approach to doing business, whether in the delivery of value to stakeholders or in the execution of each and every process forming part of that business. This natural affinity with excellence helps to enhance the Bank's capabilities in all areas, transforming threats into strengths, and challenges into opportunities for the future.

Consequently, the Bank makes use of existing standards and benchmarks to cross-check its management approach and sets itself new goals based on constant self-assessment.

The EQUOS RCB market benchmark, a survey conducted by independent consultancy Stiga over the last twelve years, shows the result of Banco Sabadell's efforts in this connection: it scored above average for its peer group (+0.53) and the industry (+0.77) and it leads its peer group in terms of commercial action, the principal factor addressed by the survey.

Sabadell maintains a clear lead in quality over the rest of the industry.

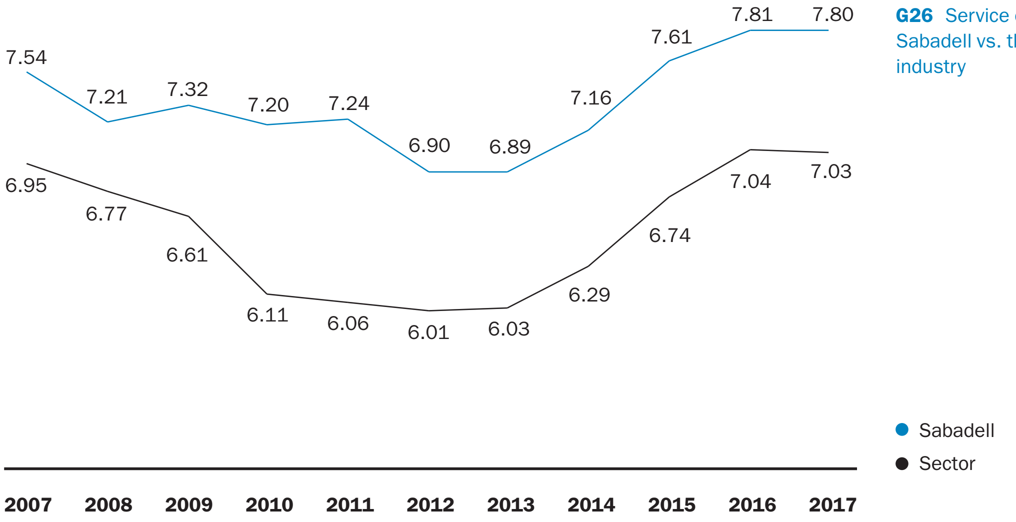
A key benchmark for measuring and improving management practices is the European Foundation for Quality Management (EFQM) excellence model, against which the Bank is independently assessed every two years. The assessment carried out in November 2016 resulted in the Bank's EFQM Gold Seal (over 500 points) being renewed, with a score of over 700 points under EFQM's very demanding standard. This means that very high standards continue to be maintained with respect to 2014 (G26).

Additionally, Banco Sabadell is still the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, providing further proof of its customer-centred philosophy and diligent approach to process management. Banco Sabadell's ISO 9001 certification was renewed in 2017.

The Bank's "Madrid Excelente" quality mark was also renewed in 2015 for another three years after successfully passing the evaluation.

The actions implemented under the commercial plan have been successful: customer satisfaction surveys ratify the improvement in service quality with respect to the industry average and also in absolute terms.

G26 Service quality level[1]. Sabadell vs. the rest of the industry



1. Source: EQUOS, STIGA, Bank network quality survey.
2017 figures, reported with consolidation scope at the end of each year.

Quality certificates

MADRID EXCELENTE | ISO 14001 CERTIFICATION | ISO 9001 CERTIFICATION | EFQM EUROPEAN EXCELLENCE

People

The Bank has a young, qualified and gender-diverse workforce. The human resources strategy is based on four key principles which ensure that the goals are achieved (G27).

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

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

25,845

89% received training in the year

55.6% 44.4%

34.6% of managers are women

G27 Banco Sabadell Group headcount

Human resources strategy and lines of action in 2017

The capacities built into the previous Master Plan are the foundation for development towards a new management structure that is more efficient and closer to the business. The human resources function is now global and fully aligned with the other corporate lines of action.

Restructuring of the human resources function, completed in 2017, will enable effective coordinated action in all areas required by the Master Plan 2018-2020:

— Planning and anticipating the institutions' future personnel needs.
— Pro-active management focused on enhancing human capital.
— Development of the culture and improvement in employee satisfaction.

A number of programmes, most of which had commenced in previous years, were consolidated in 2017, including notably:

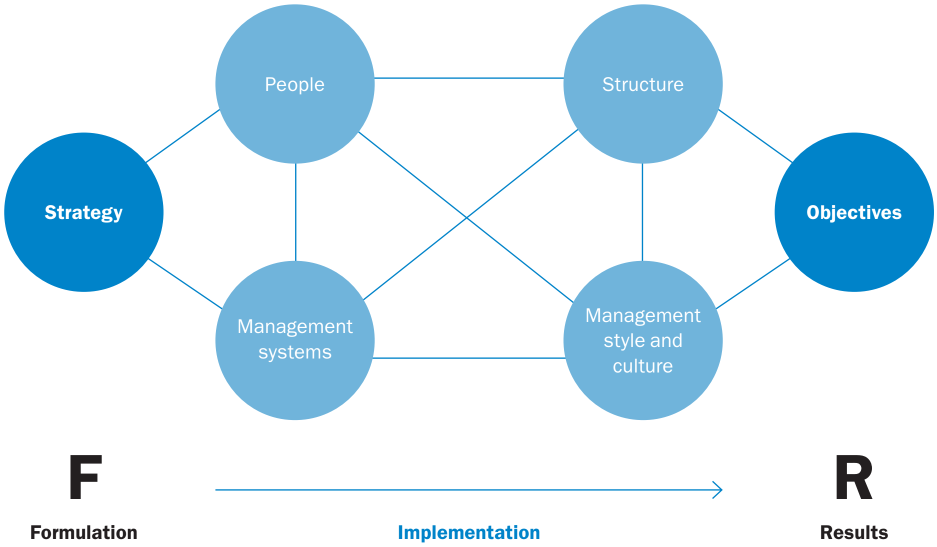
— **Global Performance Management**
The cornerstone of a global, integrated standardised approach to talent management throughout the Group, whose main objective is to measure performance objectively, across the entire organisation, in order to enhance each individual's strengths and minimise the areas requiring improvement.
— **Employee Satisfaction Improvement Programme**
Based on coordinated efforts by all areas of the Bank, this resulted in a significant improvement in the target ratios and reinforces the Group's appeal as an employer.
— **Mobility and Diversity Programme**
Translates into a multitude of professional opportunities for internal talent, with a special focus on female talent as a competitive advantage and on flexibility as an opportunity to improve productivity and employee satisfaction.
— **Definitive roll-out of the Sabadell Campus concept**
To provide an overarching integrated vision of training, based on self-development, career choice and challenge as an engine of personal progress.

In addition to these ongoing programmes, there are others that are critical for the institution in the immediate future:

— Strategic personnel planning, in both quantitative and qualitative terms, with special focus on the gap between the staff's current capabilities and future challenges.
— Adaptation of remuneration and benefits policies

to align our compensation systems with the current and future regulatory framework, while orienting remuneration more toward rewarding outstanding performance.
— Expressing the brand through our employees, as a fundamental competitive advantage in the transition from a branch-based bank to a multichannel, hyper-connected relationship platform.

G28



Talent planning is a strategic priority for the project's long-term sustainability.

Composition of the Group headcount

At the end of 2017, the Banco Sabadell Group had 25,845 employees, a decrease of 100 compared with the previous year. The average employee age was 43.04 years and the average length of service was 16.19 years. The gender split was 44.4% men and 55.6% women.

89% of the employees have participated in at least one Sabadell Campus activity.

Projects in the Human Resources area

Training and development. A new approach to training

During 2017, Banco Sabadell continued to promote its learning model, instituted in 2016, by expanding Sabadell Campus and its constituent schools and learning spaces. The Campus incorporates the main features of the Bank's training model based on innovation, personalised training, alignment with business goals, and efficiency.

Expanding digital offering

Sabadell Campus provides all employees with a space for the development of digital skills with the aim of helping them to be part of Banco Sabadell's digital transformation programme.

Expanding the Commercial School

The Commercial School, which focuses on training to meet the challenges facing the branch network, expanded its content and range of subjects.

In 2017, specific training programmes were designed for many other commercial profiles, in Commercial Banking (Active Management, SME branch manager, business Manager), Private Banking and Corporate Banking. Priority was given to having a much more comprehensive offering of courses adapted to each professional's needs.

Enhancing the School of Management

The School of Management is the section of Sabadell Campus whose content is oriented towards meeting professional and personal goals through skill-building. In 2017, it expanded its range of on-site courses with innovative and useful subjects, and extended its online catalogue, which is available to all employees in a range of formats, including gamification. The School of Management is the section that receives the most visits: 9,500 employees connected in 2017,

The School of Management also rolled out two new editions of the Corporate Management Programme. This programme was redesigned to be more efficient with a blended format that includes networking with executives and a project presentation competition based on the elevator pitch; winning projects can be implemented in the Bank.

All sections of the Finance School are now operational

A mission of the Finance School is to raise the level of financial skills in the Group by offering specialist training to all employees and providing them with an attractive range of content and learning methodologies.

In 2017, three new financial challenges were implemented: analysing a balance sheet, analysing a P&L account, and gaining an overview of the banking business.

The Finance School is receiving very good feedback from the Risk Management Programme being implemented by UPF for the Bank's risk analysts.

Language Area

The Sabadell Campus Language Area pursues the goal of enhancing language skills by giving all employees access to the full range of language training that the Bank offers for each profile and specific need.

Expanding the team of internal trainers

The internal trainer team is a key component of Banco Sabadell's new training approach Internal trainers share their knowledge and talent with co-workers, providing training in all territories when needed.

Internal trainers received specific training in this area in 2017, including a seminar in February and a programme on training techniques and skills offered by Barcelona University.

The team of trainers participated in a number of projects on the basis of the Bank's needs, including notably the workshops to support EIP training, the Laude Programme tutorials, and the implementation of a systematic commercial approach through workshops with the Corporate Banking and Active Management employees.

These professionals provided more than 25,000 hours of training, an average of over 86 hours per trainer, sharing their knowledge with the rest of the workforce.

Mobility

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

— Making internal recruitment procedures more flexible to attract existing in-house talent.
— Approving a procedure for active internal employee searches.
— At international level, the internal recruitment policy was rolled out in the regions where the Group operates in pursuit of more efficient employee movement.

In external recruitment, work is continuing to develop a pool of professionals that can selectively drive future expansion, and on incorporating international experience into the executive career path.

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

— Internship Programme
— Young Talents
— Talent Graduate Programme

As for diversity, the Group is focusing specifically on empowering female talent as a source of corporate wealth, based on an exhaustive analysis of gender-based indicators, workshops with managers and executives to understand the situation of female talent in the Bank, and a specific plan to continue advancing in diversity and equality.

Banco Sabadell also offers a broad range of measures aimed at improving work-life balance for its staff, by enabling them to purchase goods and services via the employee intranet, by which they save not only money but also time, as the products are delivered to the office, avoiding the need for extra trips outside work hours.

In 2017, new flexibility and work-life balance measures were introduced, including the possibility of purchasing additional days of vacation and the progressive implementation of telework.

The corporate services buildings in Sant Cugat del Vallès and Madrid offer employees a range of time-saving services, such as a gym, dry cleaning, parapharmacy, travel agency and hair salon.

Leadership management

Anchored in a business-focused leadership style that is propagated by the School of Management, the management model has been enhanced with the aim of having the best information about our current talent and its potential in order to ensure appropriate decision-making, effective and efficient management, and effective development of our executives and pre-executives. In detail:
— Have objective, relevant and consistent information for decision-making in the personnel area (assessment of internal candidates and promotion to executive level), responding at national and international level.
— Supporting executives and middle management via personalised development programmes and horizontal programmes, as necessary.
— Building a global culture of talent management (assessment, identification and development) that makes it possible to maximise present and future performance, with participation by the entire management team.

An onboarding programme has been created for new corporate managers and the top 300, the goal being to assist them in their career transition and prepare them for the changing business environment, focusing particularly on the specific challenges posed by their new leadership role. The programme adopts a "learn by doing" approach and uses networking with the executive team to provide visibility.

Operations, Organisation and Resources Department

The new Organisation and Resources managers seek to be close to the business and in a position to lend support; their function, from a corporate standpoint, is to provide the business with the resources it needs to achieve its objectives, with the focus on people. Its functions include defining the personnel and organisational adaptation plan in their sphere of responsibility, based on in-depth knowledge of the people involved, their talent and expectations. This comprehension, coupled with knowledge of the structure, processes, key figures and indicators for those areas, results in a mission focused on improving employees' activity, productivity and satisfaction through the use of models and solutions designed by the Human Resources Department.

Improved employee satisfaction

Applying the “great place to work” approach to excellence, the Group continues to measure and act on the priorities in this area in order to continue building trust internally. All areas of the Bank have made a commitment to this objective, and many initiatives have been implemented to enhance employee satisfaction. Particularly noteworthy are actions aimed at improving internal communication, recognition and meritocracy.

In parallel, corporate actions have been implemented to support this process. They include the new My Benefits portal, the extension of flexibility and work-life balance measures, and improvements in selection and performance assessment, based on employee feedback.

Prizes and distinctions

Mercotalento
Banco Sabadell continues to rank highly in this prestigious indicator of the ability to attract talent: it is #21 among the top 100 places where people would like to work.

Randstad Award
Banco Sabadell retained its position as one of the most attractive employers in the financial sector, according to the Ranstad survey.

2nd Talent Awards — HR Encounter in the Insurance Industry
Banco Sabadell was named Best Company for HR Innovation.

El Mundo Zen Adecco award for encouraging physical activity and healthy lifestyles
Banco Sabadell obtained second prize among 200 nominees.

Corporate Social Responsibility

Banco Sabadell's approach to Corporate Social Responsibility (CSR) relies on doing business in an ethical and responsible way, with a focus on excellence and a commitment to society by providing the best solutions to the challenges it faces. Anticipating and engaging through responsible business development, a commitment to employees, to the environment and to society in all the territories where the Bank does business. Each and every professional in the organisation has a part to play in applying the principles and policies of corporate social responsibility so as to fulfil this aim and commitment on the part of Banco Sabadell.

In addition to complying with applicable regulations, Banco Sabadell has a set of policies and codes of conduct that guarantee ethical and responsible conduct at all levels of the organisation and in all Group operations, and it applies them to its suppliers, incorporating social and environmental responsibility into the supply chain.

Responsibility for oversight and monitoring of these policies, procedures and codes of conduct lies with the Corporate Ethics Committee, whose members are appointed by the Board of Directors. The Corporate Social Responsibility Committee drives and coordinates Group strategy, policy and projects in the area of CSR.

At Banco Sabadell, Corporate Social Responsibility is also visible in its support of international initiatives and commitments and in the certifications and qualifications it has received.

Planned Corporate Social Responsibility initiatives continued to be implemented in 2017 in four main areas of action: responsible business, commitment to employees, commitment to the environment, and commitment to society.

Responsible business

Social housing

Through *Sogeviso*, Banco Sabadell has a housing programme to deal with situations of social exclusion among its mortgage customers. Depending on the mortgage customer's situation, a number of solutions are offered, ranging from an affordable rent to rent+"social contract", which includes services.

In 2017, 2,912 new reduced rent contracts were arranged, and the "social contract" continues to be rolled out as an annex to the reduced rent contract. This service involves assigning a social worker to provide support to vulnerable families in cooperation with the local government social services, combined with training, preparation for job interviews and coaching for employability; additionally, efforts are made to enhance these customers' socio-economic situation by working with Banco Sabadell Group suppliers, public administrations and third-sector organisations. By 2017 year-end, the "social contract" had been extended to 3,769 families, 48% of all the families to which the Bank has provided a housing solution following a situation of over-indebtedness due to the loss of their livelihood. The number of families to which the bank had provided affordable or social rent solutions amounted to 8,656 by the end of 2017.

Vulnerability

Some of the solutions that Banco Sabadell provides to facilitate financial inclusion of vulnerable customers are implemented via *Sogeviso* through the *JoBS* work placement programme. These support actions focus on reinforcing beneficiaries' skills through personal coaching or training, focused on actual labour market demand. *JoBS* connects customers with the job offers that best suit their professional and personal profile so as to maximise successful placements. Since November 2016, more than 2 thousand clients have benefited, and over 600 of them had obtained a job by the end of 2017.

Transparency

In order to enhance relations with customers and facilitate comprehension of their relationship, the Bank continued the process of simplifying contracts by rewriting them in more straightforward, less technical language while maintaining the legal and informative certainty to which customers are entitled. It simplified the catalogue of demand accounts by applying the advantages of the initial 111 products to 31 new offerings.

It is now possible to arrange for a number of associated products that a customer needs with just one signature, which shortens the process and reduces paperwork.

Ethical and solidaric investing

Banco Sabadell encourages responsible investing by offering customers a number of ethical investment products which also contribute to solidaric projects. In the area of investment, both pension fund manager BanSabadell Pensiones EGFP, SA and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the Principles for Responsible Investment in the "investment manager" category. These principles cover social, environmental and governance criteria in management policies and practices.

Products in this area include Fondo de Inversión Sabadell Inversión Ética y Solidaria, F.I. (a mutual fund), Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A. (an investment company), Plan de Pensiones BS Ético y Solidario, P.P. and Plan de Pensiones BanSabadell 21 F.P. (pension plans), and Fondo de

Pensiones G.M. PENSIONES, F.P. (a pension plan for Group employees). In 2017, the Corporate Ethics Committee chose 22 projects mostly aimed at covering social exclusion risks, improving the living conditions of people with disabilities and meeting basic food and health needs. Over €430,000 were granted to solidaric organisations and projects in 2017.

Commitment to employees

Gender

Banco Sabadell guarantees gender equality in selection, training and promotion processes, as well as in salary and working conditions. This commitment, for each of the aspects of the employment relationship, is embodied in the Equality Plan, the human resources policy and the Code of Conduct.

To this end, the Bank continues working to prevent any kind of gender-based discrimination at work. In 2017, Banco Sabadell fulfilled and exceeded the commitment it made in 2014 when it signed a Cooperation Agreement with the Spanish Ministry of Health, Social Services and Equality that set a target that women should account for 18% of senior management roles by 2018. At present, 34.6% of managerial positions in Banco Sabadell are held by women.

For the period 2016-2020, the Bank has set a target of promoting 450 women to positions of responsibility in the organisation; 198 have been promoted since the programme began, 38% of the final target. The Bank also took part in events and initiatives that promote gender equality and leadership, such as "Inversión y Finanzas", "Mujer Hoy", "Women, Leadership and #climatechange" and the "Mujeres influyentes" forum.

Work-life balance

The Bank has measures in place, applicable to all employees in the organisation, to help promote a better work-life balance. Available benefits include the option of shorter working days, paid and unpaid leave for various reasons (breastfeeding, maternity, caring for a relative, special circumstances, paternity) and several forms of flexitime.

In 2017, the Bank broadened this range of measures to include a reduction of between 20% and 50% of the working day to attend to personal needs, the ability to purchase holidays (up to 31 additional days against the employee's salary) and partial retirement (for employees over the age of 61, who can cut their working day by between 25% and 50%). In coordination with existing measures, a work-life balance unit was created with the mission of providing advice, intermediation and guidance for managers and employees.

Professional development

Banco Sabadell gives priority to employees' personal well-being as well as their professional growth. The Talent Department handles the induction and development of new hires and monitors their retention, all of which are key factors for competitiveness, leadership and excellence.

During 2017, the Group continued to promote its learning model, instituted in 2016, by expanding Sabadell Campus and its constituent schools and learning spaces: the School of Management, the Commercial School and the Finance School. 89% of employees received training, and employees took 137,000 online training sessions.

Diversity

Banco Sabadell also promotes diversity through the integration in the workplace of differently-abled people by means of non-discriminatory recruitment policies. The Group takes measures to adapt job briefs where needed. In 2017, a pilot programme was begun with the Fundación DKV Integralia to hire persons with disabilities at some subsidiaries.

Commitment to the environment

Banco Sabadell has an environmental policy which setsout its commitment to the environment and to combating climate change. The policy focuses on minimising the environmental impacts of the processes, facilities and services inherent to the business, managing business-related environmental threats and opportunities appropriately, and promoting a commitment to the environment by all persons with whom the Bank comes into contact. In this respect, the Bank has joined a number of global initiatives, including the Equator Principles and the Carbon Disclosure Project (CDP).

Commitment to the planet

Since 2011, Banco Sabadell has applied the Equator Principles, an international voluntary framework of policies, standards and guidelines coordinated by the International Finance Corporation (IFC), a World Bank agency, whose aim is to determine, assess and manage the environmental and social risks of structured finance deals amounting to 10 million dollars or more and of corporate loans amounting to 100 million dollars or more. Under these standards, a social and environmental impact assessment is carried out that, in some cases, results in minimisation, mitigation and offsetting measures, subject to review by an independent expert. In 2017, Banco Sabadell signed 11 deals incorporating the Equator Principles, 91% of which related to renewable energy projects.

All Group branches have access to information to assist them in assessing any environmental risk associated with the industry or business of a company that is being evaluated. The assessment is one of the documents on which the transaction credit risk evaluation is based and it has an influence on the final decision.

Banco Sabadell promotes the development of a more sustainable energy model by investing directly in, and lending to, renewable energy projects.

In 2016, through subsidiary Sinia Renovables, Banco Sabadell launched a new €150 million programme of equity investment in renewable energy projects, which will continue until 2019. In line with the Bank's internationalisation strategy, the Sinia programme will include investments in Spain, Mexico, the UK and a number of Latin American countries. Renewable electricity generation in Spain that is attributable to Sinia totals 181 GWh per year, exceeding the electricity consumption of Banco Sabadell's branches and corporate offices.

To date, Banco Sabadell has provided over €1,048 million in funding to renewable energy generation projects.

Another environment-related area of the Bank's business is financing energy-efficient equipment and facilities by means of special-purpose leasing products; these are used to finance projects in such areas as public lighting, biomass-fired boilers and cogeneration facilities.

Responsible consumption

As regards the Bank's own infrastructure, it has an environmental management system that is certified to the ISO 14001 standard and covers six Central Services buildings. To reduce energy consumption, the Bank undertakes continuous improvement initiatives to make its facilities and processes more eco-efficient.

The contract with Nexus Renovables was maintained in 2017; this covers 99.93% of the Group's electricity supplies with energy from sources that are 100% renewable, and was able to achieve a 99.83% reduction in scope 2 CO_2 emissions (electricity consumption, taking 2014 as the baseline year).

Banco Sabadell works to minimise its consumption of resources (water and paper) while also appropriately managing waste. Along these lines, paper consumption was reduced by 33% in the period 2015-2017. In addition, the use of digital contract systems has avoided printing 4.7 million pages.

Sustainable mobility

There was also an increase in the range of sustainable vehicles in the Bank's vehicle leasing pool; in 2017 they accounted for 78% of the entire fleet. The Bank has also contributed to sustainable mobility in such cities as Terrassa and Bilbao by financing hybrid city buses and 100% electric taxis in collaboration with leading industry brands.

Commitment to society

Banco Sabadell shows its commitment to society by permanently engaging with the community and sharing its concerns. Financial education, social action and support for initiatives with a social impact are the key elements of this commitment, which is also expressed through the corporate volunteer programme and initiatives by divisions of the Bank and by the Banco Sabadell Foundation.

Financial education

The Bank promotes and takes part in a number of financial education initiatives aimed at meeting the needs of different segments of society in this respect.

— For children: through the "What's money for?" drawing competition for children, the Bank provides learning materials and a specialised glossary to encourage children to think about the importance of saving and helping others. For each drawing received, it makes a donation to a charitable cause. Around 5,000 children took part in the eighth edition of the competition, in 2017.

— For young people: the Bank has been participating in the Catalan Schools Financial Education programme for young people aged 15-16 since its inception; the fifth edition included events in over 320 schools. In 2017, a total of 179 volunteers took part, including current and retired employees of the Bank. Also, in partnership with the Spanish Banking Association (AEB) and the Junior Achievement Foundation, the Bank took part in the "Your finances, Your future" programme in more than 100 schools all over Spain. A total of 32 volunteers (current and retired employees) took part in this programme, and the Bank was also present at the first Financial Innovation Camp organised by the AEB, mentoring fourth-year secondary school students.

— For SMEs: For the last five years, Banco Sabadell, with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, have sponsored the "Export for Growth" programme to help small and medium-sized firms expand into foreign markets. In 2017, five sessions were held on the US and India, with over 420 people attending in cities such as Barcelona, Madrid and Bilbao. The Bank also extended its commitment to support and advise customer companies through the Sabadell International Business Program, a training initiative held simultaneously in Barcelona, Madrid, Valencia, Oviedo, San Sebastián and Málaga in collaboration with the University of Barcelona (UB). In this first edition, over 70 participating companies will obtain a university certificate in International Trade.

The Bank is also party to an agreement with the AEB, the CNMV and the Bank of Spain to promote the National Financial Education Plan. This Plan, which follows the recommendations of the European Commission and the

OECD, is designed to improve public understanding of financial matters by providing people with basic skills and tools to manage their financial affairs in a well-informed, responsible way.

Corporate volunteer programme

Banco Sabadell encourages community and volunteer work by its employees by providing the necessary resources. In 2017, the in-house website, Sabadell Life, became more firmly established; with over 9,800 users, it covers more than 200 community and volunteer initiatives put forward by the Bank and its employees Applying the dynamics of gamification, the more community-minded employees exchanged their prizes for donations to one of the causes sponsored by Sabadell Life through its Actitud Solidaria platform: a programme by Arrels Fundació for homeless people, a programme by Alzheimer Cataluña for people with dementia, and the Fundación Vicente Ferrer's paediatric care initiative.

Apart from the financial education programmes mentioned previously, the initiatives with the largest number of volunteers, were:

— Programmes to leverage the knowledge and experience of current and former employees to favour people at risk of social exclusion: Fundación Exit's "Coach" project, which mentors young people at risk to improve their employability, and the Transpirenaica Social Solidaria walk.
— Contributions to/participation in solidaric campaigns: The Trailwalker hike in which over 70 teams and 400 volunteers took part; the Carrera de la Mujer (a fun run for women), in which the Bank paid 360 entry fees; over 280 blood donations; collaboration with the Fundación Magone on Reyes Magos Solidarios with the contribution of over 400 Christmas presents; and other activities designed by the employees themselves, such as the "Imparables" campaign to raise funds for medical research into leukaemia.
— Projects aimed at integration and improving employability: An alliance with Cáritas on the "Feina amb Cor" programme in which unemployed people and people at risk of social exclusion took part. Of the 14 people who participated in the programme, 11 continue to work for Banco Sabadell.

Solidarity

Banco Sabadell carries out some of its community support work through its foundation, Fundación Banco Sabadell, whose work is organised around talent, science, culture and social entrepreneurship. Key initiatives by the Foundation include a Prize for Biomedical Research and a Prize for Research in Economics, both of which aim to give recognition and support to the achievements of young Spanish researchers in those disciplines.

As regards alliances in social innovation and talent, Fundación Banco Sabadell has launched two programmes in conjunction with Fundación Ship2B: B-Value, an innovation programme for social organisations which provides specialised mentoring in a number of sectors, with guidance being provided by the Bank's employees: and B-Challenge, a young talent programme which includes crowdfunding for the four best projects that propose innovative solutions to social challenges with sustainable business models.

In addition, by organising initiatives on a cross-divisional basis, Banco Sabadell seeks to contribute to social welfare using business ventures of its own. This was the case with an alliance signed with Worldcoo, a start-up in which the Bank invested through its BStartup 10 programme, to use its online banking system to enable customers to make donations to solidaric initiatives. In 2017, Worldcoo enabled customers and employees to channel their solidarity: over 2,400 donations to 10 projects, benefiting over 34,000 people. This platform enabled an effective response to several emergencies, such as the earthquake in Mexico, when it helped over 2,500 children and families, and support for over 2,200 refugees through Proactiva Open Arms's "Misión Mediterráneo".

Corporate standards and institutional commitments

In addition to the actions and initiatives described in this report, Banco Sabadell has a series of codes, policies and rules that shape its commitment to Group objectives, and has also entered into various national and international agreements that provide a framework for this commitment.

Principles and policies

— Code of Conduct: applies generally to all persons directly involved with the Group, whether as employees or as members of its governing bodies.
— The Internal Code of Conduct in connection with the securities market.
— Suppliers' Code of Conduct.
— Policy on ethics and human rights.
— Corporate Social Responsibility Policy.
— Policies related to stakeholders (shareholders and investors, customers, suppliers, employees, the environment and the community).
— Equality Plan.
— Code for the use of Social Media.
— Membership of AUTOCONTROL, a self-regulatory advertising standards body.
— Adoption of the Code of Good Banking Practice.

Agreements and commitments

— Signatory of the United Nations Global Compact, in respect of human and labour rights, the environment and the fight against corruption.
— Signatory of the Equator Principles, requiring it to take account of ESG issues in financing major projects and in large corporate loans.
— Integration of CSR policies into business practice in accordance with ISO 26000 guidelines.
— Signatory of the United Nations Principles for Responsible Investment, in the "investment manager" category.
— Party to an agreement between the Spanish Banking Association (AEB), the CNMV and the Bank of Spain to carry out a programme of activities as part of the National Financial Education Plan.
— Inclusion in the FTSE4Good and FTSE4Good IBEX sustainable stock market indices.
— Awarded the European Foundation for Quality Management (EFQM) Gold Seal of Excellence.
— Current certification to ISO 9001 for 100% of the Group's processes and activities in Spain.
— Signatory to the Carbon Disclosure Project (CDP) in connection with action against climate change.*

* For more details of CSR policies, see the CSR section of the Bank's website (www.grupobancosabadell.com).

Economic, sectoral, and regulatory environment

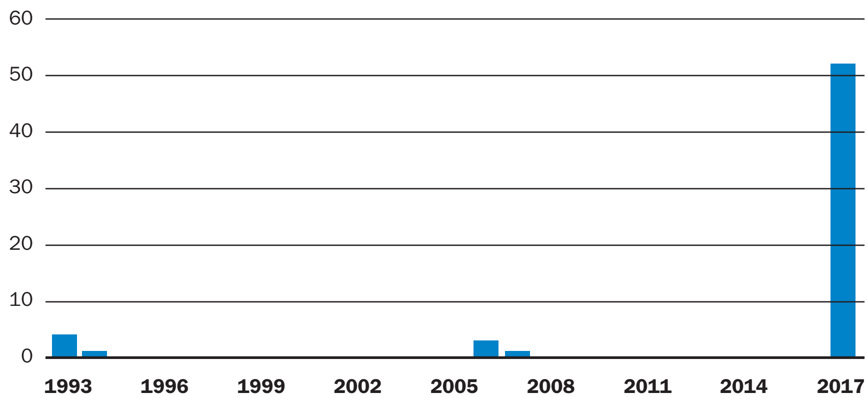
The year 2017 was marked by political and geopolitical developments and moves toward monetary normalization by the main central banks.

Growth in the developed economies was more robust and more synchronised.

The Spanish economy grew strongly and again compared well with other eurozone economies.

Global economy

The year 2017 saw key developments on the political and geopolitical fronts and moves towards monetary normalisation by the main central banks. After a change of government in the USA at the beginning of the year, the focus shifted to Europe with the start of negotiations on Brexit and elections in France, the UK and Germany. With the global economy gathering strength and inflation rates somewhat higher than in the preceding years, central banks in the main developed economies were able to confirm their intention to start or continue a gradual reversal of the highly accommodative policies adopted in earlier years. Against this backdrop, financial markets continued to show upward movement throughout the year in a context of growing investor complacency as reflected by the VIX index (Figure G1), which plots the volatility of the S&P 500 stock market index. A VIX that stays below 10 is significant as an indicator of investor complacency and, therefore, of low market volatility.



G1 Number of days on which the VIX was below 10 in the year
Source: Bloomberg

Political events in different regions of the world were a cause of concern in the financial markets but had only limited, short-term impacts.

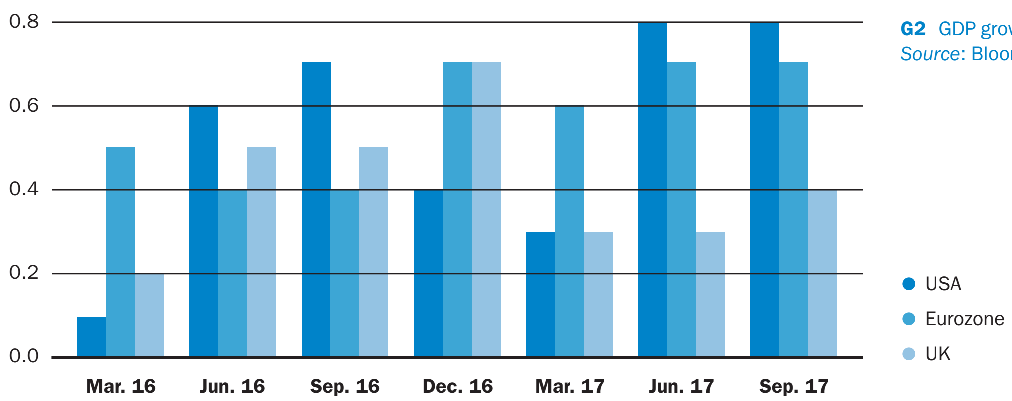
In March, the government of the United Kingdom gave formal notice of its intention to leave the European Union (EU) by invoking Article 50. The "Brexit" negotiations started in June with widely divergent positions, although the United Kingdom did agree to follow the procedure laid down by the EU. Accordingly, it was agreed that the exit agreement would be discussed first, after which, in a second phase, the nature of the new trade agreement between the UK and the EU would be discussed. The British government gradually softened its stance on the three priority areas in the first phase of the negotiations: the exit bill, the rights of expatriate citizens, and the Irish border. This led to an outline exit agreement being reached and the way being cleared for a start on the second phase of negotiation. On the domestic front, Prime Minister Theresa May saw her ability to lead the country being called into question by the loss of her absolute majority in the June general election, limited support in her party and her cabinet, the resignation of three of her ministers for breaches of the ministerial code and the growing popularity of the Labour party leader, Jeremy Corbyn.

Elsewhere in Europe, elections were held in France and Germany. The French presidential elections were preceded by a political row over corruption scandals surrounding one of the main candidates and the possibility of victory for Marine Le Pen, the candidate of the Eurosceptic National Front. In the end it was the liberal Emmanuel Macron who won, fighting on a pro-Europe platform. In the case of Germany, Angela Merkel's party won the largest number of votes in the general election but failed to obtain an absolute majority, making it difficult for her to form a government. In Spain, politics entered a more complex phase as a result of the upsurge of a pro-independence movement in Catalonia. In regional elections held in December, the Ciudadanos party won the largest number of seats in parliament but pro-independence parties held on to their parliamentary majority.

In the USA, Donald Trump showed a less aggressive and more pragmatic stance than before his inauguration, declining to label China a currency manipulator and delaying in taking his country out of NAFTA. Some of the more controversial policies that he had been proposing to implement were held up by a lack of agreement within his own party or by the judiciary and his main achievement has been getting his tax reforms passed. At the same time, internal divisions grew within the Republican party and, in November, the party suffered major defeats in elections held in a number of states, reducing its already narrow majority in the Senate. The political noise was increased by investigations into Russia's links with the Trump campaign, resulting in the resignation of several political appointees and advisors. In the world political arena, there was a strong upsurge of tension between the USA and North Korea in the second half of the year although this had only a limited impact on the financial markets and mainly affected Asian assets.

With regard to world economic activity, growth in the main developed economies became more robust and more synchronised as the year progressed. The eurozone economy showed high rates of growth, with different eurozone countries showing more uniformity in their performance than in the preceding years: in the USA, activity continued to be solid, with sound consumer spending and more dynamic capital expenditure (G2). As a result, unemployment fell to its lowest level since early 2000. The Japanese economy also continued to do well, helped by a surging economy in Asia. In the United Kingdom, economic growth was modest, constrained by uncertainty surrounding the Brexit negotiations.

Emerging markets have emerged from the worst period of economic adjustment of recent years. Growth in China exceeded government targets and the authorities shifted the focus towards regulatory improvements and reducing financial risk. Trump did not carry out his threat of a trade war against China; in fact, he showed a certain softening in his attitude to the country in exchange for cooperation on the conflict with North Korea. In Brazil, a programme of reforms provided support for the start of an economic recovery. In Mexico, GDP growth was higher than expected in the aftermath of the Trump election, thanks in large measure to strong export performance. Meanwhile, the USA, Canada and Mexico started talks

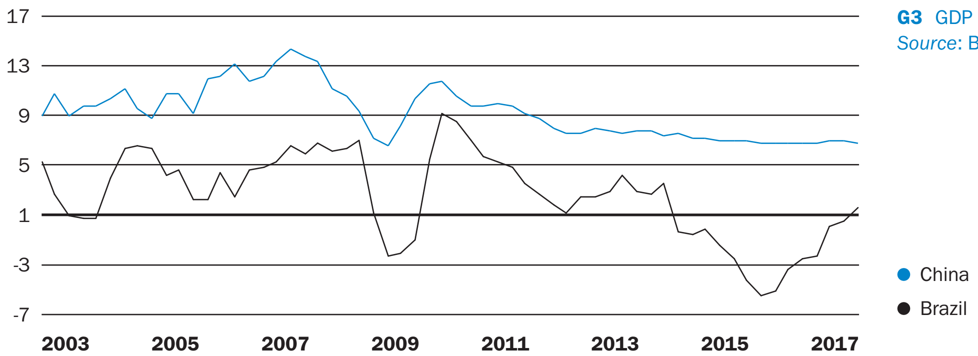


G2 GDP growth (%)
Source: Bloomberg

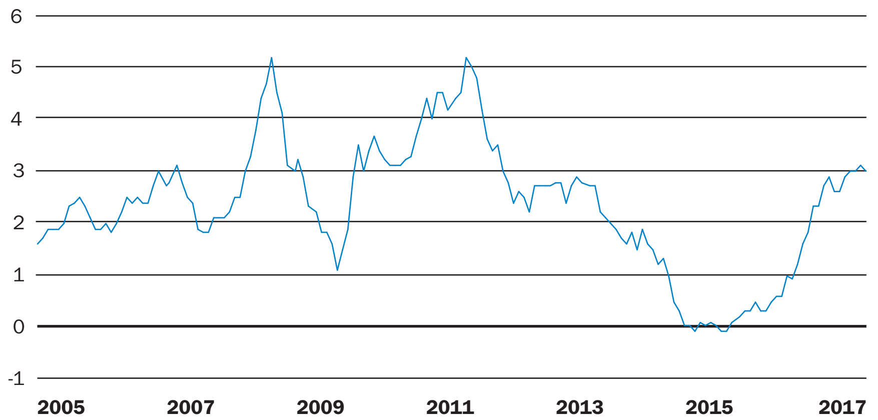
to renegotiate NAFTA, with the intention of reaching an agreement by March 2018 (G3).

Rates of inflation in the main developed economies were above those of 2016, although they remained below monetary policy targets except in the United Kingdom, where they were significantly higher. Inflation increased in all economies in the early months of the year, supported by a favourable baseline effect in the oil price, reaching their highest levels since 2012-2013. Since then, performance has been uneven. Inflation eased in the eurozone while, in the USA, it was constrained by a number of short-term factors. In the United Kingdom, on the other hand, inflation continued to increase significantly on the back of a falling pound caused by concerns over the Brexit negotiations and Theresa May's political weakness (G4).

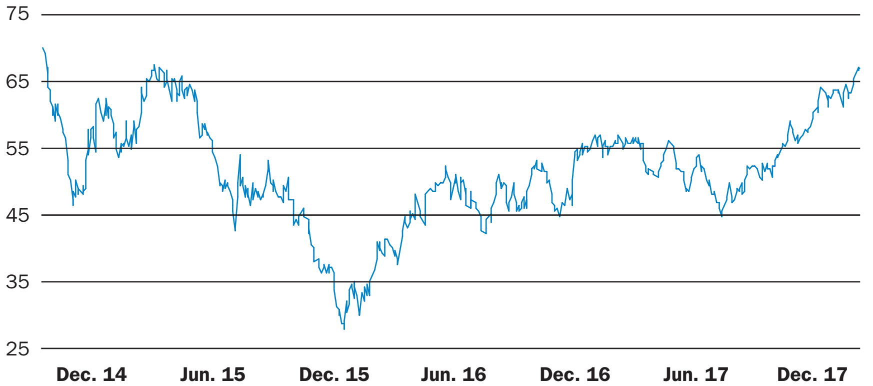
Oil prices reached their highest levels since mid-2015, supported by the decision of OPEC and other oil-producing countries to extend oil production cutbacks up to the end of 2018. The effect of this was augmented by a slowdown in the growth of oil supplies from the United States, robust demand, and geopolitical instability in the Middle East (G5).



G3 GDP performance (%)
Source: Bloomberg



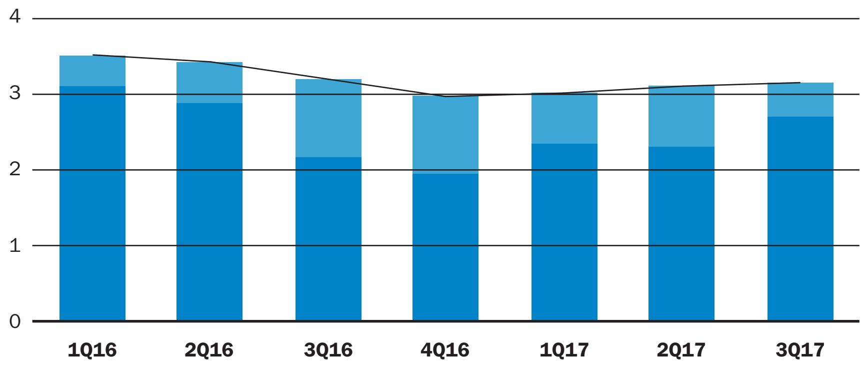
G4 UK inflation (HICP)
(year-on-year, %)
Source: Bloomberg



G5 Brent price
(dollars/barrel)
Source: Bloomberg

Spanish economy

The Spanish economy continued to show a strong performance and again outpaced other eurozone countries, with growth in the region of 3.0% for the third consecutive year (G6). On the labour market front, employment fell to the lowest level since the end of 2008. In the area of export performance, the current account ended the year in surplus for the fifth year in a row. The country's performance in terms of public accounts is consistent with achieving its deficit target. A revival of the real estate market was confirmed, although with large inter-regional variations. Finally, concerns over the domestic political situation caused the government to revise down its growth forecast for 2018.



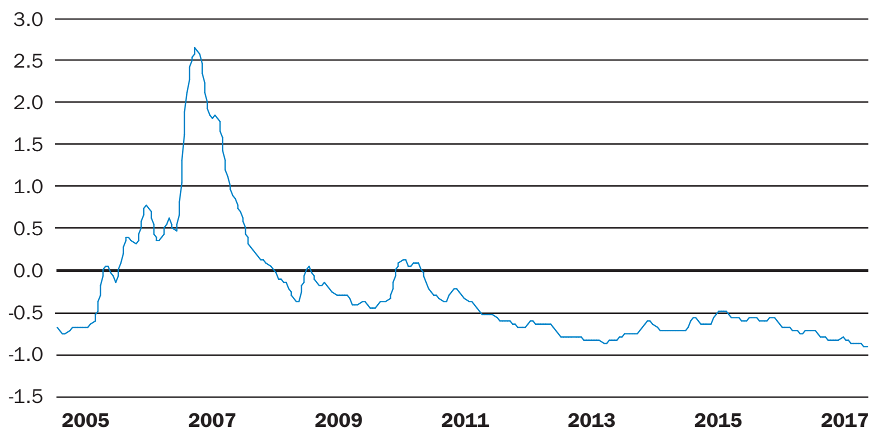
G6 Spain GDP (%)
Source: Bank of Spain

Monetary policy and financial markets

Global financial markets

The global financial markets showed a positive evolution during the year against a backdrop of growing investor complacency, with only short-term setbacks resulting from events of a political or geopolitical nature. Volatility levels for most assets fell to historic lows. Funding conditions remained lax, despite the rise in the Fed's benchmark rate. However, a number of international organizations have warned of growing risks, particularly in the non-bank financial services sector (G7).

Central banks in the main developed economies have been moving towards a normalisation of their monetary policies. In June, the European Central Bank (ECB) initiated a change of direction in its monetary policy, ruling out further cuts in its benchmark rate and appearing to be less concerned over risks to economic activity. In October, it changed its asset purchase programme. It extended the duration of the programme, at least until September 2018, while reducing the rate of purchases from 60 to 30 million euro per month from January 2018 onwards. The ECB emphasized that it would leave interest rates unchanged for a prolonged period and well past the end of the asset purchase programme. In the United Kingdom, the Bank of England increased its base rate to 0.50% in November, thus cancelling the rate reduction adopted just after the Brexit referendum. To explain its decision, the Bank cited high inflation and historically low unemployment rates. In the USA, the Fed increased its benchmark interest rate on three occasions to 1.25-1.50%, and indicated its intention to raise it three more times in



G7 Financial conditions index
Source: Bloomberg

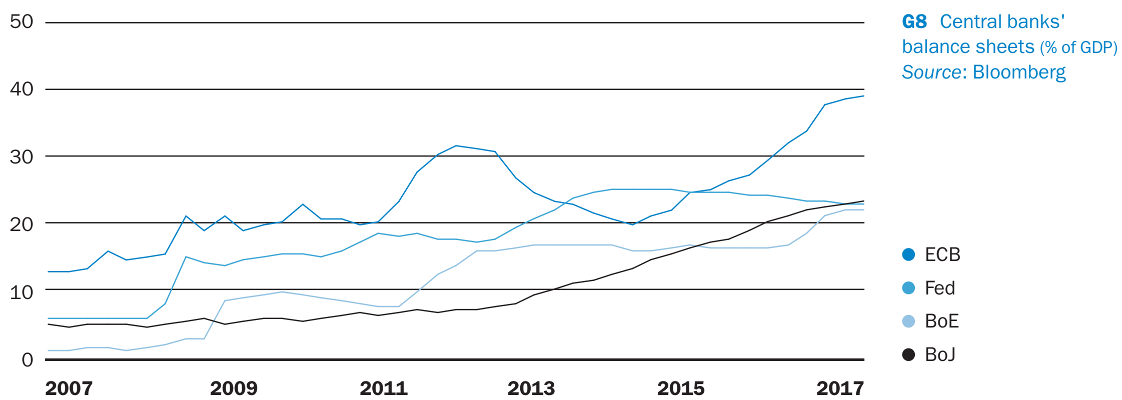
2018. In October, it started to reduce its balance sheet in line with the plan it had published several months earlier. It was also announced that Jerome Powell, a member of the Federal Reserve Board, will become the new governor when Janet Yellen steps down as Chairman and member of the Board in February 2018. Finally, the Bank of Japan has been gradually reducing its purchases of government bonds, albeit without any formal announcement of a change in policy (G8).

Long-term government bond yields in the main developed economies remained at low levels without showing any clear trend. During the year, political events, the actions of central banks and inflation were the primary determinants of bond market returns. In the USA, political noise together with President Trump's difficulties in implementing his electoral programme, combined with lower-than-expected inflation, were the most influential factors. In the last quarter of the year, the passing of the tax reform bill gave yields a boost. In Germany, government bond yields were affected by the political noise surrounding the election in France in the first half of the year, and by early steps being taken by the ECB in the direction of monetary policy normalisation (G9).

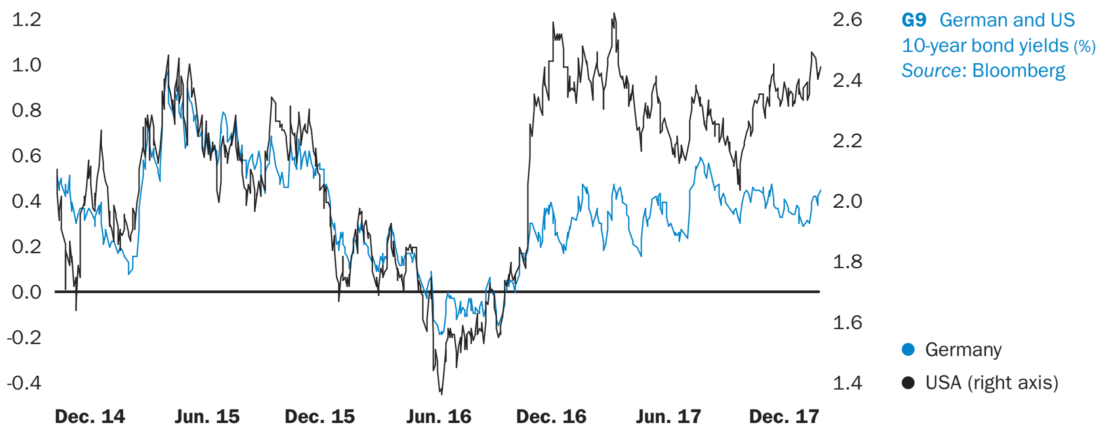
Risk premiums in countries on the European periphery continued to be supported by the ECB's accommodative policy, particularly its asset purchase programme. Spanish and Italian risk premiums rose in the second half of the year under the influence of political noise surrounding the French elections. Once the election excitement had subsided, the Italian risk premium dropped, helped by an improvement in the rating of Italian government debt. The risk premium on Spanish government debt was affected by volatility fuelled by domestic political concerns. Portuguese and Greek risk premiums fell sharply thanks to improved ratings for both countries' government debt, favourable economic conditions and, in the case of Greece, by positive news related to the country's bailout programme. This made it possible for Greece to carry out its first issue of long-term government bonds since 2014. Portugal saw its debt regain investment grade status from Standard & Poor's and Fitch (G10).

On the currency markets, the year saw a notable appreciation by the euro against the dollar and the pound sterling. The euro/dollar rate rose to highs not seen since the end of 2014, after breaking out of the range in which it had been trading for the previous two and a half years (G11). The euro found support, primarily, in political noise in the USA and a strengthening economic recovery in the eurozone. The pound sterling fell to its lowest level against the euro since 2011, as political upheavals related to Brexit and domestic politics took their toll. Monetary policy measures by the Bank of England sought to curtail sterling weakness (G12). The yen showed a high degree of volatility against the dollar. The Japanese currency was helped by the country's strong economic performance, political noise in the USA and rising geopolitical tension over North Korea during the summer.

As for equities, stock exchanges in the main developed economies appreciated strongly, reaching all-time highs in some cases. In Italy and Spain, solid performance by



G8 Central banks' balance sheets (% of GDP)
Source: Bloomberg

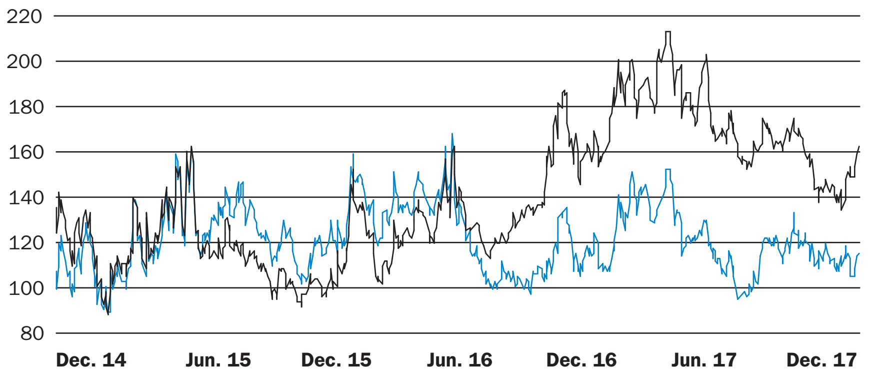


G9 German and US 10-year bond yields (%)
Source: Bloomberg

the banking sector spurred this growth. Political and geopolitical upheavals caused only temporary setbacks in surging asset markets (G13).

Financial markets in emerging economies

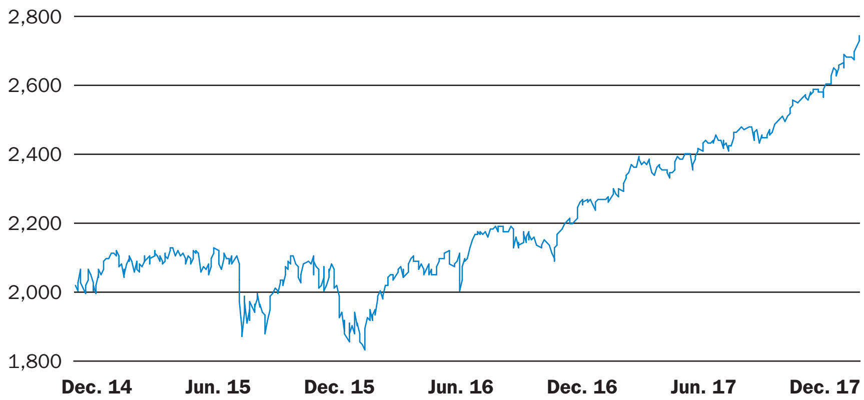
Financial markets in the emerging countries showed a generally encouraging picture. A fall in risk premiums was helped by the easing of anxieties over economic activity in China; a less aggressive discourse from president Trump; the fall in the dollar; the prospect of a gradual return to monetary policy normality in the developed countries; and an oil price that reached its highest levels in more than two years (G14). In this context, the Mexican peso looked especially vulnerable to political developments, but appreciated over the year as a whole.



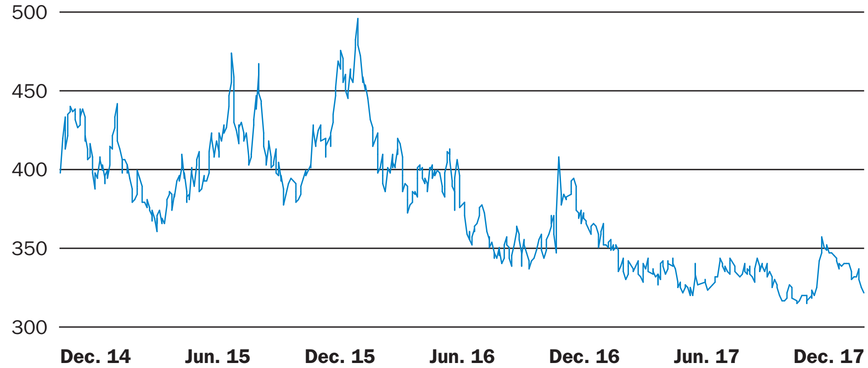
G10 Risk premiums on Spanish and Italian 10-year bonds (basis points)
Source: Bloomberg

G11 Dollar/euro exchange rate (dollars per euro)
Source: Bloomberg

G12 Sterling/euro exchange rate
(pounds per euro)
Source: Bloomberg



G13 S&P 500
Source: Bloomberg



G14 Emerging market risk premiums
(EMBI+ index, basis points)
Source: Bloomberg

Banking sector

Europe's banking system saw its capital strength improve during the year, with increases both in asset quality and in profitability. In September 2017, the average fully-loaded CET1 ratio (referring to capital of the highest quality) stood at 14.3%, up from 13,6% in September 2016. The average loan-loss ratio for EU banks fell to 4.2%, down from 5.4% in September 2016, a reflection of the progress made by EU banks in strengthening their balance sheets. Profitability was up thanks to an improved operating environment, but continued to be a major challenge for EU banks. As of September 2016, the average ROE stood at 7.1%, up 170bp year-on-year and the highest figure since 2014. Progress was uneven, however, with divergences among jurisdictions and institutions; reducing the overall level of non-performing loans and improving long-term profitability thus remain key challenges for the sector as a whole.

In Spain, low returns on the banking business continue to be an issue, as is the volume of non-performing assets which, through declining, is still high.

Regulatory environment

Banking Union

During 2017, the Single Supervisory Mechanism (SSM) continued to consolidate its supervisory role of ensuring high standards of regulation in line with international best practice. In its second full year of operation, the Single Resolution Mechanism (whose purpose is to ensure the orderly resolution of failing banks) continued to perform its functions of approving resolution plans, setting Minimum Requirements for Own Funds and Eligible Liabilities (MREL) and standardising the process for contributions to the Single Resolution Fund. In addition, the Single Resolution Board took its first resolution decisions in relation to the Spanish and Italian banking systems.

In October, the European Commission (EC) called on the European Parliament and Member States to accelerate the processes in order to bring Banking Union (BU) to completion by 2019. The EC set out an ambitious path to culminate BU based on commitments already made by the Council. The proposed measures are: to move with all speed to adopt the legislative measures proposed in November 2016 for the reduction of risk within the banking sector; to give the BU a common fiscal backstop, i.e. transform the European Stability Mechanism (ESM) into a European Monetary Fund; possible measures for sovereign bond-backed securities; a package of measures to reduce non-performing loans; to maintain a high standard of supervision (to include large corporate investors carrying on bank-like activities under the SSM), and a new proposal to establish a European Deposit Insurance Scheme (EDIS).

The new EDIS proposal aims to address the diverging views and concerns raised in the European Parliament and the Council and proposes a more gradual introduction than under the Commission's 2015 proposal. Instead of three phases, there would be only two: a more limited reinsurance phase, and then a coinsurance phase (conditional on the progress made in reducing risks). In the reinsurance phase, EDIS would only provide temporary liquidity coverage to national deposit insurance schemes. in the coinsurance phase, EDIS would also progressively cover losses.

Capital Markets Union

In mid-June the EC published a mid-term review of the Capital Markets Union (CMU), a key priority within Commission President Juncker's Investment Plan for Europe. The CMU is designed to supplement bank financing by helping to unlock more investment from the EU and the rest of the world; to connect financing more effectively to investment projects across the EU; to make the financial system more stable by opening up a wider range of funding sources; and to deepen financial integration and increase competition.

The review has come at the right time to take stock of what has been achieved so far and to discuss future challenges arising from recent developments such as Brexit and fintech. The revised action plan has been drawn up following a public consultation process and a public hearing to gauge industry opinion. The review is being conducted around a new set of priorities focused on more effective supervision by the European Securities and Markets Authority (ESMA), ensuring a more proportionate regulatory environment for SMEs, simplifying cross-border investment and developing capital market ecosystems throughout the EU. It will also explore ways to harness the transformative power of fintech and shift private capital towards sustainable investment.

In 2017 macroprudential policies continued to play an important role as a complement to monetary and microprudential policies. These policies serve to address national or sectoral imbalances and thus help to reduce disparities between the financial and business cycles. A number of European countries have implemented or announced the implementation of anticyclical capital buffer requirements with the aim of preventing and mitigating the cycle-related systemic risks that can be caused by excessive growth in aggregate credit.

As systemic risks become more severe in less well-regulated sectors, the authorities are emphasizing the need for a set of set of macroprudential tools to be deployed in the non-bank sector, where these are not currently available.

Regulatory and supervisory framework

The summer of 2017 marked the tenth anniversary of the onset of the global financial crisis, which shook the EU to its foundations and required drastic measures to stabilize the economy and the financial system. At the international level, agreement was finally reached on establishing the Basel III post-crisis regulatory framework, whose aims are to ensure greater risk awareness, simplicity and comparability with regard to solvency.

Many of these measures are now at the stage of implementation or legislative approval within the EU. The legislative package produced by the EC in November 2016 has seen progress in some areas — transitory measures for IFRS9 and the approval of a ranking of claims in insolvency — although most of them are the subject of tripartite negotiations being conducted with the Council and the European Parliament.

Other regulatory areas under discussion in 2017 and likely to remain so include: reducing non-productive assets (the European Council has launched an action plan with supervisory and regulatory initiatives for a Europe-wide approach); a review of benchmark interest rates (to make them more robust and representative), and the regulation of digital technologies (fintech, cybersecurity) to provide a level playing field, enhance security and encourage innovation.

The financial services sector is also preparing itself for a number of new regulations that will be coming into effect and will directly or indirectly affect the sector. These include changes to the IFRS9 financial reporting standard, which will bring in a new classification of financial assets and new provisioning rules based on expected loss (instead of loss incurred, as at present). Also ongoing are preparations for new regulations on investor and consumer protection (MiFID III, PRIIPs, PSD2 and new rules on mortgage lending), involving requirements for greater disclosure to customers and and markets, products and services better suited to customers' needs, and procedures for handling conflicts of interest.

Outlook for 2018

In 2018, the balance of growth and inflation is likely to be benign. As a result, growth should be more evenly distributed, both in the developed and the emerging economies, while surplus capacity will continue to be reduced. Economic growth will find support in continued low rates of interest and, in some countries, tax reductions. In such a scenario, economic risks are likely to be balanced. Inflation is expected to be positive but muted, with domestic market pressures being offset by ongoing global trends (technology, globalisation, etc.).

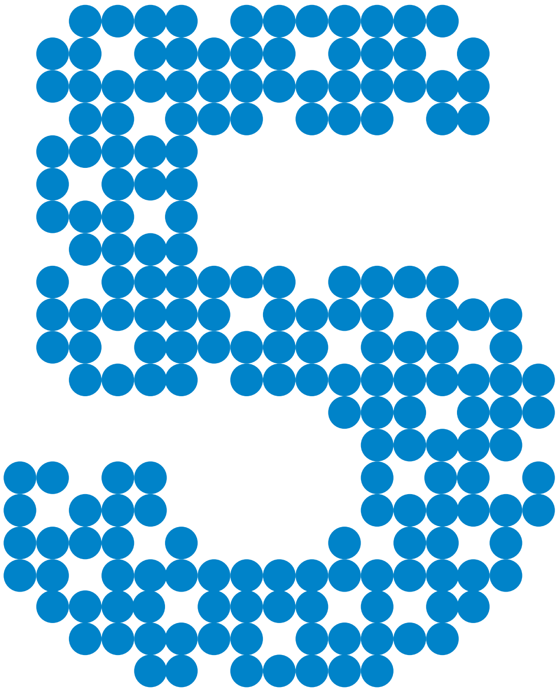
Central banks in the main developed economies are expected to move further in the direction of monetary policy normalisation. 2018 could therefore be the first year since the crisis in which the balance sheets of the main central banks do not increase in size. In fact, the year could see some tightening of financial conditions in an environment of increasing market volatility.

The emerging economies, in all probability, will prove resilient to the normalization of monetary policy by central banks in the developed economies as long as economic growth is favourable and increases in the Fed's benchmark rate are implemented gradually.

Policy is likely to be conditioned by the after-effects of the political and geopolitical events of the last few years, particularly in connection with Brexit, Trump and NAFTA. Markets could be exposed to these developments to the extent that the associated risks have not been priced in and central banks may prove to be less supportive than in the last few years.

With regard to bank regulation, a slowdown is likely in the pace of regulatory change seen in the last few years, to be followed by a period of recalibration of the measures that have been adopted, possibly with a slight bias towards deregulation.

Financial information
Banco Sabadell Group



Key figures in 2017

T1 Key Figures

		2016	2017	% 17/16
Balance sheet (€M)	**(A)**			
Total assets		212,507.7	221,348.3	4.2
Outstanding gross lending		140,557.3	137,521.7	(2.2)
Loans and advances to customers - gross		150,095.2	147,324.6	(1.8)
Funds on the balance sheet		160,948.0	159,095.3	(1.2)
Of which: On-balance sheet customer funds		*133,456.6*	*132,096.2*	*(1.0)*
Mutual funds		22,594.2	27,374.6	21.2
Pension funds and insurance brokerage		14,360.4	13,951.4	(2.8)
Funds under management		201,554.0	204,419.9	1.4
Equity		13,083.0	13,221.8	1.1
Own funds		12,926.2	13,425.9	3.9
Income statement (€M)	**(B)**			
Net interest income		3,837.8	3,802.4	(0.9)
Gross income		5,470.7	5,737.3	4.9
Pre-provisions income		2,411.5	2,612.1	8.3
Profit attributable to the Group		710.4	801.5	12.8
Profitability and efficiency ratios (%)	**(C)**			
ROA		0.35%	0.38%	
RoRWA		0.83%	1.03%	
ROE		5.59%	6.10%	
ROTE		6.72%	7.27%	
Cost:income		48.68%	50.15%	
Capital management	**(D)**			
Risk weighted assets (RWA) (€M)		86,069.9	77,638.2	(9.8)
Common Equity Tier 1 (phased-in) (%)		12.0	13.4	
Tier I (phased-in) (%)		12.0	14.3	
Total capital ratio (phased-in) (%)		13.8	16.1	
Leverage ratio (phased-in) (%)		4.7	5.0	
Risk management	**(E)**			
NPLs (€M)		9,746.0	7,925.3	(18.7)
Total NPAs (€M)		18,781.0	15,318.4(	(18.4)
NPL ratio (%)		6.14	5.14	
NPL coverage ratio (%) (excluding interest rate floors)		47.3	45.7	
NPA asset coverage ratio (%) (excluding interest rate floors)		47.4	49.8	
Liquidity management	**(F)**			
Loan to deposits ratio (%)		105.1	104.3	
Share data (period end)	**(G)**			
Number of shareholders		260,948	235,130	
Average number of shares (million)		5,452	5,570	
Share price (€)		1.323	1.656	
Market capitalisation (€M)		7,212.9	9,223.9	
Earnings per share (EPS) (€)		0.13	0.14	
Book value per share (€)		2.37	2.41	
Price/Book value		0.56	0.69	
Price/earnings ratio (P/E)		10.15	11.85	
Other information				
Branches		2,767	2,473	
Employees		25,945	25,845	

(A) This table of key figures provides an overview of year-on-year changes in the main items in the Group's consolidated balance sheet, focusing particularly on data related to loans and advances and customer funds.
(B) This section sets out key margins from the income statement for the last two years.
(C) The ratios in this section of the table have been included to give a meaningful picture of profitability and the cost:income ratio in the last two years.
(D) The ratios in this section of the table have been included to give a meaningful picture of the capital position in the last two years.
(E) This section gives some key balances and ratios related to the Group's risk management.
(F) This section gives a meaningful picture of liquidity in the last two years.
(G) This section provides data on the share price and other stock market ratios and indicators.

See list, definition and purpose of the APMs used by the Banco Sabadell Group at:
https://www.grupbancsabadell.com/en/Shareholder and Investor Information/Financial information/Alternative performance measures

Profit was on target, supported by strong growth in banking revenues (net interest income and net fees and commissions).

Net interest income has increased steadily in like-for-like terms, while the customer spread remained stable.

Fees and commissions performed very well, boosted by service fees and asset management commissions.

T2 Income statement

€M

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Interest and related income	5,170.1	4,839.6	(6.4)	3,820.5	3,605.9	(5.6)
Interest and related charges	(1,332.3)	(1,037.3)	(22.1)	(1,033.6)	(837.1)	(19.0)
Net interest income	**3,837.8**	**3,802.4**	**(0.9)**	**2,786.9**	**2,768.8**	**(0.6)**
Dividend income	10.0	7.3	(27.7)	10.0	7.1	(29.7)
Share of profit or loss of entities accounted for using the equity method	74.6	308.7	313.9	74.6	308.7	313.9
Fees and commissions (net)	1,148.6	1,223.4	6.5	1,022.8	1,127.8	10.3
Gains (losses) on financial assets and liabilities (net)	609.7	614.1	0.7	556.2	504.5	(9.3)
Exchange differences (net)	16.9	8.4	(50.1)	16.9	8.4	(50.1)
Other operating income/expense	(226.9)	(227.0)	0.1	(209.1)	(211.3)	1.1
Gross income	**5,470.7**	**5,737.3**	**4.9**	**4,258.3**	**4,514.0**	**6.0**
Personnel expenses	(1,663.1)	(1,573.6)	(5.4)	(1,235.6)	(1,178.9)	(4.6)
Recurring	(1,595.1)	(1,546.9)	(3.0)	(1,186.4)	(1,163.0)	(2.0)
Non-recurring	(68.0)	(26.6)	(60.8)	(49.3)	(15.8)	(67.9)
Other general expenses	(1,000.3)	(1,149.4)	14.9	(581.0)	(614.8)	5.8
Recurring	(981.2)	(1,116.7)	13.8	(581.0)	(614.8)	5.8
Non-recurring	(19.1)	(32.7)	71.5	—	—	—
Depreciation and amortization	(395.9)	(402.2)	1.6	(323.2)	(329.6)	2.0
Pre-provisions income	**2,411.5**	**2,612.1**	**8.3**	**2,118.4**	**2,390.8**	**12.9**
Provisions for NPLs and other impairments	(550.7)	(1,225.2)	122.5	(522.5)	(1,136.4)	117.5
Other provisions and impairments	(876.5)	(971.1)	10.8	(876.5)	(971.1)	(10.8)
Capital gains on asset disposals and other income	35.1	432.6	—	39.5	425.9	—
Negative goodwill	—	—	—	—	—	—
Profit/loss before tax	**1,019.4**	**848.3**	**(16.8)**	**758.9**	**709.1**	**(6.6)**
Income tax	(303.6)	(43.1)	(85.8)	(222.4)	5.8	—
Consolidated net profit	**715.9**	**805.2**	**12.5**	**536.5**	**714.9**	**33.2**
Minority interest	5.4	3.7	(31.5)	5.4	3.7	(31.5)
Profit attributable to the Group	**710.4**	**801.5**	**12.8**	**531.1**	**711.2**	**33.9**
Pro memoria:						
Average total assets	206,265.2	214,356.2	3.9	163,325.7	168,418.0	3.1
Earnings per share (€)	0.13	0.14	—	0.09	0.13	—

The average exchange rate applied to TSB's profit and loss account is 0.8759, the average of the monthly exchange rates in 2017 weighted by net interest income plus fees and commissions. The accumulated exchange rate in December 2016 was 0.8166.

Net interest income

Net interest income amounted to €3,802.4 million in 2017, -0.9% less than in 2016. Excluding TSB, net interest income amounted to €2,768.8 million in 2017, -0.6% less than in 2016 (T2 & T3).

In like-for-like terms (i.e. at constant exchange rates and excluding the contribution from SUB, Mediterráneo Vida and TSB's mortgage enhancement), this item increased by 4.9% year-on-year (2.9% excluding TSB).

Net interest income with constant consolidation scope (y/y change)

Banco Sabadell (excl. TSB)

+2.9%

Group

+4.9%

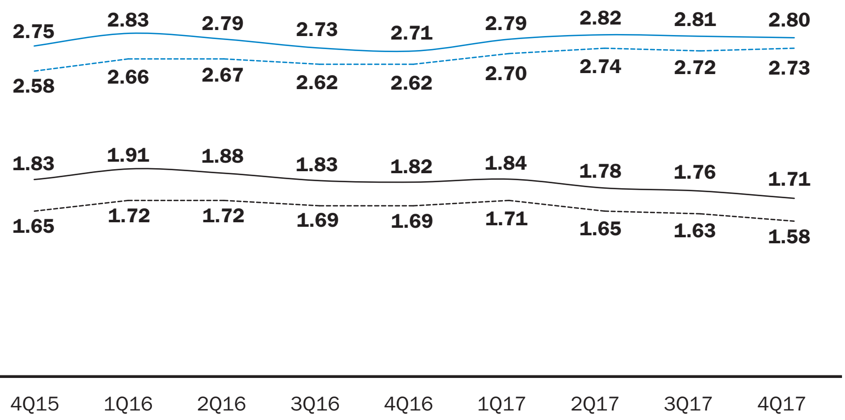
The margin on average total assets was 1.77% (1.86% in 2016). The average return on average total assets declined in spite of the increase in the customer spread (which was mainly attributable to the lower funding cost of customer deposits) because of a number of factors, principally the lower returns on fixed-income (G1 & G2).

T3 Revenues and expenses

€M

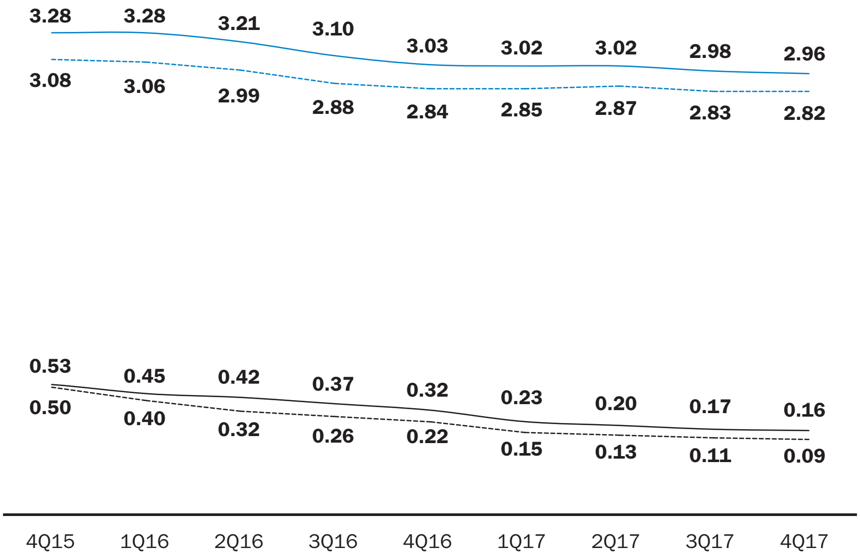
	2016			2017			17/16		Effect		
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume	Days
Cash on hand and at central banks and credit institutions	11,336.2	31.1	0.27	18,512.4	2.9	0.02	7,176.2	(28.2)	(33.4)	5.3	(100)
Loans to customers	138,202.2	4,361.3	3.16	136,937.9	4,102.1	3.00	(1,264.3)	(259.2)	(232.7)	(18.4)	(8,005)
Fixed-income securities	26,336.2	657.2	2.50	28,809.2	494.3	1.72	2,473.0	(162.9)	(187.2)	25.4	(1,171)
Subtotal	**175,874.6**	**5,049.6**	**2.87**	**184,259.5**	**4,599.4**	**2.50**	**8,385.0**	**(450.3)**	**(453.3)**	**12.3**	**(9,276)**
Equity securities	1,004.4	—	—	1,079.2	—	—	74.8	—	—	—	—
Property, plant and equipment and intangible assets	4,030.9	—	—	4,268.3	—	—	237.4	—	—	—	—
Other assets	25,355.3	84.2	0.33	24,749.2	88.6	0.36	(606.1)	4.4	—	4.4	—
Total capital employed	**206,265.2**	**5,133.9**	**2.49**	**214,356.2**	**4,688.0**	**2.19**	**8,091.0**	**(445.9)**	**(453.3)**	**16.7**	**(9,276)**
Credit institutions	18,046.2	(78.4)	(0.43)	28,553.5	(29.6)	(0.10)	10,507.3	48.8	44.7	33.9	(29,827)
Customer deposits	134,792.3	(525.0)	(0.39)	138,258.3	(266.3)	(0.19)	3,466.1	258.7	226.1	1.4	31,165
Capital market	30,214.3	(585.8)	(1.94)	26,020.3	(386.9)	(1.49)	(4,193.9)	198.9	110.5	86.7	1,708
Subtotal	**183,052.7**	**(1,189.2)**	**(0.65)**	**192,832.2**	**(682.8)**	**(0.35)**	**9,779.5**	**506.4**	**381.3**	**122.1**	**3,046**
Other liabilities	10,280.2	(107.0)	(1.04)	8,438.1	(202.8)	(2.40)	(1,842.1)	(95.9)	—	(95.9)	—
Own funds	12,932.3	—	—	13,086.0	—	—	153.7	—	—	—	—
Total funds	**206,265.2**	**(1,296.1)**	**(0.63)**	**214,356.2**	**(885.6)**	**(0.41)**	**8,091.0**	**410.5**	**381.3**	**26.2**	**3,046**
Average total assets	**206,265.2**	**3,837.8**	**1.86**	**214,356.2**	**3,802.4**	**1.77**	**8,091.0**	**(35.4)**	**(72.0)**	**42.9**	**(6,230)**

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



G1 Net interest income (%)

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



G2 Customer spread (%)

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

Gross income

Dividends received and income from equity-accounted undertakings together amounted to €315.9 million, compared with €84.6 million in 2016. Those revenues are due mainly to the insurance and pension fund business and the net commission collected by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe in the third quarter of 2017.

Net fees and commissions amounted to €1,223.4 million (€1,127.8 million excluding TSB), a year-on-year increase of 6.5% (10.3% excluding TSB). This increase was attributable mainly to positive performance by service fees, which increased by 11.5% (16.2% excluding TSB), and by asset management fees, which increased by 8.6% year-on-year.

Net fees and commissions (y/y change)

Banco Sabadell (excl. TSB)

+10.3%

Group

+6.5%

T4 Fees and commissions

€M

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Asset transactions	215.7	206.1	(4.5)	119.8	121.1	1.0
Guarantees	101.0	98.7	(2.2)	101.0	98.7	(2.2)
Commissions from risk transactions	**316.7**	**304.8**	**(3.7)**	**220.8**	**219.8**	**(0.5)**
Cards	191.2	205.7	7.6	156.1	174.4	11.7
Payment orders	50.4	54.0	7.1	50.4	54.0	7.1
Securities	50.4	60.4	19.9	50.4	60.4	19.9
Demand accounts	89.9	130.8	45.6	76.0	119.3	57.0
Rest	138.2	129.1	(6.6)	157.2	161.3	2.6
Commissions for services	**520.0**	**580.0**	**11.5**	**490.1**	**569.4**	**16.2**
Mutual funds	145.7	158.4	8.7	145.7	158.4	8.7
Pension funds and insurance brokerage	140.9	152.8	8.5	140.9	152.8	8.5
Asset management	25.3	27.4	8.2	25.3	27.4	8.2
Asset management fees and commissions	**311.9**	**338.6**	**8.6**	**311.9**	**338.6**	**8.6**
Total	**1,148.6**	**1,223.4**	**6.5**	**1,022.8**	**1,127.8**	**10.3**

Income from financial transactions amounted to €614.1 million (€504.5 million excluding TSB), including the early call of TSB's mortgage enhancement in the second quarter. In 2016, income from financial transactions amounted to €609.7 million (€556.2 million excluding TSB), including notably €109.5 million from the sale of the entire stake in Visa Europe.

Exchange differences amounted to €8.4 million, compared with €16.9 million in 2016.

Other operating revenues and expenses amounted to -€227 million (-€211.3 million excluding TSB), compared with -€226.9 million (-€209.1 million excluding TSB) in 2016. Notable components of this item include the -€98.3 million contribution to the Spanish Deposit Insurance Scheme (-€94.9 million in 2016), the -€54.7 million levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-€57.0 million in 2016), the -€50.6 million contribution to the National Resolution Fund (-€47.7 million in 2016), and the -€28.1 million tax on deposits at credit institutions (IDEC) (-€27.6 million in 2016).

Pre-provisions income

Operating expenses (personnel and general) amounted to €2.723.0 million in 2017 (€1,793.6 million excluding TSB), of which €59.3 million are non-recurring items (€15.8 million excluding TSB). In 2016, operating expenses amounted to €2,663.3 million (€1,816.7 million excluding TSB), including €87.1 million in non-recurring expenses (€49.3 million excluding TSB). The year-on-year increase was due to extraordinary technology costs at TSB that had already been planned (G3 & T5).

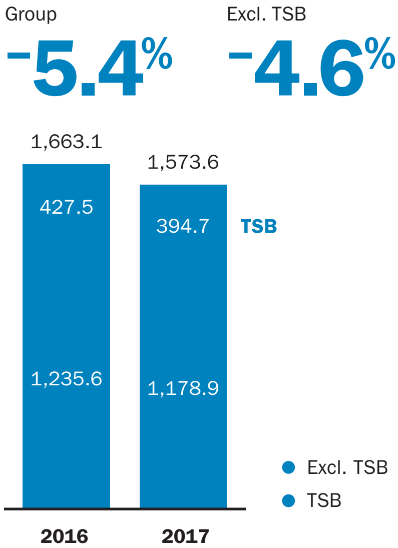
The cost:income ratio was 50.15% (42.10% excluding TSB) in 2017, compared with 48.68% (42.66% excluding TSB) in 2016.

Gross income in 2017 excludes the revenues from the early call of TSB's mortgage enhancement and the net commission received by Bansabadell Vida for the reinsurance contract with Swiss Re Europe.

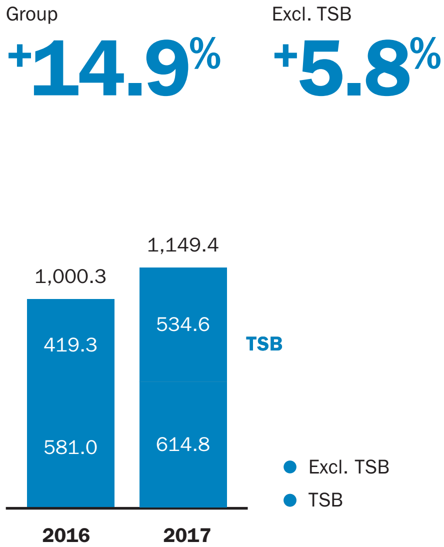
As a result, profit before provisions amounted to €2,612.1 million (€2,390.8 million excluding TSB) in 2017, compared with €2,411.5 million (€2,118.4 million excluding TSB) in 2016, i.e. an 8.3% increase (12.9% excluding TSB).

G3

Personnel expenses (y/y change)
€M



Other general expenses (y/y change)
€M



The figures for the year include extraordinary income on corporate transactions that strengthened the Group's capital and coverage position.

€M

T5 Operating expenses

	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Recurring	(1,595.1)	(1,546.9)	(3.0)	(1,186.4)	(1,163.0)	(2.0)
Non-recurring	(68.0)	(26.6)	(60.8)	(49.3)	(15.8)	(67.9)
Personnel expenses	**(1,663.1)**	**(1,573.6)**	**(5.4)**	**(1,235.7)**	**(1,178.9)**	**(4.6)**
Technology and communications	(293.6)	(438.1)	49.2	(151.2)	(157.7)	4.3
Advertising	(111.1)	(106.7)	(4.0)	(38.7)	(39.2)	1.2
Property, fittings and office material	(249.7)	(229.7)	(8.0)	(145.7)	(138.3)	(5.1)
Taxes other than income tax	(95.7)	(106.9)	11.6	(95.7)	(106.6)	11.4
Other	(231.1)	(235.3)	1.8	(149.6)	(173.0)	15.6
Total recurring	**(981.2)**	**(1,116.7)**	**13.8**	**(580.9)**	**(614.8)**	**5.8**
Non-recurring	(19.1)	(32.7)	71.5	—	—	—
Other general administrative expenses	**(1,000.3)**	**(1,149.4)**	**14.9**	**(580.9)**	**(614.8)**	**5.8**
Total	**(2,663.3)**	**(2,723.0)**	**2.2**	**(1,816.7)**	**(1,793.6)**	**(1.3)**

Provisions and impairments totalled -€2.196.4 million (-€2,107.6 million excluding TSB) in 2017, compared with -€1,427.1 million (-€1.399.0 million excluding TSB) in 2016. The increase in 2017 was mainly due to the extraordinary profits on corporate transactions, which made it possible to recognise additional provisions in the amount of €900 million gross.

Capital gains on asset sales amounted to €432.6 million (€35.1 million in 2016) and include mainly the net gain from the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of HI Partners Holdco Value Added, SAU by subsidiary Hotel Investment Partners, SL (HIP). Capital gains on asset sales in 2016 referred mainly to the €52 million capital gain on the sale of the stake in Dexia Sabadell.

Cost:income ratio in 2017

Banco Sabadell (excl. TSB)

42.1%

Group

50.1%

The core cost:income ratio improved year-on-year excl. TSB.

Profit attributable to the Group

After deducting income tax and the share of profit attributed to non-controlling interests, net profit attributed to the group for 2017 was €801.5 million, a 12.8% increase compared with the previous year. Excluding TSB, net profit attributable to the group amounted to €711.2 million in 2017, 33.9% more than in 2016.

Attributable net profit in 2017

801.5M€

17/16

+13%

ROTE in 2017

7.3%

Balance sheet

Growth in outstanding loans and advances was driven by good performance in the SME segment.

Customer funds on the balance sheet were boosted by growth in demand deposits, while off-balance sheet funds increased mainly as a result of growth in mutual funds.

NPAs declined to 3.5% of total assets, with a coverage ratio of 49.8%. Under IFRS 9, they will amount to 3.2%, with 54.7% coverage.

A sound capital position, with a CET1 ratio of 13.4% (phased-in) and 12.8% (fully loaded).

€M

T6 Balance sheet

	2016	2017	% 17/16
Cash and cash balances at central banks and other demand deposits	11,688.3	26,362.8	125.5
Financial assets held for trading	3,484.2	1,572.5	(54.9)
Financial assets at fair value through profit or loss	34.8	39.5	13.5
Available-for-sale financial assets	18,718.3	13,180.7	(29.6)
Loans and receivables	150,384.4	149,551.3	(0.6)
Debt securities	918.6	574.2	(37.5)
Loans and advances	149,465.9	148,977.1	(0.3)
Held-to-maturity investments	4,598.2	11,172.5	143.0
Investments in joint ventures and associates	380.7	575.6	51.2
Tangible assets	4,475.6	3,826.5	(14.5)
Intangible assets	2,135.2	2,245.9	5.2
Other assets	16,608.0	12,821.0	(22.8)
Total assets	**212,507.7**	**221,348.3**	**4.2**
Financial liabilities held for trading	1,975.8	1,431.2	(27.6)
Financial liabilities designated at fair value through profit or loss	34.8	39.5	13.5
Financial liabilities measured at amortised cost	192,011.0	204,045.5	6.3
Deposits	162,909.1	177,325.8	8.8
Central banks	11,827.6	27,847.6	135.4
Credit institutions	16,666.9	14,170.7	(15.0)
Customers	134,414.5	135,307.4	0.7
Debt securities issued	26,533.5	23,787.8	(10.3)
Other financial liabilities	2,568.4	2,931.9	14.1
Provisions	306.2	317.5	3.7
Other liabilities	5,096.9	2,292.8	(55.0)
Total liabilities	**199,424.7**	**208,126.5**	**4.4**
Own Funds	12,926.2	13,425.9	3.9
Accumulated other comprehensive income	107.1	(265.3)	—
Minority interests (Non-controlling interests)	49.7	61.2	23.2
Equity	**13,083.0**	**13,221.8**	**1.1**
Total equity and total liabilities	**212,507.7**	**221,348.3**	**4.2**
Guarantees given	8,529.4	8,726.8	2.3
Contingent commitments given	25,208.7	24,079.3	(4.5)
Total memorandum accounts	**33,738.0**	**32,806.2**	**(2.8)**

The EUR/GBP exchange rate used for the balance sheet is 0.8872 as of 31.12.2017.

Assets

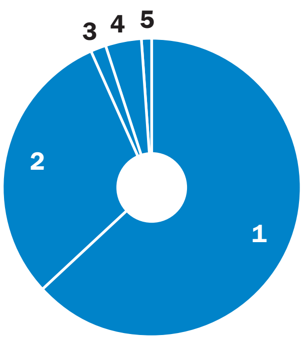
At the end of 2017, the total assets of Banco Sabadell and its Group amounted to €221,348 million (€173,203 million excluding TSB), compared with €212,508 million (€168,787 million excluding TSB) at the end of 2016. Outstanding gross loans and advances amounted to €137,522 million at year-end (€102,119 million excluding TSB). This item decreased by -2.2% year-on-year (-3.9% excluding TSB), while the balance of NPLs was reduced by -18.7% (-18.8% excluding TSB). The largest component of gross loans and receivables was mortgage loans, which amounted to €84,267 million as of 31 December 2017 and accounted for 61% of total gross loans and advances (T7) (G4 & G5).

In like-for-like terms, outstanding loans and advances amounted to €134,288 million at 2016 year-end; accordingly, this item increased by 2.4% in 2017.

T7 Loans and advances to customers

€M

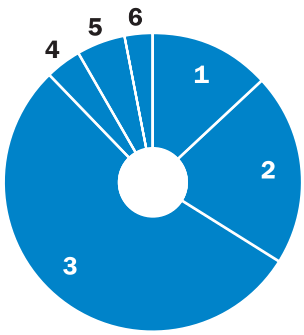
	2016	2017	% 17/16	Excl. TSB 2016	Excl. TSB 2017	% 17/16
Mortgage loans & credit	88,430.6	84,266.6	(4.7)	56,692.3	52,259.4	(7.8)
Other secured loans & credit	2,262.9	2,314.8	2.3	2,262.9	2,314.8	2.3
Commercial loans	5,530.0	5,801.6	4.9	5,530.0	5,801.6	4.9
Leasing	2,168.8	2,316.3	6.8	2,168.8	2,316.3	6.8
Overdrafts and sundry accounts	42,164.9	42,822.4	1.6	39,650.5	39,426.6	(0.6)
Outstanding gross lending	**140,557**	**137,522**	**(2.2)**	**106,305**	**102,119**	**(3.9)**
NPLs (customer loans)	9,641.5	7,867.2	(18.4)	9,478.0	7,722.9	(18.5)
Accruals	(111.5)	(65.6)	(41.2)	(142.3)	(99.7)	(29.9)
Gross loans and advances to customers, excluding repos	**150,087**	**145,323**	**(3.2)**	**115,640**	**109,742**	**(5.1)**
Repos	7.9	2,001.4	—	7.9	2,001.4	—
Loans and advances to customers - gross	**150,095**	**147,325**	**(1.8)**	**115,648**	**111,743**	**(3.4)**
NPL and country-risk provisions	(4,921.3)	(3,726.7)	(24.3)	(4,835.2)	(3,646.0)	(24.6)
Loans and advances to customers	**145,174**	**143,598**	**(1.1)**	**110,813**	**108,097**	**(2.5)**



G4
Loans and advances to customers, by product type
31.12.2017 (%) (*)

1	Mortgage loans & credit	61.3
2	Overdrafts and sundry accounts	31.2
3	Other secured loans & credit	1.7
4	Commercial loans	4.2
5	Leasing	1.7

(*) Excluding NPLs and accrual adjustments



G5
Loans and advances to customers, by customer profile
31.12.2017 (%) (*)

1	Companies	15.3
2	SMEs	19.4
3	Individuals	54.6
4	General government	4.2
5	Real estate developers	3.9
6	Other	2.6

(*) Excluding NPLs and accrual adjustments

The ratio of non-performing loans continues to fall, having reached 5.14% (6.57% excluding TSB).

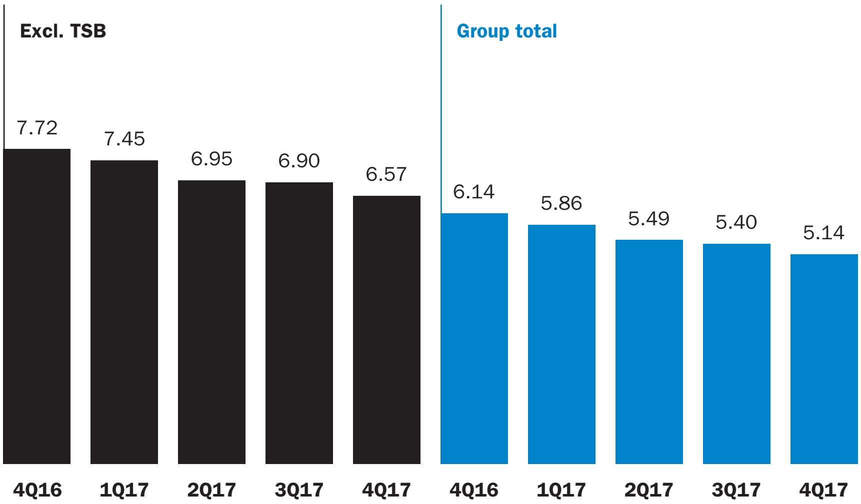
The Group's ratio of non-performing loans (G6 and T8) continues to decline due to the steady reduction in NPAs (NPLs and foreclosed properties). The NPL coverage level is comfortable, and coverage of foreclosed assets increased to 54.08% at 2017 year-end.

At the end of 2017, the Banco Sabadell Group had €7,925 million in NPLs, a reduction of €1,821 million in the year.

The balance of foreclosed assets was €7,393 million, having declined by €390 million in the year. Additionally, a new line of business (Solvia Desarrollos Inmobiliarios) has been created to focus on real estate development, with €1,252 million of assets under management (€683 million net of provisions). If those assets are taken into account, the balance of foreclosed assets was reduced by €1,642 million in the year.

Therefore, the balance of NPAs (which include NPLs and foreclosed properties) declined by €2,210 million during the year to €15,318 million. If the assets transferred to the new line of business are taken into account, the reduction was €3,462 million.

G6 NPL ratio (%)



T8 NPL ratio by segment

%

Excl. TSB	4Q16	1Q17	2Q17	3Q17	4Q17
Real estate development and construction	29.05	28.04	25.80	23.82	21.37
Non-real-estate construction	9.68	5.88	6.57	6.44	6.87
Companies	3.82	3.16	3.01	3.03	3.33
SMEs and self-employed workers	8.47	8.41	8.31	8.21	8.09
Mortgage loans to individuals	7.25	7.24	7.20	7.51	6.88
NPL ratio	**7.72**	**7.45**	**6.95**	**6.90**	**6.57**

Calculated with contingent risks and 20% of APS balance.

The quarterly trend in these assets excluding TSB (NPLs plus real estate assets not covered by the Asset Protection Scheme) can be seen in table T9.

T9 NPL and real estate exposure excl. TSB

€M

	2016				2017			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Assets classified as NPAs in the year (1)	654	660	547	700	636	526	513	617
Recoveries on loans previously written off	(1,111)	(1,629)	(880)	(1,174)	(897)	(1,067)	(706)	(956)
Removed from consolidation scope (2)	—	—	—	—	—	—	(10)	—
Ordinary net increase in NPAs	**(457)**	**(969)**	**(333)**	**(474)**	**(261)**	**(541)**	**(203)**	**(339)**
Assets classified as NPAs in the year	364	362	248	384	312	304	148	254
Sold or otherwise derecognised (3)	(404)	(290)	(406)	(457)	(379)	(355)	(302)	(1,624)
Change in real estate	**(41)**	**71**	**(158)**	**(73)**	**(67)**	**(51)**	**(154)**	**(1,370)**
Net increase in NPAs	**(498)**	**(898)**	**(491)**	**(547)**	**(328)**	**(592)**	**(357)**	**(1,709)**
Defaults	(213)	(70)	(144)	(101)	(178)	(61)	(152)	(66)
Quarterly change in NPLs and real estate	**(711)**	**(968)**	**(635)**	**(648)**	**(506)**	**(653)**	**(509)**	**(1,775)**

Figures include 20% of APS.
(1) Figures for 4Q16 include the €184 million impact of the Bank of Spain's new circular on provisions.
(2) Deconsolidation of SUB.
(3) In the fourth quarter of 2017, a new business line (Solvia Desarrollos Inmobiliarios) was created to focus on real estate development, with €1,252 million in assets under management.

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

T10 Group coverage ratios

€M

	2016				2017			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
NPLs	11,870	10,812	10,328	9,746	9,307	8,703	8,345	7,925
Provisions	6,488	5,847	5,468	5,024	4,548	4,100	4,069	3,625
NPL coverage ratio (%) (*)	**54.66**	**54.08**	**52.95**	**51.55**	**53.13**	**51.00**	**51.40**	**48.26**
Real estate assets	9,193	9,265	9,107	9,035	8,968	8,917	8,763	7,393
Provisions	3,928	3,997	3,911	4,297	4,299	4,264	4,746	3,998
Coverage of foreclosed assets (%)	**42.73**	**43.14**	**42.95**	**47.56**	**47.93**	**47.82**	**54.15**	**54.08**
Total NPAs	21,064	20,077	19,435	18,781	18,275	17,619	17,108	15,318
Provisions	10,417	9,845	9,380	9,321	8,847	8,364	8,814	7,623
NPA coverage ratio (%) (**)	**49.45**	**49.03**	**48.26**	**49.63**	**50.60**	**49.40**	**52.81**	**51.07**

NOTE: Includes contingent risks. Figures include 20% of APS.
(*) The NPL coverage ratio without adjusting for the impairment of interest-rate floors is 45.55% excl. TSB and 45.74% for the entire Group.
(**) The NPA coverage ratio without adjusting for the impairment of interest-rate floors is 49.71% excl. TSB and 49.77% for the entire Group.

NPA coverage ratio pre-IFRS 9 (excluding interest rate floors)

+49.8%

On-balance sheet customer funds

-1.0%

Off-balance sheet customer funds

+11.6%

Liabilities

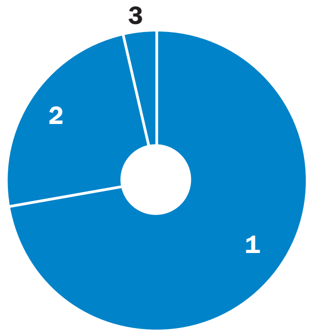
Funds under management increased by 1.4% year-on-year (2.4% excluding TSB), mainly due to growth by demand deposits and off-balance sheet funds, notably mutual funds (T11 & G7).

The balance of demand deposits totalled €98,020 million (€68,039 million excluding TSB), a 6.5% increase year-on-year (8.6% excluding TSB) (G8).

At the end of 2017, customer funds on the balance sheet amounted to €132,096 million (€97,686 million excluding TSB), compared with €133,457 million at the end of 2016 (€99,123 million excluding TSB), i.e. a decline of 1.0% (a decline of 1.4% excluding TSB). Eliminating the effect of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's mortgage enhancement, customer funds on the balance sheet amounted to €129,562 million at the end of 2016 (€95,229 million excluding TSB), i.e. a year-on-year increase of 2.0% (2.6% excluding TSB).

Off-balance sheet customer funds amounted to €45,325 million, an 11.6% increase year-on-year. Within this item, the balance of assets in collective investment institutions increased steadily, to €27,375 million as of 31 December 2017, i.e. a 21.2% increase year-on-year, while assets under management amounted to €3,999 million, a 9.5% increase with respect to 2016 year-end.

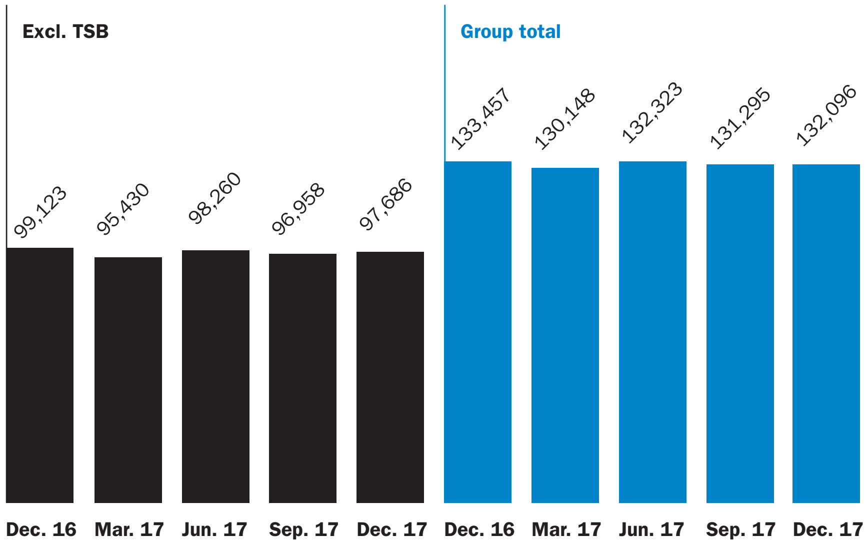
Debt securities issued (bonds and other negotiable securities and subordinated liabilities) amounted to €23,788 million at the end of 2017 (€21,845 million excluding TSB), compared with €26,534 million (€22,618 million excluding TSB) as of 31 December 2016.



G8
Customer deposits
31.12.2017 (%) (*)

1	Demand accounts	72.0
2	Deposits with agreed maturity	24.0
3	Repos	4.0

(*) Excluding adjustments for accruals and hedging derivatives.



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

T11 Customer funds

€M

	2016	2017	% 17/16	Ex-TSB 2016	Excl. TSB 2017	Excl. TSB %17/16
On-balance sheet customer funds (*)	**133,456.6**	**132,096.2**	**(1.0)**	**99,123.0**	**97,686.3**	**(1.4)**
Customer deposits	134,414.5	135,307.4	0.7	99,325.7	99,277.3	—
Current and savings accounts	92,010.6	98,019.8	6.5	62,624.0	68,039.1	8.6
Deposits with agreed maturity	40,154.0	32,425.3	(19.2)	35,206.9	27,996.1	(20.5)
Repos	2,072.2	4,749.6	129.2	1,303.0	3,119.4	139.4
Adjustments for accruals and hedges with derivatives	177.9	112.7	(36.6)	191.8	122.7	(36.0)
Debt and other tradable securities	24,987.5	21,250.5	(15.0)	21,555.2	19,764.1	(8.3)
Subordinated liabilities (**)	1,546.0	2,537.4	64.1	1,063.3	2,080.6	95.7
Funds on the balance sheet	**160,948.1**	**159,095.3**	**(1.2)**	**121,944.2**	**121,122.0**	**(0.7)**
Mutual funds	22,594.2	27,374.6	21.2	22,594.2	27,374.6	21.2
Equity funds	1,313.0	1,928.9	46.9	1,313.0	1,928.9	46.9
Balanced funds	4,253.4	6,489.7	52.6	4,253.4	6,489.7	52.6
Fixed-income funds	4,773.2	4,488.0	(6.0)	4,773.2	4,488.0	(6.0)
Guaranteed return funds	4,057.2	3,829.3	(5.6)	4,057.2	3,829.3	(5.6)
Real estate funds	88.3	125.4	42.0	88.3	125.4	42.0
Venture capital funds	21.4	38.0	77.7	21.4	38.0	77.7
Investment companies	2,065.4	2,192.1	6.1	2,065.4	2,192.1	6.1
UCITS sold but not managed	6,022.3	8,283.3	37.5	6,022.3	8,283.3	37.5
Asset management	3,651.3	3,998.7	9.5	3,651.3	3,998.7	9.5
Pension funds	4,117.0	3,986.6	(3.2)	4,117.0	3,986.6	(3.2)
Pesonal schemes	2,621.0	2,475.6	(5.5)	2,621.0	2,475.6	(5.5)
Workplace schemes	1,481.4	1,498.2	1.1	1,481.4	1,498.2	1.1
Collective schemes	14.6	12.7	(13.0)	14.6	12.7	(13.0)
Third-party insurance products	10,243.4	9,964.9	(2.7)	10,243.4	9,964.9	(2.7)
Funds under management	**201,554.0**	**204,420.0**	**1.4**	**162,550.1**	**166,446.7**	**2.4**

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: mandatory convertible bonds, non-convertible bonds of Banco Sabadell, commercial paper, etc.
(**) Subordinated liabilities in connection with debt securities.

Equity

At 2017 year-end, the Group's shareholders' equity amounted to €13,221.8 million (T12).

T12 Equity

€M

	2016	2017	% 17/16
Own funds	12,926.2	13,425.9	3.9
Capital	702.0	703.4	0.2
Reserves	11,688.0	12,106.6	3.6
Other equity	38.4	32.5	(15.4)
Less: own securities	(101.4)	(106.3)	4.9
Profit attributable to the Group	710.4	801.5	12.8
Less: dividends and coupons	(111.3)	(111.6)	0.3
Accumulated other comprehensive income	107.1	(265.3)	—
Minority interest	49.7	61.2	23.2
Equity	**13,083.0**	**13,221.8**	**1.1**

The adjusted loan-to-deposits ratio was 104.3% as of 31 December 2017, with a balanced retail funding structure.

The Liquidity Coverage Ratio (LCR) as of 31 December 2017 was above 168% excluding TSB, and 295% at TSB alone.

The funding policy focuses on maintaining a balanced funding structure based mainly on customer deposits (principally demand accounts and deposits with agreed maturity, collected through the branch network), supplemented by financing through the interbank and capital markets, where the institution has several short and long-term funding programmes to achieve an appropriate level of diversification by product type, term and investor. The institution also maintains a diversified portfolio of liquid assets, mostly eligible as collateral for Eurosystem credit transactions.

Customer funds on the balance sheet amounted to €132,096 million, a 1% decline with respect to 2016 year-end (€133,457 million). In 2017, balances continued to move from deposits with agreed maturities to demand accounts and mutual funds as a result of the downward trend in interest rates. At 31 December 2017, the balance of demand accounts had increased by 6.5% to €98,020 million, whereas deposits with agreed maturity had declined by 19.9%.

During 2017, the funding gap continued to widen, as it had in previous years, which enabled the institution to continue its policy of partially refinancing maturities in the capital markets and, at the same time, to maintain the downward trend in the loan to deposits (LtD) ratio (from 147% at 2010 year-end to 104.3% at 2017 year-end). To calculate the loan to deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) is taken as the numerator, and retail funding as the denominator (T13).

€M

	Excl. TSB 2016	Excl. TSB 2017	Group total 2016	Group total 2017
Gross loans and advances to customers, excluding repos	115,640	109,742	150,087	145,323
NPL and country-risk provisions	(4,835)	(3,646)	(4,921)	(3,727)
Loan brokerage	(4,900)	(3,110)	(4,900)	(3,835)
Adjusted net loans and advances	**105,905**	**102,986**	**140,266**	**137,761**
On-balance sheet customer funds	99,123	97,686	133,457	132,096
Loan to deposit ratio (%)	**106.8**	**105.4**	**105.1**	**104.3**

T13 Loan to deposits ratio

The EUR/GBP exchange rate used for the balance sheet is 0.8872 as of 31.12.2017 and 0.8562 as of 31.12.2016.

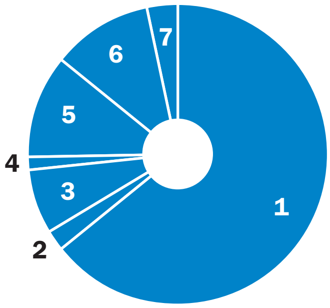
The institution continued to access the capital markets on a normal basis. €3,206 million in capital market funding matured in 2017. In contrast, Banco Sabadell issued €5,194.6 million. Specifically, it issued €1,000 million in 10-year mortgage covered bonds in April, plus a €100 million tap in October; €500 million in 8-year mortgage covered bonds, subscribed entirely by the European Investment Bank (EIB), and €1,444.6 million in senior debt in the form of six separate issues maturing between two and five years. It also placed two issues of contingently convertible preferred securities (Additional Tier 1). Banco Sabadell placed its first issue of Additional Tier 1 in the amount of €750 million on 18 May 2017, followed by a second issue in the amount of €400 million on 23 November 2017. On 5 December 2017, Banco Sabadell issued €1,000 million in senior debt at 5 years and 3 months (G9 & G10).

On 24 February 2017, the FCA approved TSB's new mortgage covered bond programme with a limit of £5,000 million. On 7 December 2017, TSB made its inaugural issue of mortgage covered bonds, placing a 5-year £500 million bond with institutional investors, paying a coupon of £ Libor 3 months + 24bp.

In March 2017, Banco Sabadell participated in the ECB's last targeted longer-term refinancing operation II (TLTRO II) for a total amount of €10,500 million, on top of the €10,000 million it borrowed in 2016 under that same framework.

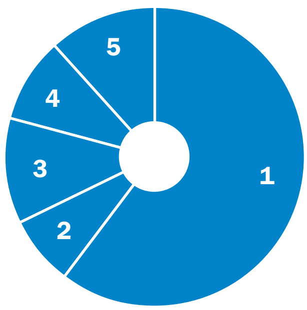
In 2016, the Bank of England implemented a number of measures to support economic growth. They included a reduction in the bank base rate and the introduction, in August 2016, of the Term Funding Scheme (TFS), designed to encourage lending by enabling UK banks to borrow for four years against eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB made use of the TFS throughout 2017, having borrowed €6,334 million by the end of the year.

The institution maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs. The Liquidity Coverage Ratio (LCR) came into force on 1 October 2015 and will be phased in until 2018. The required ratio was 80% in 2017. At group level, the LCR remained well above 100% at all times. The Net Stable Funding Ratio (NSFR) is still being studied and is pending final definition, even though it was due to come into force in January 2018; like the LCR, it is expected to be phased in. Nevertheless, the institution's ratio exceeds 100%.



G9
Funding structure
31.12.2017 (%)

1	Deposits	64.3
2	Retail issues	2.1
3	Repos	7.2
4	ICO funding	1.2
5	Wholesale market	11.1
6	ECB	10.9
7	Bank of England	3.2



G10
Breakdown of institutional issues
31.12.2017 (%)

1	Mortgage covered bonds	60.4
2	Senior debt	7.6
3	Preferred securities and subordinated debt	11.3
4	ECP + institutional commercial paper	9.2
5	Securitisation	11.5

The Bank regained investment grade.

In 2017, the three rating agencies that assess Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. Below are details of the current ratings and the last date on which they were affirmed.

On 27 June 2017, S&P Global Ratings upgraded Banco Sabadell's long-term credit rating to BBB- (from BB+) and its short-term rating to A-3 (from B), maintaining the positive outlook. This upgrade restored Banco Sabadell to investment grade. S&P Global Ratings upgraded the rating as it considers that Banco Sabadell has continued to strengthen its capital position and is making steady progress in de-risking its balance sheet. Additionally, S&P Global Ratings upgraded its rating of Banco Sabadell's subordinated debt and preference shares by two notches, to BB and B, respectively.

On 23 November 2017, Moody's Investors Service (Moody's) affirmed Banco Sabadell's long-term deposits rating at Baa2, with stable outlook, and the long-term senior debt rating at Baa3, with positive outlook. The agency took account of the improvement in credit risk despite the high volume of NPAs, the improvement in loss-absorbing capacity during the year and the existence of adequate liquidity, considering the political situation in Catalonia.

On 21 December 2017, DBRS confirmed its rating of Banco Sabadell, maintaining the long-term rating at BBB (high) and the short-term rating at R-1 (low), outlook stable. The agency highlighted the increase in core revenues despite the ongoing pressure from low interest rates, the reduction in non-performing assets (although the amount is still high when compared to the European average) and the sound financial position, supported by customers in Spain and the UK. It also appreciated the sound level of capital, supported by an improvement in internal capital generation and the recent issuance of capital instruments.

Banco Sabadell met with the three agencies in 2017. These visits or conference calls discussed the Bank's strategy, TSB's performance, results, capital, liquidity, risks, credit quality, and NPA management (T14).

T14 Credit ratings

Agency	Date	Long term	Short term	Outlook
DBRS	21.12.2017	BBB (high)	R-1 (low)	Stable
S&P Global Ratings	27.06.2017	BBB-	A-3	Positive
Moody's (*)	23.11.2017	Baa3 / Baa2	P-3 / P-2	Positive/Stable

(*) Senior debt and deposits, respectively.

Capital management

The Bank maintains a sound capital profile after implementing IFRS 9.

Capital management

Capital management is the result of an ongoing capital planning process. This process considers expected economic, regulatory and industry performance, as well as adverse scenarios. It factors in projected capital consumption in the various businesses under a number of scenarios as well as market conditions that may determine the efficacy of measures that may be taken. The process is conducted in line with the bank's strategic goals and the pursuit of attractive returns for shareholders, while ensuring that own funds are sufficient to attend to the risks inherent in the banking business.

As a general policy, the institution aims to ensure that available capital is adequate to the overall level of risks incurred.

The Group follows the guidelines established by CRD-IV and secondary legislation to determine the capital requirements inherent in the risks that are actually incurred by the institution, based on internal risk measurement models that have been validated independently. The supervsor has authorised the Group to use most of its internal models to calculate regulatory capital requirements.

The capital map by risk type at 2017 year-end is shown in figure G11.

The Group has a complex measurement system in place for each type of risk that it incurs as well as integration methodologies for each of these risks, all of which apply on an end-to-end basis and take into account possible stress scenarios and the pertinent financial planning. These risk assessment systems conform to best practices.

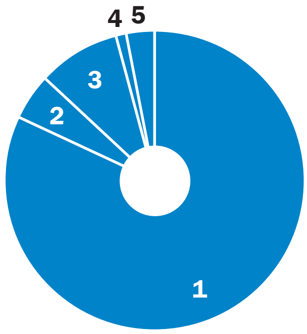
The Group performs a capital self-assessment each year. This process is based on a broad inventory of previously identified risks and on a qualitative internal assessment of policies, procedures, risk acceptance, measurement and control systems and their corresponding mitigation techniques.

An overall quantitative assessment then determines capital needs based on internal parameters using models employed by the bank (e.g. borrower credit rating or scoring systems), as well as other internal estimates suited to each type of risk. The assessments of each risk type are subsequently combined and an amount of allocated capital is determined.

Furthermore, the institution's business and financial plans and its stress tests are taken into account in order to ascertain whether business trends and possible adverse scenarios may endanger the bank's capital when compared with available equity.

The risk assessment in terms of the necessary allocated capital enables it to be compared with the returns, from transaction and customer level up to the business unit level. The Group has implemented a system to analyse the risk-adjusted return on capital (RaRoC) provided by this assessment, allowing homogeneous comparisons to be made and enabling them to be factored into transaction pricing.

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



G11 Capital map by risk type 31.12.2017 (%)

1	Credit risk	82
2	Structural risk	5
3	Operational risk	9
4	Market risk	1
5	Other	3

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

Qualifying capital and capital ratios

Regulations

The new regulatory framework under which the European Union implemented the Basel III capital accords of the Basel Committee on Banking Supervision (BCBS) came into force on 1 January 2015 and will be phased in until 1 January 2019.

This framework, structured in three pillars, regulates minimum own funds that credit institutions need to maintain, both at an individual and a consolidated level, and the way in which these own funds are to be calculated (Pillar 1), a capital self-assessment and supervisory review process (Pillar 2), and the public information to be disclosed to the market (Pillar 3).

As a Spanish credit institution, the Group is subject to CRD-IV, which has been implemented in Spain through various standards and regulations (for further details of these regulations, see Note 5 to the consolidated annual accounts for 2017).

In accordance with the requirements established in the CRR, credit institutions must have a total capital ratio of 8% at all times. However, under the new regulatory framework, regulators are empowered to require banks to have additional levels of capital.

On 14 December 2017, the institution received notice from the European Central Bank with regard to its decision on the prudential minimum capital requirements applicable to the bank in 2018, following the Supervisory Review and Evaluation Process (SREP): the Banco Sabadell Group is required to maintain a CET1 ratio of 8.3125% on a consolidated basis, measured with respect to the phased-in regulatory capital. This includes the minimum required under Pillar 1 (4.50%) and Pillar 2 (1.75%), the capital conservation buffer (1.875%) and the requirement deriving from the bank being classified as systemic (0.1875%). In aggregate, this is the level of consolidated CET1 below which the Group would be required to calculate the Maximum Distributable Amount (MDA), which would constitute a limit on the payment of dividends, variable remuneration, and coupons to holders of additional Tier 1 capital instruments.

Additionally, on the basis of the note published by the Bank of Spain on 24 November 2017 in which it identified systemically important Institutions and established their capital buffers in line with the European Banking Authority Guidelines on the criteria for the assessment of other systemically important institutions (O-SIIs) (EBA/GL/2014/10), as set out in Standard 14 and Annex 1 of Bank of Spain Circular 2/2016, Banco Sabadell was designated as an O-SII and its capital buffer was set at 0.1875% for 2018. Banco Sabadell's specific countercyclical capital buffer, calculated in accordance with Bank of Spain Circular 2/2016, of 2 February, was 0% throughout 2017.

At 31 December 2017, the Group had a CET1 phased-in capital ratio of 13.4% and, accordingly, did not incur any of the limitations referred to above.

The fully-loaded CET1 ratio amounts to 12.8%, as of December 2017, or 12.0% pro-forma the implementation of IFRS 9.

As of 31 December 2017, the group's qualifying capital amounted to €12,524 million, i.e. a surplus of €6,313 million, as shown in table T15.

Common Equity Tier 1 (CET1) accounts for 83.2% of qualifying capital. The deductions consist mainly of goodwill and intangibles.

Under Basel III, Tier 1 capital is made up of CET1 plus Additional Tier 1 capital, which comprises capital instruments in the form of preferred securities and deductions — mainly deductions due to goodwill and intangible assets in percentage corresponding to the transition period (20%) and deductions due to underprovisions for expected losses under IRB models, also in the percentage corresponding to the transition period (10%).

Tier 2 funds, which contribute 11% of the BIS ratio, are comprised mainly of subordinated debt and general-purpose provisions (subject to regulatory caps), as well as the other required deductions.

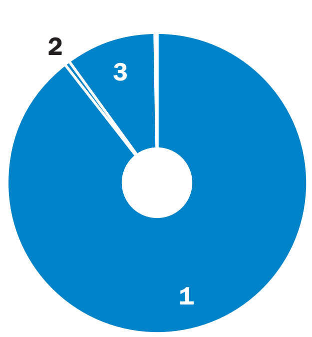
Risk-weighted assets (RWA) are broken down by risk type, as shown in figure G12; the largest single component is credit risk.

The distribution of own funds requirements for this risk class (credit risk), by segment, location and economic sector, is shown in figures G13 y G14.

Figures G15, G16, G17, G18, G19 and G20 show the distribution of EAD (exposure at default) and RWA (risk-weighted assets) by segment, and the same information detailed by calculation method.

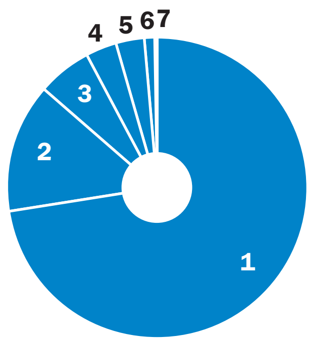
In addition to the capital ratios, the leverage ratio seeks to enhance capital requirements with a supplementary metric unrelated to the level of risk. It is defined as the quotient between qualifying Tier 1 capital and the exposure calculated in accordance with Commission Regulation (EU) 2015/62, of 10 October 2014. Table T16 shows the leverage ratio as of 31 December 2017 and 2016; it is evident that the institution amply exceeds the minimum required by the supervisor.

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



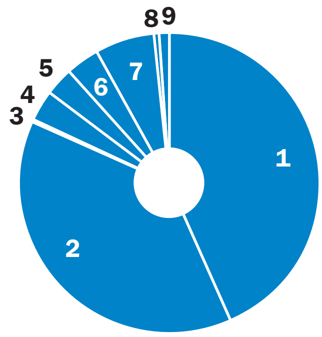
G12
Capital requirements, by exposure type
31.12.2017 (%)

1	Credit risk	89.5
2	Market risk	0.7
3	Operational risk	9.8



G13
Capital requirements, by region
31.12.2017 (%)

1	Spain	72.6
2	UK	13.8
3	Latin America	5.9
4	Rest of EU	3.4
5	North America	3.1
6	Rest of the world	1.2
7	Rest of OECD	0.0



G14
Exposure, by segment
31.12.2017 (%)

1	Finance, commerce and other services	43.6
2	Individuals	38.3
3	Extractive industries	0.2
4	Manufacturing industries	3.3
5	Energy production and distribution	3.1
6	Real estate	3.5
7	Transport, distribution and hospitality	6.6
8	Agriculture, livestock and fishing	0.4
9	Construction	1.0

T15 Composition of the capital ratios

€M

	2016	2017	% 17/16
Capital	702.0	703.4	0.2
Reserves	11,874.2	12,106.6	2.0
Convertible bonds	—	—	—
Minority interest	21.5	16.9	(21.3)
Deductions	(2,265.4)	(2,403.8)	6.1
CET1 capital	**10,332.4**	**10,423.1**	**0.9**
CET1 (%)	12.0	13.4	—
Preference shares, convertible bonds and deductions	—	697.9	—
AT1 capital	**—**	**697.9**	**—**
AT1 (%)	—	0.9	—
Primary capital	**10,332.4**	**11,121.0**	**7.6**
Tier I (%)	12.0	14.3	—
Secondary capital	**1,519.2**	**1,403.3**	**(7.6)**
Tier II (%)	1.8	1.8	—
Total capital	**11,851.6**	**12,524.3**	**5.7**
Minimum capital requirement	6,885.6	6,211.1	(9.8)
Capital surplus	**4,966.0**	**6,313.2**	**27.1**
BIS ratio (%)	**13.8**	**16.1**	**—**
Risk weighted assets (RWA)	**86,070.0**	**77,638.2**	**(9.8)**

T16 Leverage ratio

€M

	2016	2017
Tier 1 capital	10,332.4	11,121.0
Exposure	217,918.6	223,785.8
Leverage ratio	**4.74%**	**4.97%**

Capital-raising

In the last five years, the bank has increased the capital base by more than €5,000 million through organic generation of profits and through issues that qualify as Tier 1 capital, including the €1,607 million rights issue in 2015 as a result of the TSB acquisition (T17).

The change in phased-in common equity tier 1 (CET1) between 2016 and 2017 is mainly due to retained earnings, higher deductions and two issues of contingently convertible preferred securities in 2017, amounting to €750 million and €400 million. Those two issues not only increased the phased-in CET1 ratio but also optimised Banco Sabadell's capital structure.

Risk weighted assets (RWA) for the year amount to €77,638 million, a 9.80% decrease compared with the previous year. This change is due mainly to the sale of subsidiary Sabadell United Bank, the application of the Group's new models to calculate the capital requirements for private individuals and adjustments, and the improvement in customers' credit profiles.

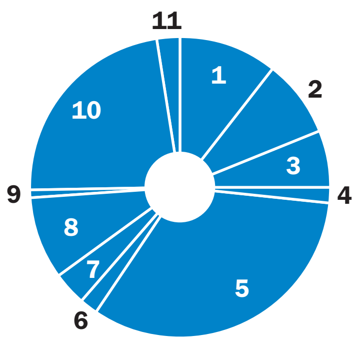
All of these capital-raising issues and events, which impacted both available capital and risk-weighted assets, enabled Banco Sabadell to reach a phased-in common equity tier 1 (CET1) ratio of 13.4% in December 2017, and a total capital ratio of 16.1%, amply exceeding the standards required by the regulatory framework.

T17

€M

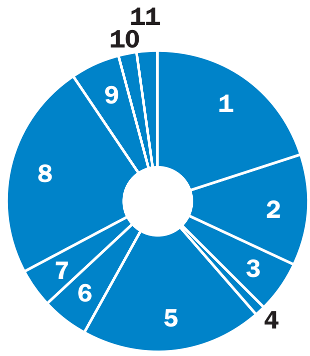
		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity raised through accelerated book building, and repurchase of preferred securities and subordinated debt)	411	+68 bp of Core Tier I
February 2012	Preference shares swapped for ordinary shares	785	+131 bp of Core Tier 1
March 2012	Capital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

Note: The impact on capital (in basis points) is calculated using the year-end data for each year; these figures have varied significantly due to the increase in the Group's consolidation scope in the last few years.



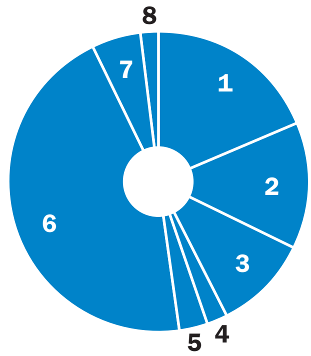
G15
EAD by segment
31.12.2017 (%)

1	Companies	10.7
2	Corporate SME	8.3
3	Retail SME	6.3
4	Retailers and sole proprietors	1.5
5	Mortgage loans	32.7
6	Loans	2.1
7	Other retail	3.6
8	Other	8.7
9	Equities	0.8
10	Public sector	23.0
11	Financial institutions	2.3



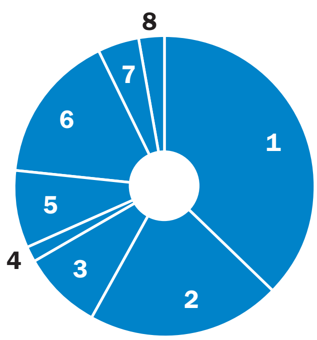
G16
RWA by segment
31.12.2017 (%)

1	Companies	20.1
2	Corporate SME	12.0
3	Retail SME	5.4
4	Retailers and sole proprietors	1.1
5	Mortgage loans	19.5
6	Loans	5.1
7	Other retail	4.1
8	Other	23.3
9	Equities	5.5
10	Public sector	1.7
11	Financial institutions	2.2



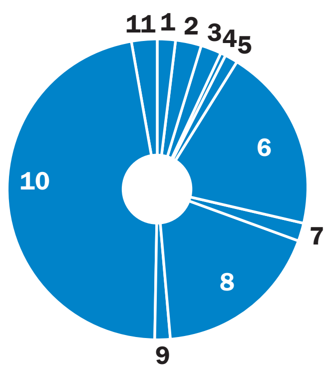
G17
EAD by segment, using IRB method
31.12.2017 (%)

1	Companies	18.8
2	Corporate SME	13.5
3	Retail SME	10.3
4	Retailers and sole proprietors	2.4
5	Loans	3.0
6	Mortgage loans	44.9
7	Other retail	5.2
8	Financial institutions	1.9



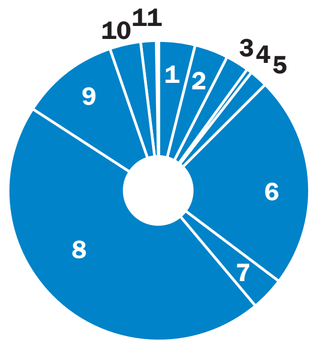
G18
RWA by segment, using IRB method
31.12.2017 (%)

1	Companies	37.4
2	Corporate SME	20.9
3	Retail SME	8.6
4	Retailers and sole proprietors	1.7
5	Loans	8.4
6	Mortgage loans	16.0
7	Other retail	4.5
8	Financial institutions	2.5



G19
EAD by segment, using standard method
31.12.2017 (%)

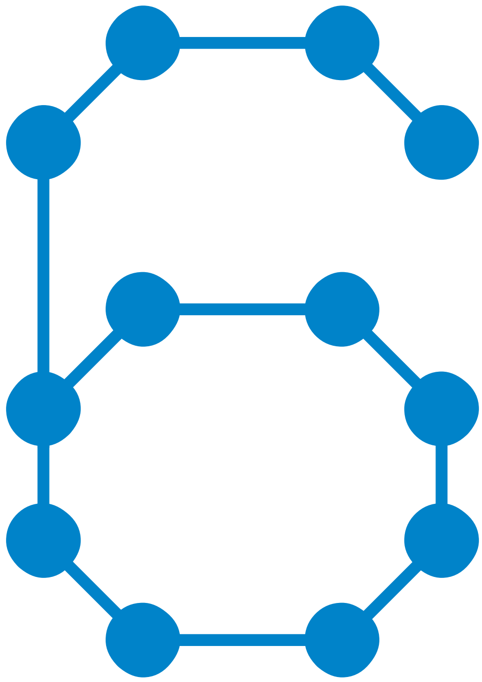
1	Companies	2.1
2	Corporate SME	2.9
3	Retail SME	2.1
4	Retailers and sole proprietors	0.6
5	Loans	1.3
6	Mortgage loans	20.0
7	Other retail	1.9
8	Other	17.9
9	Equities	1.6
10	Public sector	47.0
11	Financial institutions	2.6



G20
RWA by segment, using standard method
31.12.2017 (%)

1	Companies	3.9
2	Corporate SME	3.8
3	Retail SME	2.4
4	Retailers and sole proprietors	0.6
5	Loans	2.0
6	Mortgage loans	22.7
7	Other retail	3.7
8	Other	45.1
9	Equities	10.6
10	Public sector	3.3
11	Financial institutions	1.9

Businesses



The Group is organised into the following business areas and has six autonomous regional divisions.

Banco Sabadell offers a full range of banking and financial services through its financial institutions, brands, subsidiaries and affiliates.

There, wherever the customer is.

Highlights

— Improvement in net fees and commissions.
— Stronger relationships between the Bank and its customers.
— Substantial increase in insurance business, especially in insurance linked to products.
— Greater production of home and consumer loans and a sharp increase in mutual funds.

Profit before taxes

1,124.9€M

Fees and commissions (net)

+10.5%

Business overview

Commercial Banking is the largest of the Group's business lines. It focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers and sole proprietors, professional groupings, entrepreneurs and private individuals. Its high degree of specialisation ensures that customers receive a top-quality, personalised service that is fully oriented to meeting their needs, whether from expert staff throughout its extensive, multi-brand branch network or via other channels that support the customer relationship and give access to digital banking services. It includes the Group's Bancassurance and Sabadell Consumer businesses.

Commercial Banking comprises the company, business and public sector segments and the individual customer segment operating under the "Sabadell" brand (registered as "BSabadell").

Commercial Banking

Customer segments

- Companies, businesses and public sector
  - Companies
    - Domestic market
    - International operations
    - Medium- and long-term finance
  - Businesses
    - Pre-approved loans
    - New customers - retailers
    - Franchising
    - Institutional clients
    - Agricultural sector
    - Tourism
  - Public sector
- Individuals
  - Active Management
  - Personal Banking
  - Expatriates
  - Young people

Brands

- SabadellHerrero
- SabadellGallego
- SabadellGuipuzcoano

BStartup

Bancassurance

- BanSabadell Vida
- BanSabadell Pensiones
- BanSabadell Seguros Generales
- BanSabadell Previsión, E.P.S.V.
- BanSabadell Mediación

Sabadell Consumer Finance

Management priorities in 2017

2017 was a transition year between the Group's Triple business plan, which prioritised an increase in profitability and transformation of the business model, and the new Sabadell 2020 business plan, focused on strengthening the existing business and growing in areas with potential. The aim is to continue advancing in order to become the bank we want to be based on transforming the business, strengthening the brand and consolidating leadership in customer experience and risk transformation.

Commercial Banking is structured into the company, business and public sector segment and the individual customer segment, operating under the "Sabadell" brand (registered as "BSabadell").

For companies, the focus has been on attracting customers and growing the loan portfolio. In 2017, this led to additional growth in market share, further reinforcing Banco Sabadell's position as a leading bank for business.

To attract customers, Banco Sabadell has continued to focus on micro-enterprises and retailers, training up managers to specialise in this segment and developing tailored products to generate differential value.

With regard to lending, and in a context of economic recovery, Banco Sabadell maintained its commitment to the customer, providing access to financing, partly based on agreements with regional, national and European administrations to help meet companies' borrowing requirements.

Banco Sabadell continues to be an acknowledged domestic leader in the franchising market and in strategic growth sectors, such as tourism, and has increased its presence in agriculture. In order to further hone this specialisation policy in order to enhance customer service, Banco Sabadell has set up a unit for religious institutions to meet this segment's specific needs. It also remains a leading specialist in banking services for public administrations.

More than 5.5 million individual customers, 4.2 million of whom are active, account for approximately half of the Bank's total retail margin. There has been a sharp increase (by more than 250,000) in the number of customers who consider Banco Sabadell to be their main bank.

The Cuenta Expansión account is the market-leading product, offering the best solutions for customers' day-to-day financial needs. The Cuenta Expansión account charges no commissions for account maintenance, credit and debit cards, cash withdrawals from ATMs and transfers, and gives cash back on household standing orders.

In addition to having the best range of transactional products, we are committed to providing an excellent customer experience. In this connection, the account opening process has been simplified, enabling the account manager to devote more time to customers and less time to paperwork.

The Bank is fundamentally committed to commercial transformation in order to adapt to customers' needs. This is embodied in the development of digital services (the app, SabadellWallet, Bizum, Instant Money, etc.) and consolidation of the Active Management service with all the necessary capacity to operate and sign up for products remotely.

Banco Sabadell leads the way in serving professional/occupational associations throughout the country. Its services for this segment are based on a close relationship with associations, enabling it to be aware at all times of the specific needs of their members and to provide the financial products and services best suited to their needs.

The Banco Sabadell unit that manages agreements with professional and occupational associations focuses primarily on winning new business with individuals, retailers, SMEs and professional practices. In 2017, there were 3,113 partnership agreements in place with professional associations and occupational groupings, covering a total of 2,926,000 individual members, of whom more than 772,000 were customers of the Bank and accounted for over €24,000 million in business.

The Bank's agent network is seen as an efficient channel for capturing new business; in 2017, more than 45,300 new customers were acquired in this way, Business from this source amounted to more than €9,420 million,

Key business data

In 2017, net interest income attributable to Commercial Banking amounted to €2,278.9 million and profit before tax amounted to €1,124.9 million. The ROE was 21.3%, and the cost:income ratio was 45%. Net lending increased by +0.5%, customer funds on the balance sheet were stable and off-balance sheet funds rose by +7.7%, mainly as a result of growth in mutual funds (T1).

In 2017, net profit attributable to Commercial Banking amounted to €886.0 million, a year-on-year increase of 8.3% taking into account the disposals of Mediterráneo Vida and Exel Broker, the net commission received by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the extraordinary increase in provisions and impairments. Gross income increased by 9.4% to €3,202.4 million. Core revenue increased by 2.2% to €3,120.2 million, or by 4.0% on a constant consolidation scope basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income amounted to €2,278.9 million, stable with respect to 2016. It increased by 1.7% in constant consolidation scope terms.

Equity-accounted affiliates and dividends include a net commission received by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe.

Net fees and commissions totalled €841.3 million, i.e. 10.5% higher than in the previous year, due to sound performance by commissions on demand accounts and credit cards.

Income from financial transactions and exchange differences was impacted by the sale of non-performing loan portfolios.

Administration expenses and amortisation and depreciation charges amounted to -€1,467.6 million, a 0.8% decrease on the same period in the previous year, and the cost:income ratio was 45%.

Provisions and impairments amounted to -€631.5 million, including the extraordinary provisions recognised in the year.

With regard to the key balance sheet figures, net lending increased by +0.5%, customer funds on the balance sheet were stable and off-balance sheet funds rose by +7.7%, mainly as a result of growth in mutual funds.

T1 Commercial Banking

€M

	2016	2017	% 17/16
Net interest income	**2,292**	**2,279**	**(0.6)**
Equity-accounted affiliates and dividends	52	304	484.6
Fees and commissions (net)	761	841	10.5
Net income from financial transactions and exchange differences	20	(37)	(285.0)
Other operating income/expense	(198)	(185)	(6.6)
Gross income	**2,927**	**3,202**	**9.4**
Administrative expenses and depreciation	(1,480)	(1,468)	(0.8)
Operating profit/(loss)	**1,447**	**1,734**	**19.8**
Provisions and impairments	(317)	(632)	99.4
Gain/(loss) on derecognition of assets, etc.	15	22	—
Profit/(loss) before tax	**1,145**	**1,124**	**(1.8)**
Income tax	(327)	(238)	(27.2)
Profit/(loss) after tax	**818**	**886**	**8.3**
Minority interest	—	—	—
Profit/(loss) attributable to the group	**818**	**886**	**8.3**
Ratios (%)			
ROE (profit / average shareholders' equity)	18.2%	21.3%	—
Cost:income (general administrative expenses / gross income)	49.6%	45.0%	—
NPL ratio (%)	7.7%	6.4%	—
Coverage ratio (%)	39.7%	40.5%	—
Assets	**161,286**	**158,697**	**(1.6)**
Loans and advances to customers (net), excluding repos	74,760	75,121	0.5
Liabilities	**156,922**	**154,718**	**(1.4)**
On-balance sheet customer funds	79,543	79,475	(0.1)
Assigned capital	**4,365**	**3,979**	**(8.8)**
Off-balance sheet customer funds	**21,989**	**23,691**	**7.7**
Other indicators			
Employees	11,865	11,427	—
Branches	2,105	1,868	—

Customer segments

Companies, businesses and public sector

Companies

Solid growth in performing loans driven by robust activity in companies and SMEs.

T2 Key indicators for the Companies segment

New customers	129,160
Market share of sole proprietors	19.74%
Market share of micro-enterprises	33.75%
Market share of SMEs	51.10%
Market share of large corporations	74.07%
Market share of companies (*)	35.90%

(*) Excluding sole proprietors.

For yet another year, Banco Sabadell maintained its leadership in the SMEs and Large Corporations business, as acknowledged by the net promoter score obtained in surveys and embodied by Banco Sabadell's ongoing commitment to companies (T2).

The account manager is the pivotal element in the Bank's relationships with customers; to respond to their every need, Banco Sabadell provides its customers with access to a range of specialists — international, structured financing, cash management, insurance, etc. — in a bid to achieve excellence in customer service. Banco Sabadell offers specialist services to major corporations via its network of 40 corporate banking branches distributed throughout Spain.

Against a backdrop of inexorable digital evolution, Banco Sabadell has commenced a transformation process to make customers' relations with the Bank even easier. Evidence of this are the changes in remote banking and the digital support service offered to the Bank's new customers in a context of e-banking.

Unquestionably, obtaining funding is one of the main concerns for major corporations and SMEs alike. In this business segment, the Bank's ambition is materialised through general financing lines for companies, enabling them to plan their annual investments knowing that they will have access to the necessary credit at all times. As ever, Banco Sabadell stands shoulder-to-shoulder with companies in their growth and consolidation processes. New funding production by Banco Sabadell increased by 10.13% in 2017 compared with the previous year. Banco Sabadell's positioning as a lender to companies has always been grounded in the principle of "knowing the customer" and rigorously applying the Group's risk policy at all times; as a result, the Bank has been able to lend more while reducing its loan loss ratios at the same time.

The Bank stepped up new deposit capture by 1.22% year-on-year despite the extraordinary complexity of the year and the negative rates context.

The Companies sub-segment is structured by product type, differentiating domestic transactions, international transactions, and medium and long-term financing.

Domestic transactions comprise factoring and reverse factoring products. In 2017, the Bank focusing actively on adding value, service and accompaniment to products aimed at companies.

It worked to enhance the reverse factoring product to afford customers greater flexibility, for example with the option of choosing invoices or establishing a standard deferral period to adapt to customers' needs. The Bank has also set up international reverse factoring in the currencies most widely used by our customers. Banco Sabadell also launched a reverse factoring product for wineries, providing specialised funding for the purchase of wine and cava.

In factoring, the Bank increased product functionality by introducing the option of pre-financing and subsequent factoring with a hedge. This makes it possible to provide integrated financing solutions that range from funding capital goods to payment collection, covering all the customer's needs and incorporating a commercial guarantee. Foreign exchange transactions automatically include exchange insurance. In the area of syndicated factoring, it is now possible to arrange syndicated transactions in any listed currency, enabling the Bank to manage complex operations as the agent bank.

As for international operations, the Bank maintained a high share of Spain's foreign trade business, having expanded in terms of both customer numbers and business

In 2017, we maintained our drive to offer more up-to-date, more specialised products and services.

volume. It also continued to pursue its innovation policy, having released the international business app, the first specialist app that includes an agenda of events and international service resources. It also includes Sabadell Go Export, enabling importing and exporting companies to benefit from information and services of interest to them. The Bank has developed a survey tool to ascertain customers' preferences and a market intelligence area *to pinpoint the best markets for Spanish companies.*

In the final part of the year, Banco Sabadell successfully launched Sabadell International Business Program, under which the bank offers to actively devise an international business development plan for customers based on support services and professional coaching by external instructors and others from the Bank itself with a university qualification.

At the same time, progress continued on the Export to Grow program, aimed at providing companies interested in expanding abroad with information on essential aspects; specific sessions on the US and India were held in the main Spanish cities.

Another example of innovation is the creation of Sabadell Link, related to the network of representative offices in more than 14 countries, which offers a value-added service for customers by organising individual, tailored sessions in line with customers' needs. By video-link, Sabadell Link provides macroeconomic data about the country, as well as its political and financial situation, its main industries and commercial opportunities for customers, efficiently facilitating initial contacts with the various markets via digital channels.

Banco Sabadell has introduced a number of product enhancements in the area of medium and long-term financing products, specifically leasing. It introduced flexible-instalment leasing products to adapt the product to the cash flow and/or business projections of companies in any industry. At the same time it launched a tool for comparing the tax impact of loans, leases and self-financing to enable customers to choose the best possible funding option, based on a table showing depreciation tables allowed for tax purposes and the advantages in each case. The Bank accounts for one out of every four property leasing transactions in Spain.

The vehicle and equipment leasing business is gaining in strength, with 24% year-on-year growth expected. That growth is based on maintaining profitability and on the improvement in the internal customer assessment score, placing the product among the top 20 in commercial banking.

Businesses

In order to continue strengthening our capacity to attract customers and secure their loyalty, and to focus our commercial activity, in 2017 Banco Sabadell continued to implement its "Plan Negocios", a plan for business with a strong product range made available through the Cuenta Expansión Negocios Plus account, using the Proteo Mobile tool with enhanced functionalities to support account managers when they visit customers in their offices and enabling them to perform the entire commercial process in a single visit, and with the Kelvin Retail value-added service for retailers.

In 2017, Banco Sabadell updated and improved its support plan for this segment with a view to strengthening the capacity to secure early customer loyalty through centralised actions, prioritising the digital channel.

In the final quarter of 2017, a new operating account manager role was approved with the aim of attracting customers and securing their loyalty in this segment, to be fully rolled out in early 2018.

In terms of recognition in 2017, the Cuenta Expansión Negocios account was voted the best business account in 2016 by Rankia, one of the leading online financial portals. The Kelvin Retail service was also listed as one of the top 100 ideas in the banking category by Actualidad Económica.

The Businesses sub-segment encompasses pre-approved loans and focuses on adding customers in the retail, franchise, institutional, and agricultural and tourism segments.

The Bank has upgraded its loan pre-approval model, which is now automated. This constitutes a qualitative leap in how this segment and its borrowing requirements are managed, speeding up the process of obtaining financing. During the year, the Bank offered €4,000 million in pre-approved loans to a portfolio of 146,000 customers, resulting in €900,000 million of new loan production.

In order to attract retailers, in 2017 the Bank continued the "Creemos" (We believe) campaigns in 24 towns and cities all over Spain. The aim of the campaign is to encourage people to visit shops in their town, spend some money and give a boost to business in the area, while encouraging account managers to make out-of-branch visits. In each town, the campaign is supported by press, radio and billboard advertisements, giving it widespread publicity and a resounding media impact.

In the area of franchises, the Bank seeks to leverage franchisers' strong influence on franchisees to bring them on board as customers. This has boosted volumes and the profit margin in a sector that continues to have high potential. In 2017, the number of franchisers totalled 1,387, a 5.4% increase on the previous year, with almost €30,000 million in overall turnover and around 300,000 employees. Franchises account for 11.1% of retail trade in Spain, and over 30% in the rest of Europe. Their share of retail turnover is growing steadily, while their bad debt ratios are below the average for retail outlets.

Among institutional customers, the Bank's specialist unit has continued to address the negative rates scenario in financial markets in the short term. This led to a decrease in business as customers have sought to avoid negative returns where possible. Demand deposits remained stable under the system that exempts certain amounts from negative rates. Fixed-income, equities and mutual fund brokerage services expanded among Banco Sabadell's customers and it has continued to distribute alternative investment products such as the venture capital fund, corporate finance proposals and property solutions.

In mid-2017 Banco Sabadell set up a new unit to deal with religious institutions, in order to offer this customer segment the specialised services that it requires. During the year, Banco Sabadell worked to adapt the range of products and services based on customer needs in this segment.

In the agricultural sector, meanwhile, the Bank has more than 500 branches and more than 700 specialised account managers. It has expanded its customer base in the farming, livestock, forestry and agro-food sub-sectors and has broadened the product range to better adapt to customers' needs. This has enabled the Bank to respond efficiently to customers and to greatly increase customer capture and loyalty rates. At present, the agro business arm Sabadell Negocio Agrario manages a turnover of more than €3,400 million, a 4% increase on the previous year, and has earned the trust of more than 42,300 customers, a 9% increase year-on-year.

The tourism industry has posted healthy figures in the last few years, especially in hotel development projects, which have become one of the top targets for lenders. This segment is booming, setting records in terms of revenues and occupancy; more than 82 million foreign tourists visited Spain in 2017, providing total revenues of €86,000 million. Through its unit specialising in the tourism industry, Banco Sabadell has consolidated its position as a key player in the segment through specialist advice, transaction support, and a global catalogue of products and services specifically tailored to the business.

Public Sector

In 2017 the performance of the public sector continued to be shaped by two distinguishing factors: Spain's autonomous regional liquidity fund (Fondo de Liquidez Autonómico — FLA) and the sound financial position of most municipal governments as a result of the measures adopted by the central government to contain spending. This initial situation led to sizeable surplus liquidity at these bodies, slowing the demand for credit to support their investment plans.

In the first half of the municipal legislative term, investments undertaken using own funds. In mid-2017, the volume of tender notices for investment projects in infrastructure, environment and energy efficiency began to rise.

In addition, benchmark interest rates remained negative, and the entire public sector continued to follow the prudential financial criteria set on a monthly basis by the Finance, Industry and Competitiveness Ministry (maximum/regulated prices), making it difficult to maintain margins in this customer segment. The decline in interest rates did not prevent the Bank from expanding market shares and margins. By introducing fees for treasury services, the Bank managed to ramp up its market share in investment and resources to 7.59% and 7.67%, respectively. It also increased its share of customers, to 19.40%.

Banco Sabadell has continued to pursue a commercial policy based on the high degree of fragmentation among public sector entities, enabling it to expand treasury services and transactions and consolidate its position as a leading player in this segment.

Individuals

The Individuals business contributes around half of the Bank's total profit.

It pivots upon three main axes: the Cuenta Expansión account, as market leader, a broad selection of transactional products and a commitment to commercial transformation as evidenced by the digital transformation (app, BS Wallet, Bizum, Instant Money, etc.) and the consolidation of Active Management, with strong distance banking features.

The Individuals segment also encompasses the Active Management, Personal Banking, Expatriates and Young People sub-segments .

Links with customers as a lever to build long-term relationships.

Active Management

Active management is a new form of interaction with customers that allows us to "be wherever the customer is". Each customer is assigned an account manager equipped with tools and capabilities to interact with the customer in a closer, more flexible and more timely way without requiring a visit to the branch.

It has successfully added eight new direct management branches throughout the territory, as a pilot deployment ahead of the forthcoming roll-out, in addition to the nine branches already open for business.

Active Management obtains good results in terms of production, with sales exceeding expectations, and excellent levels of activity in consumer lending.

In terms of capacities, solutions were implemented to improve assisted management and self-service, in applying for loans and mortgages and arranging pension and savings plans. Furthermore, progress was made to improve the administrative management of branches by deploying horizontal tools.

Consolidation of the new customer relation model.

Personal Banking

In Personal Banking, in 2017 the Bank unveiled its Integrated Personal Banking Commitment, as the pivotal axis of our relationship with customers, to whom we offer the assistance of a specialised account manager, an offer tailored to their needs and an annual interview to provide thorough coverage of all their needs. The offer also includes a personalised year-end report with the tax benefits applicable to the specific customer, as well as proactive management of their satisfaction in the process of switching account manager. All of this with the commitment to maximum availability through all our channels.

We have also enhanced the value proposal for customers who are shareholders, so as to reward their loyalty and commitment to the Bank, through the Cuenta Expansión Premium account, which gives cash back on household standing orders and an exclusive shareholders' gold card. Furthermore, the Executive Contract has been redesigned to give prominence to a customer profile that has traditionally been highly significant.

We continue to rank second in customer experience, with a score of 8.46, underpinned by our customers' satisfaction with their account manager. In 2017, the Bank had more than 258,000 customers, a 0.5% increase on the previous year.

Committed to customers.

Expatriates

Expatriates are a key segment of the Individuals business and totalled more than 770,000 customers in 2017, accounting for 11.4% of revenues and 18% of total mortgage production.

A network of 198 specialist branches (12% of the total), half of which come from the Solbank brand, offers high-quality customer service, resulting in the top branch satisfaction score as ranked by individual customers, of 8.63. Customers, mainly British, German and French, appreciate that we are able to speak their language and that our range of products suits their needs.

Banco Sabadell meets the needs of foreign customers with a value proposition based on the reality of its two main targets: residential tourists and expatriates. Customers in both these segments are highly digitalised customers and tend to bank on-line.

Based on these requirements and on the customer profile, in the past year the Bank launched its Welcome Service, an online platform to welcome and accompany expats and residential tourists in which they can find expert assistance in both financial and non-financial solutions, and card transfer, a currency transfer service using their bank card from their country of origin to their account at the Bank, using either the app or the web interface.

Banco Sabadell is strongly committed to the international customers segment.

Young people

For young people, includes children and adults up to age 30, the product range was improved and the Bank launched its Mi Primer Sabadell (My First Sabadell) programme, aimed at forging a lasting relationship that will adapt to customers' financial requirements over their lifetime.

In 2017, the Cuenta Expansión account was adapted to offer all young people aged between 18 and 30 the advantage of not paying commissions, receiving cash back for bills and obtaining free services without having the need for regular income.

The Mi Primer Sabadell programme helps each age group, with the support of their families, to embark on their first financial experience: their first savings, their first card payment and their first pay check. Each of these experiences is rewarded with up to €80.

Moreover, the commitment to supporting families in the financial education of their youngest members is embodied by the website www.paraquesirveeldinero.com and the annual solidarity contest, in which families can learn the value of money and pick up financial ideas through games, competitions and downloadable material.

The key products in the Individuals business have been shaped by the very low interest rate environment; consequently, we have continued to offer products such as structured deposits, mutual funds and non-convertible bonds, depending on market opportunity. The inflow of funds into mutual funds continued to increase and carried the Bank's share of the mutual fund market to 6.25% in December 2017, its highest level in the last few years. The Bank refined its mutual fund offering to focus on profiled funds and introduced a new range of guaranteed funds that enable investors to opt for higher returns and the full recovery of their principal on maturity.

The home purchase loan market continued to see an upturn both in property sales and in mortgages, as reflected in a 12% increase in new production in value terms. Customers continue to apply primarily for fixed-rate mortgages, which account for 68% of the total. Moreover, innovation continued with the launch of the new "Hipoteca Fija Bonificada", a mortgage that benefits from discounts on the interest rate as a function of the other products that the customer acquires.

In consumer lending, the buoyant trend persisted in 2017, with a sizeable increase in remote loan applications (loans arranged online increased by 20%, compared with a 14% increase in 2016), and it is expected to continue in the same vein. Accordingly, the focus is on the digital transformation to meet customers' demands for immediacy in response and analysis time and an enhanced customer experience.

The percentage of pre-approved loan uptake increased slightly, to 47% from 44% in 2016, and the Línea Expansión (100% online pre-approved loan free of commissions), and Préstamo Puntual (a non-pre-approved loan at 0% interest) continue to be promoted in seasonal drives to finance small household expenses.

Means of payment business continued to expand, in line with the trend of recent years. The number of debit

Mi Primer Sabadell is the best programme for children and young people.

and credit cards in use increased by 6.5%, with card turnover up 16.9%. SabadellWallet is an innovative app for making payments by mobile phone, checking account balances and card use or sending or receiving funds to and from smartphone contacts using the Bizum service.

The EFTPOS business showed substantial increases on the previous year, with turnover up 18.7%, bringing the market share in Spain to 14.62%. The Bank maintained its market-leading position in handling payments for online sales, with e-commerce receipts growing by 30.96%. Part of this growth is underpinned by the 30-plus partnership agreements with payment processing fintechs and escrow companies, half of which provide services to retailers in other countries (cross-border business).

Commercial brands

Banco Sabadell, the Group's flagship brand, operates in most of Spain'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 SabadellSolbank brand caters primarily for resident expatriates from other European countries, through a chain of specialist branches located only in the Canary Islands, the Balearic Islands and the southern and south-eastern coastal areas of mainland Spain.

The Bank's trading brands continued to show improved performance across all business and new customer (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 2017 are described below:

SabadellHerrero

2017 signalled further progress for Sabadell Herrero on its road to transformation, with the ultimate goal of boosting efficiency in its processes and providing a better customer experience, maintaining its leadership in the regions of Asturias and León in terms of service quality and as foremost provider of financial services to enterprises.

At year-end, more than 28,000 customers had received personal remote assistance from the Active Management service, enjoying the convenience of having an account manager available for their transactions during longer working hours and from any location, avoiding branch visits, The retail network was also upgraded, with new multi-location centres under common management with shared resources, in order to gain efficiency and capacity for expert assistance; this approach enable the bank to continue to serve all the communities in which the brand has historically been present. 27% of customers were being served at these new branches by the end of the year. The new mobile branches are another initiative to upgrade the Bank's network in rural areas. Small rural communities without enough critical mass to support a conventional branch have found a solution in these new mobile branches, equipped with cutting-edge technology, that provide full banking services and visit different rural locations to serve communities in which the Bank had hitherto not had a presence. In 2017, 3 new routes were launched, covering 15 communities, 3 of which had not previously been served by the Bank.

The transformation is also underpinned by the latest digital technologies to respond to customers' evolving demands. At 2017 year-end, SabadellHerrero had 153,155 digital customers using computers and mobile devices to interact with the Bank.

Once again, new customer additions were among the key aspects in the year. A revamped convenient service has resulted in 19,897 new customers signing up for Sabadell Herrero, 4,067 enterprises and 15,830 individuals were added to the customer base in the year.

The award granted to the Bank by the Asturias Business Federation (FADE) in recognition of the best human resources management in 2016 bears testimony to the account managers' capabilities and skills in providing the best possible customer service. The awards jury applauded the implementation of the Bank's human resources policy and its shared value creation, including the promotion of more than 150 activities relating to sport, health and solidarity.

SabadellHerrero's business volumes increased to €3,573 million in lending and €7,522 in funds at the end of the year, notching up year-on-year growth rates of 0.6% and 3.3%, respectively.

Notable developments in the year included the latest drive in property development financing, with 8 new lending operations that brought 333 homes to the market, overcoming the stagnation of the crisis years, the introduction of a new service focusing on tourism, with new lending production in the sector amounting to €8 million, as well as complex structured financing in the shipping industry.

SabadellHerrero renewed its sponsorship and patronage support. This year's Álvarez-Margaride prize for distinguished business careers was awarded to Doctor Luis Fernández Vega, a university professor and Medical Director of Instituto Oftalmológico Fernández-Vega.

SabadellGallego

Banco Sabadell's Galician brand has consolidated its leadership in Galicia in just three years. Rising brand recognition among customers makes it one of the most notable institutions in the region. Customer experience surveys rank the brand well above the average in its market, and inflows of new customers, with 21,692 additions in 2017

(15,261 individuals and 6,431 companies) reflect its commercial dynamism.

The Bank has managed to combine robust commercial growth with a profound transformation in the way it provides, distributes and delivers services to customers and its innovative approach to the digital space.

With 95,342 digital customers connecting remotely to the Bank from their computers, tablets and other mobile devices, and with an increasing frequency and penetration of digital services, the Bank has transformed its service, leveraging the new technological possibilities to meet customers' evolving demands. Its branch network also incorporates the new multi-location formats, which now serve 30% of customers, and new mobile branches for rural communities, which established their first route in Galicia in 2017.

Lending increased by 12% year-on-year to €2,493 million and customer funds amounted to €3,751 million; mutual funds were the star performers, logging 13.58% year-on-year growth.

The Bank has made considerable progress in the enterprise and business segment, in which traditional financing formulae were supplemented with new offers specialising in property financing, tourism and structured financing for the shipping sector. Agriculture, where the Bank has an extensive branch network throughout rural Galicia, was also earmarked for priority attention and a specialised range of products and services.

Evidence of the Bank's commitment to Galician enterprise is SabadellGallego's ongoing partnership with the Regional Department for Economy and Industry, to develop Galicia Industria 4.0 - Agenda de Competitividad Industrial, an industrial competitiveness initiative to help plan the regional government's industrial policy for 2015-2020. The Bank belongs to the working group of executives of large companies that seeks to identify and define new measures to continue modernising Galicia's business fabric and to boost competitiveness and create quality industrial employment.

In the social and cultural spheres, Banco Sabadell approved the loan of much of Banco Gallego's historical collection to the Galicia regional government to be kept in the Galician Regional Archive, an institution under the umbrella of the Department of Culture, Education and Universities, located in the City of Culture, in Santiago de Compostela. The documents, which have been restored and inventoried by Banco Sabadell's Historical Archive (AHBS), cover the period from 1760 to 1900.

SabadellGuipuzcoano

Service quality scores given by SabadellGuipuzcoano customers improved in 2017, beating both the established targets and the average for the entire branch network.

Results at SabadellGuipuzcoano, under the main headings of the Business Plan and including a comparison with the previous year, were as follows: Under the Plan Norte, all the Bank's business indicators improved, with strong growth in new additions of both individuals and enterprises, sharp increases in volumes and revenues, and excellent adaptation to the new business model and to the digital process. In 2017, 23,843 new customers were added (17,574 individuals and 6,269 enterprises), lending increased by 4.8% and mutual funds rose 8.12%, while brand recognition in the region improved to around 29.7% at year-end.

Given the economic backdrop, these results are very good, and it is worth noting that they were obtained through the strict application of the commercial system and with special emphasis on one of the main commercial hallmarks of the Bank, namely customer service quality, in which SabadellGuipuzcoano's branches performed strongly once again.

The branch network obtained a score of 8.66 in the Mystery Shopper quality control system, and an overall branch satisfaction score of 8.63, in both cases outperforming the general quality targets established by the Bank.

Specific management of the brand's presence and recognition in the region hinges on communication, sponsorship and institutional relations.

This intense activity is deployed in various spheres, but stems from a single policy of well defined and expertly executed institutional presence, business support and appropriate resource allocation.

As in previous years, the main event is still the sponsorship of the Tour of the Basque Country cycling race, which in 2017 had stages in both the Basque Country and Navarra, thereby increasing its influence and support for the brand to include the latter region. The Bank also sponsored and collaborated in other sporting events, such as the Bilbao Mendi Trail, the golf tournament at Real Club de Pedreña, and the Annual Gipuzkoa Sports Press Gala where the best local sports personality of the year is chosen — this year the winner was slalom canoeist Maialen Chourraut, Olympic gold medallist at Rio.

On the socio-economic front, in 2017 SabadellGuipuzcoano took part in the organisation and promotion of a number of fora, most notably the Economic Forum under the auspices of regional newspaper El Correo; Foro Diario Montañés; and Foro de Colegios Profesionales de Aragón, involving Presidents and Directors of the main professional associations of the Aragón region.

SabadellGuipuzcoano also continued to support and promote a number of awards and distinctions, such as the Gipuzkoa Business Awards (Premio a la Empresa Guipuzcoana) under the auspices of the Chamber of Commerce, the Aragonese Person of the Year in partnership with newspaper Periódico de Aragón, and the Arts and Letters Awards (Premio a las Artes y las Letras) organised by the newspaper Heraldo de Aragón.

ActivoBank

ActivoBank ended the year with 49,500 customers and continued to focus on its wealth management business with volumes totalling €757.2 million. Account balances were up 14.4% and off-balance sheet funds by 5%. Mutual funds grew by 13.5%, with assets reaching a total of €135 million; pension fund assets totalled €40.5 million.

BStartup

In the four years since its launch, the BStartup programme has positioned Banco Sabadell as a leading financial institution in the Spanish entrepreneurial sector.

BStartup is the programme created by Banco Sabadell in November 2013 to support young innovative and technological companies in their development. The goal is two-fold: to gain recognition and positioning for the Bank as the institution that most supports young tech companies, innovation and the digital transformation, and, in the longer term, to build a relationship with these young companies in the conviction that they will be the major corporations of the future. The Bank wants to be there, supporting them from the outset. With this aim in mind, it offers a holistic programme to provide everything a startup might need from a bank:

— Specialised bank products and services for startups. Startups have different development and financing models to traditional companies, so we offer them services in 50 specialised branches throughout Spain, with account mangers who understand these companies' needs and how they operate, offering them specific products and a special risk circuit. In 2017, the Bank developed a new distribution model to be launched in 2018, and new tailored products, of which it has already started marketing Seguro RC BStartup insurance, in partnership with AXA.

— Investment in equity: BStartup invests in startups with a philosophy focused on supporting entrepreneurs and increasing brand recognition, without forgetting profitability. Moreover, the Bank now has two more instruments for investing in startups: Sabadell Venture Capital, which focuses on financial returns, aimed at startups in phases subsequent to BStartup10, and InnoCapital from InnoCells, with the focus on strategic investments. The BStartup10 investment vehicle is aimed at digital businesses in the early stages. Ten projects are chosen per year to receive investment of €100,000 each plus personalised support to help them become established in the marketplace and gain access to additional rounds of investment. There are currently 33 investees. The selection procedure was changed in 2017; instead of two selection rounds each year, the process is now conducted continuously.

— Collaborative innovation: BStartup is an innovation radar due to its privileged position, with a presence in all the business innovation forums, agreements with a number of companies that support the creation of new initiatives, and because it is fully integrated into the Spanish entrepreneurial space. Accordingly, it identifies and receives proposals that, from an open innovation standpoint, may help fast-track the Bank's pace of innovation. BStartup filters and refers potential opportunities to other divisions. In 2017, we structured these flows in the BS Open to Innovation programme.

Furthermore, this year BStartup was actively involved in 163 entrepreneurial events in 31 cities throughout Spanish territory. A total of 30 new collaboration agreements were signed with companies that support entrepreneurs and are in a position to recommend the Bank's services. BStartup's media impact was strengthened in 2017 (954 mentions in print and online press) as was its impact in social media (with 7,853 Twitter followers), always with positive coverage.

BStartup has generated a brand with traction, positioning the Bank as a leader in the segment as perceived by the business sector itself. With regard to direct business production, BStartup managed €332.73 million (€111.31 million in assets and €221.42 million in liabilities), a 9.46% increase on the previous year, and generated a profit of €8.06 million, with a total of 2,732 customers (a 17.66% year-on-year increase).

A business aimed at securing customer loyalty.

BanSabadell Vida

Life insurance premiums in 2017

2,669.4€M

Death benefit insurance premiums in 2017 (y/y change)

281.84€M (+11%)

Savings under management in 2017

7,850.2€M

Profit contributed to the Group in 2017

302.0€M

BanSabadell Pensiones

Funds under management in 2017

3,515.5€M

Of which personal and collective pension plans in 2017 (y/y change)

2,028.0€M (-5%)

Workplace pension plans in 2017 (y/y change)

1,487.4€M (+1%)

Profit contributed to the Group in 2017

-4.0€M

BanSabadell Seguros Generales

Premiums in 2017 (y/y change)

226.8€M (+5%)

Profit contributed to the Group in 2017

6.3€M

BanSabadell Previsión, E.P.S.V.

Savings under management in 2017

315.4€M

BanSabadell Mediación

Fee and commission revenues in 2017

133.3€M

Premiums brokered in 2017

3,097.6€M

Profit contributed to the Group in 2017

32.4€M

As of 31 December 2017, Banco Sabadell's insurance and pensions business was structured as follows:

— BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating as a joint venture with Zurich since 2008.
— BanSabadell Mediación, the Bank's insurance brokerage subsidiary. It operates as a tied agent for bancassurance products for distributing insurance through the branches.
— BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2017, Exel Broker de Seguros, S.A. an insurance brokerage firm acquired as part of the Banco Guipuzcoano takeover, and Mediterráneo Vida, S.A de Seguros y Reaseguros, acquired as part of the Banco CAM deal, were sold. In addition, BanSabadell Vida signed a reinsurance contract with Swiss Re Europa S.A., Spanish branch, concerning the bulk of the death benefit insurance portfolio in July 2017, obtaining an advanced commission of €684 million, i.e. net revenue of approximately €253.5 million for the Group.

Banco Sabadell continues to lay the strategic groundwork to transform the insurance and pensions business, adapting to the new market challenges. These challenges are based on a more customer-oriented approach, offering customers extensive coverage through Sabadell Protección, a new personalised loyalty programme, in addition to digitalisation of business processes.

In 2017, Sabadell Vida's business volumes ranked it second in the Spanish sector in terms of total life insurance premiums and fifth in the sector in Spain in terms of insurance premiums and savings under management, according to the latest figures published at year-end. Net profit increased compared with previous years due mainly to the commission received on the reinsurance operation with Swiss Re.

Furthermore, the volumes managed by Sabadell Pensiones rank the Bank ninth in the entire system, according to data published at the end of the year. Sabadell Pensiones posted a loss of €7.5 million in the year, including an impairment deriving from the exclusivity agreements with Zurich in 2014. Sabadell Seguros Generales increased total premiums by 5% year-on-year, mainly in home-owners' policies.

Sabadell Consumer Finance

Transformation into a credit institution.

Gross income in 2017	Change in gross income	Profit contributed to the group
60.4 €M	+7.5%	17.5 €M

Sabadell Consumer Finance is the Group company specialising in point-of-sale consumer financing, and it conducts its business through various channels, by establishing collaboration agreements with various retailers.

In order to hone the company's capacities and implement a more banking-oriented model that unlocks the value of specialisation in the consumer financing business, following authorisation from the European Central Bank, Sabadell Consumer Finance was converted into a bank in 2017.

This will enable the company to avail itself of additional specialised capabilities that are necessary to tap into new business opportunities, improve processes and increase the commercial range while guaranteeing a swift response to our customers' needs.

The steady rise in consumer spending and consumer lending helped this business to expand customer numbers and the volume of outstanding loans compared with the previous year, as well as increase market share.

Business performance in 2017 showed further improvement compared with previous years, with significant increases in interest spreads and operating income.

Efficient debt recovery processes also kept loan delinquencies low, bringing the loan-loss ratio to 3.5%. The loan-loss coverage ratio was 128.0%

During the year, credit card marketing was enhanced through commercial agreements with major brands, and the groundwork was laid to market cards through e-commerce and increase cross selling. Overall, the company performed 314,057 new transactions through ten thousand points of sale distributed throughout Spanish territory, resulting in €708 million of new loan production in 2017, bringing the company's total outstanding risk to above €1,000 million.

To support further business growth, the company continued to promote the use of digital systems and tools. That include promoting the use of electronic signatures for loan agreements on mobile devices or tablets, which now account for 58% of the total.

As a result, the cost:income ratio was kept at a healthy 31.8%.

Banco Sabadell retains its 5th position among Spanish banks in terms of both asset volume and the number of SICAVs.

Highlights

— Sharp increase in net interest income and fees and commissions.

Earnings before taxes

137€M

(+15.1%)

Net interest income

+28.9%

Business overview

Banco Sabadell has a comprehensive range of investment 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.

Markets and Private Banking showed once again that it was well equipped to create and supply value-added products and services with which to deliver good returns to customers, and to increase and diversify the customer base. It also ensured that its business processes remained consistent with its rigorous research and renowned service quality, while moving towards a relationship model based on multi-channel interactions. It encompasses the following businesses:

— SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialised service tailored to their particular requirements, combining the value of advisory services in Private Banking with the financial strength and product capabilities of a general bank. The division's sales team can offer support and assistance from people with expertise

Markets and Private Banking

SabadellUrquijo Private Banking

Asset Management and Research

Treasury and Capital Markets

Securities Trading and Custodian Services

Savings and Investment Strategy

in products, taxation and wealth management who are there to provide efficient, customised solutions to private banking clients.
- Asset Management and Research is a separate area aimed at investment guidance and recommendations and at managing, on a discretionary or collective basis, the investments of individual customers, companies and institutional investors. 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. This area is responsible for deciding on all content, publications and recommendations produced by Banco Sabadell's 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 unrelated asset managers.
- Treasury and Capital Markets is the division in charge of providing customers with funding solutions, investment products and financial risk mitigation and hedging. These solutions are offered both through the branch network and by the division's team of specialists. Furthermore, Treasury manages the risks generated by customer positions in the market. Treasury also provides tactical support to the Finance Division, and is responsible for managing the Bank's liquidity and for management and compliance with its regulatory coefficients and ratios, managing interest and foreign exchange rate risk stemming from the Group's activities.
- The Securities Trading and Custodian Services Department performs the functions of broker for Banco Sabadell as a stock market member. These functions are to handle and execute sale and purchase orders directly via its trading desk, and, as Product Manager, it is responsible for the Group's equities. It also designs and manages the Bank's offering of custodian and depository services.
- The Savings and Investment Business Strategy Division is aimed at responding to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products, considering the emergence of new channels and technological solutions to usher in the necessary changes in the marketing of savings and investment products and the provision of related advisory services.

Management priorities in 2017

The Bank has a product and service design and approval process 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 II) and its provisions as transposed into domestic law.

Stringent new regulations are bringing about changes in the way we sell and the advice we give on savings and investment products. The Bank intends to tackle and respond to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products considering the emergence of new channels and technological solutions.

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 new services to customers, create new investment opportunities and raise the profile of the brand under which it operates in this business: SabadellUrquijo Banca Privada.

In the year, subscriptions to Sabadell Asset Management mutual funds was predominated by "profiled" funds, whose volume of assets under management increased 1.8-fold to €5,067.7 million, continuing the trend of strong demand seen in previous years for these funds. These funds are managed in such a way as to maintain a constant level of risk despite adverse market movements. One of investors' favourites in this area is the Sabadell Prudente mutual fund, with 85,388 investors and assets totalling €4,463.9 million at 2017 year end.

To achieve the goal of developing and expanding the Capital Markets business, the unit continues to focus on strengthening the relationship with customers (both corporate and business), thereby contributing value to the Bank's global customer relations.

Trading in equities in the Spanish stock market amounted to €1,283,813.28 million in 2017, a 0.04% increase on the previous year's figure.

Banco Sabadell managed to end the year as leader in the Spanish stock exchange (BME), with a 14.77% share.

In 2017, the Savings and Investment Business Strategy Division focused on defining and implementing Banco Sabadell's value proposal in savings and investment.

The entry into force of MiFID II was a pivotal element in defining this proposal, but the developments took into account the changing context for the banking business in general and for savings and investment products in particular. Other key factors such as structurally low interest rates and digitalisation were also taken into account.

Key business data

€M

T3 Key business data — Markets and Private Banking

	2016	2017	% 17/16
Net interest income	**45**	**58**	**28.9**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	178	188	5.6
Net income from financial transactions and exchange differences	10	1	(90.0)
Other operating income/expense	(2)	(2)	—
Gross income	**231**	**245**	**6.1**
Administrative expenses and depreciation and amortisation	(112)	(105)	(6.3)
Operating profit/(loss)	**119**	**140**	**17.6**
Provisions and impairments	—	(3)	—
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	**119**	**137**	**15.1**
Income tax	(35)	(41)	17.1
Profit/(loss) after tax	**84**	**96**	**14.3**
Minority interest	—	—	—
Profit/(loss) attributable to the group	**84**	**96**	**14.3**
Ratios (%)			
ROE (profit / average shareholders' equity)	37.8%	38.2%	—
Cost:income (general administrative expenses / gross income)	47.8%	42.5%	—
NPL ratio (%)	1.4%	0.5%	—
NPL coverage ratio (%)	41.7%	71.0%	—
Assets	**9,210**	**8,858**	**(3.8)**
Loans and advances to customers (net), excluding repos	1,853	2,175	17.4
Liabilities	**8,988**	**8,631**	**(4.0)**
On-balance sheet customer funds	6,880	6,367	(7.5)
Assigned capital	**222**	**227**	**2.3**
Off-balance sheet customer funds	**14,064**	**17,213**	**22.4**
Other indicators			
Employees	533	531	—
Branches	12	10	—

In December 2017, some 5,000 discretionary portfolio management mandates were in place with an overall volume of more than €2,000 million. Assets held in mutual funds totalled €7,629 million, There were 178 SICAVs in December 2017, with €2,138 million in funds, an increase of €116 million (or 5.7%) on December 2016; the market share in terms of assets under management and the number of SICAVs was 6.67% in December 2017. The unit's business volume totalled €26,396 million as of December 2017 and it had 30,000 customers.

Net profit amounted to €96.0 million in December 2017, a 14.3% year-on-year increase. Gross income rose by 6.1% to €245.1 million, and core revenues increased by 9.8% to €245.8 million (T3).

Net interest income amounted to €57.8 million, up 28.9% year-on-year due to the sound results obtained in Treasury and Capital Markets.

Net fees and commissions totalled €188 million, i.e. 5.6% higher than in the previous year, due to the higher commissions on mutual funds and securities.

Administrative expenses and depreciation and amortisation charges totalled -€105.4 million, down -6.3%.

Provisions and impairments amounted to -€2.7 million.

Net lending increased by 17.4%, mainly in jointly supervised customers; customer funds on the balance sheet fell by 7.5% due to the shift towards off-balance sheet funds, which rose by 22.4%, mainly as a result of growth in mutual funds.

SabadellUrquijo Banca Privada

The unit's business volume totalled €26,396 million with a base of 30,000 customers.

Sales team

Bankers	Specialist branches	Customer service centres
178	10	20

The key business premise was maintained in 2017: individually tailored service to the customer, who is at the core of all day-to-day activities under the unit's two existing business models, namely Joint Supervision and 360º. In the Joint Supervision model, full commercial support and professional advice is provided to Banco Sabadell's branch network and customers. In the 360º model, the 10 existing offices are managed on a comprehensive basis.

From the standpoint of the offering, the unit designed the most profitable products that are best-suited to customers' risk profiles. Mutual funds, discretionary portfolio management and structured products continue to dominate.

Hedge funds and venture capital funds were added to the range, with designer funds and very specific, limited-liquidity niches making it possible to diversify and respond to the demands of sophisticated investors. All of this enabled further progress in asset allocation while offering full details of the main characteristics.

In this period, the focus was maintained on Customer Segments, since identifying homogeneous groups with common characteristics makes it possible to fine-tune the offer design. In this regard, commercial efforts were maintained vis-à-vis the financial advisory firms, Religious Institutions and Sports & Entertainment segments, generating agreements and commercial relations that continued to unlock value in the service offer as well as broadening the existing range by including new categories of funds, such as Socially Responsible Investing (SRI).

2017 was a year of adaptation to MiFID II, which came into force in January 2018. This represents a step forward in the quality of data protection and full transparency with regard to data and prices, better equipping customers to make decisions more quickly and easily. This led to both the adaptation and development of IT systems and the definition of the commercial policy to be made available to customers.

There is also the foreseeable trend towards higher market volatility and changes in the yield curve which, already in 2017, made it necessary to conduct a detailed review of portfolio performance, especially for portfolios with a more conservative approach.

Our commitment to service excellence led to continued training of the network of specialist bankers, and in 2017 new EFPA certifications were awarded, guaranteeing compliance with the new regulatory requirements.

Mobile customer management and the need to adapt to technological developments enabling customers to sign up for products and services while on the move continue to be crucial for SabadellUrquijo's day-to-day business, aligning us, along with the rest of the Bank, with the premise "There, wherever you are".

Profiled mutual funds under management at Sabadell Asset Management expanded 1.7-fold in asset terms.

Assets under management in 2017

290.0€M

The business model in Asset Management and Research prioritises accuracy in investment recommendations resulting from the research conducted on listed equities and public and private-sector debt instruments, as well as recommendations on investments in assets. Our analysts' recommendations are the linchpin of our investment proposals.

The model is also distinguished by excellence in mutual funds proposals and in discretionary and collective asset management services, with the aim of maintaining their high levels of reliability, sustainability, consistency and optimum profitability, always with investors' best interests in mind.

The offering is adapted to ensure investors obtain healthy returns based on their needs, financial experience, capacity to bear risks, liquidity requirements and ambitions in terms of returns. Accordingly, the aim is to improve investors' knowledge of the recommended method of using the proposed mutual funds and venture capital firms and also for the discretionary and collective asset management services.

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their savings through professional trust management and collective investment. The idea is to increase the use, not only among the more frequent and experienced investors, but also by more modest savers, of winning investment solutions in the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon.

During the year, the Bank's offering of new guaranteed funds with variable returns was further expanded, with guarantees of returns being provided for four guaranteed funds amounting to €412.7 million. Guaranteed funds as a whole accounted for €3,782.0 million of assets at the close of 2017. Guaranteed funds decreased to account for 23.0% of total Spanish-domiciled mutual funds managed by Sabadell Asset Management, compared with 28.4% the previous year.

In 2017, Sabadell Asset Management carried out three mutual fund merger processes in which five mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors' best interests. At the end of the year, there were 243 Spanish-domiciled funds managed by Sabadell Asset Management (64 mutual funds, a property investment vehicle and a variable capital investment firm—SICAV) and SabadellUrquijo Gestión (177 SICAV), and there were 2 venture capital funds managed by Sabadell Asset Management.

Sabadell Asset Management mutual funds earned some outstanding accolades. In 2017, Fitch Ratings recognised the excellent management quality of three fixed-income and two equities funds managed by Sabadell Asset Management, assigning them a qualitative rating of "Proficient".

Sabadell Asset Management ended the year with €16,434.8 million in assets under management in Spanish-domiciled mutual funds, 16.4% more than at 2016 year-end and far in excess of the 11.6% growth rate of the industry as a whole (T4). With this volume of assets under management, Sabadell Asset Management accounts for more than 6% of Spanish-domiciled mutual funds. Sabadell Asset Management ranked fourth among Spanish-domiciled fund managers in terms of volume

T4 Spanish-domiciled mutual funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
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	16,434.8
Market share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95	6.01	6.25
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749	705,682

managed in 2017, and continues to improve from one year to the next. There were 81,933 new investors in the year, a 13.1% year-on-year increase.

Sabadell Asset Management makes the most of its experience and capabilities in discretionary portfolio management for Banco Sabadell customers. This is configured as a repertoire of investment solutions, either modelled or customised, i.e. a broad service response tailored to the needs of the Bank's existing and potential customers. In discretionary management services, BS Fondos Gran Selección had another successful year, with 19,675 contracts under management and assets totalling €2,081.3 million in 2017, compared with 18,468 contracts and €1,800.5 million at 2016 year end.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors. Assets in this connection amounted to €6,618.9 million at the end of 2017.

The research service is aimed at helping to guide investors' position-taking through a process of prospecting, identification, selection and recommendation of investment opportunities.

In 2017, our research service stepped up its production of reports, including recommendations on equities and public- and private-sector debt instruments. This unit expanded the number of Spanish and European shares that it covers. It also produced a larger number of reports on corporate bond issues, both investment grade and high yield. The catalogue of reports has been expanded, making progress on the research and tracking of equity indices and sectors and the analysis of debt issued by sovereign governments, government agencies, companies and supranational bodies.

The reports, in both text and audiovisual format, attained a readership of more than seven thousand in 2017. We contribute our research vision to the specialist and general press as a timely source of expert financial opinion for general distribution.

Banco Sabadell's Research Department earned a number of accolades and distinctions. In 2017 it was ranked fourth best analyst (stock picker and earnings estimator) in Iberia by Thomson Reuters – StarMine.

Treasury and Capital Markets

Focused on reinforcing customer relations.

The volume of foreign exchange hedges increased by 32% compared with the previous year.

Treasury and Capital Markets business performance is shaped by the macroeconomic environment. 2017 was a positive year for many financial assets, especially those of higher risk. This was driven by: (i) sounder economic growth, with a highly synchronised global pattern; (ii) the announcement of the start of monetary policy normalisation in Europe and the UK and ongoing tightening in the US; and (iii) dispelling of some geopolitical risks in both the US and the UK. This resulted in very low volatility levels and a high correlation between assets, translating into sound performance by equities indices, commodities and non-investment-grade assets.

In Capital Markets, the macroeconomic environment —with unusually low interest rates and surplus liquidity in the system — led companies to prefer commercial paper over bonds as a source of funding in the short term.

The current macroeconomic environment has enabled a significant increase in currency transactions and foreign exchange hedges. Meanwhile, low interest rates and low volatility led to a market with diminishing volumes in certain investment services as the year progressed, most notably in fixed-income.

It is worth noting the impact in the year of the process to adapt to the new market environment as a result of regulatory changes that have posed a real challenge and a great opportunity. Treasury and Capital Markets worked tirelessly with various of the Bank's units during the year to ensure the proper implementation of the new regulatory framework resulting from MiFID II and to ensure customers' requirements are met.

This year, the Bank was again one of the main actors in the Alternative Fixed Income Market (MARF), evidencing both its commercial leadership in this sector and the connection achieved with issuers. In this regard, Sabadell was an active player in the commercial paper market, where it has assisted with 16 placements. The Capital Markets team also saw an increase in the number of domestic corporate issues, most notably private placements involving major corporations, and was involved in the two green bond issues in the year.

Structured investment also played a pivotal role in the year, due mainly to the liquidity levels in European markets coupled with low interest rates. The number of tailored structured products increased by a massive 120% compared with the previous year, enabling the Bank to offer its customers more added value.

We highlight the proactive approach to the opportunities arising in the currency market, which resulted in a significant increased in the volume in foreign exchange hedges, up 17% compared with 2016, and the increase in operations with corporate customers.

Both the market management of risk originating in operations with customers and the interest rate risk in currencies and collateral positions helped boost income in this segment by 14% compared with the previous year.

Securities Trading and Custody

Banco Sabadell ended 2017 as the leading brokerage house in the Spanish equities market, in terms of trading volume.

Market position in terms of trading volume in 2017

Share

15.07%

Ranking

#1

The year 2017 was characterised by a recovery in business following the decline in 2016, attaining a 25% year-on-year increase in volume.

The Bank worked hard to prepare for the regulatory changes in both 2017 (Reform Phase II and T2S) and 2018, in particular to gear up for the new obligations and requirements pursuant to MiFID II.

There was also an increase in activity with issuers in 2017. In this connection, Banco Sabadell successfully participated in the placement of several significant holdings in listed companies as well as IPOs, such as those of Neinor Homes and Aedas Homes.

It was also involved in market-making, own shares, road shows and other activities for listed companies.

The Bank continued to add retail clients during the year, particularly through the eBolsa account. Since its launch in 2014, this account has won the Bank some 59,000 new customers with assets totalling €1,650 million (of which €1,130 million in Spanish equities and the rest distributed among international equities, and international and domestic fixed-income and mutual funds).

In 2017, the Bank stepped up its involvement as an agent bank in a range of transactions, most notably dividend payments, capital increases, bond issuance, promissory note programmes and shareholder register bookkeeping. At present, more than 20 issuers use the Bank's services and that figure is increasing steadily.

These services are increasingly important to the Bank and aimed at positioning it as a leading player in the eyes of issuers. The chart shows market share and ranking in 2017.

Implementing MiFID II.

Definition of the Bank's new savings and investment proposal:

— New management platform.
— New advisory model.
— Adapted to the new regulatory requirements.

G1 Headline targets in 2018

Sabadell Investor platform	Sabadell Markets	Specialised manager	Investment Unit	Behavioural segmentation
Industrialisation	**Self-service**	**Specialisation**	**Centralisation**	**Classification**
A platform for accessing savings and investment services that guides customers to the most appropriate product or service	A site offering self-service access to savings and investment solutions	A manager with specific training in investment and savings products and services who interfaces with customers face-to-face or via remote channels	This centre agglutinates BS's market opinions, product guidelines and the portfolio tracking and internal control	Customer classification as a function of their behaviour and objectives

The Savings and Investment Business Strategy Division sought to respond to the new regulatory environment from a business standpoint, tapping the opportunity to establish a differential advantage in the value proposal of products considering the emergence of new channels and technological solutions, ushering in the necessary changes in the marketing of savings and investment products and the provision of related advisory services.

This division is eminently customer-focused. In 2017, progress continued on the infrastructure to ensure compliance with regulatory obligations. At the same time, a new platform for branch services was developed to get to know our customers better and be able to offer them recommendations in line with their characteristics, goals and needs, based on a standard methodology. This platform has been integrated into Sabadell Inversor, which is currently the entry point for both account managers and customers, to provide access to information on value-added markets. In addition, the newly-created Savings and Investment Advisory Department will initially act as a supervisory pool for MiFID II requirements and provide support to the branch network in all aspects relating to savings and investment. In short, the entire project is focused on service excellence and customer experience (G1).

Support was also provided to the commercial activity, by helping to define the product range and approving more than 350 new investment product proposals. Among the more important products were families of structured deposits with return of capital and the issuance of Bonos Simple BS bonds, which accounted for some 62% of projected product sales.

Through Sabadell Inversor, Banco Sabadell maintains its commitment to enhancing communications with regard to its investment approach, with personalised mass mailings being sent out via new communication channels. In 2017, more than 100 messages were issued, of which 70 were sent to customers via email, and customers with access to Sabadell Inversor viewed more than 150,000 pages, with an average of more than 13,500 logins per month.

United Kingdom

Customers continue to recommend TSB, with an NPS score of +25 points in 2017.

Highlights

— Increase in the share of bank accounts, capturing more than 6% of the gross flow in 5 years.
— Increase of more than 40% in lending in the 5 years since flotation.

Business overview

The TSB franchise (TSB Banking Group PLC) conducts a high-street banking business in the UK which includes current and savings accounts, personal loans and credit/debit cards.

TSB has a multi-channel distribution model nationwide, comprising 551 branches in England, Wales and Scotland. At the end of the year, it had 5.1 million customers and 8,287 employees. Its business was previously divided in three segments:

— The Franchise, comprising the multichannel banking business.
— Mortgage enhancement, comprising a set of mortgages assigned to TSB in 2014 in the context of the restructuring of Lloyds Banking Group.
— The *Whistletree* portfolio, a set of loans, primarily mortgages, acquired from *Cerberus* in 2015.

Following the early call of the mortgage enhancement portfolio from Lloyds Banking Group in June 2017, TSB has operated as a single business segment within the franchise segment, including the Whistletree loan portfolio.

Management priorities at TSB in 2017

TSB launches its new banking platform.

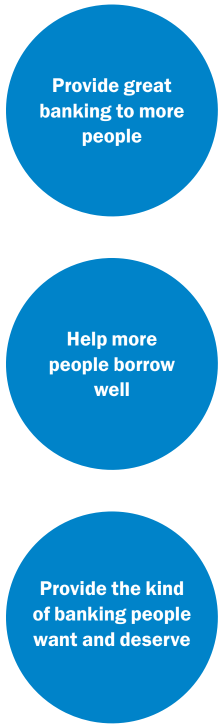
Priorities in the year were developing its digital capacity, promoting the TSB brand and offering a stand-out service to customers. In 2017, TSB continued to fulfil its mission of boosting competition in the UK banking business following its relaunch four years ago. It continues to grow and its technological transformation made strides in 2017. For the fourth year running, it exceeded its goal of attracting 6% of all customers seeking to change their bank account or open a new account in the UK. Lending has more than doubled since TSB's relaunch, and now exceeds £30,000 million; TSB is still the country's top rated high-street bank. Figure 2 shows TSB's three strategic pillars.

In 2017, TSB continued to invest to become a nimbler digital business through a process of technological transformation. In April, the new mobile app was launched, following development in direct response to customer feedback. TSB's customers were the first in Europe to benefit from iris-scanning security to access the mobile app, and the first in the world to use Apple's new facial recognition technology, unlocking their accounts with just a glance at their mobile handset. The final phase in the migration programme and customer platform roll-out will be executed in 2018.

The franchise was ranked among the top 10 companies to work for in the UK — it was the only bank on the list — and has been acknowledged as a great place to work. More than ever, customers recommend TSB to their friends and family, and it remains the top ranking high-street bank, with a solid NPS (net promoter score) of 25 points, compared with 23 in 2016.

In 2017 it attracted 6.2% of all customers changing their bank account or opening a new account in the UK, equivalent to 1,000 customers per day, exceeding its target of 6.0% for the fourth year running.

G2 TSB strategic pillars



Key business data

Net profit in December 2017 amounted to €90.3 million, down 49.8% year-on-year due mainly to the envisaged increase in outsourcing expenses paid to Lloyds Banking Group, and the recognition in 2016 of non-recurring revenues from the sale of the shareholding in Visa Europe after its acquisition by Visa Inc as well as adjustments as a result of the purchase price allocation (T5).

Nevertheless, the expected decline in profit was largely mitigated by the 6.5% increase in core revenues at constant exchange rates, not counting mortgage enhancement (constant consolidation scope) and reflecting mainly growth in the average balances of mortgage loans. Average interest rates on loans in the franchise and in the *Whistletree* portfolio in 2017 fell to 3.22% (3.56% in 2016), due to the increased weighting of secured loans compared with more lucrative unsecured loans, and the impact of competition policy. Customer deposit costs shrank notably to 0.40% in 2017 (0.66% in 2016). Interest expenses on bank accounts were down to 0.24% (0.53% in 2016), evidencing the changes in the Classic Plus account effective from January 2017.

Gross income amounting to €1,223.3 was up 0.9% (up 7.3% in constant consolidation scope terms). Administration expenses and amortisation and depreciation charges increased by 9.0% to -€1,002.0 million on the back of planned extraordinary technology costs at TSB; excluding these, expenses were generally stable.

TSB's capitalisation remained positive, and its CET1 ratio was up 160bp to 20.0% in December 2017.

TSB adopted IFRS 9 "Financial Instruments", effective from 1 January 2018, which entails a planned increase in NPL provisions and a reduction in equity, although the impact on capital was not material since the effect of the increase in NPL provisions was amply offset by the lower expected losses and the transitory regulatory frameworks.

Loans to customers increased by 4.9% in 2017, and now exceed £30,000 million, having more than doubled since the launch. This increase was underpinned by mortgage lending, in which the franchise increased its balance by 15.1% to £26,000 million, due mainly to higher gross mortgage production, which amounted to £7,000 million in 2017 (£6,600 million in 2016). Unsecured personal loans at TSB were marketed in 2017 through its high-street branches and digital channels to customers who do not currently have a bank account at TSB. This pushed the balance of unsecured loans up by 11.3%.

The support and trust of TSB customers is reflected in balance sheet growth in 2017, with customer deposits on the rise. This contributed funds to support the third pillar of TSB's strategy, namely to help more people to borrow well, with an increase in the balance sheet balances of £1,400 million (+4.9%) to £30,900 million. This was driven by the £3,700 million increase in the balance of loans at the franchise, partly offset by the early call from Lloyds Banking Group of the mortgage enhancement portfolio in the amount of £1,900 million, and the estimated reduction in the Whistletree portfolio, acquired in 2015.

T5 TSB – Key business data

€M

	2016	2017	% 17/16
Net interest income	**1,051**	**1,034**	**(1.6)**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	126	96	(24.0)
Net income from financial transactions and exchange differences	54	110	104.5
Other operating income/expense	(18)	(16)	(11.6)
Gross income	**1,213**	**1,223**	**0.9**
Administrative expenses and depreciation and amortisation	(919)	(1,002)	9.0
Operating profit/(loss)	**293**	**221**	**(24.6)**
Provisions and impairments	(28)	(89)	—
Gain/(loss) on derecognition of assets, etc.	(4)	7	—
Profit/(loss) before tax	**261**	**139**	**(46.7)**
Income tax	(81)	(49)	(39.9)
Profit/(loss) after tax	**180**	**90**	**(49.8)**
Minority interest	—	—	—
Profit/(loss) attributable to the group	**180**	**90**	**(49.8)**
Ratios (%)			
ROE (profit / average shareholders' equity)	8.0%	5.8%	—
Cost:income (general administrative expenses / gross income)	69.8%	79.5%	—
NPL ratio (%)	0.5%	0.4%	—
NPL coverage ratio (%)	52.7%	55.9%	—
Assets	**43,720**	**48,145**	**10.1**
Loans and advances to customers (net), excluding repos	34,361	35,501	3.3
Liabilities	**42,200**	**46,597**	**10.4**
On-balance sheet customer funds	34,334	34,410	0.2
Wholesale funding in the capital markets	3,882	1,920	(50.5)
Assigned capital	**1,521**	**1,548**	**—**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	8,060	8,287	2.8
Branches	587	551	(6.1)

The exchange rate applied for 2017 was GBP 0.887 for the balance sheet and GBP 0.875 (year average) for the income statement.
The exchange rate applied for 2016 was GBP 0.856 for the balance sheet and GBP 0.816 (year average) for the income statement.

Corporate & Investment Banking

Corporate & Investment Banking

Banco Sabadell is leading MLA in syndicated loans and project finance in the Spanish market.

Highlights

— Ranks 4th among syndicated loan and project finance MLAs In the Spanish market.

— Bond issuance activity on behalf of customers has been strengthened.

Earnings before taxes

200€M

(+7.5%)

Key figures in the Structured Financing business

Financing portfolio in 2017	New business in 2017	Number of transactions in 2017
12,608.3€M	6,340.5€M	250

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, through branches throughout Spain and in 16 other countries. Its activities embrace corporate banking, structured finance and global financial institutions.

— Corporate Banking is the unit in charge of large corporates which, because of their size, complexity and unique features, require a customised service in which transactional banking services are supplemented by specialised units such as Structured Finance, Corporate Finance and Treasury and Capital Markets; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with global solutions that are tailored to their needs while also taking account of the specific features of their business and the markets in which they operate.

— Structured finance consists of origination and structuring of corporate and acquisition finance and project finance deals. In addition to traditional forms of bank

Main business activities in Corporate & Investment Banking

Corporate Banking

Structured finance

Global Financial Institutions

lending, it is specialised in corporate bond issuance, enabling it to cover the full range of options in long-term business finance. Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, Paris, London, Lima, Bogota, Miami, New York and Mexico City, and has more than 20 years' experience.

— In Global Financial Institutions, the business model is built around two central pillars: providing optimal support to our corporate customers as they expand abroad, in coordination with the Group's network of branches, subsidiaries and investees in other countries, and managing the business with the "bank" customer segment (over 3,000 financial institutions worldwide) with which Banco Sabadell has cooperation agreements to provide Group customers with the best possible coverage worldwide.

Management priorities in 2017

In 2017 Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within Spain's macroeconomic context amid changing credit market conditions. The Bank is a leader in the Spanish Middle Market segment and is exporting its know-how to other regions. Corporate & Investment Banking ranks 4th among syndicated loan and project finance MLAs in the Spanish market (T6 & T7).

Fees in international markets where the unit operates accounted for 47.2% of total Structured Finance revenues in 2017, and we acted as agent bank in various financing operations outside Spain.

Bond issuance on behalf of customers has also been strengthened. This business, conducted together with the Treasury division, has increased the Bank's ability to offer customers a wide range of long-term finance options.

In 2017, Global Financial Institutions handled more than 350 bilateral trades in the international markets segment and business was stepped up with other financial institutions on the international stage.

During the year, Sabadell Corporate Finance closed a major deal in the food service sector and worked together with teams in Mexico and the US to provide M&A advisory services in that region.

Global Financial Institutions – market shares

LC share in 2017

30.03

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	656	25
2	CaixaBank	699	23
3	BBVA	503	23
4	Banco de Sabadell SA	414	19
5	Bankia	501	16
6	BNP Paribas	269	11
7	Bankinter	191	6
8	Credit Agricole CIB	174	6
9	ING	164	5
10	SG Corporate & Investment Banking	254	4

T6 Syndicated loan MLA — Spanish market 2017

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	865	21
2	CaixaBank	528	17
3	BBVA	399	15
4	Banco de Sabadell SA	403	13
5	Bankia	180	9
6	BNP Paribas	298	6
7	ING	388	5
8	Natixis	227	4
9	ICO	65	4
10	Credit Agricole CIB	351	4

T7 Project finance MLA — Spanish market 2017

Key business data

Net profit amounted to €139.5 million in 2017, a 7.7% year-on-year increase, due mainly to the decrease in provisions and impairments. Gross income rose 1.0% to €302 million and not including the revenues recognised under income from financial transactions in 2016, the increase would have been 5.0% (T8).

Net interest income rose 9.1% year-on-year to €192.3 million. Net fees and commissions totalled €116.7 million, i.e. 3.5% higher than in the previous year due to higher commissions on syndicated loans.

Income from financial transactions and exchange differences decreased by -81.3% as a result of extraordinary sales of loan portfolios in 2016.

Administrative expenses and depreciation and amortisation charges totalled -€33.5 million, stable on the same period last year.

Provisions and impairments amounted to -€68.6 million, a reduction of 13.7%. Net lending slipped by 0.9% and customer funds on the balance sheet rose by 57,5% as demand deposits, deposits with agreed maturity and off-balance sheet funds increased by +15.4% mainly as a result of employer pension plans.

Corporate Banking

Corporate & Investment Banking had an excellent year in 2017, against a backdrop of normal market operation and ample liquidity, especially in the Eurozone, in accordance with the monetary policy in place. This environment of surplus liquidity, coupled with the sound performance in issuance markets, exerted huge competitive pressure (falling prices for underwriting, early cancellation of bank loans, etc.).

Despite this environment, the policy on approving new financing transactions in Corporate Banking remained unchanged, following strict risk and profitability criteria (the NPL ratio was below 1% at year-end). In this regard, a highly positive development in 2017 was the deployment of a new tool to simulate the return on capital, for either standalone operations or for a customer's positions as a whole, regardless of the region in which they operate with Banco Sabadell.

This business achieved solid growth in 2017, with lending volume up 6%, buoyed by the activity of our customers outside Spain, which increased by 23.6% (growth was spearheaded by Mexico, with 43.5%, and the UK, with 37.2%); this ongoing trend in the last few years has enabled the Bank to significantly diversify the risk in geographic terms, with 44.5% of this kind of business coming from other countries.

T8 Key figures — Corporate & Investment Banking

€M

	2016	2017	% 17/16
Net interest income	**176**	**192**	**9.1**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	113	117	3.5
Net income from financial transactions and exchange differences	16	3	(81.3)
Other operating income/expense	(6)	(10)	66.7
Gross income	**299**	**302**	**1.0**
Administrative expenses and depreciation and amortisation	(33)	(33)	—
Operating profit/(loss)	**266**	**269**	**1.1**
Provisions and impairments	(80)	(69)	(13.7)
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	**186**	**200**	**7.5**
Income tax	(56)	(60)	7.1
Profit/(loss) after tax	**130**	**140**	**7.7**
Minority interest	—	—	—
Profit/(loss) attributable to the group	**130**	**140**	**7.7**
Ratios (%)			
ROE (profit / average shareholders' equity)	15.4%	16.2%	—
Cost:income (general administrative expenses / gross income)	11.1%	11.1%	—
NPL ratio (%)	5.5%	4.1%	—
NPL coverage ratio (%)	75.5%	94.0%	—
Assets	**13,255**	**15,879**	**19.8**
Loans and advances to customers (net), excluding repos	8,850	8,773	(0.9)
Liabilities	**12,377**	**15,069**	**21.8**
On-balance sheet customer funds	3,526	5,555	57.5
Assigned capital	**878**	**810**	**(7.7)**
Off-balance sheet customer funds	**540**	**623**	**15.4**
Other indicators			
Employees	150	140	—
Branches	2	2	—

With regard to customer funds managed (on- and off-balance sheet, and securities operations, including custody), the increase was even sharper, 146% (at constant exchange rates) as a result of our relationship as a strategic partner for our customers, a strategy that secured us more than fifty mandates in the year to take part in their most valuable transactions, such as issuance, equity, structured financing, asset divestment, M&A, etc.

The standardised methodology used by the Corporate & Investment Banking teams in all 17 countries where the division operates, a commercial policy benefiting our customers, and having not only specialist commercial teams but also an exclusive middle office for major corporate customers, enabled the Bank to maintain the highest service quality standards, as evidenced by the various indicators monitoring service performance, such as customer satisfaction surveys conducted by the independent consultancy Stiga (score of 8.74 out of 10 in 2017).

Structured Finance

Structured finance offers specialist solutions and advice to customers, providing global coverage with local teams.

From the financing standpoint, customers are offered structuring and the execution of operations in corporate and acquisition finance, as well as project and asset finance, commercial real estate and global trade finance.

This area has the capacity to syndicate and underwrite, and to purchase and sell stakes in syndicated loans in the secondary market. In addition to traditional forms of bank lending, the Bank is specialised in corporate bond issuance, enabling it to offer the full range of options in long-term business finance.

Sabadell Corporate Finance is also intensely involved in mergers and acquisitions advisory, and the Bank is a member of Terra Alliance (T9).

Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, San Sebastián, Paris, London, Lima, Bogota, Miami, New York and Mexico City, and has more than 20 years' experience.

T9 Structured Finance business

Activity	
Specialist Finance	Advisory services/OTD
Corporates	Syndication
Project Finance	M&A
Asset Finance	ECM
Trade Finance	DCM/PP
Commercial Real Estate	GFI

Highlights

— Consolidation of the corporate finance business.
— Development of business finance.
— Gearing up to providing funding to individuals.

Earnings before taxes

130€M

Business overview

The Other Regions business comprises mainly Mexico, offices in other countries and representative offices that offer all kinds of banking and financial services in corporate banking, private banking and commercial banking.

As part of the internationalisation process that commenced under the TRIPLE plan, the Bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

— Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
— Banking for Companies, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches and in the growth phase over the next few years.
— Personal Banking, based on a disruptive digital model initially focused on capturing customer funds. Launch is scheduled for early 2018.

Management priorities in 2017

2017 was a year of considerable challenges and achievements for Sabadell in Mexico with the priority of continuing to build the banking business.

To consolidate the corporate banking business and develop banking for companies, progress was made with integrating a multi-channel range of products and services through a sales team with vast experience of the local market, and the focus was on developing a stand-out customer services model based on the Group's values: commitment, quality and proximity.

Furthermore, Banking for Companies has focused on strengthening its sales force, by expanding the team and its territorial presence, increasing from 6 to 13 centres for companies.

Meanwhile, Corporate Banking increased the return for its customers through cross selling products and achieved a leading position in specialised sectors like hotels and renewable energies.

Actions in those two business lines enabled Sabadell to rank tenth by lending volume to companies, and sixth in terms of annual growth in this business, competing with institutions that have been operating in the Mexican market for decades.

2017 was also a year of preparation for the launch of Personal Banking in 2018. A predominately digital model, without precedent in the local market, aimed at becoming the first Mexican bank to offer 100% digital sign-up and management of customers' needs. All of this is based on a savings products proposal with an attractive return backed by an agile, straightforward service using a mobile app, the channel through which we relate to our customers on a day-to-day basis.

Key business data

€M

T10 Key figures Other Regions

	2016	2017	% 17/16
Net interest income	**300**	**293**	**(2.4)**
Equity-accounted affiliates and dividends	3	3	(2.0)
Fees and commissions (net)	64	50	(22.4)
Net income from financial transactions and exchange differences	23	9	(60.1)
Other operating income/expense	3	3	—
Gross income	**394**	**358**	**(9.1)**
Administrative expenses and depreciation and amortisation	(206)	(205)	(0.4)
Operating profit/(loss)	**188**	**153**	**(18.7)**
Provisions and impairments	(29)	(24)	(14.6)
Gain/(loss) on derecognition of assets, etc.	(0)	1	—
Profit/(loss) before tax	**160**	**130**	**(18.5)**
Income tax	(54)	(37)	(31.1)
Profit/(loss) after tax	**105**	**93**	**(12.1)**
Minority interest	(0)	4	—
Profit/(loss) attributable to the group	**105**	**89**	**(16.0)**
Ratios (%)			
ROE (profit / average shareholders' equity)	13.2%	8.8%	—
Cost:income (general administrative expenses / gross income)	49.1%	54.5%	—
NPL ratio (%)	0.5%	0.9%	—
Coverage ratio (%)	174.8%	113.0%	—
Assets	**20,740**	**15,298**	**(26.2)**
Loans and advances to customers (net), excluding repos	12,083	8,836	(26.9)
Real estate exposure (net)	22	23	3.5
Liabilities	**19,629**	**14,431**	**(26.5)**
On-balance sheet customer funds	9,116	5,024	(44.9)
Assigned capital	**1,111**	**866**	**(22.0)**
Off-balance sheet customer funds	**988**	**1,033**	**4.5**
Other indicators			
Employees	1,059	765	(27.8)
Branches	61	42	(31.1)

The average exchange rate in 2017 was USD 1.132, MXN 21.303 and MAD 11.597 for the income statement, and the exchange rates for the balance sheet were USD 1.199, MXN 23.661 and MAD 11.426.
The average exchange rates in 2016 were USD 1.105, MXN 20.736 and MAD 10.666 for the income statement, and the exchange rates for the balance sheet were USD 1.054, MXN 21.771 and MAD 10.652.

Net profit in 2017 amounted to €88.6 million, a 16.0% year-on-year decrease following the sale of Sabadell United Bank (SUB), which was previously included in this business unit (T10). Excluding this sale, net profit would have increased by 25.4%, due mainly to the sound performance by net interest income and fees and commissions and to judicious control of administration and development expenses.

Net interest income fell by 2.4% to €292.7 million. Not counting the SUB sale, growth was 21.8%, mainly due to Mexico.

Net fees and commissions declined by 22.4% due to lower commissions on securities and mutual funds and a decline in corporate banking transactions in Mexico.

Gross income fell 9.1% to €358.0 million, but would have increased by 9.9% but for the SUB sale.

Administration expenses and amortisation and depreciation charges fell by 0.4%. Not counting the SUB sale, this item would have increased by 22.3%, due mainly to the costs of expansion in Mexico.

Net lending amounted to €8,836 million, down 26.9% due to the SUB sale, but would have increased by 9.2% due to performance in Mexico if the impact of SUB is not included. Loan loss levels remained very low, evidencing healthy risk management at this unit.

Customer funds on the balance sheet amounted to €5,024 million, having decreased by 44.9% due to the Sabadell United Bank sale. Excluding that sale, customer funds would have fallen by 3.8% while off-balance sheet funds would have risen 4.5% to €1,033 million.

The two subsidiaries in Mexico are rated by Standard & Poor's and by the Mexican agency HR Ratings. Due to the positive performance by the subsidiaries, S&P upgraded the rating by three notches and HR Ratings by one notch in 2017. At present, both SabCapital and Banco Sabadell have a long-term rating of A- from Standard & Poor's, with positive outlook (formerly stable), and AA from HR Ratings.

Non-performing assets decreased in the year, and there was considerable rotation and an improvement in the composition of foreclosed assets.

Highlights

— In 2017, the Group adapted to ECB recommendations outlined in its Guidance to Banks on Non-Performing Loans, a process that notably included the approval of a Strategic Plan and Operating Plan specifically focusing on reducing non-performing assets; the results are visible in the excellent progress made in reducing non-performing assets, in line with the trend of the last few years, coupled with positive performance by real estate assets. In 2017, the Group reduced the volume of NPAs by c.€3,500 million (including €1,252 million in NPAs) in the carve-out for the new Solvia Desarrollos Inmobiliarios business line), exceeding the initial objectives.

— Real estate sales started contributing a positive net return (profit) from the second half of the year.

— Solvia continues to post solid performance, most notably in real estate asset sales.

Business overview

The Asset Transformation and Industrial and Real Estate Holdings Department horizontally manages non-performing and real estate exposures, as well as establishing and implementing the strategy for real estate investees, including Solvia.

With regard to non-performing and real estate exposures, the Department focuses on implementing the asset transformation strategy and on an integrated approach to the Group's real estate assets with a view to maximising their value.

Management priorities in 2017

In 2017 Banco Sabadell adapted to the recommendations contained in the ECB's Guidance to Banks on Non-Performing Loans, most of which were already part of the asset transformation strategy established in previous years and of the guiding principles for the Asset Transformation business unit, whose main goal is to improve the non-performing asset recovery and transformation processes with a view to maximising their value potential, either by optimising their management or divesting them, whichever is the best option.

Consequently, the Bank has approved ambitious goals to reduce non-performing assets in the next few years, and it has formally established two strategic priorities that govern the management of this kind of assets:

— Continuous reduction of non-performing assets (doubtful exposures and foreclosed real estate assets) until the balances are normalised.

— Focus on managing non-performing assets through the specialised services of the Asset Transformation and Industrial and Real Estate Holdings Department, which was one of the first banking workout units in Spain focusing specifically on managing assets of this kind.

The defined strategy is built on five pillars that have been identified as being critical in the process of managing non-performing assets (NPAs):

— Globality, understood as segmented management of all problematic and potentially problematic exposures: end-to-end vision of the process to transform problematic exposures, with special emphasis on timely management. Reducing the flow of assets being classified as non-performing and in default is vital to normalise non-performing assets.
— Specialisation and segmentation of responsibilities by processes and portfolios to underpin the management approach, so that each type of NPA is treated in the most adequate manner with a view to reducing them as far as possible.
— Maximisation of recovery and monetisation of NPAs, boosting efficiency of management processes in terms of time and cost.
— Multi-channels and transactional capacity: Banco de Sabadell has developed specific channels that afford it considerable transactional capacity to recover its exposure to NPAs.
— Alignment of the entire organisation in managing and controlling NPAs under the principle of three lines of defence, ensuring the independence of the Asset Transformation and Industrial and Real Estate Holdings Department from the rest of areas that took part in granting the non-performing exposures.

The following aspects provide fundamental support in the process of managing non-performing assets:

— Business intelligence and continuous process improvement, in order to develop and deepen capacities to segment and predict recovery actions, so as to systematise, continuously improve, corporatise and optimise processes throughout the recovery cycle.
— Financial capacity to ensure the proper present accounting coverage of the incurred and expected losses associated with these assets and the capacity to generate future revenues with which to cover potential impairments and solid capitalisation levels to cover potential unexpected losses from NPAs.
— Governance system based on three lines of defence, in which, after the first line of defence, featuring the specialised independent workout unit (Asset Transformation and Industrial and Real Estate Holdings Department), and the business units that approved the exposures, there is a second independent line of oversight, comprising the Risk Control and Compliance Departments, followed by a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

To implement this strategy, the Asset Transformation and Industrial and Real Estate Holdings Department is structured into various units, each focusing on one stage of the recovery process and the administration, management and transformation of NPAs, having considerable experience and expert knowledge of the various areas of the process. This organisational structure, which has changed over the years to adapt and better respond to the needs and priorities as driven by the established goals, and which has proven its worth, as evidenced by the steady continuous improvement in the reduction of the Group's doubtful and non-performing exposures in the last few years, comprises the areas listed below at 2017 year-end, each of which focuses on specific aspects of the process. The loan loss recovery and default management process involves the following areas:

The main mission of Delinquency Prevention and Management is to implement the policies and decisions on the transformation of non-performing exposures, fostering a mutual approach wherever this is the most suitable way to resolve the specific case, and paying special attention to the social exclusion risks in some of these situations.

Technical Recoveries manages external collection, bankruptcy and litigation, aimed at optimising the recovery of credit risk through external channels and/or litigation, when mutual negotiation is not sufficient or is not considered to be suitable.

The Corporate Loan Restructuring Department specialises in dealing with issues surrounding the recovery of corporate, property and developer exposures and focuses on loan restructuring, recovery and loss minimisation within that borrower category.

The Business Intelligence, Control and Asset Protection Scheme Department is a Group-wide servicing unit tasked with optimising and continually improving the Group's recovery processes and with overseeing the management of those processes. Its responsibilities include the development and exploitation of existing information on the Group's various NPAs to facilitate optimum financial decision-making with regard to the various transformation alternatives.

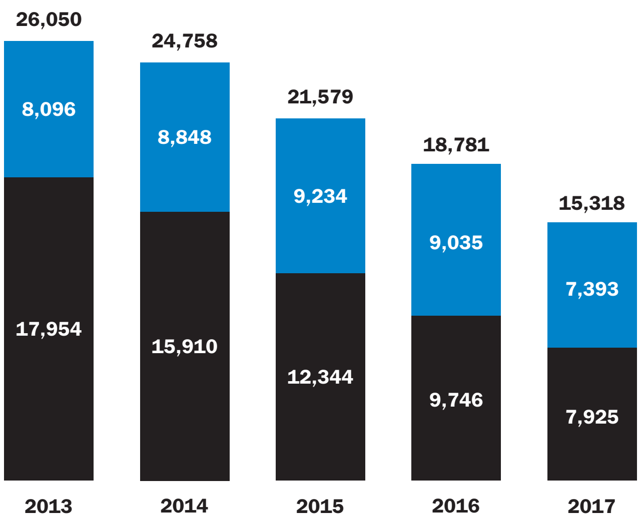
As for the management of Real Estate Exposure and of Real Estate Assets received as payment of debts, the Asset Transformation and Industrial and Real Estate Holdings Department uses the Sabadell Real Estate and Institutional Markets Department, which is in charge of horizontally managing the Group's real estate exposure and its transformation, with the clear goal of reducing doubtful exposures by optimising their value, improving the return on non-problematic exposures and the orderly growth of new investment, all under the focus of portfolio risk and return (G3 & G4). This department also manages the divestment of NPA portfolios through processes aimed at institutional and wholesale investors with perimeters chosen as a function of the needs and policies of the Sabadell Group and it analyses and reviews the strategies and models for managing NPAs in order to maximise the efficiency of recovery processes. Notable among the real estate subsidiaries is Banco Sabadell's real estate services provider: Solvia.

With regard to past due debt recovery actions in 2017, it is especially important to note that Banco Sabadell has continued to proactively manage mortgage defaults on customers' main residences, seeking solutions that avoid litigation and avoiding evictions in any event. Consequently, 2,592 dation in payment transactions amounting to €420 million were arranged, As a result of offering housing solutions to customers at risk of social exclusion who affected by mortgage litigation proceedings or dation in payment processes, the Bank has close to 7,500 low-rent homes, including those contributed to the Social Housing Fund and more than 850 homes with affordable rent.

In 2017, assets totalling €2,751 million were transacted, with a positive contribution to the income statement, resulting in a net reduction in the total volume of problematic properties compared with the start of the period and intensifying the trend commenced in the previous year, with the prospect of ongoing positive performance in 2018. In this connection, professional asset sales (plots, land and unfinished non-residential product) increased for the second consecutive year. The year-on-year increase in the volume of professional assets sold was 16.4%, boosted by the notable rise in interest among foreign professional investors in this product type. The Group has continued to develop the institutional sales channel to maximise the divestment volume and price, as well as to enhance customers' experience.

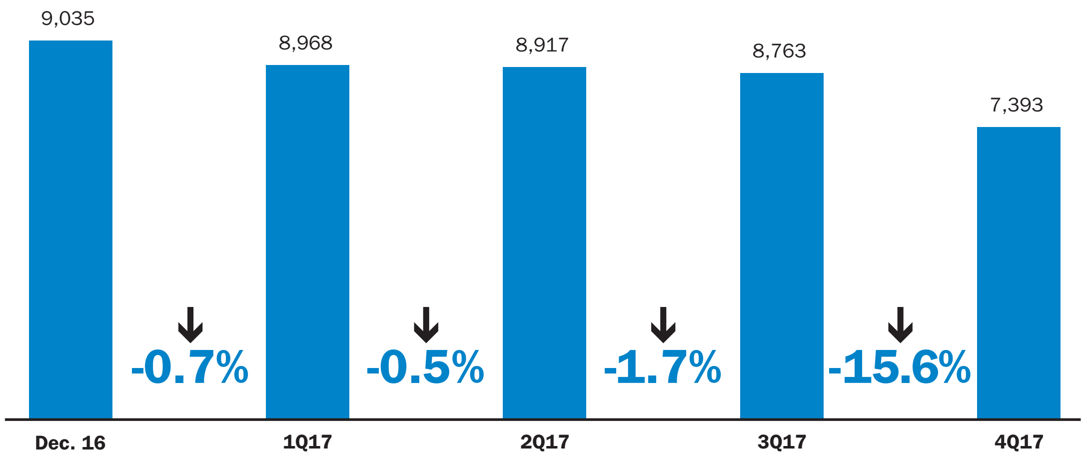
Furthermore, in the fourth quarter, as a result of the increase in land development and proprietary development activity, embodied in the creation of Solvia Desarrollos Inmobiliarios, land and plots with specific potential and scope for appreciation were identified and transferred to this new subsidiary.

G3 NPLs and foreclosed assets



-10,732€M

● Doubtful balances
● Foreclosed assets



G4 Variation in foreclosed assets(€M)

Key business data

Net profit in 2017 amounted to -€943.4 million, affected by the extraordinary provisions in the year (T11).

Net interest income amounted to -€52.1 million, less than the previous year due to the decline in the loan book that is in run-off mode.

Income from financial transactions was impacted by the sale of non-performing loans. Gross income amounted to €30.1 million, down 38.4% on the previous year.

Administrative expenses and depreciation and amortisation charges increased by 7.6% year-on-year to -€162.7 million as a result of the expansion of the servicer and increase in the portfolio of hotels managed by Hotel Investment Partnership.

Provisions and impairments amounted to -€1,215.8 million, due to the extraordinary impairments in the year. Disposals produced a net loss of -€14.1 million, i.e. an 85.4% improvement on the previous year. Real estate disposals in the last two quarters of the year produced €8.5 million and €5.1 million, respectively, in profit.

T11 Key figures — Asset Transformation

€M

	2016	2017	% 17/16
Net interest income	**(26)**	**(52)**	**98.8**
Equity-accounted affiliates and dividends	(1)	(1)	(49.9)
Fees and commissions (net)	(1)	2	—
Net income from financial transactions and exchange differences	(50)	(37)	(25.7)
Other operating income/expense	128	118	(7.6)
Gross income	**49**	**30**	**(38.4)**
Administrative expenses and depreciation and amortisation	(151)	(163)	7.6
Operating profit/(loss)	**(102)**	**(133)**	**29.5**
Provisions and impairments	(801)	(1,216)	51.9
Gain/(loss) on disposals	(96)	(14)	(85.4)
Gain/(loss) on derecognition of assets, etc.	—	41	—
Profit/(loss) before tax	**(903)**	**(1,307)**	**44.8**
Income tax	263	364	38.3
Profit/(loss) after tax	**(640)**	**(943)**	**47.5**
Minority interest	—	—	—
Profit/(loss) attributable to the group	**(640)**	**(943)**	**47.5**
Ratios (%)			
ROE (profit / average shareholders' equity)	—	—	—
Cost:income (general administrative expenses / gross income)	—	—	—
NPL ratio (%)	31.7%	32.2%	—
Coverage ratio (%)	54.2%	49.9%	—
Assets	**17,956**	**15,384**	**(14.3)**
Loans and advances to customers (net), excluding repos	6,663	3,865	(42.0)
Real estate exposure (net)	4,716	3,372	(28.5)
Liabilities	**15,886**	**13,728**	**(13.6)**
On-balance sheet customer funds	172	104	(39.7)
Intercompany funding	14,057	12,627	(10.2)
Assigned capital	**2,069**	**1,656**	**(20.0)**
Off-balance sheet customer funds	**15**	**27**	**83.0**
Other indicators			
Employees	825	1,018	23.4
Branches	—	—	—

Capital gains on asset disposals include mainly the sale of hotel management subsidiary HI Partners Holdco Value Added via Hotel Investment Partners.

Sound management of real estate assets continued and net lending fell by 42.0% year-on-year, while net real estate exposure declined by 28.5%.

The recovery in the Spanish real estate market has enabled Solvia to develop new businesses.

Solvia

Solvia, Banco Sabadell's real estate services provider, was very active in 2017. Solvia is one of the main real estate solution platforms, covering a broad range of services: from property development to asset management and sales. In addition, it provides loan management and settlement services for some customers.

Solvia continued to develop its business by diversifying its customer portfolio. This year new customer assets were added to the development portfolio, and new customers acquired to which advisory services were provided in selecting assets for development and in managing the marketing developments. Furthermore, Solvia provides real estate consultancy services for foreign funds acquiring portfolios in Spain.

In 2017 work was ongoing to develop the range of agent services (sale and rental) for individuals and companies. In this connection, Solvia has boosted the capacity of its team and, in particular, is in the process of expanding its own network of agents and consultants for companies, as well as raising its profile through the franchise network. At the end of 2017, it had 18 own offices and had signed contracts with 41 franchisees in the main Spanish cities. The company continued to invest in its marketing capability and in 2017 continued to lead the market in brand recognition.

In 2017, Solvia property sales amounted to €1,778 million and the loan recovery activity which Solvia executes for Sareb remained highly dynamic, generating €191 million in liquidity. Solvia managed and marketed 101 real estate developments in the year, starting with plots belonging to its customers, and sales of developments exceeded €83 million in the year.

BS Capital

BS Capital is the department that manages the Bank's industrial holdings. It focuses on taking up temporary holdings in companies, with the main goal of maximising the return on investment.

In 2017, it continued to actively manage its portfolio of investees, continuing with a divestment programme going back several years. New projects under way include notably fundraising for Aurica III, FCR in the amount of €160 million, exceeding the target amount of €150 million; this fund has made its first two investments. Another new project was the incorporation of Sinia Capital, the Mexican subsidiary of Sinia Renovables, through which seed capital and mezzanine debt investments were made in two wind power projects in Mexico; additionally, the Bank invested in more than 8 digital or technological startups through Sabadell Venture Capital, including the very first investment in venture debt, and the arrangement, management and sale of holdings from debt restructuring and capitalisation processes continued.

Risk management

The improvement in the Group's fundamentals is reflected in its good credit ratings.

Milestones in 2017

In 2017, the Banco Sabadell group continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

The Banco Sabadell Group's risk appetite framework continues to be adapted to the new Group structure resulting from internationalisation, in order to ensure consistency and effective implementation of the risk appetite statement (RAS) in all geographies (G1).

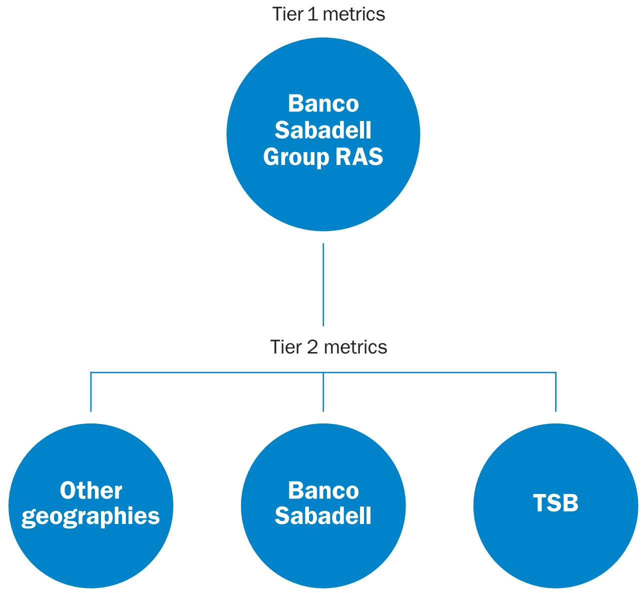
The RAS acts as a first tier in which to set overall limits and targets, while a second tier elaborates on the first-tier targets and limits applied to the various geographies.

Strengthening the Risk Appetite Framework by giving it greater depth in terms of sectors and geographies.

During 2017, work continued to enhance the Group's risk profile and to strengthen the risk management and control environment through the development of management and control frameworks for specific portfolios, sectors and geographies. This powerful tool makes it possible to deploy the Risk Appetite Framework and guide growth in lending while seeking to optimise the risk/return ratio over the long term.

Additionally, the Group's customer risk tracking environment has been updated. The early warning system has been integrated into management approaches through a new tracking environment under which different strategies can be applied depending on the segment (individuals, shops and self-employed workers, businesses and companies).

G1 Risk appetite metrics



Improvement of the Group's risk profile during the year

The Group's risk profile improved during 2017 fundamentally for three reasons: international diversification, concentration and asset quality.

Regarding international diversification, international credit risk (€44,259 million at the end of 2017) represents 30% of the Group's total exposure, having multiplied sixfold since 2014. International diversification is due primarily to the acquisition of TSB, representing exposure of €35,581 million (90% in retail mortgages). Excluding the TSB acquisition, the bank has expanded by 29% internationally since 2014.

As for concentration, real estate exposure has been reduced (to one-third of its 2014 weighting) and exposure in the retail segment has increased following the acquisition of TSB in 2015. The portfolio is well diversified in terms of industries, with rising exposure to sectors with greater credit quality. In terms of individual concentration, the risk metrics relating to concentration of large exposures have also declined. Geographically, the portfolio is positioned in the most dynamic regions, in Spain and worldwide.

As for asset quality, the volume of NPAs has been curtailed sharply in recent years. Non-performing exposures have been reduced by €10,173 million since 2013. In 2017, the Group reduced the volume of NPAs by €3,463 million. All this has led to a reduction in the NPL ratio, from 6.14% to 5.14%.

The improvement in the Group's fundamentals, particularly in terms of risk, is reflected in the stable credit rating granted to the Bank's senior debt during the year, having regained an investment grade rating from all the agencies that rate it.

Strengthening the risk management and control environment

The risk management and control environment continued to be strengthened in 2017 through the development and deployment of management and control frameworks for certain portfolios, sectors and geographies.

In each of these frameworks, the Group's appetite in the sector or portfolio in question, and the requirements to achieve it, are determined by establishing:

— Asset allocation, setting the growth objectives along each basic axis (quality, typology...).
— General principles that should guide the activity in each portfolio, sector or geography.
— Basic policies for accepting and monitoring credit.
— Risk tracking and control metrics (relating to both stock and new production).

The combination of management and control frameworks with planning and continuous management enables us to take early action with regard to portfolios in order to direct growth in a way that is profitable in the long term.

Improved tracking environment

The Group's customer risk tracking environment was updated in 2017. The early warning system was integrated into management approaches through a new tracking environment under which different strategies can be applied depending on the segment (individuals, shops and self-employed workers, businesses and companies).

The main input for the tracking environment is the model of early alerts adapted to each segment. This allows for:

— Improved efficiency by focusing customer tracking on signs of impairment.
— Early action in response to signs of impairment; renewal of the rating for customers that have experienced impairment depends on the Basic Management Team.
— Regular oversight of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.
— Feedback using the information from the Basic Management Team as a result of actions taken.

Improved management of the risk associated with NPAs

In compliance with the requirements set out in the European Central Bank's "Guidance to banks on non-performing loans", in 2017 the Board of Directors approved a new "Strategic Plan for Managing NPAs" and an "Operational Plan for Managing NPAs". The key points of the Strategic Plan are as follows:

— Principles for managing those assets.
— A governance and management structure that facilitates achievement of those goals.
— Quantitate objectives, with different time horizons, for reducing both non-performing and foreclosed assets.

In order to achieve those results, the ECB has established two strategic priorities with regard to managing NPAs:

— Continuous reduction of NPAs until the balances are normalised.
— Focus on managing NPAs through the specialised services of the Asset Transformation and Industrial and Real Estate Holdings Department, which was one of the first workout units in Spain.

These two strategic priorities are translated into five principles for managing NPAs:
— Early action to manage default and preventive action to avoid default.
— Segmented management of all non-performing and potentially non-performing exposures (potential default).
— Business intelligence and continuous process improvement.
— Funding capacity.
— A clear governance system based on three lines of defence.

Additionally, policies for managing NPAs have been developed in accordance with the requirements set out in the ECB document and in Annex IX of Bank of Spain Circular 4/2016. These policies are aligned with the Strategic Plan for NPAs and the Operational Plan for NPAs. The policies also cover the new risk management model implemented in July 2017.

Main risks in the Risk Appetite Framework

Introduction

The Banco Sabadell Group has a risk appetite framework in place to ensure the proactive control and management of all of the Group's risks. This framework includes a risk appetite statement (RAS), which establishes the amount and diversity of risks that the Group seeks and tolerates in order to achieve its business goals while maintaining a balance between risk and return.

The Banco Sabadell Group Risk Appetite Framework continues to be adapted to the Group's international structure in order to ensure consistency and effective deployment of the RAS in all geographies.

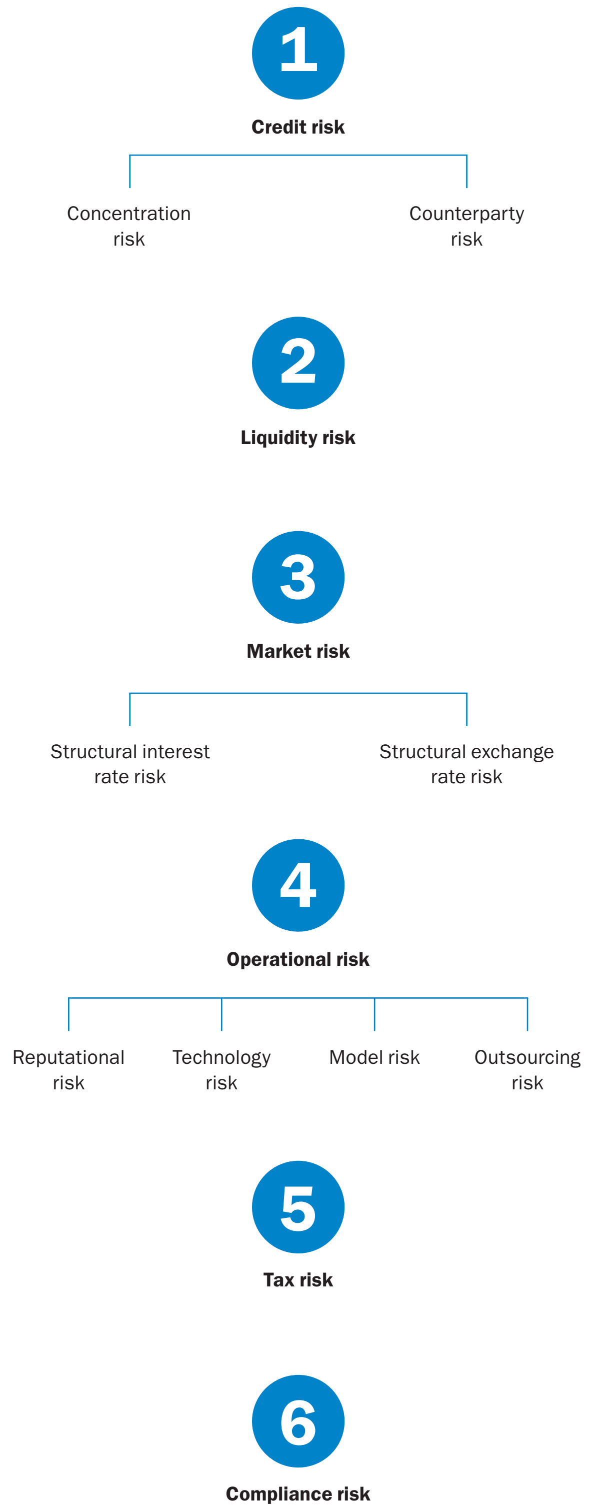
A first tier is established comprising the Group's RAS, setting overall objectives and limits, and a second tier provides details of the first-tier objectives and limits in the various geographies.

The risk appetite statement is comprised of quantitative metrics that allow objective monitoring of risk management, as well as supplementary qualitative aspects.

The risk management and control approach consists of a broad framework of advanced measurement principles, policies, procedures and methodologies integrated into an efficient decision-making structure under a governance framework for the risk function that conforms to Spanish and European law.

The principles, policies, procedures and methodologies framework is reflected in the document entitled "Banco Sabadell Group Risk Policies", which is reviewed regularly and subject to approval by the Board of Directors.

G2 Main risks



For each of the Group's significant risks, the document details the main persons or units involved, their functions, policies, methods and procedures, and control and monitoring mechanisms. Details are also given of the organisation of the risk function, indicating the roles and responsibilities of the departments and committees with regard to risks and risk control systems, adapted to the business units' activities, including loan and credit granting functions (G2).*

The main financial risks facing Banco Sabadell Group companies as a consequence of their activities associated with the use of financial instruments are credit risk, liquidity risk and market risk. The most important of these for the Group's loan book is credit risk.**

The main non-financial risks faced by the Group are operational risk, tax risk and compliance risk.

When managing risks, the Group considers the macroeconomic and regulatory environments.***

* For additional information, see Note 4 to the 2017 consolidated financial statements.
** See the capital map in the chapter "Banco Sabadell Group financial information".
*** For information on the macroeconomic and regulatory environment, see the chapter on "Economic, business and regulatory environment".

General principles of risk management

Corporate risk culture

Banco Sabadell's risk culture is one of its distinguishing features and is well established throughout the organisation as a result of continuous development over decades. Aspects of this strong risk culture include:

— A high level of involvement by the Board of Directors in risk management and control. The Bank has had a Risk Committee since before 1994, and its main function is to supervise management of all material risks and align them with the profile defined by the Group.

— The Banco Sabadell Group has a risk appetite framework in place, consisting, amongst others, of the risk appetite statement, which ensures the control and proactive management of risks under a reinforced corporate governance framework approved by the Board of Directors.

— The Basic Management Team as a fundamental part of risk acceptance and monitoring. Under this approach, which has been in existence for more than 20 years, the team consists of the relationship manager and the risk analyst. The process combines the viewpoints of both parties. All decisions must be discussed and resolved by agreement between them. This implicates the team in the decision, and provides a variety of viewpoints and a sound final decision.

— High degree of specialisation: specific management teams for each segment (real estate, corporate, businesses, SMEs, retail, banks and countries, etc.), allowing for a specialised management approach in each area.

— Advanced internal credit scoring models as a basic part of the decision-making process have been in place for over fifteen years (since 1999 for individuals and since 2000 for businesses). In accordance with best practices, the Group relies on these models to improve the general efficiency of the risk management process. Insofar as these models not only make it possible to sort borrowers in terms of risk but also serve as the basis for quantifying risk, they lend themselves to multiple uses in key management processes: fine-tuning delegations of powers, efficient risk tracking, overall risk management, risk-adjusted returns, and analysis of the Group's capital adequacy, among others.

— The delegation of powers to approve corporate risk transactions is based on the expected level of loss. As a general policy on empowerment, the Bank applies a system in which the various levels are delimited on the basis of expected loss, which considers the exposure to the risk of the customer's proposed credit transaction and the risk group, expected default rate and estimated loss given default.

- Credit risk is monitored rigorously through an advanced system of early warnings for businesses and individuals. Risk monitoring at customer and group level can be divided into three types: operational, systematic and comprehensive. One of the basic sources used for this monitoring is an early warning system for both businesses and individuals (implemented in 2008 and 2011, respectively) which allows credit risk to be identified in advance. These alerts are based on both internal data (e.g. number of days an instalment is past-due, overdrafts on commercial discounts, guarantees or international credit lines), and external information (e.g. customers classified as defaulters elsewhere in the financial system, and credit bureau reports).
- An advanced model for managing non-performing exposures which enhances early detection and specialised management. An end-to-end model for managing non-performing exposures which enables risk management to focus on situations that pre-date default (early warnings, refinancing, collection). This comprehensive system uses specific tools (simulators to identify the best solution in each case) and specialised managers in each segment who work exclusively to manage the risk.
- Risk-adjusted pricing. Commercial pricing policy is dynamic, adapting constantly to changing business and financial market conditions (liquidity premia, difficulty in accessing credit, interest rate volatility, etc.). Funding and risk costs are taken into consideration (expected loss and cost of capital). Risk models play a vital role in determining prices and profitability targets.
- The risk management model is fully integrated into the Bank's technology platform, with the result that policies are applied immediately in everyday processes: the policies, procedures, methodologies and models that make up Banco Sabadell's risk management approach are built into the Bank's operating platform. This means that policies are applied immediately in day-to-day operations. This proved particularly important when integrating acquisitions in recent years.
- Stress testing as a management tool. For some years, Banco Sabadell has been using an internal tool to perform stress tests, supported by in-house teams with extensive experience in its development.

Risk appetite framework

The risk appetite framework includes, among others, a risk appetite statement (RAS), defined as the quantity and diversity of risks that the Banco Sabadell group seeks and tolerates in order to achieve its business objectives whilst maintaining a balance between risk and return.

The Risk Appetite Statement (RAS) is composed of quantitative metrics (G3) which allow established objectives and limits to be monitored objectively, and of qualitative elements that supplement those metrics and guide the Group's risk control and management policy.

Quantitative elements

G3 Risk appetite statement

Qualitative aspects

In addition to the quantitative metrics, the following qualitative metrics guide risk control and management by the Group:

— The entity's general position with regard to risk-taking aims to achieve a medium-to-low risk profile through the use of a prudent and balanced risk policy that will ensure the profitable and sustainable growth of its activity, and guarantee that it is aligned with the group's strategic objectives in order to maximise value creation while guaranteeing an adequate level of solvency.
— The Board of Directors is committed to the risk management and control processes: approval of policies, limits, management model and procedures, and the measurement, monitoring and control methodology.
— The Group maintains a risk culture that is embedded throughout the entity and has various units that specialise in the treatment of different risks. The risk function conveys this culture by introducing policies, implementing and rolling out internal models, and adapting these to the risk management procedures.
— Risk management policies and procedures should be oriented to adapting the risk profile to the risk appetite framework while maintaining and pursuing a balance between expected returns and risk.
— The Banco Sabadell Group risk management and control system is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are integrated into an efficient decision-making structure. The risk variable is factored into decisions in all areas and quantified using a common metric in terms of allocated capital.
— Risk management is underpinned by solid, ongoing procedures for checking that risks conform to predefined limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk assessment methodology.
— Capital and liquidity levels must enable the bank to cover the risks it has accepted, even in adverse economic situations.
— There should be no concentration of risk such as to significantly compromise shareholders' funds.
— Market trading risk is assumed in order to handle the flow of transactions arising from customer business and to seize market opportunities while maintaining a position that is commensurate with the Bank's market share, risk appetite, capacity and profile.
— The risk function is independent and has strong senior management involvement, ensuring a strong risk culture focused on protecting capital and ensuring an adequate return on capital.
— The Group's aim in terms of tax risk is to ensure compliance with tax obligations while guaranteeing an adequate return for shareholders.
— The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.
— The institution will have sufficient human and technological resources to monitor, control and manage all the risks that may materialise in the course of its business.
— The group's compensation systems should align the interests of employees and senior management with compliance with the risk appetite framework.

Overall organisation of the risk function

The Group has a risk culture that is embedded in all its units, and it has units managing different risk types, so as to guarantee the independence of the risk function, combined with strong Senior Management involvement.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect. It is the body responsible for approving the risk appetite framework (developed in cooperation with the managing director, the chief risk officer and the chief financial officer) and ensuring that it is aligned with the bank's short- and long-term objectives, as well as with the business plan, capital planning, risk capacity and compensation programmes.

There are four Board sub-committees to which the Board of Directors delegates its functions by making use of the powers conferred on it in the Articles of Association; the sub-comittees report to the Board of Directors about the performance of their functions and any decisions they adopt (G4).

The Group's control framework is based on three lines of defence, structured around the following assignment of functions:

First line of defence

Consists mainly of the business units and corporate centres, principally the Risk Management Department, the Finance Department and the Treasury and Capital Markets Department. The first line of defence is responsible for managing the risks inherent in the bank's activity, mainly the acceptance, monitoring and assessment of these risks and the associated processes.

They are responsible for implementing corrective actions to remedy deficiencies in their processes and controls. The essential functions attributed to this line under the control framework are:

— Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis.
— Identifying, assessing, controlling and mitigating risks, following established internal policies and procedures and ensuring that activities are consistent with the bank's targets and objectives.
— Establishing proper management and supervision processes to ensure regulatory compliance and focusing on control errors, inadequate procedures and unexpected events.

G4 Board sub-committees and the main Committees related to risks

Board committees related to risk management

Risk Committee	Executive Committee	Audit and Control Committee	Remuneration Committee
Supervision of the risk profile and suitability of the RAS	Approval of transactions by delegation Approval of the asset allocation strategy	Supervision of efficacy of internal control, internal audit and risk management systems	Supervision of remuneration policy and its alignment with the Risk Appetite Framework

Main committees related to risk management

Technical Risk Committee	Asset/Liability Committee	Credit Transactions Committee	Asset and Capital Transactions Committee	Operational Risk Committee	Institutional Coordination Committee
Risk Committee support Risk management	Balance sheet structural risk monitoring and management	Approval of credit transactions by delegation	Approval of asset transactions by delegation	Operational risk management and monitoring	Guarantee alignment of TSB and Group policies

Second line of defence

Consists essentially of:

— The Risk Control Department, which is independent from the first line of defence and is responsible for identifying, assessing, monitoring and controlling the Group's significant risks and for providing information about such risks.

— The Compliance Department, whose goal is to minimise the possibility of regulatory breaches and ensure that any breaches that occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented.

— The Internal Validation Function, which is responsible for checking that the models work as expected and that their results are appropriate to their uses, both internal and regulatory.

— The IT Control Department is responsible for identifying risk situations associated with the use of technology, across all units in the Group, that may give rise to operational or reputational risks for the Group. It also promotes the necessary training and support to enable the Group's units to resolve risk situations within their scope of responsibility and action, and transfer, on an independent basis, any significant risks that have not been covered by the implemented controls to the Group's Operational Risk Department.

In general, the second line of defence ensures that the first line of defence is well designed and fulfils the functions assigned to it, and puts forward suggestions for continuous improvement. The essential functions attributed to this line under the control framework are:

— Proposing the risk management and control framework.

— Guiding and ensuring the application of the risk policies, defining responsibilities and objectives for their effective implementation.

— Collaborating with the management team to develop risk management processes and controls.

— Identifying changes in the organisation's underlying risk appetite.

— Verifying compliance with regulations applicable to the Group in conducting its business activities.

— Providing the technological infrastructure for risk management, measurement and control.

— Analysing and cross-checking existing and future incidents by reviewing the information.

— The internal validation function, which is responsible for checking that these models work as expected and that their results are appropriate to their uses, both internal and regulatory.

— Promoting and endeavouring to reach the highest levels of compliance with the legislation in force and principles of professional ethics within the Group.

— Guaranteeing both the operational continuity of the ordinary business and the security of the information that sustains it.

Third line of defence

Underpinned by the Internal Audit Function:

— Engages in verification and advisory activities on an independent and objective basis, governed by a philosophy of adding value and helping the Group to fulfil its objectives.

— Assists the Group in meeting its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the organisation's governance processes and the risk management and internal control activities.

Managing and monitoring the main risks

Credit risk

Credit risk is the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality.

Credit risk management framework

Risk acceptance and monitoring

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour their obligations to the Group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also normal practice to mitigate exposure to credit risk by requiring borrowers to provide collateral or other sureties.

The Board of Directors delegates powers to the Executive Committee, which can then sub-delegate authority at each level. The implementation of authority thresholds for credit approval ensures that powers delegated at each level are linked to the expected loss calculated for each business loan or other transaction that is requested.

To optimise the business opportunities that each customer represents and to guarantee an appropriate degree of security, responsibility for accepting and monitoring risks is shared between the relationship manager and the risk analyst; effective communication between them provides a comprehensive view of each customer's individual circumstances.

The relationship manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking, while the risk analyst takes a more system-based approach using specialised knowledge.

The implementation of advanced methodologies for managing risk exposures (adapted to the New Basel Capital Accord — NBCA — and industry best practices) also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are rating tools such as credit ratings for corporate borrowers and credit scoring for retail customers, as well as early warning indicators for monitoring risk.

By analysing indicators and early warning alerts in addition to credit rating reviews, the quality of a risk can be monitored constantly in an integrated way. The establishment of efficient control procedures for outstanding risks also provides benefits in managing past-due risks as it enables a proactive policy to be implemented based on early identification of cases that may default.

Risk is tracked in all exposures in order to identify possible problematic situations and avoid a deterioration in credit quality. This tracking is generally based on a system of early warnings at transaction/borrower level and at portfolio level, and both alert classes are fed with internal and external information in order to obtain results. Risk tracking is forward-looking, i.e. seeking to predict changes in circumstances so as to take action with an impact on the business (increase lending) and prevent risk (reduce exposure, enhance collateral, etc.).

The early warnings system allows an integrated measurement to be made of the quality of a given risk and enables it to be transferred to recovery specialists, who will determine the procedures that should be applied. Therefore, based on risks exceeding a certain limit and on the predicted default rates, groups or categories are identified for individual treatment. These warnings are managed by the relationship manager and the risk analyst.

Managing non-performing risks

Debt refinancing and restructuring are generally the main risk management techniques during the weaker stages of the economic cycle. In the case of debtors or borrowers that have, or are expected to have, financial difficulties in meeting their payment obligations in the contractual terms, the Bank's objective is to facilitate repayment of the debt by minimising the likelihood of non-payment. A number of specific policies are in place to achieve this, including procedures for the approval, monitoring and oversight of debt refinancing and restructuring processes, principally:

- Having a sufficiently detailed compliance record for the borrower and evidence of a clear intention to repay the loan, assessing the time-frame of the financial difficulties being experienced by the customer.
- Refinancing and restructuring conditions based on a realistic payment scheme which is in line with the borrower's current and predicted payment capacity, i.e. not just postponing problems to a later date.
- If new guarantees are provided, they must be regarded as a secondary and exceptional means of recovering the debt, so as to avoid impairing the existing means. All ordinary interest accrued up to the refinancing date must be paid in any event.
- Limitations on grace periods.

The Group continually monitors compliance with current terms and conditions and with these policies.

Internal risk models

The Banco Sabadell Group has a system made up of three lines of defence to ensure the quality and oversight of internal models, and a governance process specifically designed to manage and monitor these models and their compliance with the regulations and supervisory requirements.

The governance framework for internal credit risk and impairment models (risk management, regulatory capital and provisions) is underpinned by:

— Effective management of changes to internal models.
— Recurring monitoring of the internal model environment.
— Regular reporting, both internal and external.
— Tools for managing internal models.

One of the main bodies within the governance framework for internal credit risk and impairment models is the Models Committee, which convenes on a monthly basis and has the function of approving (depending on the materiality level) and tracking internal credit risk models.

The Banco Sabadell Group also has an advanced model for managing non-performing exposures. The purpose of managing non-performing exposures is to identify the best solution for the customer as soon as there are any signs of impairment so as to prevent customers in difficulties from reaching a situation of default by working the problem intensively and avoiding lags between phases.*

Real estate loan risk management

As part of its ongoing risk management and, in particular, its policy on the construction and real estate sectors, the Group has a number of specific policies for mitigating risks.

The main measures that are implemented are continuous risk monitoring and reassessment of the borrower's creditworthiness in their new circumstances. If the borrower is found to be creditworthy, the existing arrangements are continued as originally agreed, and commitments are renegotiated if they offer a better fit to the customer's new circumstances.

The policy varies as a function of the type of asset that is being financed. For completed property developments, sale support actions are carried out through the Group's distribution channels, by setting a competitive price which will attract demand and by offering finance to end buyers provided that they comply with risk requirements. For construction projects in progress, the main objective is to complete the project, provided that short- and medium-term market prospects are sufficient to absorb the resulting supply of dwellings.

In terms of financing for land and plots, the possibility of selling the future homes is also considered before financing construction.

Where the analysis and scrutiny of a borrower's position do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt ("dation in payment") and/or the purchase of assets.

Where neither approach is practicable, legal proceedings leading to foreclosure will be taken.
Assets taken into possession by the Group, whether through the dation in payment, purchase, or court-ordered repossession, to ensure collection or to execute other credit enhancements are mainly foreclosed tangible assets received from borrowers and other obligors of the Bank to settle financial assets representing a debt claim held by the bank, and they are managed actively with the primary purpose of divestment.

Based on the degree of maturity of the real estate assets, three strategic lines of action have been established:

1 New funding: real estate development

In 2014, a commercial unit was re-established to deal exclusively with new lending to real estate developers based on the identification of a market need and the existence of solvent new players. This unit has a new monitoring methodology that gives the Bank detailed information about all the projects that the unit considers (ranging from land/floor area to number of units, sales volume, construction budget and level of pre-sales).

In parallel, a new Real Estate Analysis Department was created to analyse all applications for finance for real estate projects from a purely real estate business standpoint, focusing on the location and the suitability of the product, as well as the current potential supply and demand, cross-checking with the figures in the business plan presented by the customer (costs, sales and deadlines are key factors). The new analysis model is accompanied by a method for tracking developments that the bank agrees to finance. Standardised reports are used to track each development's progress so as to monitor drawdowns and the fulfilment of the business plan (sales, costs and deadlines).

Under the new management model, alerts are defined for tracking by both the Analysis and Monitoring Department and the Risks Department, both of which worked on defining the alerts. In addition to the alerts for funded developments, new funding is based on the development framework, which defines the optimal allocation of new business as a function of the quality of the customer and of the development.

2 Managing non-performing real estate loans

There is a policy in place for managing non-performing exposures. At a general level, risk management takes account of the customer, the collateral and the loan status, ranging from the first early warning about a performing loan to the adoption of dation in payment or purchase by mutual agreement, or foreclosure and auction.
After analysing the aforementioned three dimensions, the optimal solution is acopted in order to stabilise or liquidate the position, by mutual agreement or judicial means, depending on developments with the individual customer and case. If it is not possible to stabilise the loan or have the customer settle, there are number of support options depending on the type of loan and the asset it funds. In

* For additional quantitative information, see Schedule 6 to the consolidated financial statements "Other risk information: Refinancing and restructuring operations".

the case of finished developments or non-residential buildings, the possibility is offered of marketing them via Solvia at prices that can generate traction in the market. In the case of land for building, the possibility of additional debt with which to develop homes is offered if the Bank's internal teams identify proven demand for housing in the area; they take charge of overseeing the loan and the selling process. For other properties, the possibility of sale to third parties is considered, solutions by mutual agreement are proposed (purchase, or dation in payment, potentially accompanied, in the case of residential properties, by favourable conditions to enable the borrower to relocate or obtain social housing, depending on the circumstances); judicial proceedings are a last resort.

3 Managing foreclosed properties

Once the loan is converted into real estate, a management strategy is established based on the type and location in order to identify each asset's potential on the basis of potential demand. Sale is the main exit mechanism; for this purpose, the Bank, via Solvia, has developed a range of channels depending on the type of property and customer. Those channels are successful, as evidenced by the large volume of homes marketed every year, the sizeable growth in the volume of non-residential properties, zoned land and pre-zoned land that is sold after market interest has been generated in these property types, and the fact that third parties rely on Solvia to market their properties.

In the case of certain sites and plots of pre-zoned land in areas with strong demand potential and scope for considerable price appreciation, the Bank invests to optimise the outcome, taking account of projected margins under conservative development assumptions.

Due to having previously reached a high level of concentration in this risk, the Group has an RAS Tier 1 metric which establishes a maximum level of concentration for real-estate development in Spain. This metric is monitored on a monthly basis, and is reported to the Risk Technical Committee, the Risk Committee and the Board of Directors.

Moreover, the Risk Control Department, together with the Business and Risk Departments, regularly monitors the degree to which new lending conforms to the framework established for property developers, including a review of compliance and of asset allocation. The outcome is reported to the Risk Technical Committee.*

Credit risk management models

Credit rating

Credit risks incurred with corporates, developers, projects with specialised funding, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on an analysis of behaviour patterns in defaulted loans. Each internal rating score is assigned to a projected default rate, which allows consistent comparisons to be made across segments and with the ratings produced by independent rating agencies, according to a master scale (G5).

Scoring

In general, credit risks undertaken with individual customers are rated using scoring systems based on a quantitative model of historical statistics to identify meaningful predictive factors. In geographies where scoring is used, it is divided into two types:

Behavioural scoring: the system automatically classifies customers based on information regarding their activity and each product. It is used primarily for: granting loans, setting limits on authorised overdrafts, targeting sales campaigns, and for tracking and segmenting in claim and/or recovery procedures.

Reactive scoring: this is used to evaluate applications for personal loans, mortgage loans and credit cards. Once all the transaction data has been entered, the system calculates a result based on the estimated creditworthiness and financial profile and any collateral.

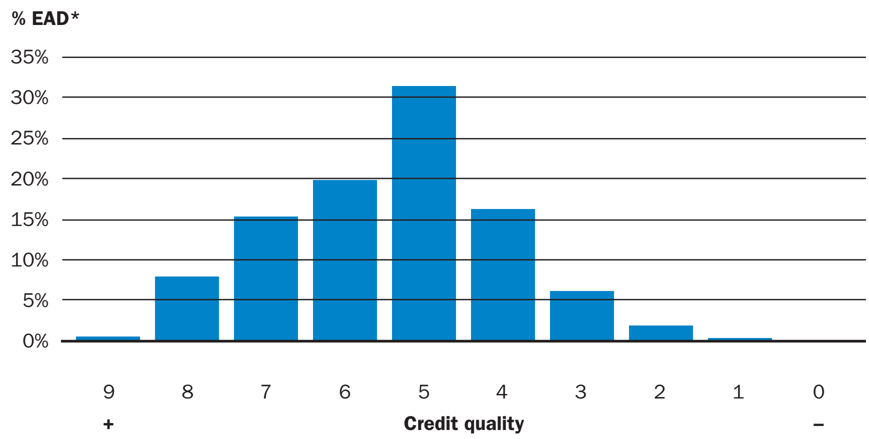
If no scoring system exists, individual assessments supplemented with policies are applied (G6).

* For additional quantitative information, see Schedule 6 to the consolidated financial statements “Credit risk: Risk concentration and exposure to construction and real estate sectors”.

Warning tools

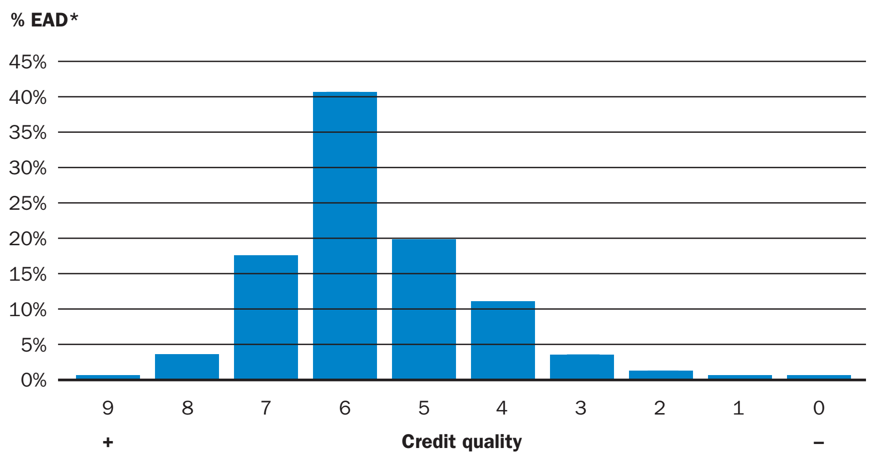
In general, Banco Sabadell Group has a system of early warnings comprised of both individual warnings and advanced early warning models in place for both corporates and private individuals. These early warnings are based on performance indicators based on available sources of information (rating or scoring, customer files, balance sheets, CIRBE — Bank of Spain Central Credit Register, industry and operating performance, etc.). They model the risk posed by a customer on a short-term basis (predicted propensity to default) and have achieved a high level of accuracy in detecting potential cases of default. The score, which is produced automatically, is included in the monitoring process as one of the basic inputs in tracking the risk posed by individuals and companies. This alert system allows for:

— Improved efficiency by focusing on customers with the lowest score (different cut-off points for each group).
— Early action to manage any negative change in the customer's situation (change in score, severe warnings, etc.).
— Regular oversight of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.



G5 Company loan rating profile

* EAD (exposure at default)



G6 Individual customer credit score profile

* EAD (exposure at default)

Outstanding lending increased by +4.6% (in like-for-like terms) due to strong lending to SMEs and to new mortgage production.

NPAs declined by €3.5 billion in the year, and there was considerable rotation and an improvement in the composition of foreclosed assets.

T1 Credit risk exposure

€M

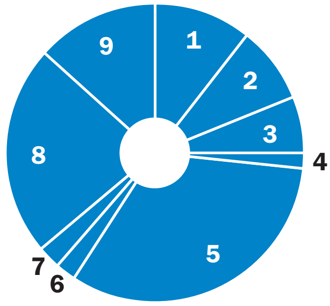
	2016	2017
Maximum credit risk exposure		
Financial assets held for trading	**1,649.73**	**131.76**
Equity instruments	10.63	7.43
Debt securities	1,639.10	124.33
Loans and advances	—	—
Financial assets at fair value, through profit and loss	**34.83**	**39.53**
Equity instruments	34.83	39.53
Debt securities	—	—
Loans and advances	—	—
Available-for-sale financial assets	**18,895.13**	**13,380.57**
Equity instruments	766.61	606.70
Debt securities	18,128.53	12,773.87
Loans and receivables	**155,324.48**	**153,284.56**
Debt securities	930.59	575.45
Loans and advances	154,393.89	152,709.11
Investments held to maturity	**4,598.19**	**11,173.21**
Derivatives	**2,369.66**	**1,814.76**
Total financial asset exposure	**182,872.01**	**179,824.39**
Guarantees given	8,529.35	8,726.85
Contingent liabilities given	25,208.69	24,079.34
Total commitments and guarantees given	**33,738.04**	**32,806.19**
Total maximum credit risk exposure	**216,610.05**	**212,630.58**

Table 1 shows the financial assets exposed to credit risk, broken down by portfolio and instrument at year-end, indicating the carrying amount, as representing the highest level of exposure to credit risk, inasmuch as it reflects the borrower's highest level of debt at the reference date.

The Group also maintains contingent risks and commitments with borrowers, materialised by the establishment of guarantees provided or commitments inherent in the credit agreements up to an availability level or limit ensuring financing for the customer when the latter needs it. Such facilities also entail the acceptance of a credit risk and are subject to the same management and monitoring systems as described above.

The collateral or other credit improvements received to ensure compliance, which are standard practice in the type of financial instruments handled by the entity, have not been deducted from the credit risk exposure value referred to above.

Diagram G7 illustrates the breakdown of credit risk among the group's various segments and portfolios.



G7
Overall risk profile by customer category (distribution of credit risk exposure) %EAD (Exposure at default)

1	Large corporates	10.7
2	Midsize businesses	8.3
3	Small businesses	6.3
4	Retailers and sole proprietors	1.5
5	Mortgage loans	32.7
6	Consumer loans	2.2
7	Banks	2.3
8	Sovereign	23.0
9	Other	13.0

Credit risk mitigation

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour their obligations to the Group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also normal practice to mitigate exposure to credit risk by requiring borrowers to provide collateral or other sureties.

Generally, these take the form of real collateral, mainly mortgages on properties used as housing, whether finished or under construction. The entity also accepts, although to a lesser degree, other types of real collateral, such as mortgages on business premises, industrial warehouses, etc., and financial assets. Another credit risk mitigation technique that is commonly used by the entity is to accept guarantees, in this case subject to the guarantor presenting a valid certificate of solvency.

Legal certainty is secured in all these mitigation techniques by signing legal agreements that are binding on all parties and can be enforced in all pertinent jurisdictions to ensure, at all times, that the guarantee can be executed. This entire process is subject to internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be obtained where these contracts are granted under foreign legislation.

Real collateral is formalised before a notary in the form of a public instrument to ensure enforceability vis-à-vis third parties. The public instruments referring to mortgage loans are also registered at the pertinent registry to ensure that they are fully valid and enforceable vis-à-vis third parties. In the case of pledges, the pledged

* For more information, see Schedule 6 to the 2017 consolidated financial statements, which presents quantitative data on credit risk exposure, by geography.

goods are normally deposited with the Bank. Unilateral cancellation by the debtor is not permitted, and the guarantee remains in force until the debt is discharged in full.

Personal guarantees or bonds are established in favour of the Bank and, barring exceptional cases, are also formalised before a notary in the form of a public instrument in order to achieve the utmost legal certainty and be able to seek enforcement via the courts in the event of non-payment. They constitute an irrevocable debt claim against the guarantor that is payable on first demand.

In addition to risk mitigation through the establishment of formal guarantees between the debtors and the entity, as a result of the acquisition of Banco CAM, the group has an additional guarantee for a certain asset portfolio, provided by the Asset Protection Scheme (APS), retroactive from 31 July 2011 and for a period of ten years (for more details, see Note 2 to the 2017 consolidated financial statements).

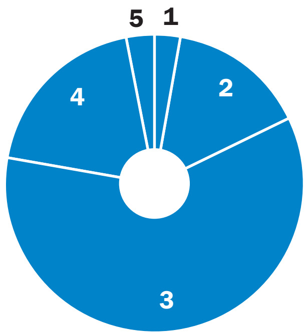
The Bank has not received significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of such guarantees, except for those intrinsic to the treasury business, which are mostly repos with maturities of no more than six months, as a result of which their fair value does not differ substantially from their carrying amount.

The main concentration of risk in relation to all these types of real collateral or credit enhancements refers to the use of the mortgages as a credit risk mitigation technique in loans to fund the construction of homes or other types of real estate. In relative terms, the exposure secured with mortgages represents 63% of total customer loans and advances.

Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) giving rise to credit risk. Such models have been designed in line with best practices proposed by the NBCA. Nonetheless, not all portfolios giving rise to credit risk use internal models, partly due to the fact that a minimum level of experience of defaults is required to reasonably design such a model.

The breakdown of the total exposure, based on internal ratings, is shown in figure G8.



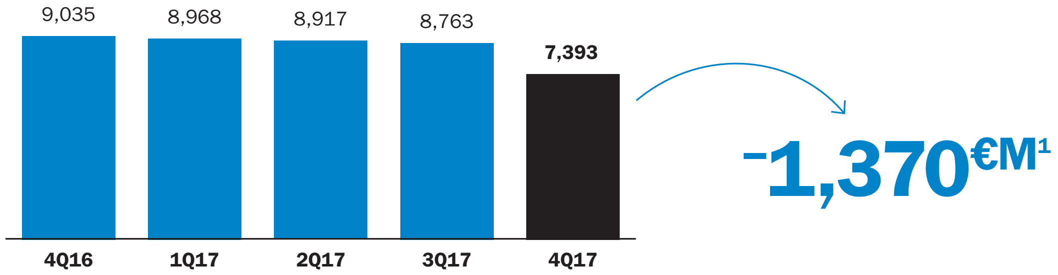
G8
Breakdown of exposure by rating (%)

1	AAA/AA	3.0
2	A	15.0
3	BBB	60.0
4	BB	19.0
5	B	3.0

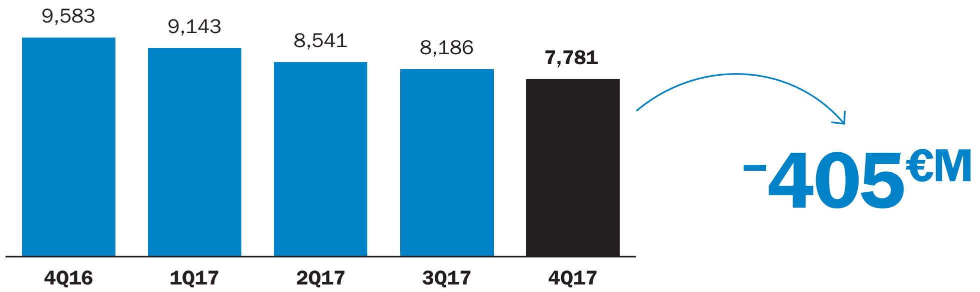
The NPL ratio continues to decline, and stands at 5.1%.

The NPA coverage ratio reached 49.8% in 2017.

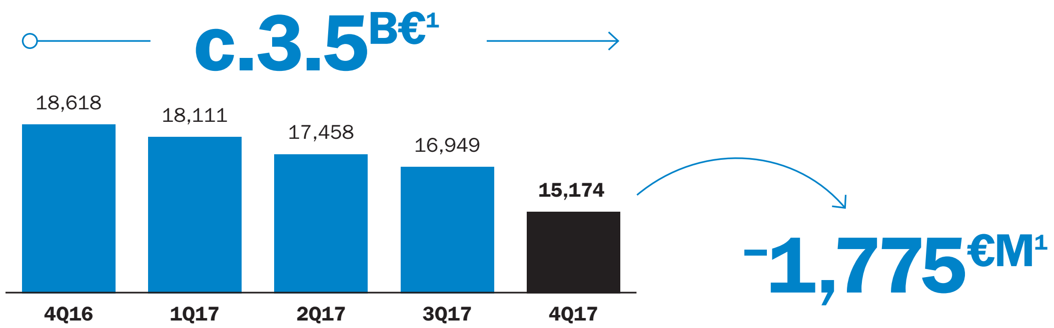
Implementation of IFRS 9 in January 2018 will entail €900 million in provisions and will increase the NPA coverage rate to 54.7% in pro-forma terms.



G9 Foreclosed assets excl.TSB (€M)



G10 NPLs, excl. TSB (€M)



G11 Total NPAs, excl. TSB (€M)

Non-performing loan performance improved in 2017, as the balance declined by 1,770 million euro, leading to an NPL ratio of 5.14% at year-end.

Active management by the Bank resulted in a notable reduction in NPAs in 2017, far exceeding the initial objective for the year (G9, G10 & G11).

Note: Includes contingent risks. The balance of NPLs and foreclosed assets (excl. TSB) include 20% of the non-performing exposure covered by the APS, in accordance with the APS protocol.

1 Includes 1,252€M of NPAs in the carve-out for the new Solvia Desarrollos Inmobiliarios business line.

Concentration risk

Concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity. This type of risk is divided into two basic subtypes:

— Individual concentration risk: imperfect diversification of the portfolio's idiosyncratic risk due either to its small size or to sizeable exposure to specific customers.
— Sectoral concentration risk: imperfect diversification of systematic risk components in the portfolio, which may be sectoral, geographical, ...

Banco Sabadell has a series of specific tools and policies to ensure efficient management of concentration risk:

— Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, such as tier-one metrics.
— Individual limits for risks and customers considered to be significant, which are established by the Executive Committee.
— A structure of delegation which requires that the main customer transactions be approved by the Credit Operations Committee, or even by the Executive Committee.

Exposure to customers or significant risks

At 31 December 2017 there were no borrowers with a risk that individually exceeded 10% of the Group's equity.

Country risk: geographic exposure to credit risk

Country risk is that arising in the debts of a country, taken as a whole, as a result of reasons inherent in the country's sovereignty and economic situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to the foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation.

Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, are generally unable to honour debts.

An exposure limit is set for each country which is applicable across the whole Banco Sabadell Group. These limits are approved by the Executive Committee and the corresponding decision-making bodies, depending on the level of delegation, and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time.

The principal component of the framework for the acceptance of country risk and financial institution risk is the structure of limits on the various metrics; on this

T2 Breakdown of risk concentration by activity

€M

	2017				
	TOTAL	**Spain**	**Rest of European Union**	**America**	**Rest of the world**
Financial institutions	**33,301.91**	**18,525.88**	**13,118.64**	**1,121.17**	**536.21**
Public authorities	**32,278.17**	**17,848.22**	**13,076.48**	**1,265.61**	**87.85**
Central government	26,641.50	12,574.46	13,076.48	932.38	58.18
Others	5,636.67	5,273.77	—	333.22	29.68
Other financial institutions	**5,809.64**	**4,875.46**	**463.41**	**419.71**	**51.06**
Non-financial companies and sole traders	**60,959.37**	**50,935.26**	**3,519.95**	**5,959.93**	**544.22**
Construction and real estate development	6,341.80	5,688.53	17.56	548.30	87.40
Civil engineering work	1,592.29	1,567.47	14.80	7.76	2.26
Other	53,025.28	43,679.26	3,487.59	5,403.87	454.56
Large corporates	24,968.94	17,122.23	2,875.37	4,731.48	239.87
SMEs and sole proprietors	28,056.33	26,557.03	612.23	672.39	214.69
Other households and NPISH	**78,472.83**	**39,820.67**	**37,131.21**	**474.99**	**1,045.96**
Home loans	69,779.71	34,981.76	33,727.53	165.50	904.92
Consumer loans	6,394.65	3,540.22	2,422.64	300.97	130.81
Other	2,298.48	1,298.69	981.04	8.52	10.24
TOTAL	**210,821.91**	**132,005.49**	**67,309.70**	**9,241.41**	**2,265.32**

basis, the various risks are monitored and senior management and the Board sub-committees establish the group's risk appetite on this basis.

The limits structure is based on two tiers: tier 1 metrics in the RAS, and Tier 2 (or "management") limits.

Additionally, a number of indicators and tools are used to manage country risk: ratings, credit default swaps, macroeconomic indicators, etc.

The distribution of risk concentration by activity and worldwide in 2017 is shown in T2.

The breakdown, by type of financial instrument, of the exposure to sovereign risk at 31 December 2017, applying the criteria required by the European Banking Authority (EBA), is shown in diagrams G12, G13 and G14.

Counterparty risk

This heading refers to credit risk arising from activities in financial markets that are carried out via specific trades with counterparty risk. Counterparty risk arises in the event where, in a transaction involving derivatives or repos with deferred settlement or on margin, the counterparty defaults before the final settlement of the transaction cash flows.

Exposure to counterparty risk is concentrated in customers, financial institutions and clearing houses.

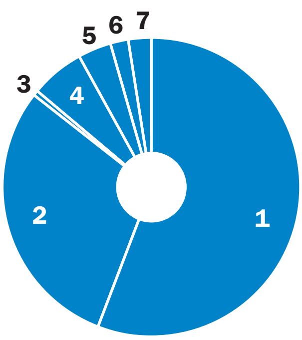
The risk is concentrated in counterparties with high credit quality: 69% of the exposure is with counterparties rated A or higher.

In June 2016, the European Market Infrastructure Regulation (EMIR — Regulation 648/2012) made it obligatory for the Group to clear and settle certain over-the-counter (OTC) derivatives through Central Counterparties (CCP). Consequently, the derivatives arranged by the Group that are susceptible to being cleared through a CCP are cleared in this way. At the same time, the Group has worked to standardise OTC derivatives with a view to increasing the use of CCPs. The exposure to CCPs depends greatly on the amount of the guarantees provided.

Management considers that there is no exposure in derivatives transactions in organised markets (OM), given that the OM acts as counterparty and there is a settlement and guarantee mechanism that ensures transparency and continuity. Exposure to OMs is equivalent to the guarantees provided.

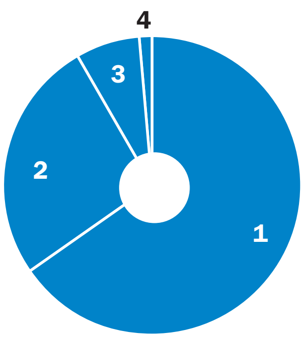
The philosophy behind counterparty risk management is aligned with the business strategy, and seeks at all times to ensure value creation while maintaining a balance between return and risk. For this purpose, criteria have been established for supervising and tracking counterparty risk deriving from activity in the financial markets so as to ensure that the Bank can carry out its business activity within the risk thresholds established by senior management.

Counterparty risk exposure is quantified on the basis of current and future exposure. Current exposure represents the cost of replacing a transaction at market value in the event that a counterparty defaults at the present time. To calculate this, it is necessary to mark the deal to market (MtM). Future exposure (add-on) represents the potential risk which an transaction may incur in a given period of time due to its characteristics and the market variables on which it depends. In the case of transactions



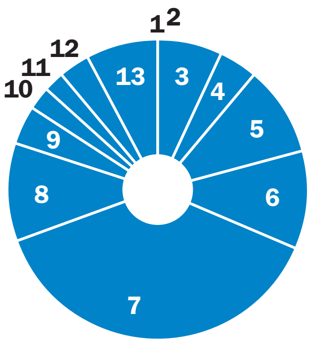
G12 Breakdown of sovereign risk exposure (%)

1	Spain	55.9
2	Italy	29.8
3	USA	0.5
4	United Kingdom	6.0
5	Portugal	3.5
6	Mexico	2.0
7	Rest of the world	2.3



G13 Breakdown of counterparty risk (%) **(by geography)**

1	Eurozone	65.3
2	Rest of Europe	26.3
3	USA and Canada	7.0
4	Rest of the world	1.4



G14 Breakdown of counterparty risk, by rating (%)

1	AAA / Aaa	0.0
2	AA+ / Aa1	0.0
3	AA / Aa2	7.2
4	AA- / Aa3	4.1
5	A+ / A1	9.6
6	A / A2	10.7
7	A- / A3	37.9
8	BBB+ / Baa1	10.7
9	BBB / Baa2	4.2
10	BBB- / Baa3	2.5
11	BB+ / Ba1	2.2
12	BB / Ba2	3.3
13	Others	7.6

under a collateral agreement, the add-on represents the possible fluctuation of MtM between the time of default and the time the position is replaced in the market. If the transaction is not carried out under a collateral agreement, the add-on represents the possible fluctuation of MtM throughout the term of the operation.

Each day at market close, all exposures are recalculated on the basis of transaction inflows and outflows, changes in market variables and the risk mitigation mechanism established by the group. In this way, exposures are monitored on a daily basis to ensure that they conform to the limits approved by senior management. This information forms part of the risk reports which are escalated to the departments and areas responsible for risk management and monitoring.

With regard to counterparty risk, the Group adopts a number of mitigation measures. The main measures are:
— Netting agreements for derivatives (ISDA and CMOF).
— Collateral agreements for derivatives (CSA and CMOF Annex III) and repos (GMRA, CME).

Netting agreements allow positive and negative MtM to be aggregated in transactions with the same counterparty in such a way that, in the event of default, a single payment or collection obligation is established in relation to all of the transactions arranged with that counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to trade in derivatives.

Collateral agreements provide not just for netting but also for the regular exchange of guarantees that mitigate the exposure to a counterparty in respect of the operations covered by the agreement.

The Group requires that a collateral agreement be in place in order to trade in derivatives or repos with financial institutions. The Group's standard collateral contract is bilateral (i.e., both parties are obliged to post collateral) and provides for daily exchange of guarantees, always in cash and always denominated in euro.

Assets pledged in financing activities

At the end of 2017 and 2016, there were certain financial assets pledged in financing operations, i.e. offered as collateral for certain liabilities. Those assets are mainly loans linked to the issuance of mortgage covered bonds, public-sector covered bonds, and long-term asset-backed securities (see Note 20 and Schedule 3 to the 2017 consolidated financial statements, for transactions in connection with the Spanish mortgage market, and Schedule 4 for details of issues). The other pledged assets are debt securities that are delivered in repos, collateral (loans or debt instruments) provided to gain access to certain types of funding from central banks and collateral of all types provided as surety for derivatives transactions.

The bank has used part of its portfolio of homogeneous loans and advances in fixed-income securities by transferring the assets to securitisation trusts created for this purpose. Under current regulations, securitised assets cannot be derecognised unless the risk has been substantially transferred.

For further information on funding programmes in the capital market, refer to the section below on liquidity risk.

Liquidity risk

Liquidity risk arises due to the possibility of losses being incurred as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to refinance debts at a reasonable cost. This may be associated with factors of a systemic nature or specific to the bank itself.

In this regard, the objective of the Banco Sabadell Group is to maintain liquid assets and a funding structure that, in line with its strategic objectives and based on its risk appetite statement (RAS), enables it to honour its payment commitments normally and at a reasonable cost, under business as usual conditions or under a stress situation caused by systemic or idiosyncratic factors.

The governance structure for Banco Sabadell's liquidity management is based on the direct involvement of the Board of Directors and senior management, clear delimitation of the three lines of defence and a strict separation of functions, and a clear structure of responsibilities in committees, departments, subdirectorates-general and functional areas.

Liquidity management

Banco Sabadell's liquidity management policy seeks to ensure that its lending can be financed at a reasonable cost and within a reasonable time so that liquidity risk is kept to a minimum. The bank's funding policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, supplemented with access to wholesale markets that enables the Group to maintain a comfortable liquidity position at all times.

In order to manage its liquidity, the Group applies a structure based on Liquidity Management Units (LMUs). Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. At present, the LMUs are Banco Sabadell (including overseas branches — OFEX), Banc Sabadell d'Andorra (BSA) and TSB.

In order to achieve the objectives, the group's current liquidity risk management strategy is based on the following principles and pillars, in line with the LMUs' retail business model and the defined strategic objectives:
— Involvement of the Board of Directors and senior management in managing and controlling liquidity risk and funding.
— Clear segregation of functions between the different areas within the organisation, with a clear delimitation of the three lines of defence, to ensure independence

when measuring positions and when controlling and assessing risks.
— Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
— Sound identification, measurement, management, control and reporting processes with respect to the liquidity and funding risks to which the Group is exposed.
— Existence of a transfer price system to transfer funding costs.
— A balanced funding structure based primarily on customer deposits.
— A broad base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprises the Group's first line of defence.
— Diversification of funding sources, with controlled recourse to short-term wholesale funding and without depending on any specific funding provider.
— Self-funding of significant foreign banking subsidiaries.
— Monitoring of the amount of the balance sheet being used as collateral in funding transactions (encumbrance).
— Maintenance of a second line of liquidity consisting of the capacity to issue mortgage covered bonds and public sector covered bonds.
— Availability of a Liquidity Contingency Plan.

Although ring-fencing will not officially come into force until 2019, TSB is an autonomous unit within the Group's liquidity management as it is an independent LMU. The future economic performance of the United Kingdom should not generate liquidity problems, as TSB operates independently from its parent company.

Tools/metrics for monitoring and managing liquidity risk

The Banco Sabadell Group defines two series of metrics that enable it to measure and control liquidity risk: tier 1 metrics in the RAS, and tier 2 metrics. Liquidity risk is also monitored and controlled on a daily basis through the early warning indicators (EWI) and the Structural Treasury Report.

The Board of Directors of Banco Sabadell is responsible for defining the Group's liquidity and funding risk appetite statement (RAS) at consolidated level and for setting indicators that LMUs must include in their local RAS, independently of any other indicators they use.

The RAS is comprised of quantitative metrics that allow for objective monitoring of risk management and complementary qualitative aspects.

Aside from the metrics contained in the Risk Appetite Framework, each LMU defines a set of second-tier metrics which contribute to analysing and monitoring the funding and liquidity risk. These metrics are monitored continuously by each of the local asset and liability committees (ALCOs).

The Group has also designed and implemented a system of early warning indicators (EWIs) at the LMU level, which includes market and liquidity indicators adapted to each LMU's funding structure and business model. These metrics at LMU level complement the RAS indicators and second-tier metrics and enable local threats to the liquidity position and funding structure to be detected in advance, thereby facilitating the decision-making process and implementation of corrective actions and reducing the risk of spillover to other LMUs.

Banco Sabadell has a Liquidity Contingency Plan (LCP) that sets out the strategy for ensuring that the institution has sufficient management capacities and measures in place to minimise any negative impacts of a crisis affecting its liquidity position and to enable it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in liquidity management, particularly in the event that the crisis has arisen due to flawed performance of one or more market infrastructures. The LCP can be triggered in response to different crisis scenarios, either in the markets or in the entity itself. In general, and in line with the impact channels considered in the entity's stress tests, these scenarios can be classed as systemic crises, idiosyncratic crises or combined crises.

The control and reporting framework for risk management limits is comprised of the following factors, among others:
— Daily monitoring of risk indicators and limits, with reporting to the various management units.
— Systematic oversight and analysis of headroom within the limits, identifying cases of breach and activating the necessary procedures to correct the situation.

Funding strategy and liquidity trends

Funding strategy and liquidity trends in the Group's main source of funding is customer deposits (mainly demand accounts and deposits with agreed maturity captured through the branch network), supplemented by funding through the interbank and capital markets in which the entity maintains a number of short-and long-term funding programmes in order to achieve an appropriate level of diversification in terms of product, term and investor. The entity also maintains a diversified portfolio of liquid assets, mostly eligible as collateral for European Central Bank funding transactions.

On-balance sheet customer funds

At 31 December 2017, on-balance sheet customer funds amounted to €132,096 million, compared with €133,457 million at 2016 year-end and €131,489 million at 2015 year-end (a decrease of 1.0% in December 2017 compared with December 2016, and an increase of 1.5% in December 2016 compared with December 2015). The downward trend in interest rates in the financial markets led to a change in the composition of customer funds on the balance sheet which shifted from deposits with agreed maturity to demand accounts and off-balance sheet assets. At 31 December 2017, the balance of demand accounts totalled €98,020 million (+6.5%), to the detriment of deposits with agreed maturity, which declined by 19.8% (T3).*

The bank's deposits are marketed through the following group companies and business units: Commercial Banking, Corporate Banking and Global Business, Private Banking and TSB.

During 2017, the rising trend in the funding gap observed in previous year was maintained. This enabled the bank to maintain its policy of partially refinancing maturities in the capital markets and, at the same time, to continue reducing the group's loan-to-deposit (LtD) ratio (from 147% at the end of 2010 to 104.3% at the end of 2017) (T4).

To calculate the loan to deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) is taken as the numerator, and retail funding as the denominator.

Capital markets

Recourse to funding in the capital markets has been declining in recent years as a consequence of, inter alia, the positive trend in the funding gap. At the end of 2017, the outstanding balance of capital market funding stood at €22,390 million, compared with €25,160 million at the end of 2016. As of 2017 year-end, of the amount of capital market funding, €13,335 million were in the form of mortgage covered bonds, €2,037 million were commercial paper and ECP placed with wholesale investors, €1,669 million were senior debt, €2,497 million were subordinated debt and preferred securities, €2,820 million were asset-backed securities placed in the market (of which €925 million correspond to TSB), and €33 million were other medium- and long-term financial instruments (T5, G15 & G16).

The Banco Sabadell Group is an active participant in the capital markets and has a number of active funding programmes with a view to diversifying its sources of liquidity.

In terms of short-term financing, the entity maintains a commercial paper programme and a Euro Commercial Paper (ECP) programme:

— Commercial paper programme: this programme regulates issues of commercial paper aimed at institutional and retail investors. On 2 March 2017, Banco Sabadell registered its commercial paper programme for 2017 with the Spanish National Securities Market Commission (CNMV) with an issue limit of €7,000 million and scope for extension to €9,000 million. The outstanding balance of the commercial paper programme declined during the year. At 31 December 2017, the outstanding balance stood at €2,823 million (net of commercial paper acquired by group undertakings), compared with €3,676 million at 31 December 2016.

T3 On-balance sheet customer funds, by maturity

€M

	2017	3 months	6 months	12 months	>12 months	No fixed maturity
Total on-balance sheet customer funds (*)	**132,096**	**8.4%**	**4.8%**	**7.2%**	**5.4%**	**74.2%**
Fixed-term deposits	29,816	33.9%	19.4%	29.7%	17.1%	—
Demand accounts	98,020	—	—	—	—	100.0%
Retail issues	4,260	24.0%	12.9%	15.2%	47.8%	—

(*) Includes customer deposits (ex-repos) and other liabilities placed via the branch network: mandatory convertible bonds, non-convertible bonds issued by Banco Sabadell, commercial paper and others.

T4 Key figures and basic liquidity ratios

€M

	Excl. TSB 2016	Excl. TSB 2017	Group total 2016	Group total 2017
Gross loans and advances to customers, excluding repos	115,640	109,742	150,087	145,323
NPL and country-risk provisions	(4,835)	(3,646)	(4,921)	(3,727)
Brokered loans	(4,900)	(3,110)	(4,900)	(3,835)
Adjusted net loans and advances	**105,905**	**102,986**	**140,266**	**137,761**
On-balance sheet customer funds	99,123	97,686	133,457	132,096
Loan to deposits ratio (%)	**106.8**	**105.4**	**105.1**	**104.3**

*** For further details of off-balance sheet customer funds managed by the Group and those marketed but not managed by the Group, see note 28 to the 2017 consolidated financial statements.**

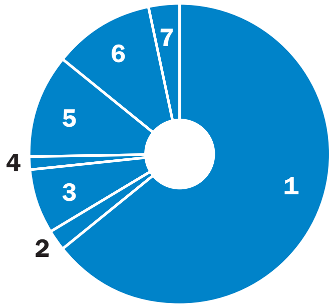
— Euro Commercial Paper (ECP) Programme, aimed at institutional investors, under which short-term securities are issued in several currencies: EUR, USD and GBP. On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of €3,500 million. At 31 December 2017, the outstanding balance stood at €346 million, in comparison with €246 million at the end of 2016.

Regarding medium- and long-term funding, the entity has the following programmes in place:

— Programme for the issuance of non-equity securities ("Fixed Income Programme"), registered with CNMV on 11 April 2017, for a maximum amount of €16,500 million: this programme regulates the bonds and debentures, both non-convertible and subordinated, and mortgage covered bonds, public-sector covered bonds and structured bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. The limit available for new issues under the Banco Sabadell Programme for the issuance of non-equity securities in 2017 was €10,046 million at 31 December 2017 (€10,638.8 million under the Fixed Income Programme at 31 December 2016). During 2017, Banco Sabadell issued a total of €3,044.6 million in public issues under the existing Fixed-Income Programme.

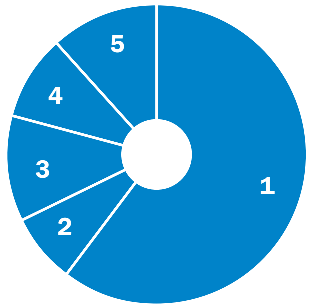
During the year, the entity tapped the market on several occasions, taking advantage of liquidity windows.

— Euro Medium Term Notes (EMTN) Programme, registered on 22 March 2017 with the Irish Stock Exchange. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in any currency, with a maximum limit of €5,000 million. On 5 December 2017, Banco Sabadell issued €1,000 million in senior debt under this programme, maturing in five years and three months.



G15 Funding structure
31.12.2017 (%)

1	Deposits	64.3
2	Retail issues	2.1
3	Repos	7.2
4	ICO funding	1.2
5	Wholesale market	11.1
6	ECB	10.9
7	Bank of England	3.2



G16 Institutional issues
31.12.2017 (%)

1	Mortgage covered bonds	60.4
2	Senior debt	7.6
3	Subordinated and AT1	11.3
4	ECP + institutional commercial paper	9.2
5	Asset-backed securities	11.5

T5 Maturity of issues aimed at institutional investors, by product type

€M

	2018	2019	2020	2021	2022	2023	>2023	Outstanding balance
Mortgage-backed bonds and mortgage covered bonds (*)	1,556	1,124	2,015	1,808	1,683	1,388	3,761	13,335
Senior debt (**)	644	—	—	—	25	1,000	—	1,669
Subordinated debt and preferred securities (**)	—	—	403	434	—	—	1,660	2,497
Other medium- and long-term financial instruments (**)	18	—	—	10	—	—	5	33
Total	**2,218**	**1,124**	**2,418**	**2,252**	**1,708**	**2,388**	**5,426**	**17,534**

(*) Collateralised
(**) Uncollateralised

Also, during the year, the Bank performed two issues of contingently convertible preferred securities (Additional Tier 1). On 18 May 2017, Banco Sabadell made an inaugural issue of Additional Tier 1 securities amounting to €750 million at a fixed rate of 6.5%. Subsequently, on 23 November 2017, a second issue of Additional Tier 1 was made for an amount of €400 million at a fixed rate of 6.125%.

On 24 February 2017, the FCA (Financial Conduct Authority) approved TSB's new mortgage covered bond programme with a maximum issue limit of £5,000 million. On 7 December 2017, TSB made its inaugural issue of mortgage covered bonds by placing £500 million in the institutional market at 5 years paying a coupon of £ Libor 3m + 24pb.

With regard to asset-backed securities:

— Since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other highly solvent institutions, assigning mortgage loans, SME loans, consumer loans and debt claims deriving from finance lease contracts.
— There are currently twenty-seven outstanding issues of asset-backed securities (including those issued by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB). Although the entity retained some of the bonds as liquid assets eligible as collateral for European Central Bank funding transactions, the remainder of the bonds were placed in the market. At the end of 2017, the balance of asset-backed securities placed in the market stood at €2,820 million.
— For efficiency reasons, nine asset-backed securities were redeemed before maturity in 2017 (for more information on securitisation trusts, see Schedule 2 to the 2017 consolidated financial statements).
— On 4 December 2017, Banco Sabadell issued residential mortgage-backed securities under the name TDA Sabadell RMBS 4 for a total amount of €6,000 million, all of which were retained in the portfolio. Subsequently, on 20 December 2017, Banco Sabadell issued IM Sabadell Pyme 11, a bond backed by loans to SMEs, for an amount of €1,900 million; €150 million were placed in the market and the remainder was retained.

In general terms, the tone of the markets was positive in 2017, as reflected in the compression of credit spreads, although there were some volatility spikes due mainly to political uncertainty which triggered market tensions and occasional market closures.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted long-term refinancing operation (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II, for a total of €20,500 million (€10,000 in the first auction, in June 2016, and €10,500 in the last auction, in March 2017).

In 2016, the Bank of England also implemented a series of measures to support economic growth. They include a reduction in the bank base rate and the introduction of the Term Funding Scheme (TFS) in August 2016 to incentivise lending by allowing UK banks to borrow at 4 years secured by eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB made use of the TFS in 2017, drawing a total of €6,334 million by the end of 2017.

Liquid assets

In addition to these sources of funding, Banco Sabadell maintains a liquidity buffer in the form of liquid assets to cover any liquidity needs (T6).

With respect to 2016, Banco Sabadell's first line of liquidity expanded by €6,284 million, due mainly to the funding gap. In particular, the balance at central banks and the net interbank position increased by €14,359 million in 2017, while the available balance eligible for ECB transactions declined by €5,886 million, of which €1,476 million are related to the decline in the balance available under the Bank of Spain facility. Marketable securities that are ineligible for ECB transactions declined by €2,189 million, largely as a result of the assets of Sabadell United Bank (SUB) at 2016 year-end, which no longer appear in the 2017 figure because of the sale of that subsidiary.

As for TSB, the first line of liquidity at 31 December 2017 was mainly comprised of gilts amounting to €761 million (€1,678 million at 31 December 2016) and surplus reserves at the Bank of England (BoE) amounting to €8,286 million (€4,191 million at 31 December 2016), mostly from draws on the TFS during the year.
It should be noted that Banco Sabadell Group applies a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. As a result, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the eligibility, availability and liquidity requirements established both internally and in regulations in order to comply with the regulatory minima.

There are no significant amounts of cash and cash equivalents which are not available for use by the Group.

In addition to the first line of liquidity, the bank maintains a buffer of mortgage assets and loans to public authorities that are eligible as collateral for mortgage covered bonds and public sector covered bonds, respectively, which, at the end of 2017, added €2,666 million in terms of the capacity to issue new covered bonds that are eligible as collateral for the ECB facility. At the end of 2017, available liquidity amounted to €35,831 million in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity at year-end to issue mortgage and public sector covered bonds.

Fulfilment of regulatory ratios

As part of its liquidity management approach, the Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the LMUs as a whole.

Since 1 January 2017, the regulatory minimum LCR is 80%, a level which is comfortably surpassed by all of the entity's LMUs. At group level, throughout the year the LCR remained well above 100% on a stable basis; in particular, Banco Sabadell Spain and TSB have ample LCR levels. At 2017 year-end, the LCR ratio was 168% excl. TSB and 295% at TSB.

The NSFR is still being considered and defined, although it was due to come into force in January 2018; like the LCR, it is to be phased in gradually. The Group has nonetheless already commenced tracking this ratio as a liquidity metric at the LMU level.

Given the bank's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long-term, this ratio is consistently over 100%.

Market risk

This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.

Those positions that generate market risk are usually held in trading activities, consisting of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that are left open in net terms. In the latter case, the entity uses the market risk management and monitoring system to manage the structural market risk position.

The market risk acceptance, management and oversight system is based on setting limits for specifically assigned positions and the approval of each business unit's transactions; in this way, the various management units have the obligation to manage their positions within the established limits and to obtain approval for transactions from the risks area.

Trading activity

The principal risk factors considered by Banco Sabadell in its trading activity are:

— Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit operations, fixed-income and interest rate derivatives.

— Credit spread risk: this risk derives from the fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

— Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the reference currency. In the case of Banco Sabadell, the reference currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

— Equity risk: risk which derives from the fluctuation in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Commodity price changes did not have an impact in the year since the Group's exposure, both direct and to the underlying assets, is negligible.

T6 Available liquid assets

€M

	2017
Cash (*) + Net interbank position	22,361
Available under ECB facility	5,393
Collateral provided under ECB facility (**)	26,894
Balance drawn under Bank of Spain facility (***)	21,501
Assets eligible as collateral for ECB facility not yet used	4,013
Other marketable assets ineligible for central bank facility (****)	1,398
Pro memoria: Balance drawn under Bank of England Term Funding Scheme	6,334
Total available liquid assets	**33,165**

(*) Excess reserves at central banks.
(**) Market value after applying ECB haircut for monetary policy transactions.
(***) Includes TLTRO-II-
(****) Market value after applying the Liquidity Coverage Ratio (LCR) haircut. Includes fixed-income securities classified as high-quality liquid assets (HQLA) for the purposes of the LCR and other marketable securities of group undertakings.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

The VaR provides an estimate of the maximum potential loss posed by a position due to an adverse but normal movement of any of the identified parameters influencing market risk. This estimate is expressed in monetary terms and refers to a specific date, a specified level of confidence and a specific time horizon. A 99% confidence level is used. Due to the low complexity of the instruments and the high liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on the full appreciation of the transactions under recent historic scenarios, and it is not necessary to make assumptions about the distribution of market prices. The main limitation to this methodology is its dependence on historical data, given that, if a potential event did not materialise within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the contemplated confidence level. Back testing consists of a comparison between daily VaR and daily results. If losses exceed the level of VaR, an exception occurs. In 2017, no exceptions occurred in backtesting due to the low exposure to the year's significant events, such as the increase in euro swap rates and the dollar's devaluation against the euro on 27 June, and the changes in dollar short rates in December.

Stressed VaR is calculated in the same way as VaR but with a historical window of variations in the risk factors in stressed market conditions. This stress situation is determined on the basis of current transactions, and it can vary if the risk profile of portfolios changes. The methodology used for this risk metric is historical simulation.

This is supplemented with additional measures such as sensitivities, which refer to the change produced in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out with extreme market scenarios (stress testing), in which the impacts on portfolios of different past and theoretical scenarios are analysed.

Market risks are monitored on a daily basis, and risk levels and compliance with the limits established by the Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable) are reported to the oversight bodies. This makes it possible to keep track of changes in exposure levels and measure the contribution by each risk factor.

Trading market risk incurred in terms of the 1-day VaR with 99% confidence is shown in table T7.

T7 VaR

€M

	2017		
	Average	Maximum	Minimum
Interest rate risk	1.13	3.27	0.40
Exchange rate risk in trading position	0.17	0.41	0.05
Equities	1.17	3.40	0.30
Credit spread	**0.37**	**2.38**	**0.08**
Aggregated VaR	**2.84**	**5.34**	**1.35**

Structural risks concerning interest rates and exchange rates

Structural interest rate risk

Structural interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking and is defined as the possibility of incurring losses as a result of the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates). The following are considered under structural interest rate risk:

— Repricing risk: related to a mismatch between maturity dates and repricing of assets, liabilities and short- and long-term off-balance sheet positions.
— Curve risk: arising from changes in the level or slope of the yield curve.
— Basis risk: arising from hedging an interest rate exposure using exposure to an interest rate that is repriced in different conditions.
— Optionality risk: arising from options, including implicit options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with market best practices and are implemented consistently across all balance sheet management units (BMUs) and by local asset and liability committees. The effect of diversification between currencies and BMUs is taken into account when presenting overall key figures.

The Group's current interest rate risk management strategy relies particularly on the following principles and pillars, in line with the business model and the defined strategic objectives:

— Each BMU has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report IRRBB. This enables them to obtain information from all of the identified sources of IRRBB, assess their effect on financial margins and the economic value of assets and measure the vulnerability of the Group/BMU to potential losses deriving from IRRBB under different stress scenarios.
— At corporate level, a set of limits is established for overseeing and monitoring the level of IRRBB exposure that are appropriate in the light of internal risk tolerance policies. However, each BMU has the autonomy to set any other additional limits it deems necessary, based on its specific needs and the nature of its activities.
— The existence of a transfer pricing system.
— The set of systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap (G17), which is a static measure that shows the breakdown of maturities and repricing of sensitive items on the balance sheet. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered in order to make assumptions as to stability and remuneration on the basis of the product type.

Additionally, the sensitivity of key economic figures (net interest income, economic value) to changes in the yield curve is calculated. Table T8 shows the interest rate risk levels in terms of the sensitivity of the Group's main foreign currencies at the end of 2017.

In addition to the impact on net interest income within one year, presented in table T8, the Group calculates the impact on net interest income over two years, the result of which is notably more positive for all currencies. In particular, the sensitivity of net interest income in the second year considering the group's main currencies, with a high pass-through rate (i.e. where the bulk of any increase in reference interest rates is transferred to deposits with agreed maturity and remunerated sight accounts), is 14.4%, while a medium pass-through would put it at 20% (T9).

Given the current level of market interest rates, the scenario of a decline in the points on the curve where rates are positive uses a maximum shift of 100 basis points in each term, so that the resulting interest rate is always greater than or equal to zero. No shift is applied to points on the curve where the market rate is negative.

Derivatives are arranged in the financial markets to hedge risks, mainly interest rate swaps (IRS), which qualify for hedge accounting. Two different forms of macro-hedging are used:

— Macro-hedging of interest rates on cash flows, whose purpose is to reduce the volatility of net interest income as a result of interest rate fluctuations, for a one-year time horizon.
— Fair value interest rate macro-hedges, whose purpose is to maintain the economic value of the hedged items, consisting of assets and liabilities at fixed interest rates.

Structural exchange rate risk

This risk arises from changes in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in overseas offices and subsidiaries which use currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise the impact of adverse movements in currency markets on the value of the portfolio and the entity's equity. The risk appetite defined in the RAS takes precedence and the established levels for the risk metrics must be complied with at all times.

Exchange rate risk is monitored regularly and reports on current risk levels and on compliance with the established limits are sent to the risk control bodies. The main metric is currency exposure (as a percentage of Tier 1), which measures the sum of the entity's net open interest (assets less liabilities) in each currency through any type of financial instrument (FX spot, forward and option transactions), measured in euro and in terms of Tier 1.

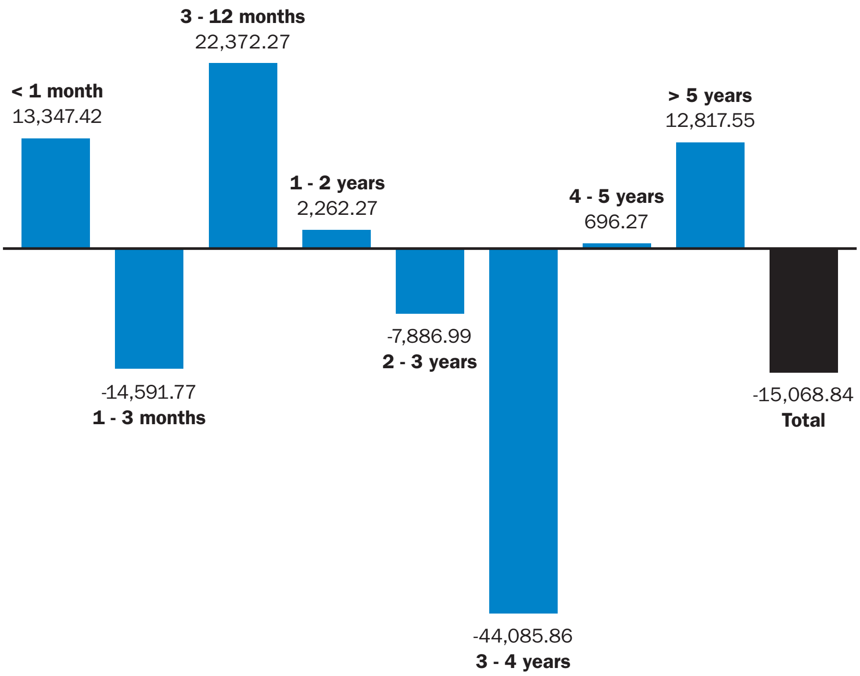
Compliance with and the effectiveness of the Group's targets and policies are monitored and reported on a monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

The bank's Financial Department, through the ALCO, designs and implements the strategies for hedging the structural position in foreign currency with the priority objective of minimising the impact of exchange rate fluctuations on capital ratios (CET1).

Sabadell United Bank, N.A. was effectively disposed of on 31 July 2017 (see note 2 to the 2017 consolidated financial statements), which reduced the structural position in USD from USD 811 million at 31 December 2016 to USD 442 million (€368 million) at 31 December 2017.

With respect to permanent investments in Mexican pesos, given the uncertainty surrounding NAFTA and the heightened political risk in Mexico as the July 2018 presidential elections approach, capital hedges were adjusted from MXN 1,293 million at 31 December 2016 at MXN 7,054 million at 31 December 2017, i.e. 73% of the total investment (see note 12 to the 2017 consolidated financial statements, under "Hedging of net investments in foreign businesses").

As regards the structural position in sterling, in a context of economic weakness and internal political instability in the United Kingdom, Banco de Sabadell, S.A. continuously monitors the EUR/GBP exchange rate. The Group has adopted a hedging policy which aims to mitigate the negative effects on capital ratios, as well as on the earnings generated by its business in GBP, as a result of the evolution of the EUR/GBP exchange rate. Accordingly, the Bank has continued to hedge the expected profits



G17 Interest rate gap (€M)

T8 Sensitivity to interest rate risk, by currency

%

	Instantaneous parallel increase of 100bp	
Interest rate sensitivity	**Impact on net interest income**	**Impact on economic value**
EUR	4.0%	2.1%
GBP	1.2%	0.2%
USD	0.1%	(0.5%)

T9 2-year sensitivity

%

	Instantaneous parallel increase of 100bp	
Impact on net interest income in the second year	**High pass-through**	**Average pass-through**
Global	14.4%	20.0%
Of which EUR	11.0%	13.8%
Of which GBP	2.9%	5.6%

and flows from subsidiary TSB through open interest in GBP to offset fluctuations in that currency's exchange rate; that interest is recognised as a trading position.

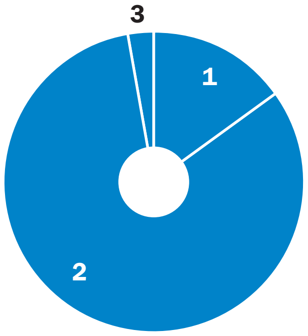
As a result, capital hedging was adjusted in 2017 from GBP 1,368 million at 31 December 2016 to GPB 1,268 million at 31 December 2017, representing 63% of the total investment (see note 12 to the 2017 consolidated financial statements).

The value in euro of the assets and liabilities denominated in foreign currencies held by the group at 31 December 2017, classified on the basis of their nature, is shown in figure G18.

The net of foreign currency assets and liabilities position includes the bank's structural position measured at historical exchange rates, amounting to €1,372 million, of which €834 million correspond to permanent shareholdings in GBP, €368 million to permanent shareholdings in USD and €131 million to stakes in MXN. Net assets and liabilities valued at the exchange rate are hedged through foreign exchange forward transactions and options, in accordance with the group's risk management policy.

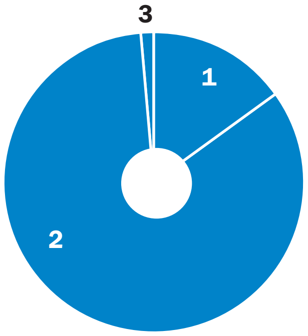
At the end of 2017, the sensitivity of equity exposure to a 1% devaluation against the euro of the main currencies to which the bank is exposed amounted to €14 million, of which 61% related to the pound sterling, 27% to the US dollar, and 10% to the Mexican peso.

G18 Value in euro of foreign currency assets and liabilities (%)



Assets in foreign currency (%)

1	US dollar	15.1
2	Pound sterling	82.3
3	Other currencies	2.6



Liabilities in foreign currency (%)

1	US dollar	15.1
2	Pound sterling	83.7
3	Other currencies	1.2

Operational risk

Operational risk is defined as the risk of incurring losses due to inadequate or failed internal processes, people or systems or due to unexpected external events. This definition includes reputational, behavioural, technology, model and outsourcing risks.

Management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes they manage are indicated in the corporate process flowchart, which facilitates the distribution of information throughout the organisation. The Group has a specialised central unit to manage operational risk whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by process managers in line with the Banco Sabadell Group's risk management approach.

Senior management and the Board of Directors are directly and effectively involved in managing this risk by approving the Risk Appetite Framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of senior management members from different functional areas. Management of this risk also requires regular audits to be carried out on the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first is based on the analysis of processes, identification of risks associated with such processes that may result in losses, and a qualitative assessment of the risks and the associated controls, all carried out jointly by process managers and the central operational risk unit. This provides an assessment which lets the entity know its future exposure to risk in terms of expected and unexpected loss, and also allows trends to be projected and mitigating actions to be targeted appropriately.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators, resulting in alerts that are triggered by any increase in this exposure, the identification of the causes of such an increase, and measurement of the efficacy of the controls and of any improvements.

At the same time, business continuity plans are designed and implemented for any processes identified as being of high criticality in the event of outage. A qualitative estimate is made of the reputational impact of the identified risks if they were to materialise.

The second line of action is based on experience. It consists of compiling all losses suffered by the entity in a database, which provides information about the operational risks encountered by each line of business, as well as their causes, so that action may be taken to minimise them. Additionally, this information makes it possible to cross-check the estimates of potential losses with actual losses, in terms of both frequency and severity, iteratively improving the estimates of exposure levels (G19 & G20).

Operational risk includes management and oversight of the following main risks:

— Reputational risk: the possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution, with an impact on its solvency.
— Technology risk: possibility of losses due to inability of the systems infrastructure to fully support the continuation of ordinary business activity.
— Outsourcing risk: the possibility of losses deriving from failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.
— Model Risk: the possibility of losses arising from decision-making based on the use of inadequate models.

Tax risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:
— On one hand, the probability of failing to comply with the tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the Bank's goals.
— On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

Banco Sabadell's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the group's tax strategy and objectives are systematically identified, measured and managed so as to comply with the new requirements of the Spanish Capital Companies Act and meet the demands of the Banco Sabadell Group's stakeholders.

Banco Sabadell aims to meet its tax obligations at all times while conforming to the current legal framework in matters relating to taxation.

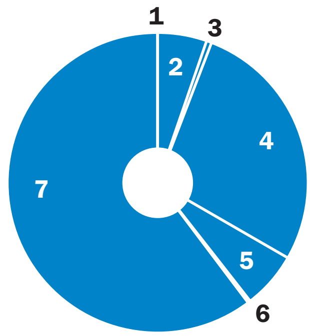
Banco Sabadell's tax strategy also reflects its commitment to promoting responsible taxation, promoting safety and developing transparency schemes in order to strengthen trust among stakeholders.

The tax strategy is aligned with the Group's business strategy, and tax issues are managed efficiently in line with the principles of prudence and minimisation of tax risk.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible for the following on a non-delegable basis:

— Setting the company's tax strategy.
— Approving investments and operations of all types which are considered strategic or to have a particular tax risk due to their amounts or specific characteristics, except when such approval corresponds to the General Meeting.
— Approving the creation and acquisition of holdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
— Approving any similar transaction which, due to its complexity, might undermine the transparency of the company and its Group.

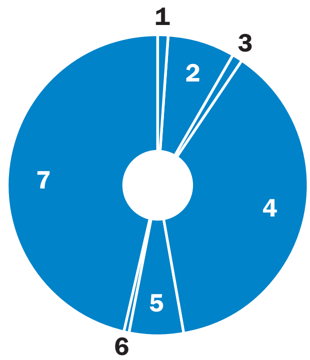
The functions of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance by implementing an appropriate control and oversight system as part of the Group's general risk management and control framework.



G19

Breakdown of operational risk events by amount (last 12 months) (%)

1	Internal fraud	0.2
2	External fraud	5.2
3	Staff relations and job security	0.5
4	Customers, products and business practices	27.6
5	Property damage	6.1
6	Business disruption/ systems failure	0.3
7	Process execution, delivery and management	60.1



G20

Breakdown of operational risk events by amount (last 5 years) (%)

1	Internal fraud	1.3
2	External fraud	7.3
3	Staff relations and job security	1.1
4	Customers, products and business practices	37.7
5	Property damage	5.9
6	Business disruption/ systems failure	0.4
7	Process execution, delivery and management	46.3

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, internal rules or codes of conduct applicable to the banking industry.

An essential aspect of the Banco Sabadell Group's policy, and one of the foundations of its organisational culture, is meticulous compliance with all legal provisions. Achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

To this end, the Group has a Compliance Department whose purpose is to promote and endeavour to reach the highest levels of compliance with the legislation in force and principles of professional ethics within the Group so as to minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved, and that the appropriate preventive measures are adopted if not already in place.

The compliance model centralises responsibility for establishing policies, procedures and controls and execution of oversight programmes in the parent undertaking. Execution of specific programmes is decentralised to the overseas subsidiaries and branches, while retaining functional responsibility.

It is a flexible risk-focused model which can be adapted to the Group's strategy at all times and leverages synergies, maintaining an overall approach to those aspects that are general in scope and/or which require major technological developments, but also adapting to the specific features and legislation affecting each business or country.

The main challenge is to standardise the levels of compliance oversight across the Group and establish minimum standards for mandatory compliance, regardless of the activity or country.

This model is comprised of two main pillars:

1. A central unit providing services to the entire Group in pursuit of comprehensive management of compliance risk. Its main activity is the analysis, distribution and oversight of the implementation of any new regulations with an impact on the Group, as well as risk-focused oversight of compliance with pre-existing regulations.

   It is also directly responsible for the implementation of a number of processes that are classified as of high risk as they require direct and comprehensive control: prevention of money laundering and terrorist financing; oversight of market abuse; oversight of compliance with the Internal Code of Conduct and the implementation and monitoring of measures for investor protection (MiFID).

2. A network of compliance officers in each overseas subsidiary and branch (functionally dependent on the central compliance unit and hierarchically dependent on the head of the overseas subsidiary/branch), who execute their own oversight programmes and report periodically to the central unit, ensuring compliance with the internal rules and the legislation in force in all countries and activities in which the Group operates.

To ensure its efficiency, this model is implemented and enhanced using six catalysts (technology, training, procedures, communication channels, oversight and monitoring programmes, and product and rule approval processes).

Roadmap of published information

8

Block	Document	Website section
Corporate Governance System		
General data	General information about the group	Group
General Meeting	GM Regulations, Representation, Previous General Meetings, Shareholder information and Electronic shareholders' forum	Shareholder and investor information_General meetings
Corporate governance	Board of Directors, Director CVs and Board sub-committees	Group - Corporate Governance
Statutory documents	Articles of Association, Regulation of the Board of Directors, internal regulations	Corporate governance and Remuneration policy
Remuneration policy	Annual report on director remuneration	Corporate governance and Remuneration policy
Committee reports	Committees: Audit and Control, Appointments, Remuneration, and Risks	Corporate governance and Remuneration policy
Annual Corporate Governance Report	Annual Corporate Governance Report	Corporate governance and Remuneration policy
	Legal information 2017_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Corporate Social Responsibility	Report on Corporate Social Responsibility policy	CSR_Corporate Social Responsibility
The share, policy and communication channels	Share price, capital stock, key data, investor calendar and ownership structure	Shareholder and investor information_The BS share (SAB)
	Shareholder remuneration	Shareholder and investor information_The BS share (SAB)_Shareholder remuneration
	InfoAccionista	Shareholder and investor information_Products and services_Infoaccionista
	Annual report	Shareholder and investor information_Financial information_Annual reports
	Policy on communication and contacts with shareholders, institutional investors and proxy advisors	Shareholder and investor information_ Communication policy and channels
Economic and regulatory environment	Annual report_Economic, business and regulatory environment	Shareholder and investor information_ Financial information_Annual reports
Financial information		
Business plan	Annual report_Milestones in 2017 and Plan 2020 subchapter	Shareholder and investor information_Financial information_Annual reports
	Earnings presentations (quarterly)	Shareholder and investor information_Financial information_Results
	Legal information 2017_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports
Balance sheet and earnings performance	Annual report_Banco Sabadell Group financial information chapter	Shareholder and investor information_Financial information_Annual reports
Financial statements	Legal information 2017_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Businesses		
General data	General business data	Businesses
Description, data and milestones in the year	Annual report_Business chapter	Shareholder and investor information_Financial information_Annual reports
Financial data - main businesses	Legal information 2017_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Risks and Capital	Annual report_Risk management chapter	Shareholder and investor information_Financial information_Annual reports
	Legal information 2017_Financial statements_ Note 4, Note 5 and Exhibit 6	Shareholder and investor information_Financial information_Annual reports_Legal information
	Pillar III disclosures	Shareholder and investor information_Financial information_Basel II Pillar 3 disclosures
Corporate Social Responsibility	General information	CSR_Corporate Social Responsibility
	Codes and policies	CSR_Corporate Social Responsibility

Statutory information

9

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Banco Sabadell, S.A.

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (thereinafter, the Parent apany) and its subsidiaries (hereinafter, the Group), which comprise the balance sheet as of December 31, 2017, the profit and loss account, the statement of recognized income and expenses, the total statement of changes in the net worth, the statement of cash flows and the report, all of them consolidated, corresponding to the year ended on that date.

In our opinion, the accompanying consolidated financial statements express in all material respects, the true image of the Group's equity and financial position as of December 31, 2017, as well as its results and cash flows, all of which are consolidated, corresponding to the year ended on that date, in accordance with the International Financial Reporting Standards, adopted by the European Union (IFRS-EU), and other provisions of the regulatory framework for financial information that are applicable in Spain.

Basis for opinion

We have carried out our audit in accordance with the regulations governing the current account auditing activity in Spain. Our responsibilities in accordance with these standards are described later in the Auditor's Responsibilities section in relation to the audit of the consolidated annual accounts of our report.

We are independent of the Group in accordance with the requirements of ethics, including those of independence, which are applicable to our audit of the consolidated annual accounts in Spain, as required by the regulations governing the activity of auditing accounts. In this sense, we have not provided services other than those of the audit of accounts nor have concurred situations or circumstances that, in accordance with the provisions of the aforementioned regulatory regulations, have affected the necessary independence so that it has been compromised.

We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers Auditores, S.L., C/ Ausó y Monzó, 16, 03006 Alicante, España
Tel.: +34 965 980 350 / +34 902 021 111, Fax: +34 965 208 933, www.pwc.es

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

pwc

Key audit matter	How our audit addressed the key audit matter
Impairment from credit risk and real estate assets from foreclosures	

The determination of impairment due to credit risk is one of the most significant and complex estimates in the preparation of the attached consolidated annual accounts. The assessment of such impairment is based on both individualized estimates and collective estimates of the hedges, in this case through the use of different internal models of the Group.

In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. The Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral, estimating its fair value adjusted for its cost of sales, considering a discount to the reference value based on the Group's historical experience in the disposal of assets. of similar characteristics. The estimation of the fair value of real estate collateral is based on the information and / or appraised value provided by different companies and appraisal agencies.

Periodically, the Group performs recalibrations of its internal models in order to optimize its predictive capacity by updating, where appropriate, the variables considered or the algorithms used.

It should be noted that the estimate of the impairment of real estate assets arising from their credit activity and that, deed in lieu, or judicial process are attributed to the Group, is subject to the same criteria as those used to real estate collateral.

The models and valuation methods used suppose a high component of judgment and estimation for the determination of losses due to deterioration.

Our work has focused on the analysis, evaluation and verification of the internal control system, as well as the performance of test of details about provisions, both for those estimated collectively and individually.

Regarding the internal control system, among others, we have carried out the following procedures:

- Verification of the adequacy of the different work policies and procedures, as well as the approved internal models, the applicable regulatory requirements and the Group's governance model.
- Review of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the deterioration.

Additionally, we have carried out detailed tests consisting of:

- Evaluation of the suitability of cash flow discount and guarantee recovery models.
- Review with respect to: i) calculation methodologies and variables considered in the functional and technical documentation referring to internal models; ii) the reliability and coherence of the data sources used; iii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historical discount rates on sale of real estate assets against the appraised value; iv) the correct classification and segmentation of credit operations and real estate assets in the corresponding categories; and v) recalibrations and retrospective contrasts performed in internal models.
- Review of the operation of the "calculation engine" and re-execution of the calculation of collective provisions, for certain portfolios, and of the calculation of deterioration of real estate assets from adjudications based on the different asset categories.
- Review of a sample of individualized credit files, as well as real estate assets from foreclosures, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment.
- Verification of the degree of compliance with the estimates of impairment losses made in prior periods with those actually incurred.

Key audit matter	How our audit addressed the key audit matter
In addition to the guarantees established on the different operations, as a result of the acquisition of Banco CAM, the Asset Protection Scheme (hereinafter, APS) entered into force for a predetermined portfolio of assets. Through said APS, the Deposit Guarantee Fund (hereinafter, DGF) assumes 80% of the losses derived from said portfolio during a period of 10 years, once the provisions constituted on said date of acquisition have been absorbed. Thus, for the accounting impairment losses corresponding to these assets, the Banco Sabadell Group estimates a collection right against the DGF for the guarantee granted in the "Loans and Receivables" caption. This collection right is subject to periodic settlements by the DGF. See Notes 1, 2, 4.4.1 and 11 and Annex 6 of the attached consolidated annual accounts for impairment due to credit risk and Notes 1, 2, 4.4.1, 13, 15 and 17 and Annex 6 of the accounts consolidated annual reports in relation to the deterioration of real estate assets from adjudications.	Specifically regarding the estimation of the collection right against the DGF derived from the Assets Protection Scheme, we have carried out the following tests: • Review of the reliability and consistency of the data sources of the assets with APS coverage used in the calculation of the estimation of the collection right against the DGF. • Verification of the calculation in the estimation of the collection right against the DGF, according to the different categories of assets and operations carried out, as well as their consistency with the accounting records. • Analysis of changes in accounting estimates resulting from the periodic evaluation of the assets and expected future benefits associated with the APS coverage as a result of additional information or new facts about the status of the assets. As a result of our tests with respect to the calculations and estimates in the amount of impairment due to credit risk and real estate assets from adjudications, no differences have been identified, above a reasonable range, in the amounts recorded in the accompanying annual accounts.

Banco De Sabadell, S.A. and Dependent Companies

Key audit matter	How our audit addressed the key audit matter
Entry into force of IFRS 9 "Financial Instruments" in the year 2018	

On January 1, 2018, IFRS 9 "Financial instruments" enters into force, significantly affecting both the classification of financial instruments for presentation and valuation criteria, and the classification of financial instruments based on their non-performing and estimate of losses due to deterioration of credit risk.

The Banco Sabadell Group began at the end of 2014 a project on the implementation of this standard that has had an impact on the group's processes and systems, as well as on the governance and controls of financial information.

See section IFRS 9 "Financial instruments" of Note 1 to the attached consolidated financial statements, which describes the main changes in the policies, procedures and tools of the group, as a result of the entry into force of said standard, as well as the estimated impacts significant as of January 1, 2018 in the accompanying consolidated annual accounts.

Our work has focused on the analysis of the adequacy of the information presented in the attached consolidated annual accounts, as well as on conducting test of details on the correction of the impacts estimated by the Group. Among others, we have performed the following procedures:

In relation to the presentation and valuation of financial instruments we have carried out the following procedures:

- Review of the consistency of: i) the accounting policies developed by the Group and its adaptation to the requirements of IFRS 9; ii) of the business models defined for the classification of financial instruments; and iii) the definition and application of the SPPI Test (only payment of principal and interest) for the assignment of the different financial instruments to said business models.

In relation to the classification of financial instruments based on their delinquency and the estimation of impairment losses, we have carried out the following procedures:

- Review of the methodology for classifying credit assets in the three states defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified in stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.

- Review of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected loss, including: i) the estimation of the risk parameters throughout the life of the operation or 12 months, depending on the corresponding state; ii) the use of alternative scenarios in the projections carried out in the future; and iii) the use of retrospective contrast methodologies for the most relevant parameters in the estimation of impairment.

- Review of the coherence of the design, operation and results of the "calculation engine".

In general terms, the results of our procedures have been satisfactory and no relevant aspects have been identified that could significantly affect the financial information included in the attached consolidated annual accounts.

pwc

Key audit matter	How our audit addressed the key audit matter
Verification of the recoverability of goodwill	
The Banco Sabadell Group carries out, on an annual basis, or when indications of impairment are identified, an evaluation to determine whether there is impairment in the goodwill registered in its consolidated annual accounts. Each goodwill is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans with each CGU to estimate their recoverable value. The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgment and estimation given that is based on assumptions concerning matters such as key business assumptions (the evolution of credit, non-performing assets, interest rates etc.) that determine cash flows, discount rates and long-term growth rates used. The models are sensitive to the variables and assumptions used, existing, by their nature, the risk of inaccuracies in the valuation of them. See Notes 1 and 16 of the attached consolidated annual accounts.	We have carried out, with the collaboration of our experts in valuations, the understanding and review of the process carried out by the Group, as well as the internal control environment, focusing our procedures on aspects such as: • The review of the criteria for the definition of the Group's CGUs associated with the different goodwill. • The evaluation of the methodology used to estimate the impairment of goodwill. • The review of the annual valuation reports, made by the Group, on the assessment of impairment in goodwill. On the other side, we have carried out tests to compare the cash flow forecast models corresponding to the different CGUs used by the Group, considering what is established by the regulations, the market practice and the specific expectations of the banking sector. This evaluation has included the verification of assumptions, such as the growth rates and discount rates used, as well as the budget monitoring analysis of the main CGUs and the impact of the variations identified in the budgets and growth rates. Finally, we have reviewed the adequacy of the information broken down in the annual consolidated accounts. As a result of the above procedures, we consider that the estimates made in relation to the recoverability of goodwill are within a reasonable range, in the context of the circumstances in which the accompanying consolidated annual accounts are prepared.

pwc

Key audit matter	How our audit addressed the key audit matter

Provisions for tax, legal and regulatory litigation

During the ordinary course of its business operations, Banco Sabadell Group may be immersed in administrative, judicial or arbitration proceedings of tax, legal and / or regulatory nature.

There are therefore situations that are not subject to judicial proceedings based on the company's evaluations, according to the assessment made require the registration of provisions, such as those related to the possible impacts of the return of the amounts received as a result of the hypothetical cancellation by the courts of the floor clauses or by the application of Royal Decree-law 1/2017 on consumer protection with regard to floor clauses.

Generally, these procedures end after a long period of time, resulting in complex processes according to the legislation in force in the different jurisdictions in which it operates.

The Group records a provision for these items, thus estimating the associated disbursement as probable based on the estimates made, applying prudent calculation procedures consistent with the conditions of uncertainty inherent in the obligations they cover.

The recognition of provisions for litigation is one of the areas requiring the highest degree of judgements and estimates.

See Notes 1 and 11 (providing details of the provisions created to cover the outcome of floor clause contingencies) of the attached consolidated annual accounts are detailed.

Our review of the process of estimating the provisions for tax, legal and regulatory litigation, made by the Group, and the analysis and evaluation of the internal control of said process, consisted of the following procedures:

- Compression of the litigation qualification policy and need for provision, in accordance with applicable accounting regulations.
- Analysis of the main demands, both individual and, where appropriate, collective.
- Obtaining confirmation letters from the Group's legal counsel to compare its evaluation of the expected result of the litigation, the correct recording of the provision, as well as the identification of potential omitted liabilities.
- With the support of our internal experts, monitoring of the evolution of the open fiscal inspections, analysis of the estimation of the expected result of the most significant ongoing fiscal procedures and of the possible contingencies in relation to the fulfillment of the tax obligations for all the periods open to inspection.
- Analysis of the recognitions, estimation and movement of accounting provisions.

Specifically for the provisions established for the compensation of clients and cover the contingent outcomes related to land clauses, our procedures focused on:

- Understanding of the control environment, evaluation and verification of the controls associated with the calculation and review of the provision for the compensation of customers, including the process and approval of the assumptions and results of the estimates made.
- Evaluating the methodology and hypotheses used by the Group, verifying that they are in line with market practice.
- Sensitivity analysis on the results of the model before possible variations in the key assumptions.

The result of our work shows that, in general, the Group's judgments and estimates applied by the company, when evaluating these types of provisions, are supported and reasoned based on the information available.

pwc

Key audit matter	How our audit addressed the key audit matter

Automation of financial reporting systems

The operation of the Banco Sabadell Group, by its nature, and especially the process of preparing financial and accounting information, has a great dependence on information systems, so an adequate control environment over them is vital to guarantee the correct processing of information.

In addition, as the systems become more complex, the risks associated with the information technologies of the organization and therefore the information they process increase.

The effectiveness of the general internal control framework for the information systems related to the accounting and closing process is fundamental for the performance of certain procedures related to internal control.

In this context, it is necessary to consider such aspects of the organization and governance of the Information Systems Area, the controls over the maintenance and development of the applications, the physical and logical security and the operation systems.

With the collaboration of our experts in information systems and processes, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Group's accounting record and closing. Additionally, we have made an understanding of the functionalities and involvement in the process of registration and accounting closing of the different information systems of the Group.

Regarding the information systems considered relevant in the process of generating financial information, we have basically carried out the following procedures:

- Review of general computer controls in relation to aspects derived from the process of exploitation, development and maintenance of applications, security of these, and governance and organization of the Group's Information Systems Area.
- Review of controls of a general nature for the management of authorizations for access to financial information systems and controls in relation to personnel authorizations for the implementation of changes in computer processes.
- Understanding key business processes, identification of automatic controls in them and validation.
- Understanding and review of the process of generating manual accounting entries considered as risk. Extraction, validation of completeness and filtering of entries entered in the accounting.
- Understanding and re-execution of some of the calculations made by the Group and considered to have the greatest impact, especially those corresponding to the accrual of interest on financial products (loans, credits and deposits) and of commissions received.

In general terms, the results of our procedures have been satisfactory and no relevant aspects have been identified that could significantly affect the financial information included in the attached consolidated annual accounts.

pwc

Other information: Consolidated Director's report

The other information comprises exclusively the consolidated Director's report for the year 2017, the formulation of which is the responsibility of the Directors of the Parent Company and is not an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated director report. Our responsibility for the information contained in the consolidated director report is defined in the regulations governing the account auditing activity, which establishes two different levels of the same:

a) A specific level that is applicable to the status of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) Of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the consolidated management report and, if not, to inform about it.

b) A general level applicable to the rest of the information included in the consolidated director's report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the Group's knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the consolidated management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

Based on the work done, as described in the previous paragraph, we have verified that the specific information mentioned in section a) above has been provided in the consolidated management report and the rest of the information contained in the consolidated management report agrees with the consolidated annual accounts for 2017 and its content and presentation are in accordance with the regulations that result from application

Responsibility of the Directors and the Audit and Control Committee for the consolidated annual accounts

The Directors of the Parent Company are responsible for preparing the accompanying consolidated financial statements, so as to give a true and fair view of the assets, financial position and consolidated results of the Banco Sabadell Group, in accordance with the IFRS-EU and other provisions of the financial reporting regulatory framework applicable to the Group in Spain, and of the internal control that they deem necessary to allow the preparation of consolidated annual accounts free of material misstatement, due to fraud or error.

In the preparation of the consolidated annual accounts, the Directors of the Parent Company are responsible for assessing the Group's ability to continue as a going concern, revealing, as appropriate, the issues related to the company in operation and using the accounting principle of operating company unless the aforementioned administrators intend to liquidate the Group or cease operations, or there is no other realistic alternative.

The Audit and Control Committee of the Parent Company is responsible for overseeing the process of preparing and presenting the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance that the consolidated annual accounts as a whole are free from material misstatement, due to fraud or error, and issue an audit report that contains our opinion.

Reasonable security is a high degree of security but does not guarantee that an audit conducted in accordance with the regulations governing the audit activity in force in Spain always detects material misstatement when it exists. The inaccuracies may be due to fraud or error and are considered material if, individually or in an aggregate manner, it can reasonably be expected to influence the economic decisions that users make based on the consolidated annual accounts.

As part of an audit in accordance with the regulations governing the current account auditing activity in Spain, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. As well:

- We identify and assess the risks of material misstatement in the consolidated annual accounts, due to fraud or error, we design and apply audit procedures to respond to such risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than in the case of a material misstatement due to error, since the fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous statements, or circumvention of internal control.

- We obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the internal control of the Banco Sabadell Group.

- We evaluate whether the accounting policies applied are adequate and the reasonableness of the accounting estimates and the corresponding information disclosed by the Directors of the Parent Company.

- We conclude on whether the use of the accounting principle of the operating company by the Directors of the Parent Company is adequate and, based on the audit evidence obtained, we conclude whether or not there is material uncertainty related to events or conditions that may generate significant doubts about the Group's ability to continue as a functioning company. If we conclude that there is material uncertainty, we are required to draw attention in our audit report to the corresponding information disclosed in the consolidated annual accounts or, if such disclosures are not adequate, that we express an amended opinion. Our conclusions are based on the audit evidence obtained to date from our audit report. However, future events or conditions may cause the Group to cease to be a functioning company.

- We evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosed information, and whether the consolidated annual accounts represent the underlying transactions and events in a way that manages to express the true image.

- We obtain sufficient and adequate evidence in relation to the financial information of the entities or business activities within the Banco Sabadell Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group's audit. We are solely responsible for our audit opinion.

We communicate with the Parent Company's Audit and Control Committee regarding, among other matters, the scope and timing of the planned audit and the significant findings of the audit, as well as any significant internal control deficiencies that we identified in the course of the audit.

We also provide the Parent Company's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those of independence, and we have communicated with it to report any issues that reasonably could pose a threat to our company independence and, where appropriate, the corresponding safeguards.

Among the issues that have been reported to the Parent Company's Audit and Control Committee, we determine those that have been of the greatest significance in the audit of the consolidated annual accounts of the current period and that are, consequently, the issues key to the audit.

We describe those issues in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter.

Banco De Sabadell, S.A. and Dependent Companies

Report on other legal and regulatory requirements

Report to the Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Group's Audit and Control Committee dated January 30, 2018.

Appointment period

The Ordinary General Shareholders' Meeting of the Company held on March 30, 2017 appointed us as auditors of the Group for the year ended December 31, 2017.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of 35 years and we have audited the consolidated accounts continuously since the year ended the December 31, 1983.

Services provided

PricewaterhouseCoopers Auditores, SL, has lent to Banco de Sabadell, S.A., during the year 2017, with the prior approval of the Audit and Control Committee, services other than auditing, including the issuance of comfort letters, other regulatory reviews required by the auditor, as well as advisory services and regulatory compliance.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro (20210)

February 2, 2018

BANCO DE SABADELL, S.A. AND COMPANIES FORMING BANCO SABADELL GROUP

Consolidated annual accounts
for the year ended 31 December 2017

Contents: Banco de Sabadell, S.A. Group consolidated annual accounts for 2017

Financial statements

Report

Directors' Report

Glossary of terms on performance indicators

Consolidated balance sheets of Banco Sabadell Group

At 31 December 2017 and 31 December 2016

Thousand euro

Assets	Note	2017	2016 (*)
Cash and cash balances at central banks and other demand deposits (**)	7	**26,362,807**	**11,688,250**
Financial assets held for trading		**1,572,504**	**3,484,221**
Derivatives	10	1,440,743	1,834,495
Equity instruments	9	7,432	10,629
Debt securities	8	124,329	1,639,097
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*20,245*	-
Financial assets designated at fair value through profit or loss		**39,526**	**34,827**
Equity instruments	9	39,526	34,827
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Available-for-sale financial assets		**13,180,716**	**18,718,339**
Equity instruments	9	413,298	597,809
Debt securities	8	12,767,418	18,120,530
Memorandum item: loaned or pledged as security with sale or pledging rights		*2,814,601*	*6,761,231*
Loans and receivables		**149,551,292**	**150,384,445**
Debt securities	8	574,171	918,584
Loans and advances	11	148,977,121	149,465,861
Central banks		63,151	66,229
Credit institutions		5,316,004	4,225,767
Customers		143,597,966	145,173,865
Memorandum item: loaned or pledged as security with sale or pledging rights		*2,028,220*	*855,145*
Held-to-maturity investments	8	**11,172,474**	**4,598,190**
Memorandum item: loaned or pledged as security with sale or pledging rights		*5,673,632*	-
Derivatives - Hedge accounting	12	**374,021**	**535,160**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**48,289**	**965**
Investments in joint ventures and associates	14	**575,644**	**380,672**
Jointly controlled entities		-	-
Associates		575,644	380,672
Assets under insurance or reinsurance contracts		-	-
Tangible assets	15	**3,826,523**	**4,475,600**
Property, plant and equipment		1,861,730	2,071,353
For own use		1,625,032	1,887,534
Leased out under operating leases		236,698	183,819
Investment property		1,964,793	2,404,247
Of which: leased out under operating leases		-	-
Memorandum item: acquired through finance leases		-	-
Intangible assets	16	**2,245,858**	**2,135,215**
Goodwill		1,019,440	1,094,526
Other intangible assets		1,226,418	1,040,689
Tax assets		**6,861,406**	**7,055,876**
Current tax assets		329,558	280,539
Deferred tax assets	40	6,531,848	6,775,337
Other assets	17	**2,975,511**	**4,437,265**
Insurance contracts linked to pensions		139,114	153,989
Inventories		2,076,294	2,924,459
Rest of other assets		760,103	1,358,817
Non-current assets and disposal groups classified as held for sale	13	**2,561,744**	**4,578,694**
TOTAL ASSETS		221,348,315	212,507,719

(*) Shown for comparative purposes only (see Note 1.4).

(**) See details in the consolidated cash flow statement of the Group.

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2017.

Consolidated balance sheets of Banco Sabadell Group

At 31 December 2017 and 31 December 2016

Thousand euro

Liabilities	Note	2017	2016 (*)
Financial liabilities held for trading		**1,431,215**	**1,975,806**
Derivatives	10	1,361,361	1,915,914
Short positions		69,854	59,892
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**39,540**	**34,836**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		39,540	34,836
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost		**204,045,482**	**192,011,024**
Deposits		177,325,784	162,909,052
Central banks	18	27,847,618	11,827,573
Credit institutions	18	14,170,729	16,666,943
Customers	19	135,307,437	134,414,536
Debt securities issued	20	23,787,844	26,533,538
Other financial liabilities	21	2,931,854	2,568,434
Memorandum item: subordinated liabilities		*2,552,417*	*1,561,069*
Derivatives - Hedge accounting	**12**	**1,003,854**	**1,105,806**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(4,593)**	**64,348**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**22**	**317,538**	**306,214**
Pensions and other post-employment defined benefit obligations		84,843	89,471
Other long-term employee benefits		16,491	24,554
Pending legal issues and tax litigation		36,293	49,404
Commitments and guarantees given		84,949	84,032
Other provisions		94,962	58,753
Tax liabilities		**531,938**	**778,540**
Current tax liabilities		106,482	236,275
Deferred tax liabilities	40	425,456	542,265
Share capital repayable on demand		**-**	**-**
Other liabilities		**740,915**	**934,801**
Liabilities included in disposal groups classified as held for sale	**13**	**20,645**	**2,213,368**
TOTAL LIABILITIES		**208,126,534**	**199,424,743**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2017.

Consolidated balance sheets of Banco Sabadell Group

At 31 December 2017 and 31 December 2016

Thousand euro

Equity	Note	2017	2016 (*)
Own Funds	**23**	**13,425,916**	**12,926,166**
Capital		703,371	702,019
Paid up capital		703,371	702,019
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		7,899,227	7,882,899
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		32,483	38,416
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		4,207,340	3,805,065
Reserves or accumulated losses of investments in joint ventures and associates		(13,633)	109,510
Other		4,220,973	3,695,555
(-) Treasury shares		(106,343)	(101,384)
Profit/(loss) attributable to owners of the parent company		801,466	710,432
(-) Interim dividends		(111,628)	(111,281)
Accumulated other comprehensive income	**24**	**(265,311)**	**107,142**
Items that will not be reclassified to profit or loss		6,767	13,261
Actuarial gains or (-) losses on defined benefit pension plans		6,767	13,261
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Other valuation adjustments		-	-
Items that may be reclassified to profit or loss		(272,078)	93,881
Hedge of net investments in foreign operations (effective portion)		236,647	151,365
Foreign currency translation		(678,451)	(428,650)
Hedging derivatives. Cash flow hedges (effective portion)		(80,402)	(21,521)
Available-for-sale financial assets		238,545	280,548
Debt instruments		195,869	229,008
Equity instruments		42,676	51,540
Other value adjustments		-	-
Non-current assets and disposal groups classified as held for sale		-	96,299
Share of other recognised income and expense of investments in joint ventures and associates		11,583	15,840
Minority interests (non-controlling interests)	**25**	**61,176**	**49,668**
Accumulated other comprehensive income		207	172
Other items		60,969	49,496
TOTAL EQUITY		**13,221,781**	**13,082,976**
TOTAL EQUITY AND TOTAL LIABILITIES		**221,348,315**	**212,507,719**

Memorandum item			
Guarantees given	**26**	**8,726,847**	**8,529,354**
Contingent commitments given	**27**	**24,079,340**	**25,208,687**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated balance sheet at 31 December 2017.

Consolidated profit and loss accounts of Banco Sabadell Group

For the years ended 31 December 2017 and 2016

Thousand euro

	Note	2017	2016 (*)
Interest income	29	4,839,633	5,170,100
(Interest expense)	29	(1,037,263)	(1,332,348)
(Expense on share capital repayable on demand)		-	-
Net interest income		**3,802,370**	**3,837,752**
Dividend income		7,252	10,037
Share of profit or loss of entities accounted for using the equity method	14	308,686	74,573
Fee and commission income	30	1,478,603	1,376,364
(Fee and commission expense)	30	(255,167)	(227,782)
Net gains (losses) on financial assets and liabilities	31	614,104	609,722
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		371,365	476,217
Gains or (-) losses on financial assets and liabilities held for trading, net		214,786	107,593
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		134	114
Gains or (-) losses from hedge accounting, net		27,819	25,798
Exchange differences (gains or (-) losses), net		8,429	16,902
Other operating income	32	338,365	286,725
(Other operating expenses)	33	(546,323)	(466,873)
Income from assets under insurance and reinsurance contracts		67,415	165,781
(Expenses on liabilities under insurance and reinsurance contracts)		(86,462)	(212,503)
Gross income		**5,737,272**	**5,470,698**
(Administrative expenses)	34	(2,722,972)	(2,663,347)
(Staff expenses)		(1,573,560)	(1,663,053)
(Other administrative expenses)		(1,149,412)	(1,000,294)
(Depreciation)	15, 16	(402,243)	(395,896)
(Provisions or (-) reversal of provisions)	22	(13,864)	3,044
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	35	(1,211,373)	(553,698)
(Financial assets measured at cost)		-	-
(Available-for-sale financial assets)		(53,374)	(112,284)
(Loans and receivables)		(1,157,094)	(441,414)
(Investments held to maturity)		(905)	-
Profit/(loss) on operating activities		**1,386,820**	**1,860,801**
(Impairment of (-) reversal of impairment of investments in joint ventures and associates)	14	(663)	(3,820)
(Impairment or (-) reversal of impairment on non-financial assets)	36	(799,362)	(558,148)
(Tangible assets)		(231,342)	(20,276)
(Intangible assets)		(2,601)	-
(Other)		(565,419)	(537,872)
Gains or (-) losses on derecognition of non-financial assets and shareholdings, net	37	400,905	35,108
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	38	(139,447)	(314,519)
Profit or (-) loss before tax from continuing operations		**848,253**	**1,019,422**
(Tax expense or (-) income related to profit from continuing operations)	40	(43,075)	(303,569)
Profit or (-) loss after tax from continuing operations		**805,178**	**715,853**
Profit or (-) loss from discontinued operations		-	-
PROFIT/(LOSS) DURING THE YEAR		805,178	715,853
Attributable to minority interests (non-controlling interests)	25	3,712	5,421
Attributable to owners of the parent company		801,466	710,432
Earnings per share		**0.14**	**0.13**
Basic (in euro)		0.14	0.13
Diluted (in euro)		0.14	0.13

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated income statement for 2017.

Statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2017 and 2016

Thousand euro

	Note	2017	2016 (*)
Profit/(loss) during the year		**805,178**	**715,853**
Other comprehensive income	24	**(372,418)**	**(348,253)**
Items that will not be reclassified to profit or loss		(6,495)	1,049
Actuarial gains or (-) losses on defined benefit pension plans		(9,278)	1,499
Non-current assets and disposal groups held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Other valuation adjustments		-	-
Income tax relating to items that will not be reclassified		2,783	(450)
Items that may be reclassified to profit or loss		(365,923)	(349,302)
Hedge of net investments in foreign operations [effective portion]		85,282	133,438
Valuation gains or (-) losses taken to equity		80,351	133,438
Transferred to profit or loss		4,931	-
Other reclassifications		-	-
Foreign currency translation		(249,801)	(404,960)
Translation gains or (-) losses taken to equity		(175,573)	(404,960)
Transferred to profit or loss		(74,228)	-
Other reclassifications		-	-
Cash flow hedges [effective portion]		(87,004)	(54,190)
Valuation gains or (-) losses taken to equity		(123,824)	5,785
Transferred to profit or loss		36,820	(59,975)
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Available- for-sale financial assets		(57,812)	(193,537)
Valuation gains or (-) losses taken to equity		284,321	415,704
Transferred to profit or loss		(342,133)	(483,609)
Other reclassifications		-	(125,632)
Non-current assets and disposal groups held for sale		(137,571)	137,570
Valuation gains or (-) losses taken to equity		-	11,938
Transferred to profit or loss		(137,571)	-
Other reclassifications		-	125,632
Share of other recognised income and expense of investments in joint ventures and associates		(4,257)	(670)
Income tax relating to items that may be reclassified to profit or (-) loss		85,240	33,047
Total comprehensive income for the year		**432,760**	**367,600**
Attributable to minority interest (Non-controlling interest)		3,747	5,632
Attributable to owners of the parent company		429,013	361,968

(*) Shown for comparative purposes only (see Note 1.4).

The consolidated statement of recognised income and expense, together with the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated statement of changes in equity for 2017.

Statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2017 and 2016

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2016	**702,019**	**7,882,899**	-	**38,416**	-	-	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 31/12/2016	**702,019**	**7,882,899**	-	**38,416**	-	-	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	**801,466**	-	**(372,453)**	**35**	**3,712**	**432,760**
Other changes in equity	**1,352**	**16,328**	-	**(5,933)**	-	-	**402,275**	**(4,959)**	**(710,432)**	**(347)**	-	-	**7,761**	**(293,955)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration paid to partners) (*)	-	-	-	-	-	-	(168,485)	-	-	(111,628)	-	-	-	**(280,113)**
Purchase of treasury shares	-	-	-	-	-	-	-	(345,543)	-	-	-	-	-	**(345,543)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	2,142	340,584	-	-	-	-	-	**342,726**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity (***)	1,352	16,328	-	-	-	-	-	-	-	-	-	-	-	**17,680**
Transfers between equity components (**)	-	-	-	(23,717)	-	-	622,868	-	(710,432)	111,281	-	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares (****)	-	-	-	17,784	-	-	-	-	-	-	-	-	-	**17,784**
Other increases or (-) decreases in equity	-	-	-	-	-	-	(54,250)	-	-	-	-	-	7,761	**(46,489)**
Closing balance 31/12/2017	**703,371**	**7,899,227**	-	**32,483**	-	-	**4,207,340**	**(106,343)**	**801,466**	**(111,628)**	**(265,311)**	**207**	**60,969**	**13,221,781**

(*) Breakdown of supplementary dividend (see Note 3).

(**) Breakdown of profit/(loss) during 2016 (see Note 3) and reclassification to other reserves of share-baed remuneration schemes expiring during the year and not executed (see Note 34).

(***) See Note 23.

(****) See Note 34.

Notes 1 through 44 in the report and its Schedules form an integral part of the statement of changes in equity at 31 December 2017.

The consolidated statement of recognised income and expense, together with the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.

Statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2017 and 2016

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2015	**679,906**	**7,935,665**	**-**	**14,322**	**-**	**-**	**3,175,065**	**(238,454)**	**708,441**	**-**	**455,606**	**(39)**	**37,149**	**12,767,661**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 31/12/2015	**679,906**	**7,935,665**	**-**	**14,322**	**-**	**-**	**3,175,065**	**(238,454)**	**708,441**	**-**	**455,606**	**(39)**	**37,149**	**12,767,661**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**710,432**	**-**	**(348,464)**	**211**	**5,421**	**367,600**
Other changes in equity	**22,113**	**(52,766)**	**-**	**24,094**	**-**	**-**	**630,000**	**137,070**	**(708,441)**	**(111,281)**	**-**	**-**	**6,926**	**(52,285)**
Issuance of ordinary shares	15,877	-	-	-	-	-	(15,877)	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or remuneration paid to partners)	-	(106,448)	-	-	-	-	(77,947)	135,695	-	(111,281)	-	-	-	**(159,981)**
Purchase of treasury shares	-	-	-	-	-	-	-	(322,822)	-	-	-	-	-	**(322,822)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	15,690	324,197	-	-	-	-	-	**339,887**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liabilities to equity	6,236	53,682	-	-	-	-	-	-	-	-	-	-	-	**59,918**
Transfers between equity components	-	-	-	3,393	-	-	705,048	-	(708,441)	-	-	-	-	-
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments based on shares	-	-	-	18,271	-	-	-	-	-	-	-	-	-	**18,271**
Other increases or (-) decreases in equity	-	-	-	2,430	-	-	3,086	-	-	-	-	-	6,926	**12,442**
Closing balance 31/12/2016	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**

Shown for comparative purposes only (see Note 1.4).

Notes 1 through 44 in the report and its Schedules form an integral part of the statement of changes in equity at 2017.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2017 and 2016

Thousand euro

	Note	2017	2016 (*)
Cash flows from operating activities		**15,750,046**	**4,149,262**
Profit/(loss)during the year		805,178	715,853
Adjustments to obtain cash flows from operating activities		1,922,332	2,050,862
Depreciation		402,243	395,896
Other adjustments		1,520,089	1,654,966
Net increase/decrease in operating assets		(1,611,660)	(1,811,380)
Financial assets held for trading		1,911,717	(1,172,098)
Financial assets designated at fair value through profit or loss		(4,699)	36,152
Available-for-sale financial assets		956,589	(2,373,182)
Loans and receivables		(5,175,638)	1,583,632
Other operating assets		700,371	114,116
Net increase/decrease in operating liabilities		14,825,272	3,316,932
Financial liabilities held for trading		(544,592)	338,933
Financial liabilities designated at fair value through profit or loss		4,704	-
Financial liabilities measured at amortised cost		15,677,746	2,481,603
Other operating liabilities		(312,587)	496,396
Collections/Payments due to income tax		(191,076)	(123,005)
Cash flows from investment activities		**(1,716,593)**	**408,441**
Payments		(4,044,857)	(1,015,913)
Tangible assets	15	(588,086)	(581,077)
Intangible assets	16	(376,703)	(288,998)
Investments in joint ventures and associates	14	(52,930)	(8,953)
Subsidiaries and other business units	Schedule 1	(400)	(136,885)
Non-current assets and liabilities classified as held for sale		-	-
Investments held to maturity		(3,026,738)	-
Other payments related to investment activities		-	-
Collections		2,328,264	1,424,354
Tangible assets	15, 37	249,029	356,795
Intangible assets		-	-
Investments in joint ventures and associates	14	187,327	85,407
Subsidiaries and other business units	Schedule 1	1,100,869	-
Non-current assets and liabilities classified as held for sale (**)	13, 38	791,038	982,152
Investments held to maturity		-	-
Other collections related to investment activities		-	-

(*) Shown for comparative purposes only (see Note 1.4).

(**) Includes cash received from disposal of Mediterráneo Vida (€223 million).

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated cash flow statement for 2017.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2017 and 2016

Thousand euro

	Note	2017	2016 (*)
Cash flows from financing activities		**727,763**	**52,366**
Payments		(764,963)	(787,521)
Dividends (**)		(280,113)	(159,981)
Subordinated liabilities	Schedule 5	(115,790)	(302,373)
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments (**)		(345,543)	(322,822)
Other payments related to financing activities (****)		(23,517)	(2,345)
Collections		1,492,726	839,887
Subordinated liabilities	Schedule 5	1,150,000	500,000
Issuance of own equity instruments		-	-
Disposal of own equity instruments (**)		342,726	339,887
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**(86,659)**	**(265,300)**
Net increase (decrease) in cash and cash equivalents		**14,674,556**	**4,344,769**
Cash and cash equivalents at the start of the year		**11,688,250**	**7,343,481**
Cash and cash equivalents at the end of the year		**26,362,807**	**11,688,250**

Memorandum item		
CASH FLOWS CORRESPONDING TO:		
Interest received	5,156,766	4,975,485
Interest paid	1,161,233	1,513,810
Dividends received	185,237	27,196
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash	733,923	759,357
Balances of cash equivalents in central banks	25,097,038	10,122,725
Other demand deposits	531,846	806,168
Other financial assets	-	-
Less: bank overdrafts reimbursable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26,362,807**	**11,688,250**
Of which: held by Group entities but not drawable by the Group		-

(*) Shown for comparative purposes only (see Note 1.4).

(***) See consolidated statement of changes in equity.

(****) Net amount of expenses arising from remuneration of debt securities issued (see Note 20).

Notes 1 through 44 in the report and its Schedules form an integral part of the consolidated cash flow statement for 2017.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF BANCO SABADELL GROUP

For the years ended 31 December 2017 and 31 December 2016.

Note 1 – Activity, accounting policies and practices

1.1. Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the bank or the company), with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a corporate group (see Schedule 1) whose activity it controls directly or indirectly and which comprise, together with the bank, Banco Sabadell Group (hereinafter, the Group).

1.2. Basis of presentation

The Group's consolidated annual accounts for 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2017, taking into account Bank of Spain Circular 4/2004 of 22 December and subsequent amendments thereto and other financial reporting regulations applicable to the group, in order to fairly present the group's equity and consolidated financial situation as at 31 December 2017 and the results of its consolidated operations, changes in equity and cash flows in 2017.

The consolidated annual accounts have been prepared based on the accounting records kept by the bank and each of the other entities in the Group, and include adjustments and reclassifications necessary to ensure the harmonisation of the accounting principles and policies and the measurement criteria applied by the Group, which are described below.

The information provided in these consolidated annual accounts is the responsibility of the directors of the Group's parent company. The Group's consolidated annual accounts for 2017 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 01 February 2018 and will be submitted to the shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

Except as otherwise indicated, these consolidated annual accounts are expressed in thousands of euros. In order to show the amounts in thousands of euros, the accounting balances have been subject to rounding; for this reason, some of the amounts appearing in certain tables may not be the exact arithmetic sum of the preceding figures.

Standards	Titles
Amendments to IAS 7	Disclosure initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses

Standards and interpretations issued by the International Accounting Standards Board (IASB) coming into effect in 2017

During 2017, the following standards have come into force and have been adopted by the European Union:

Amendments to IAS 7 "Disclosure Initiative"

These amendments introduce additional disclosure requirements to already existing requirements, with the aim of clarifying information provided to the users of financial statements about an entity's financing activities. In particular, they require entities to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities. Although a pre-determined format is not required, it is specified that the presentation of the reconciliation of liabilities at the beginning and end of the year together with cash flows for financing activities is a means of complying with these obligations. To this end, an additional breakdown has been included (see Schedule 5).

Amendments to IAS 12 "Recognition of deferred tax assets for unrealised losses"

On 19 January 2016, the IASB published these amendments to IAS 12 – "Income Taxes", which is the standard containing the requirements to measure deferred tax assets and liabilities. The amendments clarify when a deferred tax asset should be recognised for unrealised losses related to debt instruments measured at fair value.

There have been no significant effects caused by the application of these accounting standards on the Group's annual accounts.

IASB-issued standards and interpretations not yet in effect

At 31 December 2017, the most significant standards and interpretations for the Group that have been published by the IASB but which have not been applied when preparing these consolidated annual accounts, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years commencing:
Approved for application in the EU		
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
Clarifications of IFRS 15	Revenue from contracts with customers	1 January 2018
Amendments to IFRS 4	Application of IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts"	1 January 2018
IFRS 16	Leases	1 January 2019
Not approved for application in the EU		
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
Annual improvements to IFRS	Cycle 2014 - 2016	1 January 2017/ 1 January 2018
Amendments to IAS 40	Investment property transfers	1 January 2018
Interpretation of IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
Interpretation of IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
Annual improvements to IFRS	Cycle 2015 - 2017	1 January 2019

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. Similarly, unless otherwise indicated, management estimates that their adoption would not have a material impact on the Group.

Approved for implementation in the EU

IFRS 9 "Financial instruments"

Implementation Project

At the end of 2014, the Group began preparatory work for the implementation of IFRS 9. This project has spanned three years (2015, 2016 and 2017) and has been characterised by its cross-cutting nature, as it has had an impact on the Group's processes and systems and on financial reporting governance and controls. This project has been led by a specific committee that has assumed responsibility for the coordination of the various areas of the Group involved and for the timely achievement of the established implementation objectives in order to ensure the satisfactory application of this new standard on the date of its entry into force (1 January 2018).

The aspects covered by the implemented work plan include the documentation of the criteria used for the adoption of the standard and the amendment of accounting policies and workflows, updates to internal and external reporting, the implementation of necessary changes to approaches and systems in order to comply with new requirements, the adaptation of flows for reporting to governing bodies and for reporting between departments as well as approval flows and decision-making flows, changes to the assignment of responsibilities according to the established functions and the design of control procedures relating to the new standard.

There have been two main areas of activity for the implementation of the new standard. On one hand, the analysis of the changes set forth by this standard in relation to the classification of financial instruments for the purpose of their presentation and valuation and, on the other, the analysis of changes in the classification of financial assets based on their default and the estimated impairment losses of financial assets. A brief description of the work carried out in both of these areas of activity is given below:

- *Classification of financial instruments for the purpose of their presentation and valuation:*

  An analysis has been made of the business models under which the Group manages its financial assets and of the characteristics of the contractual cash flows of the latter based on events and circumstances as at 1 January 2018, in order to establish their classification into each of the portfolios as set forth by this new standard for the purpose of their presentation and valuation.

- *Classification of financial assets based on their default and impairment losses of financial assets:*

  The incorporation of IFRS9 has not entailed a substantial change in the tools and methodologies available to the Group for their management and monitoring, although an assessment has had to be carried out on the way in which the new changes in this standard should be incorporated into the processes and systems already established by the Group. In particular, the entry into force of this standard has entailed:

  - The adaptation and implementation in the systems of triggers or indicators which, together with the use of internal ratings-based models aligned with the Group's risk management, are used to determine the classification of each financial asset into one of the three stages defined in the standard and their impairment coverage.

    For borrowers assessed collectively, certain thresholds have been set based on a comparison between the current lifetime Probability of Default (PD) and the lifetime PD at origination for each period. These thresholds have been set in such a way that the observed default rates, for a sufficiently long period, are statistically different.

For significant borrowers analysed by means of an individualised assessment, a system of triggers has been established, in which triggers are activated whenever there is a significant increase in credit risk or when there are signs of impairment. The system of triggers covers signs of impairment or weakness by using the definition of:

- Specific triggers that signal when there has been a significant increase in credit risk;
- Specific triggers that signal when there are signs of impairment;
- Triggers that allow an increase in credit risk and signs of impairment to be detected, on the basis of the various early warning thresholds.

A team of expert risk analysts will analyse borrowers that have activated triggers to determine whether there has been a significant increase in credit risk or whether there is any objective evidence of impairment. If there is evidence of impairment, they determine whether the event or events that have given rise to the loss have an impact on estimated future cash flows of the financial asset or a group of financial assets.

- The development of individual and collective assessment tools;
- The development of lifetime calibrations to assess whether there has been a significant increase in credit risk;
- The inclusion of forward-looking information when calculating expected credit losses and determining whether there has been a significant increase in credit risk, for which purpose forward-looking scenario simulation models have been used;
- The application of different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required in different improbable but plausible scenarios are estimated;
- An estimate has been made of the prepayment rates for different products and segments based on historical data observed (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected loss of exposures classified as being under special monitoring. In addition, the agreed amortisation schedule for each operation is used.
- The identification of the following operations with negligible risk to estimate credit risk hedges:
    - transactions with central banks;
    - transactions with general governments of European Union countries, including those deriving from reverse repurchase agreements on government debt securities;
    - transactions with central governments of countries classified in group 1 for the purpose of country risk;
    - transactions in the name of deposit guarantee schemes and resolution funds, provided their credit quality is such that they are equivalent to those of the European Union;
    - transactions in the name of credit institutions and specialised lending institutions from countries of the European Union and, in general, from countries classified in group 1 for the purpose of country risk;
    - transactions with Spanish reciprocal guarantee companies and government agencies or enterprises from other countries classified in group 1 for the purpose of country risk whose main activity is credit insurance or guarantees;
    - transactions with non-financial corporations considered to belong to the public sector;

- advances on the following month's pensions or wages, provided the paying entity is a government agency and the wage or pension is direct credited to Banco Sabadell, and advances other than loans

Throughout 2017, the Group has developed a process which allows losses due to impairment of financial assets, obtained from the application of current accounting regulations at the end of such year (IAS 39), to be compared against those that would be obtained from the application of IFRS 9 (parallel run), with the objective of ensuring the correct implementation of the latter and analysing the new dynamics in the hedges derived from the new standard.

The conclusion of the project to implement IFRS 9 has allowed the Group to adequately estimate its impact on the date of its entry into force and to have the necessary processes, tools and controls in place for its future application.

Impacts of the first application of the standard

The main impacts on the Group arising from the first application of this standard are described below:

- *Classification of financial instruments for the purpose of their presentation and valuation*

  In accordance with the conclusions reached after carrying out an analysis of the business models and the characteristics of contractual cash flows of the financial assets, there is a connection between the portfolios of financial assets that the Group has used for the purpose of their presentation and valuation to prepare its consolidated financial statements for 2017, in which it has applied criteria from IAS 39, and those that have started to be used following the entry into force of IFRS 9, for which reason no significant changes have arisen for the purpose of classifying operations in the consolidated balance sheet.

  Thus, in general:

  - Debt instruments held by the Group included in the "*Loans and receivables*" and "*Investments held to maturity*" portfolios of IAS 39, that comprise the majority of the Group's financial assets, are managed using a business model that aims to hold financial assets to receive their associated contractual cash flows, therefore they have now been classified in the "*Financial assets at amortised cost*" portfolio of the new standard. Pursuant to the requirements set forth by such standard, the debt instruments assigned to this portfolio will present sales on an infrequent basis or with amounts with limited significance, although the Group considers that the sales of financial assets close to maturity and sales produced due to the increase in credit risk of financial assets or to manage concentration risk will be consistent with the business model with which financial assets classified in this portfolio are managed.

  - Debt instruments included in the "*Available-for-sale financial assets*" portfolio largely consist of financial instruments acquired to manage the Group's consolidated balance sheet and are managed using a mixed business model the objective of which combines the receipt of contractual cash flows and sales, for which reason they have been reclassified into the "*Financial assets measured at fair value through other comprehensive income*" portfolio of the new standard. Under this business model, sales of financial assets are essential, not ancillary, therefore no limitations to the performance of such sales have been established.

  - Debt instruments included by the Group in the "*Financial assets held for trading*" portfolio, which mainly correspond to the trading book, and "*Financial assets measured at fair value through profit or loss*" have been classified in the portfolios of the same names established by the new regulations applicable to the Group.

Notwithstanding the foregoing, the new standard requires fixed-income financial instruments classified in the "*Financial assets at amortised cost*" or "*Financial assets measured at fair value through other comprehensive income*" portfolios to have contractual terms and conditions that give rise to cash flows on specific dates consisting solely of payments of principal and interest (SPPI test) on the principal outstanding. Although given the nature of the Group's business, almost none of its debt instruments have characteristics that give rise to cash flows other than the corresponding payments of principal and interests, at 31 December 2017, there were financial assets classified in the "*Loans and receivables*", "*Investments held to maturity*" and "*Available-for-sale financial assets*" portfolios amounting to €161 million that did not satisfy the aforementioned contractual terms and conditions, for which reason they have been classified, following the entry into force of IFRS 9, into the portfolio "*Non-trading financial assets necessarily measured at fair value through profit or loss*". Similarly, financial assets that were included in the portfolio of "*Investments held to maturity*", amounting to €2,037 million as at 31 December 2017, have been reclassified to the portfolio of "*Financial assets designated at fair value through other comprehensive income*". Changes in the valuation criteria of financial assets which, in accordance with that described in this paragraph, have been reclassified into other portfolios, have entailed an increase in the balance at which they are recognised on the consolidated balance sheet amounting to €84 million.

Furthermore, following the entry into force of IFRS 9, the Group has chosen to include in the portfolio of "*Financial assets measured at fair value through other comprehensive income*" investments held in equity instruments that should not be classified in the portfolio of "*Financial assets held for trading*". These equity instruments are included in the "*Available-for-sale financial assets*" portfolio as at 31 December 2017.

The breakdown of the Group's financial assets at 31 December 2017, pooled together in both the portfolios for the purpose of their presentation and valuation used to prepare the consolidated annual accounts for 2017, and in the portfolios in effect following the entry into force of IFRS 9 is shown below:

Million euro

Portfolios used in 2017 consolidated annual account (IAS 39)	Amount	Portfolios used following entry into force of IFRS 9	Amount	Change
Loans and receivables and Investments held to maturity	160,723	Financial assets at amortised cost	158,579	(2,144)
Available-for-sale financial assets	13,181	Financial assets measured at fair value through other comprehensive income	15,248	2,067
Financial assets held for trading	1,573	Financial assets held for trading	1,573	-
Financial assets measured at fair value through profit or loss	40	Financial assets measured at fair value through profit or loss	40	-
		Non-trading financial assets necessarily measured at fair value through profit or loss	161	161
Total	**175,517**		**175,601**	**84**

As indicated previously, as a result of the changes to the portfolios in which financial assets are included for the purpose of their presentation and valuation arising from the first application of IFRS 9, the balance at which these assets were recognised on the Group's consolidated balance sheet as at 1 January 2018 has increased by €84 million which, in turn, has entailed an increase in consolidated equity of €59 million.

On the other hand, in relation to financial liabilities, the portfolios established by IFRS 9 for the purpose of their presentation and valuation are similar to those included in IAS 39, therefore the entry into force of the new standard has had no significant impact on either the classification or the recognition of the Group's financial liabilities.

- *Classification of financial assets based on their default and impairment losses of financial assets*

  The Group identifies purchased or originated credit-impaired financial assets at the time of their recognition on the balance sheet. At each reporting date, changes in expected credit losses throughout the expected life of the assets are recorded. Therefore, their estimation always takes into account lifetime expected losses. Furthermore, the interest rate applied to these assets shall be the adjusted Effective Interest Rate (EIR), which incorporates expected cash flows (in the same way as the EIR for other financial assets) and the expected credit losses.

  As a result of the first application of IFRS 9, €259 million have been reclassified into the category of doubtful loans. This impact is mainly due to:

  - The adaptation of the Group's definition of doubtful to refer to loans over 90 days past-due, which has changed the definition of doubtful exposures due to customer arrears in TSB. This in turn has implied a change in the classification of transactions any part of whose principal, interest or contractually agreed expenses is more than 90 days past-due, although the specific characteristics of purchased or originated credit-impaired transactions have been taken into account. See definition of loans classified under doubtful exposures in item 1.3.4 of this Note.

  - The definition of a quantitative criterion based on number of days past-due to classify loans as doubtful due to reasons other than arrears for loans classified as doubtful over the last 12 months.

  Of the total of €259 million reclassified into the category of doubtful, €237 million were classified as standard exposures and €22 million as standard exposures under special monitoring.

  This increase in doubtful loans due to the entry into force of IFRS 9 has resulted in an impact on the Group's NPL ratio of 18 basis points.

  In terms of impairment losses of financial assets, the main impact in like-for-like terms has arisen from applying the expected lifetime loss to transactions in which a significant increase in credit loss has occurred from their recognition and from the introduction of scenarios when considering the non-linearity of the losses.

  The entry into force of IFRS 9 has entailed an increase in value adjustments due to asset impairment of €900 million.

  The main impact in like-for-like terms has occurred in the category of standard exposures under special monitoring, owing to the application of lifetime expected credit losses and the impact of the non-linearity of the losses which have entailed an increase of twice the value adjustments in respect of those recognised under IAS 39.

  For the categories of standard exposure and doubtful exposure, the drivers that have entailed the most significant increases in value adjustments have been the consideration of the non-linearity of losses as well as the increases in Loss Given Default (LGD).

  In order to include the non-linearity of losses, 3 macroeconomic scenarios have been considered: one central scenario, one adverse scenario and one favourable scenario. These have been defined at Group level and their likelihood of occurring is of 65%, 20% and 15%, respectively. To carry out the projections of these scenarios, 5-year time horizons are considered. The variables considered are the evolution of GDP, the unemployment rate and housing prices.

  The increase in value adjustments has led to an increase in the NPL coverage ratio of the Group of 9.55 percentage points and a decrease in consolidated equity of €630 million.

- *Hedge accounting*

  Given that the Group has chosen to continue applying the requirements of IAS 39, the entry into force of IFRS 9 has not had any impact on hedge accounting.

- *Impact on capital*

  The new requirements of insolvency provisions required by the entry into force of IFRS 9, as well as the increase in deferred tax assets owing to such increase in provisions, have resulted in an impact of 77 basis points in the fully-loaded CET1 ratio.

IFRS 15 “Revenue from contracts with customers”

IFRS 15 lays down new requirements for the recognition of revenue based on the principle that an institution should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

This principle is reflected in a model for revenue recognition consisting of five steps, in which institutions must identify the separate performance obligations in contracts with customers, allocate the transaction price to the performance obligations identified and recognise revenue when, or as, the institution satisfies its performance obligation. This standard is therefore expected to have a greater impact on companies selling products and services on a combined basis or those that take part in long-term projects, such as telecommunications, software, engineering, construction and real estate companies.

In view of the Group’s core activities and the fact that the standard is not applicable to financial instruments and other contractual rights and obligations under the scope of IAS 39 (IFRS 9, once it comes into effect), the first application of this standard has had no significant impact on the Group’s financial statements.

Clarifications to IFRS 15 “Revenue from contracts with customers”

These clarifications address the identification of performance obligations, principal versus agent considerations, licensing, as well as some information regarding transition rules.

Amendments to IFRS 4 “Applying IFRS 9 ‘Financial Instruments’ with IFRS 4 ‘Insurance Contracts’

The objective of these amendments is to address the concerns of some entities, particularly insurance entities, regarding the different effective dates of the first application of IFRS 9 and the new standard on insurance contracts, which has not yet been approved. These concerns relate to the possibility of accounting mismatches and volatility in results if IFRS 9 is applied before the new standard on insurance contracts, as well as the difficulties and costs of implementing both standards.

Therefore, in accordance with IFRS 4, entities who issue insurance contracts may choose from the following two options:

- Reclassification of certain income and expenses arising from designated financial assets from the profit and loss account for the year to equity.

- Temporarily not applying IFRS 9, in the case of entities whose activity predominantly consists of issuing insurance contracts within the scope of IFRS 4.

This amendment has no significant impact on the Group.

IFRS 16 "Leases"

In January 2016, the IASB published a new standard on leases, which supersedes IAS 17 "Leases", and establishes new criteria for the identification and accounting of leasing contracts, for both lessors and lessees.

IFRS 16 lays down a control model for the identification of these contracts, distinguishing between lease and service contracts based on the existence of a specified asset controlled by the lessee.

This standard includes significant changes in the accounting of lessees, eliminating the distinction between finance leases and operating leases. The standard requires right-of-use assets and lease liabilities to be recognised on the balance sheet, with the exception of short-term leases or leases of low value assets. This standard does not introduce any significant amendments in the accounting of these contracts by lessors. IFRS 16 also introduces changes in the accounting of sale and leaseback transactions. However, on the date of this standard's first application, banks shall not be required to reassess whether sale and leaseback transactions carried out in previous years resulting in asset disposals comply with the requirements of IFRS 15 in order to be considered as sales. In the specific case of transactions recognised as sale and leasebacks, the lease contracts shall be accounted for following the same criteria as other operating leases in effect at the time of the standard's first application.

Due to the volume of current operating lease contracts in which consolidated entities act as lessees, the Group does not expect significant equity impacts on the consolidated financial statements from the future application of this standard.

<u>Not approved for implementation in the EU</u>

Amendments to IFRS 2 "Classification and measurement of share-based payment transactions"

These amendments address specific issues such as the accounting of cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax and certain aspects of the accounting of the amendments to the terms and conditions of share-based payments.

Annual improvements to IFRS "2014-2016 Cycle"

These improvements include non-urgent amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures."

Amendments to IAS 40 "Transfers of investment property"

According to these amendments, it is only possible to record one asset as a real estate investment, or reclassify it to a different item on the balance sheet, when there is evidence that a change in its use has occurred. In particular, in accordance with these amendments, a change in the intended use of the asset does not constitute, in itself, evidence of a change in the use of the asset.

IFRIC 22 "Foreign currency transactions and advance consideration"

This interpretation refers to the treatment of transactions in a foreign currency when an entity recognises a non-monetary item arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.

In these cases, the exchange rate to be used is that of the date of initial recognition of the payment or receipt of advance consideration. If there are various advance consideration payments, the exchange rate used for each such consideration shall be the exchange rate on the date of their recognition.

IFRIC 23 "Uncertainty over income tax treatments"

This interpretation is to be applied to the estimation of the tax position when there is uncertainty over income tax treatments. To this end, entities are required to determine whether tax positions for which there is uncertainty should be considered independently or whether they should be considered together and whether it is probable that the relevant authority will accept the uncertain tax treatment that an entity has used or plans to use in its income tax filing:

- if considered probable, the entity will have to determine its tax position consistently with the tax treatment which it has used or plans to use;

- if considered not probable, the entity should reflect the effect of such uncertainty when determining its tax position.

Amendments to IFRS 9 "Prepayment features with negative compensation"

This amendment allows financial assets whose cash flows represent payments of principal and interest only, with the exception of cases in which their early termination gives rise to payments as compensation by the lending institution to the borrower, to be measured, under certain circumstances, at their amortised cost or fair value with a contra account in equity.

Amendments to IAS 28 "Long-term Interests in associates and joint ventures"

These amendments clarify that institutions must apply IFRS 9, including their requirements relating to the impairment of financial instruments, to long-term interests in associates and joint ventures forming part of the net investment in the associate or joint venture but which are not valued by the equity method.

IFRS 17 "Insurance contracts"

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

Pursuant to this standard, insurance contracts combine components of financial instruments and service contracts. Furthermore, many insurance contracts combine cash flows that vary substantially and have a long duration. For the purpose of providing useful information about these aspects, IFRS 17:

- combines the current measurement of future cash flows with the recognition of income throughout the period during which the services set forth in the contracts are provided.

- presents the revenue from the services provided separately from the financial expenses and income relating to these contracts.

- requires entities to decide whether to recognise the entirety of their financial income and expenses relating to insurance contracts in the profit and loss account or whether part of such revenue shall be recognised in the statement of equity.

Annual improvements to IFRS "2015-2017 Cycle"

The improvements include slight amendments to standards IAS 12 "Income taxes", IAS 23 "Borrowing costs" and IAS 28 "Investments in associates and joint ventures".

No accounting principles or valuation criteria that have ceased to be applied in the preparation of the Group's consolidated annual accounts for 2017 due to any significant effect thereof.

Estimates

The preparation of the consolidated annual accounts requires certain accounting estimates to be made. It also requires that Management exercise judgement in the process of applying the Group's accounting policies. Such estimates could affect the amount of assets and liabilities and the breakdown of contingent assets and liabilities at the date of the consolidated annual accounts, as well as income and expenses during the year.

The main estimates refer to the following items:

- Losses due to the impairment of certain financial assets (see Notes 1.3, 4, 7, 8, 9, and 11).

- The assumptions used in actuarial calculations of liabilities and commitments in respect of post-employment remuneration (see Notes 1.3.17 and 22).

- The useful life of tangible and intangible assets (see Notes 1.3.10, 1.3.12, 15 and 16). The useful lives of intangible assets have been updated during the year. This re-estimation has not given rise to any material impact on the income statement.

- The valuation of consolidated goodwill (see Notes 1.3.12 and 16).

- The provisions and consideration of contingent liabilities (see Notes 01/03/2016 and 22).

- The fair value of certain unquoted financial assets (see Note 6).

- The fair value of real estate assets included in the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).

- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 40).

Although estimates are based on the best information available to management about the current and foreseeable circumstances, final results could differ from these estimates.

1.3. Accounting principles and policies and measurement criteria

The most significant accounting principles and policies, as well as measurement criteria that have been applied in preparing these consolidated annual accounts are as follows:

1.3.1 Consolidation principles

In the consolidation process a distinction is drawn between subsidiaries, joint ventures, associates and structured entities.

Subsidiaries

Subsidiaries are institutions over which the Group has control. This occurs when the Group is exposed to or is entitled to variable returns derived from its involvement in the subsidiary and it has the ability to influence those returns through its power over the subsidiary.

For control to exist, the following criteria must be met:

- Power: An investor has power over an investee when it holds rights which provide it with the capacity to direct the relevant activities, i.e. those that significantly affect the investee's returns.

- Returns: An investor is exposed, or is entitled, to variable returns due to his/her involvement in the investee when the returns obtained from such involvement may vary depending on the investee's business performance. The returns may be only positive, only negative or both positive and negative.

- Relationship between power and returns: An investor controls an investee if the investor not only has power over the investee and is exposed or is entitled, to variable returns due to his/her involvement with the investee, but also the ability to use their power to affect the returns obtained due to their involvement with the investee.

At the time of the takeover of a subsidiary, the Group applies the acquisition method provided for in the regulatory framework for business combinations (see Note 1.3.2) except in the case of acquisitions of an asset or group of assets.

The subsidiaries' financial statements are consolidated with the bank's financial statements using the full consolidation method.

Third parties' interests in the Group's consolidated equity are disclosed in the consolidated balance sheet under the heading "*Minority interests (non-controlling interests)*", and the portion of the profit or loss for the year attributable to such interests is reflected in the consolidated profit and loss account under "*Gains/(losses) attributable to minority interests (non-controlling interests)*".

Joint ventures

These are institutions subject to joint control agreements whereby decisions on significant activities are made unanimously by the institutions which share control.

Interests in joint ventures are accounted for by the equity method i.e. they are accounted for in terms of the fraction of equity represented by the Group's share of their capital stock, after taking account of any dividends received from them and any other equity disposals.

The Group has not held any investments in joint ventures during 2017.

Associates

Associates are institutions over which the Group has a significant influence which generally, although not exclusively, takes the form of direct or indirect interest representing 20% or more of the investee's voting rights.

In the consolidated financial statements, associates are accounted for by the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or other similar rights are not the determining factor when it comes to deciding who controls the entity.

In cases in which the Group holds a stake in an entity, or constitutes an entity, for the purpose of transferring risks or for any other purposes, or to allow customers access to certain investments, whether or not there is control over the entity is determined based on the provisions of the regulatory framework, as described above and, subsequently, a determination is made as to whether or not they should be subject to consolidation. Specifically, the following factors, among others, are considered:

- Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.

- Implicit or explicit commitments of the Group to provide financial support to the entity.

- Identification of the entity manager and analysis of the remuneration scheme.

- Existence of removal rights (possibility of dismissing managers).

- Significant exposure of the Group to the variable returns on the assets of the entity.

These entities include those known as “Asset securitisation funds”, which are consolidated in cases where, based on the above analysis, it is determined that the Group has maintained control. For these operations, there are contractual agreements for financial aid commonly used in securitisation markets, but there are no significant financial aid agreements other than those established contractually. By reason of the foregoing, it is considered that for virtually all securitisations made by the Group, the risks transferred cannot be derecognised from the asset side of the consolidated balance sheet and the issues of securitisation funds are recognised as liabilities on the Group consolidated balance sheet. At 31 December 2017, there was no significant financial aid from the Group for unconsolidated securitisations.

In the case of investment firms and investment and pension funds managed by the Group (in most cases, retail funds with no legal personality over which the investors acquire proportional units providing them with ownership of the equity managed), they are considered not to meet the regulatory requirements for them to be considered structured entities and they are analysed under the same criteria as subsidiaries.

Such firms and funds are self-sufficient in terms of their activities, and their capital structure does not prevent them from carrying out their activities without further financial aid, for which reason they are not subject to consolidation.

Schedule II provides details of the structured entities of the Group.

In all cases, the consolidation of the results generated by the companies forming part of the Group during a given year is carried out considering only those relating to the period spanning between the acquisition date and year-end. Similarly, the consolidation of the results generated by the companies disposed of during the year is carried out considering only those relating to the period spanning between the start of the year and the disposal date.

In the consolidation process, all material balances and transactions between the companies forming part of the Group have been eliminated, in the proportion corresponding to them based on the applied consolidation method.

The financial and insurance institutions of the Group, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies. Current laws in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the capacity of such institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 2 includes information on the most significant acquisitions and sales that have taken place during the year. Significant information regarding the Group’s companies is provided in Schedule 1.

1.3.2 Business combinations

A business combination is a transaction, or any other event, whereby the Group obtains control over one or more businesses. Business combinations are accounted for using the acquisition method.

Under this method, the acquiring entity recognises the assets and liabilities acquired in its financial statements, also considering contingent liabilities, in line with their fair value, including those which were not recognised for accounting purposes by the acquired institution. This method also requires the estimate of the cost of the business combination, which will normally correspond to the consideration paid, defined as the fair value, on the date of acquisition, of the assets delivered, the liabilities incurred against the former owners of the acquired business and the equity instruments issued, if any, by the acquiring entity.

The Group recognises goodwill in the consolidated annual accounts if at the acquisition date there is a positive difference between:

- the sum of the consideration paid and the amount of all minority interests and the fair value of prior interests held in the acquired business, and

- the fair value of recognised assets and liabilities

If the difference is negative, it is recorded under the heading "*Negative goodwill recognised in profit and loss*" in the consolidated profit and loss account.

In cases where the amount of the consideration depends on future events, any contingent consideration is recognised as part of the consideration paid and is measured at fair value on the acquisition date. The costs associated with the transaction do not form part of the cost of the business combination for these purposes.

If the cost of the business combination or the fair value assigned to the acquired institution's assets, liabilities or contingent liabilities cannot be definitively determined, the initial accounting of the business combination is considered provisional. In any event, the process should be completed within a maximum of one year from the acquisition date and effective as of that date.

Minority interests in the acquired institution are measured on the basis of the proportional percentage of its identified net assets. All purchases and disposals of these minority interests are accounted for as equity transactions when they do not result in a change of control. No profit or loss is recognised in the consolidated profit and loss account and the initially recognised goodwill is not re-measured. Any difference between the consideration paid or received and the decrease or increase in minority interests, respectively, is recognised in reserves.

With regard to non-monetary contributions of businesses to associates or jointly controlled institutions in which control is lost over said businesses, the Group's accounting policy is to record the full profit or loss in the consolidated profit and loss account, recognising any remaining equity interest at fair value.

1.3.3 Measurement of financial instruments and recognition of changes arising in their subsequent measurement

In general, all financial instruments are initially recognised at fair value (see definition in Note 6) which, unless evidence to the contrary is available, coincides with the transaction price. As a general rule, conventional purchases and sales of financial assets are recognised in the Group's consolidated balance sheet using the settlement date.

Changes in value of financial instruments originating from the accrual of interest and similar items are recorded in the consolidated profit and loss account, under the headings "*Interest income*" or "*Interest expenses*", as applicable, with the exception of derivatives (see Note 1.3.5). Dividends received from other companies are recognised in the consolidated profit and loss account for the year in which the right to receive them is originated.

Changes in valuations arising after initial recognition due to reasons other than those mentioned in the preceding paragraph are accounted for on the basis of the classification of financial assets and liabilities:

Financial assets and liabilities held for trading

Financial assets and liabilities held for trading include financial assets and liabilities which have been acquired or issued to be sold or repurchased in the short term, or which form part of a portfolio of financial instruments that are identified and managed together and for which activities have been recently carried out to achieve short-term profits. Short positions in securities arising from sales of assets acquired under non-optional repurchase agreements or loans of securities, as well as derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments for accounting purposes are also considered to be financial assets and liabilities held for trading.

Derivatives embedded in other financial instruments or other primary contracts are recognised separately as derivatives when the risks and other characteristics are not closely related to those of the primary contracts, provided that the primary contracts are not classified as "*Financial assets held for trading*", "*Financial assets and liabilities designated at fair value through profit or loss*" or "*Financial liabilities held for trading*".

Changes in fair value of these instruments are recognised in the consolidated profit and loss account.

Financial assets and liabilities designated at fair value through profit or loss

This category includes financial instruments that have been designated, upon initial recognition, as hybrid financial instruments. These do not form part of the financial instruments held for trading and are measured entirely on a fair value basis. It also includes financial assets which are managed together with liabilities under insurance contracts measured at fair value or which are managed in combination with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk.

Changes in fair value of these instruments are recognised in the consolidated profit and loss account.

Available-for-sale financial assets

This category includes debt securities and equity instruments which are not investments in subsidiaries, associates or joint ventures and which have not been classified under any other category.

Changes in the fair value of these assets are temporarily recorded, net of taxes, under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity, unless they are due to foreign exchange differences arising on monetary financial assets that are recognised in the consolidated profit and loss account.

Amounts included under the heading "*Accumulated other comprehensive income*" continue to be included in consolidated equity until the asset from which they have originated is derecognised on the consolidated balance sheet, at which point they are written off against the consolidated profit and loss account, or until an impairment in the value of the financial instrument is determined.

Loans and receivables

This category includes financial assets which, while not traded on an active market or needing to be recognised at fair value, generate cash flows of a fixed or determinable amount in which the Group's disbursement will be recovered in full, except for reasons related to the borrower's solvency. This category comprises investments associated with typical lending activities such as amounts loaned to customers and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, unquoted debt securities and debts incurred by purchasers of goods or services forming part of the Group's business.

Upon initial recognition, they are recorded at fair value, incorporating all costs directly related to the transaction.

Following initial recognition, they are stated at amortised cost (which consists of the acquisition cost adjusted to take into account principal repayments and the portion allocated in the consolidated profit and loss account, using the effective interest rate method) of the difference between the initial cost and the repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item of the same value.

The effective interest rate is the discount rate that equals the value of a financial instrument exactly to the estimated cash flows over the instrument's expected life, on the basis of the contractual conditions, such as early repayment options, but without taking into account future credit risk losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate set at the time of their acquisition, plus, where appropriate, the fees which, because of their nature, may be likened to an interest rate. In the case of a variable-rate financial instruments, the effective interest rate is the same as the rate of return in respect of interest and fees on the instrument, until the first date on which the reference interest rate is reviewed.

Accrued interest calculated using the effective interest rate method is recorded under "*Interest income*" in the consolidated profit and loss account.

Investments held to maturity

This category includes debt securities which have a specific maturity date, and give rise to payments on pre-established dates for fixed or pre-determined amounts, with a proven capacity and intention for holding these securities to maturity.

The valuation criteria for investments held to maturity are the same as the criteria for loans and receivables.

Financial liabilities measured at amortised cost

This category comprises those financial liabilities that cannot be classified under any other heading of the consolidated balance sheet and are associated with the normal deposit-taking activity of a financial institution, irrespective of the term or the arrangement involved.

In particular, this category includes capital having the nature of a financial liability. This item corresponds to the amount of financial instruments issued by the Group which, although they are treated as capital for legal purposes, do not qualify for classification as consolidated equity for accounting purposes. They consist mainly of issued shares that do not carry voting rights on which a dividend is paid based on a fixed or variable rate of interest.

Following initial recognition they are stated at amortised cost applying the same criteria as those applicable to loans and receivables and investments held to maturity. Interest accrued calculated using the effective interest rate method is recorded under "Interest expenses" in the consolidated profit and loss account. However, if the Group has discretionary powers with regards to the payment of coupons associated with the financial instruments issued and reclassified as financial liabilities, the Group's accounting policy consists in recognising them by charging them to reserves.

The fair value of the Group's financial instruments at 31 December 2017 and 2016 is included in Note 6.

1.3.4 Impairment of financial assets

A financial asset is deemed to be impaired and therefore its carrying value is adjusted to reflect the effect of such impairment when there is objective evidence that an event has occurred, or that various events have occurred, and their combined effect have given rise to:

- For debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time the transaction was formalised.

- For equity instruments, a situation in which their carrying values will not be recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated profit and loss account for the period in which the impairment becomes known. The recoveries of previously recognised impairment losses are reflected, if appropriate, in the consolidated profit and loss account for the year in which the impairment is reversed or reduced. However, the recovery of previously recorded impairment losses relating to equity instruments classified as available-for-sale financial assets is recognised under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity.

The impairment on financial assets is calculated depending on the type of instrument and other circumstances that could affect it, taking into account the guarantees received. The Group recognises both allowance accounts, when insolvency provisions are established to cover estimated losses, and direct write-downs against the asset concerned when recovery is deemed to be remote.

In general terms, contractually accrued interests cease to be recognised in the consolidated profit and loss account for all debt instruments classed as impaired. If such interests are subsequently recovered, the amount received is recognised in the consolidated profit and loss account.

Debt instruments measured at amortised cost

To determine impairment losses, the Group monitors borrowers individually, at least those who are significant borrowers, and collectively, for groups of financial assets with similar credit risk characteristics indicative of the capacity of borrowers to satisfy their outstanding payments. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the losses due to impairment.

The Group has policies, methods and procedures in place to estimate losses that may arise as a result of its credit risks, both due to insolvency attributed to counterparties and due to country risk. These policies, methods and procedures are applied when granting, assessing and formalising off-balance sheet debt instruments and exposures, and when identifying their possible impairment and, where applicable, when calculating the necessary amounts to cover such estimated losses.

Classification of transactions on the basis of credit risk attributable to insolvency

The Group has set forth criteria that allow borrowers showing weaknesses or objective evidence of impairment to be identified and classified in line with their credit risk.

The following sections explain the principles and classification methodology used by the Group.

Definition of classification categories

Debt instruments not included in the portfolio of financial assets held for trading and off-balance sheet exposures are classified in terms of credit risk attributable to insolvency into one of the following categories:

- Standard exposures:

    - Transactions which do not meet the requirements to enable them to be classified into other categories.

    - Standard exposures under special monitoring: transactions that, while not meeting the criteria for individual classification as doubtful exposures or write-offs, present weaknesses that may lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures.

- Doubtful exposures:

    - As a result of borrower arrears: transactions any part of whose principal, interest or contractually agreed expenses is, in general, more than 90 days past-due, although the specific characteristics of the markets in which overseas subsidiaries operate and the characteristics of purchased or originated credit-impaired transactions are taken into account, unless they should be classed as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears in the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when such transactions have amounts which are generally, as previously indicated, more than 90 days past-due, and exceed 20% of the amounts pending collection (outstandings).

    - For reasons other than borrower arrears: transactions which are not classifiable as write-offs or doubtful exposures due to borrower arrears, but for which there are reasonable doubts concerning their full repayment under the contractual terms; as well as off-balance sheet exposures not classified as doubtful due to borrower arrears, whose payment by the Group is likely, but whose recovery is doubtful.

- Write-off risk:

    The Group derecognises from the consolidated balance sheet transactions for which the possibility of recovery is considered remote after an individual assessment. This category includes risks of customers who are in bankruptcy proceedings filing for liquidation and transactions classified as doubtful due to arrears with payments over four years past-due, except balances that have sufficient efficient guarantees. It also includes transactions which, despite not being in any of the two previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

    In the past, the Group has derecognised from the consolidated balance sheet any amount recorded together with its provision, without prejudice to any actions that may be taken to collect payment, until no more rights to collect payment exist, whether due to transfer, discharged loans or any other reasons.

Classification criteria for transactions

The Group applies diverse criteria to classify borrowers and transactions under the different categories based on their credit risk. These criteria include:

- Automatic criteria;

- Specific refinancing criteria; and

- Criteria based on indicators.

Automatic factors and specific criteria for classifying refinancing operations constitute the classification and cure algorithm and are applied to the entire portfolio.

Similarly, for the purpose of allowing any weaknesses or impairment of transactions to be detected early, the Group has established indicators or "triggers", distinguishing between significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the criteria based on which they would be classed as doubtful or under special monitoring are evaluated using indicators which aim to identify any signs of weakness that could lead to the incurrence of losses exceeding those on other similar transactions classified as standard exposures. This trigger is based on the best current estimate of the probability of each transaction being downgraded to the doubtful category (synthetic trigger).

Transactions classified as doubtful are reclassified as standard exposures when, as a consequence of the full or partial collection of defaulted amounts in the case of transactions classed as doubtful due to arrears, or for having exceeded the grace period for reasons other than arrears, the reasons for which they were classified as doubtful no longer exist, unless other reasons make it advisable to keep them in this category.

As a result of these procedures, the Group classifies its borrowers into the categories of standard exposure, under special monitoring or doubtful due to borrower arrears, or maintains them in the category of standard exposure.

Individual risk

The Group has established an exposure threshold to determine which borrowers are significant based on their exposure at default (EAD) parameter.

For significant borrowers, a system of indicators has been established which allows any weaknesses or signs of impairment to be identified. An expert team of risk analysts analyses borrowers that have triggered indicators to determine whether any weaknesses exist or whether there is any objective evidence of impairment. If there is evidence of impairment, they determine whether the event or events that have given rise to the loss have an impact on estimated future cash flows of the financial asset or its group.

The indicators system for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently to the loan portfolio. The indicators system seeks to identify the following aspects:

- Significant financial difficulties of the issuer or obligor: these are indicative of an impairment event insofar as their classification as being significant limits the ability of the issuer or obligor to honour their financial obligations.

- To identify impairment, it is necessary to consider both variables which are indicative of a poor economic and financial situation and variables that are the potential cause or which anticipate this poor economic and financial situation.

- Non-compliance with contractual clauses, defaults or delays in the payment of interest: in addition to defaults longer than 90 days, which form part of the automatic classification algorithm, defaults and delays of less than 90 days are also identified, as these can be a sign of impairment.

- Borrowers are granted concessions or benefits due to their financial difficulties that would not otherwise be considered: the act of granting refinancing to a debtor in financial difficulties may prevent or delay their failure to comply with their obligations whilst at the same time preventing or delaying the recognition of the impairment associated with the financial asset linked to that debtor.

- Probability of the borrower becoming insolvent: in cases in which there is a high probability of borrowers going bankrupt or entering restructuring proceedings, the solvency of the issuers and obligors is ostensibly affected, and could give rise to a loss event depending on the impact on estimated future cash flows pending collection.

- The disappearance of an active market for the financial asset due to financial difficulties: the discontinuance of financial assets issued by the obligor or issuer could give rise to a complicated economic and financial situation and therefore a reduced capacity to honour payment obligations.

The Group carries out an annual review on the reasonableness of the thresholds and of the scopes of individual assessments resulting from the application of such thresholds.

The defined levels place a volume of borrowers that allows the total credit exposure to be reasonably hedged above the materiality threshold, and these borrowers should therefore be subject to an expert individual analysis.

Collective risk

The Group has defined a synthetic indicator for borrowers who have been classed below the materiality threshold and who, in addition, have not been classified as doubtful exposures or under special monitoring by the automatic classification algorithm. The Group uses this indicator to identify exposures that exhibit weaknesses that could potentially result in losses higher than losses on other similar transactions classified as standard exposure. The Group has set thresholds which, once breached, result in these exposures automatically being classified as standard exposure under special monitoring due to their associated weaknesses.

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group guarantee a detailed monitoring of borrowers, and demonstrate the need to make provisions when there is evidence of impairment to their solvency (see Note 4). For this purpose, the Group creates the insolvency provisions for transactions in which the borrower's circumstances requires them, prior to formalising the restructuring/refinancing operations, which should be understood as follows:

- Refinancing operation: this is granted or used for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower in order to cancel one or more operations granted by the Group, or to bring outstanding payments for such fully or partly up to date, to enable borrowers to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in due time and form.

- Restructuring transactions: financial terms and conditions of a transaction are amended for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower in order to facilitate the repayment of their debt (principal and interest) when they are unable, or will predictably soon be unable, to meet such terms and conditions in due time and form, even when this amendment is already envisaged in the contract. Restructured transactions are those in which the terms and conditions are amended to extend the period to maturity, to amend the repayment schedule to reduce the amounts of short-term repayments or to reduce the repayment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, unless it can be proven that the terms and conditions are being amended for reasons other than borrowers' financial difficulties and which are equivalent to the terms that would be applied by other institutions on the market for similar risks.

The formalisation of amendments to contractual terms and conditions does not entail any significant additional deterioration of the borrowers' circumstances that will require the creation of additional provisions.

If a transaction is classified under a specific risk category, the refinancing operation does not entail any automatic improvement in its risk classification. In terms of refinanced operations, the algorithm initially classifies them based on their characteristics, mainly that borrowers are encountering financial difficulties and the existence of certain clauses such as long grace periods. The algorithm then changes its initial classification in line with the set cure periods. A reclassification into a lower risk category shall only be considered if there is a quantitative or qualitative increase in efficient guarantees backing the transaction and if there has been a significant improvement in the continuous recovery of the debt over time, therefore the act of refinancing does not in itself produce any immediate improvements.

With regard to refinanced/restructured loans classified as standard exposure, different types of transactions are specifically assessed to reclassify them, if applicable, into a higher risk category using the same categories described in the previous section (i.e. assets whose repayment is considered doubtful as a result of borrower arrears when payments are, in general, over 90 days past-due, or for reasons other than borrower arrears, when there are reasonable doubts concerning their recoverability).

Estimated losses due to credit impairment that are consistent with the accounting classification of the risk are provisioned for as soon as they are identified.

The methodology used to estimate losses for these portfolios is generally similar to that used for other financial assets measured at amortised cost, but it is considered that, a priori, a transaction that has had to be restructured to enable payment obligations to be satisfied should have a higher loss estimate than a transaction that has never suffered default (unless there are sufficient additional effective guarantees to justify otherwise).

After the initial rating of the transaction, the change to a lower risk category must be supported by significant evidence of improvement in the expected recovery of the transaction, either because the borrower has been consistently honouring their payment obligations over a prolonged period of time or because the initial debt has been significantly repaid. Nevertheless, that transaction shall continue to be identified as a restructuring or refinancing operation.

Hedge accounting

The Group applies the following criteria when calculating hedges for credit risk losses.

In terms of transactions identified as having no appreciable risk (mostly those carried out with central banks, general governments, public enterprises and financial institutions belonging to the European Union or certain countries considered to be risk-free), a percentage coverage of 0% is applied, except in the case of transactions classed as doubtful exposures, for which the impairment is estimated individually. During this estimation process, calculations are made of the amount required to hedge credit risk attributable to the borrower on one hand and credit risk attributable to country risk on the other. If there are concurrent reasons to hedge both credit risk attributable to the borrower and that attributable to country risk, the most stringent hedging criteria are applied.

The exposure metrics considered by the Group to hedge this risk are the currently drawn balances and the estimate of the amounts expected to be disbursed in the event of entry into default of off-balance sheet exposures through the application of a credit conversion factor (CCF).

For transactions classified as doubtful exposures, an estimate is made of the incurred losses, understood as the difference between the current gross carrying amount of the exposure and the present value of the estimated future cash flows, as described further on in this document.

The Group uses shorter time horizons in certain segments when there is evidence to suggest that the reclassification procedures can ensure that loss events are detected sooner.

Subsequently, these cash flows are updated by applying the effective interest rate of the instrument (if its interest rate is fixed) or by applying the effective contractual interest rate on the date on which they are updated (if the interest rate is variable).

The following sections describe the different methodologies employed by the Group.

Individual provisioning estimations

The following must be estimated individually:

- Hedges of doubtful exposures of borrowers individually considered to be significant.

- Where applicable, the transactions or borrowers whose characteristics do not allow a collective calculation of impairment to be carried out.

- Transactions identified as having no appreciable risk classified as doubtful exposures, both due to arrears as well as for reasons other than arrears.

The Group has developed a methodology to estimate these hedges, calculating the difference between the gross carrying amount of the transaction and the updated value of the estimated cash flows expected to be collected, discounted using the effective interest rate. For this purpose, the effective guarantees received are taken into account. In order to determine the amount that can be recovered using these guarantees the average parameters used in the collective impairment estimation models are used, adapting them, when relevant, to the best information available in the individual analysis.

Three methods are established to calculate the recoverable value of assets which are assessed individually:

- Discounted cash flow: debtors who are estimated to be able to generate future cash flows through the performance of their own business activities and the economic and financial structure of the company, whereby they can repay the debt owed in part or in full. This involves the estimation of cash flows generated by the borrower through their business activity.

- Recovery of collateral: debtors who do not have the capacity to generate cash flows through the performance of their own business activities and who are then forced to liquidate assets in order to meet their payment obligations. Involves the estimation of cash flows based on the enforcement of the guarantees.

- Combined approach: debtors who are estimated to be able to generate future cash flows and also have non-core assets. These flows can be supplemented with the potential sale of non-core assets, insofar as that they are not required for the performance of their activity, and subsequently, for the generation of the aforementioned future cash flows.

Collective allowance estimations

The following must be estimated collectively:

- Exposures classed as standard exposures (including those exposures classed as under special monitoring), for which the Group believes that a loss has been incurred, but not reported, ("IBNR coverage"), as the impairment has not been revealed in the transactions analysed individually.

- Exposures classed as doubtful which are not analysed using individual hedging estimates.

When calculating collective impairment losses, the Group, pursuant to the Implementation Guidance on IAS 39 and the guidance issued by ESMA on IAS 39, has taken the following aspects into consideration:

- The process to estimate impairment takes all credit exposures into account, except for those non-doubtful exposures with no appreciable risk, for which the methods established by Bank of Spain will be used, based on the data and statistical models which add up the average performance of entities in the Spanish banking sector. The Group recognises an impairment loss equal to the best estimation available from internal models, taking into account all of the relevant information which the Group holds on the current conditions at the end of the period which is being reported on.

- For the purpose of carrying out a collective impairment evaluation, financial assets are pooled together based on the similarity of their characteristics with regard to credit risk, for the purpose of estimating differentiated risk parameters for each group of similar assets. This segmentation differs for each estimated risk parameter. The segmentation takes into account the historical loss experience observed for a homogeneous group of assets (segment), once it has been adjusted to the current economic situation, which is representative of the losses incurred but not reported in this segment. This segmentation screens risk, is aligned with risk management and is used in the Group's internal models for various purposes by the internal control units and the supervisor. Lastly, it is subject to recurring back-testing exercises and the regular updates and reviews of the estimations in order to ensure that all of the information available is included.

Classification and hedging of credit risk attributable to country risk

Country risk is the risk arising in counterparties resident in a specific country for reasons other than ordinary commercial risk (sovereign risk, transfer risk or risks derived from international financial activity). The Group classifies transactions conducted with third parties into different groups depending on the economic changes of countries, their political situation, the regulatory and institutional framework and payment capacity and experience, and assigns different percentages of insolvency provisions to each transaction.

Assets considered doubtful due to the materialisation of country risk are transactions in which the final borrowers are resident in countries experiencing long-term difficulties to honour their debt obligations and for which the possibility of recovery is considered doubtful, as well as other off-balance sheet exposures whose recovery is considered remote due to circumstances attributable to the country.

The provisioning levels for this item are not significant in terms of the hedges for impairment created by the Group.

Guarantees

Effective guarantees are collateral and personal guarantees proven by the Group to be a valid means of mitigating credit risk.

Under no circumstances will guarantees whose effectiveness significantly depends on the credit quality of the debtor, or where applicable, the economic group of which the debtor forms part, be accepted as effective guarantees.

Based on the foregoing, the following types of guarantees can be considered as effective:

- Real estate guarantees applied as real estate mortgages, provided that they are first mortgages.
    - Completed buildings and parts thereof:
        - Housing units.
        - Offices, commercial premises and multi-purpose industrial buildings.
        - Other buildings, such as non-multi-purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.
- Collateral in the form of pledged financial instruments:
    - Cash deposits.
    - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
    - Personal property received as collateral.
    - Subsequent mortgages on properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

The Group has criteria for the valuation of collateral for assets located in Spain, which are aligned with current legislation. Specifically, the Group applies criteria for the selection and recruitment of valuation providers geared towards guaranteeing the independence of the same and the quality of the valuations. All such providers are valuation companies and agencies registered with the Bank of Spain Special Registry for Valuation Companies. The valuations are carried out in accordance with the criteria set forth in Order ECO/805/2003 on valuation regulations for property and certain rights related to particular financial objectives.

Real estate guarantees for credit transactions and property are valued at their origination or registration date. In terms of property, they are valued irrespective of whether they are registered by means of purchase, foreclosure or payment in kind and whenever the asset suffers a significant reduction in value. Additionally, minimum updating criteria are applied, whereby impaired assets (special monitoring, doubtful exposures and foreclosed properties or received in lieu of debt) are guaranteed to be updated at least annually and large debts in a standard situation with no signs of latent risk are guaranteed to be updated at least once every three years. Statistical methodologies are only used to update valuations for the assets described above when they have reduced exposure and risk, although a full ECO valuation (an official valuation) must be carried out at least every three years.

For assets located in the rest of the European Union, the valuation is carried out in accordance with that set forth in Royal Decree 716/2009 of 24 April, and in the rest of the world, by companies and/or experts with recognised expertise in the country.

To estimate credit loss allowances, the Group has developed internal methodologies in order to determine the recoverable amount of real estate guarantees, which use the appraisal value as a starting point. This appraisal value is adjusted considering the time required to enforce such guarantees, price trends and the Group's capacity and experience in realising the value of similar properties in terms of prices and terms, as well as the costs of enforcement, maintenance and sale.

General comparison between credit risk provisions and real estate asset impairment provisions

The Group has established backtesting methodologies to compare estimated losses against actual losses.

As a result of this backtesting exercise, the Group has established amendments to the internal methodologies when the backtesting shows significant differences between the estimated losses and actual losses.

Both these methodologies and the backtesting exercises are reviewed by the internal control division.

Debt instruments designated at fair value

The amount of losses due to impairment incurred in debt securities included under the heading of "*Available-for-sale financial assets*" is equal to the positive difference between their cost of acquisition, net of any amortisation of principal, and their fair value less any loss due to impairment previously recognised in the consolidated profit and loss account.

When there is objective evidence to suggest that a decline in their fair value is due to impairment, unrealised losses recognised directly under the "*Accumulated other comprehensive income*" heading in the consolidated statement of equity are immediately recorded in the consolidated profit and loss account. To conclude as to the existence of objective evidence of impairment in the value of debt instruments, the Group analyses events that might potentially cause losses. In general, the Group considers the following as signs of impairment:

- an increase in the probability that the issuer will undergo financial restructuring;

- the disappearance of an active market for the financial asset in question; and

- a downgrade of its credit rating.

For sovereign debt instruments, the assessment of possible impairments is made by assessing changes in stock market trading caused mainly by changes in risk premiums and by the continuous assessment of solvency.

If, after an impairment has been recognised, the losses are fully or partly recovered, their amount is recognised in the consolidated profit and loss account for the year in which they were recovered.

Equity instruments

The amount of losses due to impairment incurred in equity instruments included under the heading "*Available-for-sale financial assets*" is equal to the positive difference between their cost of acquisition, net of any amortisation of principal, and their fair value less any loss due to impairment previously recognised in the consolidated profit and loss account.

When there is objective evidence to suggest that a decline in their fair value is due to impairment, unrealised losses recognised directly under the "*Accumulated other comprehensive income*" heading in the consolidated statement of equity are immediately recorded in the consolidated profit and loss account.

To conclude as to the existence of objective evidence of an impairment in value of equity instruments, the Group assesses whether there has been a prolonged or significant decline in the fair value of the investment to a value below its cost. In particular, the Group impairs these investments when there is a decline in their fair value, calculated individually, over a period longer than 18 months or when the fair value declines by 40% or more, taking into consideration the number of instruments held for each individual investment and their unit share price.

For unquoted equity instruments, the Group makes a discounted cash flow valuation using directly observable market variables and/or data such as a published net asset value, or comparable data and sector multipliers of similar issuers in order to determine value adjustments. Equity instruments valued at their acquisition cost are exceptions and are not significant in terms of the Group's consolidated annual accounts. At 2017 and 2016 year-end there were no investments in listed equity instruments for which their quoted market price at year-end has not been considered as a reference of their fair value.

If, after an impairment has been recognised, all or part of such losses are recovered, their amount is recognised under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity.

In the case of equity interests in associates included under the heading "*Investments in joint ventures and associates*", the Group estimates impairment losses for each of them by comparing the recoverable amount against the carrying value of the investments. The recorded impairment is the result of an individual assessment of the investees portfolio which are assessed based on their net asset value or based on projections of their results, pooling them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector that could affect the performance of such companies, in order to estimate their value in use.

Specifically, insurance investees are assessed by applying the market consistent embedded value methodology, companies related to real estate are assessed based on their net asset value, and financial investees based on multiples of their book value and/or the profit from other comparable listed companies.

Losses due to impairment are recorded in the consolidated profit and loss account for the year in which they took place and subsequent recoveries are recognised in the consolidated profit and loss account for the year in which they were recovered.

1.3.5 Hedging operations

The Group uses financial derivatives to (i) to supply them to customers requesting such derivatives, (ii) manage risks associated with the Group's proprietary positions (hedging derivatives), and (iii) realise gains as a result of price fluctuations. The Group uses both derivatives traded on organised markets and those traded bilaterally with counterparties on over-the-counter (OTC) markets.

Financial derivatives that do not qualify for designation as hedging instruments are classified as derivatives held for trading. To be designated as a hedging instrument, a financial derivative must meet the following criteria:

- It must cover exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), exposure to changes in the estimated cash flows originating in financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge), or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

- The derivative must effectively eliminate a risk that is inherent in the hedged item or position over the entire expected term of the hedge, in terms of both prospective and retrospective efficiency. To this end, the Group analyses whether, at the time the hedge is arranged, it is expected to operate, under business-as-usual conditions, with a high degree of effectiveness and verifies, throughout the life of the hedge and using effectiveness tests, that the effectiveness of the hedge varies between 80% and 125% with respect to the hedged item.

- Suitable documentation must be available to show that the financial derivative has been acquired specifically to provide a hedge for certain balances or transactions and to show how effective coverage was to be achieved and measured, provided that this is consistent with the Group's risk management processes.

Hedges are applied to either individual items and balances (micro-hedges) or to portfolios of financial assets and liabilities (macro-hedges). In the latter case, the set of financial assets and liabilities being collectively hedged share the same type of risk, which is determined when the interest rate sensitivities of the individual hedged items are similar.

Changes that take place after the designation of the hedge in the measurement of the financial instruments designated as hedged items and financial instruments designated as hedging instruments are recorded as follows:

- In fair value hedges, differences arising in the fair value of the derivative and the hedged item attributable to the hedged risk are recognised directly in the consolidated profit and loss account; the balancing entries consist of the consolidated balance sheet headings in which the hedged item is recorded or under the "Derivatives – Hedge accounting" heading, as appropriate.

  In fair value hedges of interest rate risk in a portfolio of financial instruments, gains or losses arising when the hedging instrument is measured are recognised directly in the consolidated profit and loss account. Losses and gains arising from changes in the fair value of the hedged item attributable to the hedged risk are recognised in the consolidated profit and loss account with a balancing entry under the heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on the asset side or the liabilities side of the consolidated balance sheet, as applicable. In this case, effectiveness is assessed by comparing the overall net position of assets and liabilities in each time period with the hedged amount designated for each one of them, and the ineffective portion is immediately recorded in the consolidated profit and loss account.

- In cash flow hedges, differences in the value arising in the effective portion of hedging instruments are recorded under “Accumulated other comprehensive income - hedging derivatives” heading. “Cash flow hedges (effective portion)” of the consolidated statement of equity. These differences are recognised in the consolidated profit and loss account when the gains or losses of the hedged item are recognised, when the envisaged transactions are performed or on the date of maturity of the hedged item.

- In hedges of net investments in foreign operations, measurement differences in the effective portion of hedging instruments are recorded temporarily in the consolidated statement of equity under “Accumulated other comprehensive income – Hedges of net investments in foreign operations (effective portion)”. These differences are recognised in the consolidated profit and loss account when the investment in a foreign operation is disposed of or derecognised from the consolidated balance sheet.

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedging transactions and net investments in foreign operations are recognised in the consolidated profit and loss account under the heading “Net trading income”.

If a derivative which is treated as a hedging derivative does not meet the above requirements due to its termination, ineffectiveness, or for any other reason, it will be treated as a derivative held for trading for accounting purposes.

When a fair value hedge is discontinued, any previous adjustments made to the hedged item are charged to the income statement using the effective interest rate method, recalculated as of the date on which the item ceased to be hedged. The previous adjustments must be fully amortised by the maturity of the item that was previously hedged.

Where a cash flow hedge is discontinued, the accumulated income on the hedging instrument recognised in the consolidated statement of equity under “*Accumulated other comprehensive income*” (while the hedge was in effect) will continue to be recognised under that heading until the hedged transaction takes place, at which time the gain or loss will be recognised in the income statement, unless the hedged transaction is not expected to take place, in which case it will be recognised in the income statement immediately.

1.3.6 Financial guarantees

Contracts by which the Group undertakes to make specific payments for a third party in the event of the third party failing to do so, irrespective of their legal form are considered financial guarantees. These can take the form of, amongst others, bonds, bank guarantees, insurance contracts or credit derivatives.

The Group recognises financial guarantee contracts under the heading “*Financial liabilities measured at amortised cost - Other financial liabilities*” at their fair value which, at inception and unless otherwise evidenced, is the present value of the expected fees and returns to be received. At the same time, the Group recognises fees and similar income received at the commencement of the operations and the accounts receivable for the present value of future cash flows pending collection as loans on the asset side of the balance sheet.

In the particular case of long-term guarantees given in cash to third parties within the framework of service contracts, when the Group guarantees a certain level or volume in terms of the provision of such services, it initially recognises these guarantees at their fair value. The difference between their fair value and the disbursed amount is considered as an early payment or collection for the provision of this service, and this is recorded in the consolidated profit and loss account during the period for which such service is provided. Subsequently, the Group applies analogous criteria to debt instruments valued at amortised cost.

Financial guarantees are classified according to the insolvency risk attributable to the customer or the transaction and in appropriate cases an assessment is made of the need to make provisions for such guarantees by applying similar criteria for debt instruments valued at amortised cost.

Income from security instruments are recorded under the heading "*Fee and commission income*" in the consolidated profit and loss account and are calculated applying the rate laid down in the related contract to the nominal amount of the guarantee. Interest from long-term guarantees given in cash to third parties is recognised by the Group under the heading "*Interest income*" in the consolidated profit and loss account.

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

Financial assets are only derecognised from the consolidated balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are only derecognised from the consolidated balance sheet when the obligations generated by the liabilities have expired or are acquired for settlement or resale.

Note 4 provides details of asset transfers in effect at the end of 2017 and 2016, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

Financial assets and liabilities are only offset in order to be included in the consolidated balance sheet when the Group has a legally enforceable right to offset the amounts recognised in such instruments and intends to settle them at their net amounts or to realise the asset and settle the liability simultaneously.

1.3.9 Non-current assets and assets and liabilities included in disposal groups classified as held for sale and discontinued operations

The "*Non-current assets and disposal groups classified as held for sale*" heading on the consolidated balance sheet comprises the carrying values of assets – stated individually or combined in a disposal group, or as part of a business unit that the Group intends to sell (discontinued operations) – which are very likely to be sold in their current condition within one year of the date of the consolidated annual accounts.

It can therefore be assumed that the carrying value of an asset of this kind, which may be of a financial or non-financial nature, will be recovered through the disposal of the item concerned rather than from its continued use.

Specifically, real estate or other non-current assets received by the Group in full or partial settlement of borrowers' payment obligations are treated as non-current assets held for sale, unless the Group has decided to make continued use of the assets or include them in its rental operations. Investments in joint ventures or associates that meet these criteria also qualify as non-current assets held for sale. For all of these assets, the Group has specific units focused on real estate management and sale.

The heading "Liabilities included in disposal groups classified as held for sale" includes credit balances associated with disposal groups or assets, or with the Group's discontinued operations.

Non-current assets and disposal groups classified as held for sale are measured, both on the acquisition date and thereafter, at the lowest between their carrying value and the fair value less estimated sale costs. The carrying value at the date of acquisition of non-current assets and disposal groups classified as held for sale derived from foreclosure or recovery is defined as the balance pending collection on the loans or credits that give rise to these purchases (net of any associated provisions). Tangible and intangible assets that would otherwise be subject to depreciation and amortisation are not depreciated or amortised while they remain in the category of "*Non-current assets and disposal groups classified as held for sale*".

In order to determine the net fair value of real estate assets, the Group uses its own internal methodology, which uses as a starting point the appraisal value, which is adjusted considering the experience in selling similar properties in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors.

The valuation amount of real estate assets recognised in this heading is calculated following the policies and criteria described in the section "Guarantees" in Note 1.3.4. The main valuation companies and agencies used to obtain market values are listed in Note 6.

Gains and losses arising from the sale of assets and liabilities classified as non-current and held for sale, as well as impairment losses and their reversal, if applicable, are recognised under the heading "*Gains or losses on non-current assets and disposal groups classified as held for sale not eligible as discontinued operations*" in the consolidated profit and loss account. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

Discontinued operations are components of the entity that have been disposed of or classified as held for sale and which: (i) represent a line of business or geography which is significant and separate from the rest or is part of a single coordinated plan to dispose of said business or geography, or (ii) are subsidiaries acquired solely in order to be resold. Income and expenses of any kind generated by discontinued operations during the year, including those granted before they were classified as discontinued operations, are presented net of the tax effect as a single amount under the heading "*Profit or losses after tax from discontinued operations*" in the consolidated profit and loss account, both when the business has been derecognised from the asset side of the balance sheet and when it continues to be recorded on such side of the balance sheet at year end. This heading also includes the results obtained from their sale or disposal.

1.3.10 Tangible assets

Tangible assets include (i) property, plant and equipment held by the Group for current or future use which is expected to be used for over one year, (ii) property, plant and equipment loaned to customers under operating leases, and (iii) investment properties, which include land, buildings and other structures held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received in lieu of debts classified on the basis of their final use.

As a general rule, these tangible assets are valued at cost less accumulated depreciation and less any impairment losses identified from a comparison of the net carrying value of each item with its recoverable amount.

Depreciation of tangible assets is calculated using the straight-line method, applying the estimated years of useful life of the various items to the acquisition cost of acquisition of the assets less their residual value. The land on which the buildings and other structures stand is considered to have an indefinite life and is therefore not depreciated.

The annual depreciation charge on tangible assets is charged to the consolidated profit and loss account and calculated over the remaining years of the estimated useful lives, as an average, of the different asset groups:

	Useful life (years)
Land and buildings	37.5 to 75
Fixtures and fittings	4.2 to 25
Furniture and office equipment	3.3 to 18
Vehicles	3.1 to 6.25
Cash dispensers, computers and computer equipment	4

The Group reviews the estimated useful life of tangible assets at the end of each year as a minimum, in order to detect any major changes in such lives. Should any such changes arise, the corresponding adjustments are made in the consolidated profit and loss account for future years to the depreciation charge based on the new estimated useful life.

At each reporting date, the Group analyses whether there are internal or external indications that a tangible asset might be impaired. If there is evidence of impairment, the Group analyses if such impairment has actually taken place by comparing the asset's net carrying value against its recoverable value (the higher of its fair value less selling costs and its value in use). When the asset's carrying value exceeds the recoverable value, the Group reduces the carrying value of the corresponding item to its recoverable value and future depreciation charges are adjusted in proportion to the adjusted carrying value and new remaining useful life, if this needs to be re-estimated. Where there are indications that the value of an asset has been recovered, the Group records the reversal of the impairment loss recognised in previous years and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset will in no circumstances result in an increase in its carrying value above the value that the asset would have had if impairment losses had not been recognised in previous years.

In particular, certain items of property, plant and equipment are assigned to cash generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Group (i) calculates the recurring net cash flow at each branch based on the accumulated contribution margin less an allocated recurring risk cost, and (ii) this recurring net cash flow is regarded as a perpetual flow and a valuation is effected using the discounted cash flow method applying a cost of capital of 10.2% and a zero growth rate in perpetuity.

For real estate investments, the Group uses third party valuations, registered with Bank of Spain's special register of valuation firms according to criteria set forth in Order ECO/805/2003.

Maintenance expenses and the maintenance of tangible assets are recorded in the consolidated profit and loss account for the year in which they occur.

1.3.11 Leases

Finance leases

A lease is treated as a finance lease when there is a substantial transfer of risks and benefits associated with ownership of the asset.

Where the Group is the lessor of an asset, the sum of the present values of payments receivable from the lessee is recorded as financing provided to a third party and is therefore included in the consolidated balance sheet under the heading "*Loans and receivables*". This financing includes the exercise price of the purchase option available to the lessee upon the termination of the contract in cases where the exercise price is sufficiently lower than the fair value of the asset at the date of maturity of the option, such that it is reasonably likely to be exercised.

When the Group acts as lessee, the cost of the leased assets is recorded in the consolidated balance sheet according to the nature of the leased asset, and at the same time a liability is reflected for the same amount which will be the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if applicable, the exercise price of the purchase option. These assets are depreciated using criteria similar to those applicable to tangible assets for the Group's own use.

Financial income and expenses arising from lease agreements are credited or charged, respectively, to the consolidated profit and loss account in such a way as to ensure that the return remains constant throughout the term of the lease.

Operating leases

In operating leases, ownership of the leased asset and a substantial proportion of all of the risks and benefits of ownership of the asset remain with the lessor.

When the Group is the lessor of the asset, the acquisition cost of the leased item is recorded under the heading "*Tangible assets*". These assets are depreciated by the same procedure as for similar tangible assets for own use and the revenue from the leases is recognised in the consolidated profit and loss account on a straight-line basis.

Where the Group is the lessee, the expenses arising from the lease, including any incentives offered by the lessor, are recorded in the consolidated profit and loss account on a straight-line basis. When contracts include interest rate revision clauses, the revision takes place annually on the basis of fluctuations in the consumer price index in Spain or the country in which the asset is located, without adding any spread thereto.

Sale and lease-back

In the case of sales at fair value with subsequent lease-backs, any profit or loss is recorded at the time of the sale. In the event of a subsequent lease-back, the income generated is apportioned over the term of the lease.

When determining whether a sale with a lease-back operation results in an operating lease the Group analyses, amongst other aspects, whether at the inception of the lease there are purchase options which, due to their terms, are reasonably likely to be exercised, and which party will receive the losses or gains derived from fluctuations in the fair value of the residual amount of the corresponding asset.

1.3.12 Intangible assets

Intangible assets are identifiable, non-physical, non-monetary assets that arise as a result of an acquisition from third parties or which are carried out internally by the Group. An intangible asset will be recognised when it meets this criterion and the Group considers it likely that economic benefits deriving from the asset and its cost can be reliably estimated.

Intangible assets are initially recognised at their acquisition or production cost and are subsequently measured at cost less, as applicable, any accumulated depreciation and impairment loss which may have been sustained.

Goodwill

A positive difference between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired entity is recognised on the consolidated balance sheet as goodwill. This difference represents an advance payment made by the Group of the future economic benefits derived from the acquired entities that are not individually and separately identifiable and recognisable. Goodwill is not amortised and is recognised only when acquired for good and valuable consideration in a business combination.

Goodwill is assigned to one or more cash-generating units (UGE, for their acronym in Spanish) which are expected to benefit from the synergies derived from the business combinations. These UGE are the smallest identifiable groups of assets which, as a result of their continuous operation, generate cash flow for the Group irrespective of other assets or groups of assets.

The UGEs to which the goodwill has been assigned are tested annually for impairment, or whenever there is evidence that impairment might have arisen. In this respect, the Group recalculates the recoverable amount mainly using the distributed profit discount method in which the following parameters are taken into account:

- Key business assumptions: these assumptions are used as a basis for cash flow projections used as part of the valuation. For businesses engaging in financial activity, projections are made for variables such as: changes in lending volumes, default rates, customer deposits and interest rates under a forecast macroeconomic scenario and capital requirements.

- Estimates of macroeconomic variables and other financial parameters.

- Projection period: this is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take account of the economic outlook at the time of the valuation.

- Type of discount: the present value of future dividends, from which a value in use is derived, is calculated using the capital cost of the entity (Ke) from the standpoint of a market participant as a discount rate. To determine the capital cost the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: “$Ke = Rf + \beta\ (Pm) + \alpha$”, where: Ke = Required return or cost of capital; Rf = Risk-free rate; β = Company’s systemic risk coefficient; Pm = Market premium and α = Non-systemic risk premium.

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: it is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the current financial market outlook at all times.

If the carrying value of a UGE is higher than its recoverable amount, the Group recognises an impairment loss which is allocated firstly by reducing the goodwill attributed to that UGE and secondly, if any losses remain to be allocated, by reducing the carrying value of the remaining assigned assets on a proportional basis. Impairment losses recognised for goodwill cannot subsequently be reversed.

Other intangible assets

This heading basically includes intangible assets identified in business combinations such as the value of brands and contractual rights arising from relations with customers acquired through the acquired businesses, as well as computer software.

These intangible assets have a finite useful life and are amortised on the basis of such useful lives, applying similar criteria to those used for tangible assets. In particular, the useful lives of brands and contractual rights arising from customer relations in acquired businesses vary between 5 and 15 years, while for computer software the useful life is between 7 and 15 years.

The criteria for recognising impairment losses in intangible assets and any recoveries of impairment losses recorded in earlier financial years are similar to those applied to tangible assets. In this respect, the Group determines whether there is evidence of impairment by comparing actual trends with the initial assumptions applied in the parameters used when they were first recognised. These include possible loss of customers, average customers’ balances, average ordinary income and the assigned cost-to-income ratio.

Changes in the estimated useful lives of intangible assets are treated in a similar way to changes in the estimated useful lives of tangible assets.

1.3.13 Inventories

Inventories are non-financial assets that are held for use or sale by the Group in the normal course of its business activity, or which are in the process of production, construction or development in order to be sold or used, or are to be used in the production process or in the provision of services.

In general, inventories are valued at the lower of their value at cost, including all purchase and conversion costs and other direct and indirect costs incurred in bringing the inventories to their present condition and location, and their net realisable value.

Net realisable value means the estimated sale price net of the estimated production and marketing costs to carry out the sale. This figure is revised and recalculated on the basis of actual losses incurred on the sale of the assets.

Any value adjustments to inventories, whether caused by impairment due to damage, obsolescence or a fall in sale prices, to reflect their net realisable value, or arising from other losses, are recognised as expense in the year in which the impairment or other loss occurred. Any subsequent recoveries in value are recognised in the consolidated profit and loss account in the year in which they occur.

For inventories comprising land and buildings are calculated, the net realisable value is calculated based on the appraisal carried out by an independent expert, registered with the Bank of Spain Special Register of Valuation Firms and prepared in accordance with the criteria established in Order ECO/805/2003 on valuation rules for real estate and certain rights for certain financial purposes, which are adjusted in line with the internal methodology developed by the Group, considering its experience in selling similar property, in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors.

The book value of the inventories is derecognised from the consolidated balance sheet and recorded as en expense during the year in which the income proceeding from its sale is recorded.

1.3.14 Own equity items

Own equity items are defined as equity instruments that meet the following criteria:

- They do not involve any contractual obligation to the issuer which entails: delivering cash or another financial asset to a third party, or exchanging financial assets or liabilities with a third party on terms which are potentially unfavourable to the issuer.

- If they may be, or will be, settled with the issuer's own equity instruments: in the case of a non-derivative financial instrument, it will be considered an equity instrument when such settlement does not entail an obligation to deliver a variable number of its own equity instruments; in the case of a derivative instrument, it will be considered an equity instrument provided that it is settled for a fixed amount of cash or with another financial asset, in exchange for a fixed number of the issuer's own equity instruments.

All transactions involving the Group's own equity items, including their issuance or redemption, are recognised directly with a balancing entry in the consolidated statement of equity.

Changes in the value of instruments classified as own equity items are not recognised in the financial statements. Any consideration received or paid in exchange for such instruments is added to or deducted directly from the consolidated statement of equity and the associated transaction costs are deducted therefrom.

Equity instruments issued in full or partial settlement of a financial liability are recognised at fair value unless this cannot be reliably determined. In this case, the difference between the carrying value of a financial liability (or any part thereof) that has been settled and the fair value of the equity instruments issued is recognised in the income statement for the year.

On the other hand, compound financial instruments, which are those contracts which simultaneously generate a financial liability and their own equity instrument for the issuer (such as, for example, convertible debentures which grant their holder the right to convert them into equity instruments of the issuing entity) are recognised on the date of their issue, separating their components and classifying them in accordance with the economic fund.

The assignment of the initial amount to the different components of the compound instrument will not imply, under any circumstances, a recognition of income. The amount shall firstly be assigned to the component which is a financial liability, including any implicit derivative for which its own equity is not used as an underlying asset. The amount shall be obtained based on the fair value of the entity's financial liabilities, with similar characteristics to compound instruments, but which are not associated with own equity instruments. The initial value attributable to the capital instrument will be the residual portion of the initial amount of the compound instrument, once the fair value assigned to the financial liability has been deducted.

1.3.15 Remuneration based on equity instruments

The delivery to employees of the Group’s own equity instruments in payment for their services, where the instruments are determined at the start and are delivered on completion of a specified period of service, is recognised as a service-related expense to the extent that they are provided by the employees with a balancing entry under the heading “Other equity” in the consolidated statement of equity. On the date such instruments are awarded, the services received are measured at fair value unless this cannot be reliably estimated, in which case they are measured by reference to the fair value of the committed equity instruments, bearing in mind the terms and other conditions envisaged in the commitments.

The amounts recognised in the consolidated statement of equity cannot be subsequently reversed, even when employees do not exercise their right to receive the equity instruments.

For transactions involving share-based remuneration paid in cash, the Group records an expense for services as the employees provide them, with a balancing entry under the heading “*Provisions - Other provisions*” for the fair value of the liability incurred. The Group recognises said liability at fair value until it is settled. Changes in value are recognised in income statement for the year.
The Group's employee remuneration based on equity instruments that had not become due as at 31 December 2017, shall be settled, as applicable, with the delivery of equity instruments (see Note 34).

1.3.16 Provisions and contingent assets and liabilities

Provisions are current obligations of the Group which have arisen from past events and whose nature at the balance sheet date is clearly specified, but which are of uncertain timing and amount; when such obligations mature or become due for settlement, the Group expects to settle them through an outflow of resources.

In general, the Group’s consolidated annual accounts include all significant provisions with respect to which it is estimated that the likelihood of having to satisfy the obligation is higher than the opposite. These provisions include, amongst others, pension commitments undertaken with employees by some entities within the Group (see Note 1.3.17), as well as provisions for legal and other disputes.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events that lie outside the Group’s control. Contingent liabilities include present obligations of the Group, the settlement of which is not likely to result in an outflow of resources or whose amount, in extremely rare instances, cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the consolidated annual accounts but are disclosed in the consolidated report on such annual accounts.

As set forth in IAS 37.92, as the bank considers that to give a detailed breakdown of information on certain provisions and contingent liabilities would seriously affect the Group’s position in disputes with third parties related to situations which contemplate provisions and contingent liabilities (such as those linked to certain disputes or arbitration issues), the bank chooses not to give details of this information.

Contingent assets are potential assets arising out of past events the existence of which is conditional upon events that are out of the Group’s control and confirmation must be given both when such events occur and when they do not occur. These contingent assets are not recognised on the consolidated balance sheet or in the consolidated profit and loss account, but are disclosed in the corresponding report provided that an increase in resources embodying economic benefits for this reason is likely.

1.3.17 Provisions for pensions

The Group's pension commitments to its employees are as follows:

Defined contribution plan

These schemes are based on set contributions made to a separate entity under the agreements reached with each group of employees in particular, without any legal or effective obligation to make additional contributions in the event that the separate entity is unable to pay benefits to the employees for the services rendered in the current year and in previous years.

These contributions are recorded each year in the consolidated profit and loss account (see Note 34).

Defined benefit plan

Defined benefit schemes provide for all current commitments under Articles 42, 43, 44 and 48 of the 23rd Collective Agreement for the Banking Industry.

These commitments are financed through the following formats: the pension scheme, insurance contracts, and the voluntary social welfare entity "E.P.S.V." and internal funds.

1. The pension scheme:

Banco Sabadell's employee pension scheme covers benefits payable under the aforementioned Collective Agreement with the employees belonging to regulated groups, with the following exceptions:

- Additional commitments due to early retirement as set out in Article 43 of the Collective Agreement.

- Disability arising in certain circumstances.

- Widowhood and orphanhood benefits arising from the death of a retiree joining the bank after 8 March 1980.

The Banco Sabadell employee pension scheme is regarded to all intents and purposes as an asset of the scheme for the obligations insured in non-Group entities. Obligations of the pension scheme insured in companies associated with the Group are not considered scheme assets.

2. Insurance contracts:

Insurance contracts provide general cover for specified commitments under Articles 43 and 44 of the 23rd Collective Agreement for the Banking Industry, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension scheme (described above).

- Serving employees covered by a collective agreement with the former Banco Atlántico.

- Pension commitments in respect of some serving employees, not provided for under the collective agreement.

- Commitments towards employees on leave of absence who are not entitled to benefits under the Banco Sabadell employee pension scheme.

- Commitments towards early retirees. These may be partly financed out of pension rights under the Banco Sabadell employee pension scheme.

These insurance policies have been arranged with non-Group insurers, principally for commitments to former Banco Atlántico employees, and also with BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. The voluntary social welfare entity "E.P.S.V.".

The acquisition and subsequent merger of Banco Guipuzcoano resulted in the takeover of Gertakizun, E.P.S.V., which covers defined benefit commitments in respect of the bank's serving and former employees and are insured by policies. This entity was set up by Banco Guipuzcoano in 1991 as a legally separate entity. Pension commitments to serving and former employees are fully covered by entities separate from the Group.

4. Internal funds:

Internal funds cover obligations to early retirees up to their legal retirement age for employees previously working for Banco Sabadell, Banco Guipuzcoano and Banco CAM.

Accounting record of defined benefit obligations

The "*Provisions - Pensions and other post-employment defined benefit obligations*" heading on the liabilities side of the balance sheet includes the current actuarial value of pension commitments, which is calculated individually using the projected unit credit method on the basis of financial and actuarial assumptions with are set out below. This is the same method used for the sensitivity analysis described in Note 22.

From the obligations thus calculated, the fair value of the scheme assets have been deducted. Scheme assets are assets that will be used to settle obligations, including insurance policies, since they meet the following requirements:

- They are not owned by the Group but by a legally separate, non-related third party.

- They are available only to pay or fund employee benefits and are not available to creditors of the Group, even in the event of the Group becoming insolvent.

- They cannot be returned to the Group unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the bank relating to employee benefits, or unless assets are to be returned to the bank to reimburse it for employee benefits previously paid.

- They are not non-transferable financial instruments issued by the Group.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros are not scheme assets as the company is a related party of the Group.

Pension commitments are recognised as follows:

- In the consolidated profit and loss account, net interest on the net defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes (i) the cost of services in the current year, (ii) the cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and (iii) any gain or loss arising from a settlement of the scheme.

- Under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity, the re-evaluation of the net liabilities (assets) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the prior actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the performance of the scheme assets, and (iii) any change in the effects of the asset limit, excluding, for the last two items, the amounts included in net interest on the net liabilities (assets).

  The amounts recorded in the consolidated statement of equity are not reclassified to the consolidated profit and loss account in subsequent years but are reclassified under the heading "*Other reserves - Other*" in the consolidated statement of equity.

The heading "*Pensions - Other long-term employee benefits*" on the consolidated balance sheet includes mainly the value of commitments undertaken with early retirees. Changes occurring during the year in the value of liabilities are recognised in the consolidated profit and loss account.

Actuarial assumptions

The most significant actuarial assumptions used in the valuation of pension commitments are as follows:

	2017	2016
Mortality tables	PERM / F 2000 New production	PERM / F 2000 New production
Technical interest rate, pension scheme	1.50% annual	1.25% annual
Technical interest rate, internal fund	1.50% annual	1.25% annual
Technical interest rate, related-party policies	1.50% annual	1.25% annual
Technical interest rate, non-related party	1.50% annual	1.25% annual
Inflation	2.00% annual	2.00% annual
Salary growth	3.00% annual	3.00% annual
Retirements due to disability	SS90-Absolute	SS90-Absolute
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Ordinary retirement	65 or 67 years	65 or 67 years

In 2017 and 2016, the technical interest rate on all commitments has been determined by reference to the yield on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 11.52 years in 2017 and 10.62 years in 2016.

The age of early retirement is assumed to be the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The yield on long-term assets related to scheme assets and insurance policies linked to pensions has been determined by applying the same technical interest rate (1.50% in 2017).

1.3.18 Transactions in foreign currency and currency translation differences

The Group's functional and presentation currency is the euro. All balances and transactions denominated in currencies other than the euro are therefore treated as denominated in a foreign currency.

On initial recognition, debit and credit balances denominated in foreign currency are translated to the functional currency at the spot exchange rate, defined as the exchange rate for immediate delivery, on the recognition date. Subsequent to initial recognition, the following procedures are used to translate foreign currency balances to the functional currency of each investee:

- Monetary assets and liabilities are translated at the closing exchange rate, defined as the average spot exchange rate at the reporting date.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the date of acquisition.
- Non-monetary items stated at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.
- Income and expenses are translated at the exchange rates ruling at the transaction date.

Exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recorded in the consolidated profit and loss account. However, for exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognised under the heading "*Accumulated other comprehensive income*" in the consolidated statement of equity, a breakdown is given for the exchange rate component of the revaluation of the non-monetary item.

Balances in the financial statements of consolidated companies with a functional currency other than the euro are translated as follows:

- Assets, liabilities and valuation adjustments are translated applying the year-end exchange rate.

- Income and expenses by applying the average exchange rate weighted by the volume of transactions of the converted entity.

- Own funds, at historical exchange rates.

Exchange differences arising on the translation of the financial statements of consolidated companies whose functional currency is not the euro are recorded under the "*Accumulated other comprehensive income*" heading in the consolidated statement of equity.

The exchange rates applied in the translation of foreign currency balances to euros are those published by the European Central Bank at 31 December each year.

1.3.19 Recognition of income and expense

Interest income and expense and similar items are generally accounted for over the period in which they accrue using the effective interest rate method, under the headings "*Interest income*" or "*Interest expenses*" of the consolidated profit and loss account, as applicable. Dividends received from other entities are recognised as income at the time the right to receive them originates.

Generally, income and expenses on commissions and similar fees are recorded in the consolidated profit and loss account in accordance with the following criteria:

- Those linked to financial assets and liabilities carried at fair value through profit or loss are reflected at the time of disbursement.

- Those related to transactions or services performed over a period of time are reflected over this period.

- Those relating to a transaction or service that is performed in a single act are recorded when the originating act takes place.

Financial fees and commissions, which form an integral part of the effective cost or yield of a financial transaction, are deferred net of associated direct costs and recognised in the consolidated profit and loss account over the expected average life of these transactions.

The equity managed by the Group that is owned by third parties is not included in the consolidated balance sheet. Fees generated by this activity are recorded under the heading "*Fee and commission income*" in the consolidated profit and loss account.

Non-financial income and expenses are accounted for on an accrual basis. Deferred payments and collections are accounted for at the amount obtained by discounting expected cash flows at market rates.

For levies and tax obligations whose amount and date of payment are correct, the obligation is recognised when the event that leads to its payment takes place in line with the legislative terms and conditions.

Therefore, the item pending payment is recognised whenever there is an obligation to pay these levies, such as in the case of contributions to deposit guarantee schemes of different countries in which the Group operates. In those cases where the payment obligation is accrued over time, this is progressively recognised throughout the accrual period.

Deposit Guarantee Schemes

The bank is a member of the Deposit Guarantee Scheme. In 2017, the Management Committee of the Deposit Guarantee Fund of credit institutions, in accordance with that laid out in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities adhered to the deposit guarantee scheme at 1.8 promille of the amount of the deposits guaranteed at 30 June 2017. The calculation of each entity's contribution was based on the amount of deposits guaranteed and the risk profile of the entity, taking into account indicators such as capital adequacy, the quality of the assets and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee scheme has been set at 2 promille of 5% of the amount of the guaranteed securities at 31 December 2017. In accordance with IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded at 31 December each year (see Note 33).

Some of the consolidated entities are integrated into systems which are similar to the Deposit Guarantee Fund and they make contributions to these systems in accordance with national regulations (see Note 34). The most significant of these entities are listed below:

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme, which are accrued on 1 April each year.
- Sabadell United Bank, an entity which was disposed of in 2017 (see Note 2), makes contributions to the Deposit Guarantee Fund as established by the Federal Deposits Insurance Corporation. The payment obligation, and therefore its accrual, is quarterly.
- Banco Sabadell, S.A. Institución de Banca Múltiple (BS IBM México) makes the contributions to the deposit guarantee fund as established by the *Instituto para la Protección del Ahorro Bancario* (Institute for Bank Savings Protection). In this case, the payment obligation, and therefore its accrual, is monthly.

Single Resolution Fund

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and is also one of the standards that have contributed to the constitution of the Single Resolution Mechanism, created through Regulation (EU) 806/2014. This regulation establishes standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

As part of the implementation of this regulation, on 1 January 2016 the Single Resolution Fund entered into effect, to operate as a financing instrument which the Single Resolution Board can use. The Single Resolution Board is the European authority which makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures which are adopted. The Single Resolution Fund receives contributions from credit institutions and investment firms subject to the same.

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 33). The obligation to contribute to the Single Resolution Fund accrues on 1 January of each year.

1.3.20 Income taxes

Income taxes applicable to the Spanish companies in Banco Sabadell Group and similar taxes applicable to overseas subsidiaries and investees are treated as expenses and recognised in the consolidated profit and loss account under the heading "*Tax expense or income related to profit on continuing operations*" unless the tax has arisen on a transaction accounted for directly in the consolidated statement of equity, in which case it is also recognised directly therein.

The total corporation tax expense is equivalent to the sum of current tax calculated by applying the relevant levy to taxable income for the year (after applying fiscally admissible deductions and allowances) and the variation in deferred tax assets and liabilities recognised in the consolidated profit and loss account.

Taxable income for the year may be at variance with the income for the year as shown in the consolidated profit and loss account, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items which are non-taxable or non-deductible.

Deferred tax assets and liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying value of the assets and liabilities figuring in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 40).

A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or allowance, or a credit in respect of tax-loss carry-forwards is always recognised provided that the Group is likely to obtain sufficient future taxable profits against which the tax asset can be realised, and that these are not derived from the initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect either the tax result or the accounting result.

Deferred tax assets originated due to deductible temporary differences arising from investments in subsidiaries, branches and associates, or from equity interests in joint ventures are only recognised insofar as the bank has the power to liquidate the investee in the future.

Deferred tax liabilities arising from timing differences associated with investments in subsidiaries and associates are recognised in the accounts unless the Group is capable of determining when the timing difference will reverse and, in addition, such a reversal is unlikely.

"*Tax assets*" and "*Tax liabilities*" figuring on the consolidated balance sheet include all tax assets and liabilities, differentiating between current (to be recovered in the coming 12 months, such as, for example, the payment of Corporate Income Tax to the Spanish Tax Authorities (*Hacienda Pública*) and deferred (to be recovered/paid in future years).

At each year-end, recorded deferred tax assets and liabilities are reviewed to ascertain whether they are current and to ensure that there is sufficient evidence of the likelihood of generating future tax profits that will allow them to be realised, in the case of assets, by applying relevant adjustments as necessary.

To conduct the aforementioned analysis, the following variables are taken into consideration:

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the bank's administrators for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate.

- Estimate of the reversal of timing differences on the basis of their nature; and

- The period or limit set forth in current legislation in each country for the reversal of the different tax assets.

Income or expenses recognised directly in the consolidated statement of equity that do not affect profits for tax purposes, and income or expenses that are not recognised directly and do affect profits for tax purposes, are recorded as timing differences.

Banco Sabadell Group companies included in Spain's consolidated tax regime for Corporation Tax are listed in Schedule 1.

1.3.21 Consolidated cash flow statements

Consolidated cash flow statements have been prepared using the indirect method, in such a way that, based on the group's results, the non-monetary transactions and all types of deferred payment items and accruals which have been or will be the cause of operating income and expense have been taken into account, in addition to the income and expenses associated with cash flows from activities classified as investment or funding activities.

The consolidated cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where "cash equivalents" are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.

- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investment or financing activities.

- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.

- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have generated cash flows not reflected in the cash flow statement.

1.4. Comparability

The information presented in these consolidated annual accounts for 2016 is presented solely and exclusively for purposes of comparison with the information for the year ended 31 December 2017 and therefore does not constitute the Group's consolidated accounts for 2016.

Note 2 – Banco Sabadell Group

The companies comprising the Group as at 31 December 2017 and 2016 are listed in Schedule 1 along with their registered offices, principal activities, the bank's proportional equity interest in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

Schedule 2 provides a breakdown of consolidated structured entities (securitisation funds).

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) performed by the Group during 2017 and 2016. Schedule 1 also includes a detailed list of the companies consolidated for the first time and those no longer consolidated for each year.

Changes in the Group's scope of consolidation in 2017

Associates and subsidiaries consolidated for the first time:

No significant associates or subsidiaries have been consolidated for the first time (see details of all associates and subsidiaries that have been consolidated for the first time in Schedule 1).

Associates and subsidiaries no longer consolidated:

- On 22 June 2016, the Group reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, a life insurance and saving/retirement insurance undertaking that has managed a portfolio with no new business since 2014 to a consortium led by Ember. The closing of this transaction was subject to obtaining the corresponding regulatory authorisation. Consequently, the Group did not record any gains/(losses) from that transaction in the consolidated profit and loss statement for 2016, although it reclassified assets and liabilities from this subsidiary company to headings of "*Non-current assets and disposal groups classified as held for sale*" and "*Liabilities included in disposal groups classified as held for sale*" of the consolidated balance sheet at 31 December 2016 pursuant to current legislation (see Note 13).

  In June 2017, having obtained the regulatory authorisations required for the contract signed in June 2016, the Group proceeded to recognise the sale of shares representative of 100% of the share capital of Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, a term life insurance and retirement savings insurance firm, recognising a capital gain net of expenses of €16,634 thousand.

- On 28 February 2017, Banco Sabadell reached an agreement to sell shares representing 100% of the share capital of its subsidiary Sabadell United Bank, N.A. (SUB) to the US entity Iberiabank Corporation (hereinafter, "IBKC").

  In July 2017, after receiving the corresponding authorisations, Banco Sabadell completed the sale of its subsidiary, receiving from IBKC, as the purchase price, USD795,980 thousand in cash and 2,610,304 IBKC shares, representing 4.87% of its share capital with a value at close of trading on 28 July 2017 of USD208,955 thousand. The capital gain generated by this transaction amounted to €369,817 thousand, net of associated costs. The IBKC shares were sold in October 2017, with no significant impact on the income statement.

  To make it easier to compare the information, the following table summarises the key figures of SUB as at 31 December 2016:

Thousand euro

	2016
Assets	
Cash and cash balances at central banks and other demand deposits	243,150
Loans and advances	4,065,272
Credit institutions	76,355
Customers	3,988,917
Debt securities	930,846
Equity instruments	74,029
Tangible assets for own use	17,967
Rest of other assets	149,978
Total Assets	**5,481,242**
Liabilities	
Financial liabilities at amortised cost	4,644,081
Tax liabilities	(1,279)
Rest	261,703
Total Liabilities	**4,904,505**

- In October, the subsidiary Hotel Investment Partners, S.L. had sold shares representing 100% of the share capital of HI Partners Holdco Value Added, S.A.U., its hotel management platform, to Halley Bidco S.L.U., an entity controlled by funds advised by the subsidiaries of The Blackstone Group L.P., for an amount of €630,733 thousand.

  Once the corresponding authorisation was obtained from the CNMV, and once the transaction had been closed, the capital gain generated by this transaction, which amounted to €50,655 thousand, was recognised net of associated costs.

Changes in the Group's scope of consolidation in 2016

Associates and subsidiaries consolidated for the first time:

No significant associates or subsidiaries have been consolidated for the first time (see Schedule 1).

Associates and subsidiaries no longer consolidated:

On 13 April 2016, Banco Sabadell transferred its full equity interest (20.994% of its share capital) in Dexia Sabadell, S.A. to Dexia Crédit Local, S.A. (Dexia), at a price of €52,390 thousand, representing gross gains for Banco Sabadell in the same amount, under the terms ratified by the arbitration award.

This transfer was the result of Banco Sabadell exercising its put option on 6 July 2012 to Dexia, holder of the remaining share capital of the above-referred institution.

The transfer of shares by Banco Sabadell and their acquisition by Dexia occurred after having sent the relevant notifications to the corresponding regulatory authorities.

Other relevant information

TSB migration project

One of the key projects during the year has been the development of the IT platform that will give support to all of TSB's activities and operations. The construction of this platform, Proteo4UK, was completed in 2017, as well as the installation of all of the necessary infrastructures for the platform to be operational. The bank is expected to be able to carry out the data migration during the first quarter of 2018. For accounting purposes, the new platform is recognised as an intangible asset. The costs associated with data migration (€382 million as at 31 December 2017) have been recognised as "other assets" on the accompanying balance sheet and in 2018, once migration has been completed, they shall be recognised in the profit and loss account. In parallel, the economic contribution of £450 million that LBG will make will also be recognised, and for accounting purposes it shall be treated in the same way as operating subsidies, i.e. it will offset the costs associated with migration. This economic contribution from LBG (LBG will deduct its costs incurred during migration from this contribution) in order to offset the costs associated with TSB's technology migration, was agreed in the initial public offering submitted in June 2014, through which LBG sold 50% of TSB's share capital.

Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, "APS") came into force with retroactive effect as from 31 July 2011, in accordance with the protocol on financial assistance for the restructuring of Banco CAM. Under the scheme, which covers a specified portfolio of assets with a gross value of €24,644 million at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to €3,882 million at that date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

€ million

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances	21,711	2,912	19,117	2,263
Of which risk drawn down	*21,091*	-	*18,460*	-
Of which guarantees and contingent liabilities	*620*	-	*657*	-
Real-estate assets	2,380	558	4,663	1,096
Investments in joint ventures and associates	193	52	504	163
Written-off assets	360	360	360	360
Total	**24,644**	**3,882**	**24,644**	**3,882**

Movements in the drawn balance of the customer lending portfolio protected by the APS from its entry into force through 31 December 2017 are as follows:

€ million

Balance at 31 July 2011	**18,460**
Acquisition of real-estate assets	(7,366)
Collections and subrogations	(4,609)
Increase in written-off assets	(1,183)
Credit draw-downs	75
Balance at 31 December 2017	**5,377**

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force until 31 December 2017 are as follows:

€ million

Balance at 31 July 2011	**4,663**
Acquisition of real-estate assets	5,465
Sales of real-estate assets	(5,844)
Balance at 31 December 2017	**4,284**

In general, the objective of financial statements is to provide information that fairly represents the financial situation, financial performance, changes in equity and cash flows of an entity, for the purpose of constituting useful information to a wide range of users in making economic decisions. At the same time, as laid out in IAS 1 - Presentation of Financial Statements, to meet this objective, the financial statements should provide information on the management carried out by the administrators of the assets they have been entrusted. Amongst other aspects, a reasonable presentation requires the entity to present information in a manner that provides relevant, reliable, comparable and understandable information.

Considering the foregoing and the relevance of the economic impacts deriving from the application of the APS in the Group's financial statements, particularly with regard to: (i) the volume of doubtful assets; (ii) the NPL ratio; and (iii) the level of hedging of provisions, certain characteristics have been considered with the objective of not distorting the three aforementioned indicators and therefore, ensuring that the presentation of the financial statements on the guarantees granted under the APS protocol is as faithful and comparable as possible.

With regard to customer lending classified as doubtful, as well as the real-estate assets deriving from non-payment by borrowers covered by the scheme, the Bank classifies doubtful balance as the amount corresponding to 20% of retained exposure due to not having transferred the credit risk to the DGF. Whilst the credit or loan is included on the balance sheet, 80% of the risk is presented as a standard exposure as credit risk has been transferred. That is, for each covered asset, the Group considers the proportion of its flows that would be obtained from borrowers or third parties and the proportion that would be obtained from the DGF as a result of the guarantee provided taking into account the value of any mortgage guarantees securing the loan.

For the purposes of preventing gross loans from becoming overvalued or duplicated by recording under the same heading the balance receivable from the DGF as well as the 80% exposure covered by the APS, the provisions constituted for this 80% are presented net of gross loans. Presenting the information in this way does not impact net lending.

The table below shows the breakdown of the portfolio of APS-protected assets as at 31 December 2017, the NPL ratios, NPL coverage ratios and the breakdown of financing awarded to construction and real estate development prior to the transfer of credit risk to the DGF:

€ million

	On Group balance sheet		*Of which doubtful*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances	5,385	1,706	*3,120*	*1,698*
Of which risk drawn down	*5,377*	*1,705*	*3,119*	*1,698*
Of which guarantees and contingent liabilities	*8*	*1*	*1*	-
Real estate assets (*)	4,284	2,632	-	-
Investments in joint venture and associates	48	38	-	-
Written-off assets	1,543	1,543	-	-
Total	11,260	5,919	*3,120*	*1,698*

(*) Real estate exposure for which credit risk has been transferred, applying the Asset Protection Scheme (see details on the exposure to the construction and real estate development sector, in Schedule 6).

%

	2017
NPL ratio	57.94
NPL coverage ratio	54.68

€ million

	On Group balance sheet		*Of which doubtful*	
	Balance	Provision	*Balance*	*Provision*
Draw down risk loans and advances	5,377	1,705	*3,119*	*1,698*
Of which financing for construction and real estate development (business in Spain)	*2,319*	*1,211*	*1,989*	*1,210*
For which credit risk has been transferred	*1,855*	*969*	*1,591*	*968*
For which credit risk has not been transferred	*464*	*242*	*398*	*242*
Total	5,377	1,705	*3,119*	*1,698*

The reconciliation between gross lending and net lending both prior and subsequent to the transfer of credit risk to the DGF is shown below:

€ million

	2017		
	Post credit risk transfer	Credit risk transfer	Pre credit risk transfer
Gross lending excluding repos	**145,323**	**1,353**	**146,676**
Of which doubtful assets	*7,867*	*2,488*	*10,355*
Of which other investments	*137,456*	*(1,135)*	*136,321*
Net lending excluding repos	**141,597**	**-**	**141,597**
Of which doubtful assets	*7,867*	*2,488*	*10,355*
Of which other investments	*137,456*	*(1,135)*	*136,321*
Of which allowances	*(3,726)*	*(1,353)*	*(5,079)*
NPL ratio	5.14	1.55	6.70
NPL coverage ratio	48.27	1.46	49.73

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses from the disposal of these assets), the bank keeps an account receivable classed under the *"Loans and receivables"* heading and recognised on the income statement, in order to reflect the rights of collection from the DGF as a result of its guarantee and to offset the impact of recorded losses related to assets covered by the APS on the income statement. The aggregate amount recorded as at 31 December 2017 amounts to close to €5,100 million.

Note 3 – Proposed distribution of earnings and earnings per share

Set out below is the distribution of 2017 Banco de Sabadell, S.A. profits which the Board of Directors will propose to the shareholders at the Annual General Meeting for approval, together with the proposed distribution of Banco de Sabadell S.A.'s 2016 profits approved by the shareholders on 30 March 2017:

Thousand euro

	2017	2016
To dividends	392,977	279,766
To statutory reserve	270	4,423
To Canary Island investment reserve	239	314
To voluntary reserves	125,684	95,336
Profit for the year of Banco de Sabadell, S.A.	**519,170**	**379,839**

Proposed distributions of profits of subsidiaries are subject to approval by shareholders at their respective Annual General Meetings.

The Board of Directors will submit a proposal at the Annual General Meeting for the distribution of a €0.07 (gross) dividend per share for 2017.

On 26 October 2017, the Board of Directors agreed to distribute an interim dividend charged to the 2017 income statement totalling €111,628 thousand (€0.02 per share (gross)), payable on 29 December 2017.

Pursuant to Article 277 of the Spanish Capital Companies Act, the forward-looking accounting statement prepared as a mandatory requirement to demonstrate the existence of sufficient liquidity and profit at the bank at the time of approving the dividend on account is shown below.

Thousand euro

Available for the payment of dividends according to the interim statement at:	11/30/2017
Banco Sabadell profit as at the date indicated, after provisions for taxes	**434,378**
Estimated statutory reserve	270
Estimated Canary Island investment reserve	239
Maximum amount available for distribution	**433,869**
Interim dividend, proposed and distributed	**111,628**
Cash balance at Banco de Sabadell, S.A available (*)	**15,442,896**

(*) Includes the balance of the heading "Cash, cash balances from central banks and other demand deposits".

The General Meeting of Shareholders, held on 30 March 2017, approved shareholder remuneration supplementary to the dividend corresponding to 2016, of €0.03 per share (€168,485 thousand), which was paid on 7 April 2017. Previously, in December 2016, shareholders received remuneration in the form of a dividend of €0.02 per share, charged to the income statement for 2016, which was paid on 30 December 2016.

Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Group (adjusted by remuneration in other equity instruments) by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares acquired by the Group. Diluted earnings per share are calculated by applying adjustments for the estimated effect of potential conversions of ordinary shares to the attributable profit or loss and the weighted average number of ordinary shares outstanding.

The Group’s earnings per share calculations are shown in the following table:

	2017	2016
Net profit attributable to the owners of the parent company (€'000)	801,466	710,432
Adjustment: Remuneration of other equity instruments (€'000)	(23,517)	-
Profit or loss (-) after taxes deriving from discontinued operations	-	-
Weighted average number of ordinary shares outstanding (*)	5,570,031,161	5,451,978,110
Conversion undertaken of convertible debt and other equity instruments	-	7,520,252
Adjusted weighted average number of outstanding ordinary shares	5,570,031,161	5,459,498,362
Earnings per share (€)	0.14	0.13
Basic earnings per share adjusted for mandatorily convertible bonds (€)	0.14	0.13
Diluted earnings per share (€)	0.14	0.13

(*) Average number of shares in circulation, excluding the average number of own shares held in treasury stock during the period.

At 31 December 2017 and 2016, there were no other share-based financial instruments or commitments to employees with a material impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Note 4 – Financial risk management

4.1 Introduction

During 2017, Banco Sabadell Group has continued to strengthen its risk management framework, incorporating improvements which align it with the best practices in the financial sector.

Banco Sabadell Group has a Risk Appetite Framework in place which is intended to guarantee the control and proactive management of all of the Group's risks. This framework is set forth, amongst others, in the Risk Appetite Statement (RAS), which establishes the quantity and diversity of risks that the Group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The Risk Appetite Framework of Banco Sabadell Group has been adapted to the new organisational structure of the Group resulting from its internationalisation in order to ensure a consistent and effective deployment of the Group's RAS in all geographies.

Thus, a first level is established which makes up the Group's RAS, setting overall objectives and limits, and a second level deploys the objectives and limits of the first level to different geographical regions.

The RAS is comprised of quantitative metrics that allow the management of risks to be objectively, as well as the qualitative aspects that complement such management.

Risk management and control is embodied in a broad framework of principles, policies, procedures and advanced valuation methodologies, forming an efficient decision-making structure within a risk governance framework that is in line with Spanish and European regulations.

The principles, policies, procedures and methodologies framework is reflected in the document titled "Banco Sabadell Group Risk Policies", which is revised regularly. The Board of Directors is responsible for its approval.

For each significant risk of the Group, details are given of the main persons or units involved, their tasks, policies, methods and procedures, as well as control and monitoring mechanisms. Details are also given of the organisation structure of the Risk function, indicating the roles and responsibilities of the various divisions and committees with regard to risks and risk control systems, which have been adapted to the activities of each business unit, including the approval of loans and credit.

The main financial risks faced by Banco Sabadell Group companies as a result of their activity related to the use of financial instruments are credit risk, liquidity risk and market risk. Credit risk is the most significant risk for the Group's portfolio.

The main non-financial risks faced by the Group are operational risk, fiscal risk and compliance risk.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2017 are set out below.

- In 2017, key topics have been the political and geopolitical environment and the steps taken by the major central banks towards monetary normalisation.
- Global financial markets have performed well in a context of growing complacency and have been hindered only occasionally and to a limited extent by certain political and geopolitical episodes.
- In the political arena, the year began with a change in government in the US and subsequently the spotlight fell on Europe, with the beginning of Brexit negotiations and elections in France, the UK and Germany. Tension between the United States and North Korea increased in the second half of the year.
- Global economic growth has become more in sync throughout the year, and it has also become more robust in the major developed economies.

- Emerging economies have left behind the worst stage of the economic adjustment of the past few years.
- Economic growth in the United Kingdom has been modest, hindered by uncertainty associated with Brexit negotiations.
- The economy in Spain has continued to perform remarkably well, and stood out in a positive light once again in the euro area, whilst its unemployment rate fell to minimums not seen since 2008.
- In Mexico, economic growth has been resilient to the uncertainty generated by Trump's arrival to the Presidency, partly thanks to the positive tone of the external sector.
- Inflation has been higher than in 2016, although it has remained below the objectives of the monetary policy in the major developed economies, with the exception of the UK.
- Oil prices reached maximums last seen in mid-2015, supported by the extension of production cuts by the OPEC and other oil producing countries to the end of 2018.
- The ECB amended its asset purchase programme, extending its duration to at least September 2018, but reducing its monthly purchase rate from €60bn to €30bn as of January 2018.
- Bank of England increased its reference rate to 0.50%, thereby undoing the cut implemented following the Brexit referendum.
- The Fed increased its Fed funds rate on three occasions, to 1.25%-1.50%, and began to reduce its balance sheet in October. It was also revealed that Powell, currently a member of the Board of Governors of the Fed, will be the new Chairman as of February 2018.
- Yields of long-term government bonds in the main developed economies have remained at reduced levels with no definite trend. Throughout the year, political events, actions taken by central banks and inflation have been the main factors affecting asset performance.
- Risk premiums in countries in the European periphery have continued to be supported by the ECB's accommodating policy. Risk premiums in Portugal and Greece experienced a significant decline, supported by credit rating upgrades, the favourable economic environment and, in the case of Greece, positive news regarding its bailout programme.
- The dollar has depreciated against the euro, hindered by political noise in the US and the consolidation of the economic recovery of the euro area.
- The pound sterling has been hindered by the various political events related to Brexit and domestic politics, despite attempts to contain it with the monetary policy.
- The Mexican peso recovered from the sharp devaluation that took place after Trump's arrival, insofar as the US President did not act on his threats to withdraw from NAFTA.
- The European banking system has strengthened its solvency, improved asset quality and slightly increased profitability. However, this progress has been disparate across jurisdictions and institutions, therefore the reduction of the total volume of doubtful loans and the improvement of long-term profitability continue to be key challenges for the sector as a whole.
- In terms of European construction, the EC has set an ambitious path to guarantee the completion of Banking Union by 2019, with a new proposal for a more gradual implementation of the third pillar (EDIS) with less loss sharing compared with its proposal from 2015. The review of the UMC's action plan focuses on more effective supervision by ESMA, to guarantee a more proportionate regulatory environment for SMEs, simplify cross-border investments and develop capital market ecosystems throughout the EU. The role of transformation played by financial technology and sustainable investment will also be promoted.
- Ten years after the onset of the financial crisis, an agreement has been reached to finalise the post-crisis regulatory financial framework. Regulations have continued to be demanding in the run-up to new standards that will enter into force in 2018.

4.2 Key milestones during the year

Improvement of the Group's risk profile during the year

The Group's risk profile during 2017 has mainly improved for three reasons:

(i) International diversification

- International credit risk exposure (€44,259 million) accounts for 30% of the Group's total exposure, 6 times more than in 2014.
- Most of this international diversification is due to the acquisition of TSB, with an exposure of €35,581 million (90% of which are retail mortgages).
- International growth excluding the effect of the acquisition of TSB stands at 29% since 2014.

(ii) Concentration risk

- Reduction of real estate exposure (reduced by one third since 2014) and increase of exposure to the retail segment following the acquisition of TSB in 2015.
- From a sector-based point of view, the portfolio is well diversified with a growing trend in sectors with higher credit qualities. In terms of individual concentration, concentration risk metrics of major exposures have also been reduced.
- In geographical terms, the portfolio is positioned in regions showing the most dynamism, both nationally and internationally.

(iii) Asset quality

- The volume of doubtful assets has been significantly reduced in recent years. Since 2013, doubtful exposures have been reduced by €10,173 million.
- During 2017, doubtful assets have been reduced, at Group level, by €3,463 million.
- The foregoing has led to a reduction of the NPL ratio from 6.14% to 5.14%.

The improvement in the Group's fundamentals, particularly in terms of risk, is reflected in the improvement of the rating of the bank's senior debt during the year, allowing the bank to recover its Investment Grade category from all of the credit agencies rating its debt (see Directors' Report - Other significant information).

Strengthened risk management and control environment

During 2017, efforts have continued to strengthen the risk management and control environment by preparing and deploying management and control frameworks for certain portfolios, sectors and geographies, providing a powerful tool that allows the Risk Appetite Framework to be implemented and guides the growth of lending, seeking to optimise the duality between profitability and risk in the long term.

Each such framework defines the Group's risk appetite in each sector or portfolio and the requirements to achieve it, establishing:

- Asset allocation, setting the growth targets in each key pillar (quality, type, etc.).
- General criteria that should govern activity in each portfolio, sector or geography.
- Basic policies for the acceptance and monitoring of loans.
- Risk monitoring and control metrics (for both existing and new stock).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio management actions to be anticipated in order to guide the growth in a way that is profitable in the long term.

Improvement of monitoring environment

During 2017, the risk monitoring environment of the Group's customers has been updated. The early warnings system has been incorporated into management procedures with a new monitoring environment that allows different strategies to be implemented depending on the segment (retail customers, businesses and self-employed, enterprises and corporates).

The main input used in this monitoring environment is taken from the early warning models adapted to different segments. This leads to:

- Improved efficiency by focusing monitoring on customers with signs of impairment.
- Forward-looking management when there are signs of deterioration, in which the Basic Management Team is responsible for renewing the rating of customers in which there has been an impairment.
- Regular control of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.
- Feedback using the information provided by the Basic Management Team as a result of this management.

Improvement in the management of problematic assets

During 2017, in compliance with the requirements set forth by the European Central Bank in its document "Guidance to Banks on Non-Performing Loans", the Board of Directors has approved a new "Strategic plan for the management of problematic assets" as well as the corresponding "Operational Plan for the management of problematic assets". The key points of the Strategic Plan are:

- management principles for these assets,
- a governance and management structure that allows these objectives to be achieved, and
- quantitative objectives with different time horizons, to reduce both doubtful assets and foreclosed assets.

In order to achieve these results, the bank has set itself two strategic priorities in relation to the management of problematic assets:

- Continuous reduction of problematic assets until all balances have been normalised.
- Focus on the management of problematic assets through the specialised management of its Asset Transformation and Industrial and Real Estate Investees Division, one of the first 'workout units' in Spain.

These two strategic priorities translate into five principles for the management of problematic assets, which are:

- The anticipation of default management and the preventive management of potential new entries into default.
- The segmented management of all problematic and potentially problematic exposures.
- Business intelligence and the continuous improvement of processes.
- Financial capacity.
- Clear governance system based on three lines of defence.

Policies on Problematic Assets have also been implemented, pursuant to the requirements set forth in the same ECB document and in Annex IX to Bank of Spain Circular 4/2016. These policies are aligned with the Strategic Plan and the Operational Plan for the management of Problematic Assets. Policies also address the new risk management model implemented in July 2017.

4.3 General principles of risk management.

4.3.1 Corporate risk culture

The risk culture of Banco Sabadell is one of the factors that sets it apart, and it is firmly rooted throughout the organisation as a result of its progressive development spanning over decades. Among the aspects that characterise this strong risk culture are:

- A high level of involvement of the Board of Directors in risk management and control procedures. Since before 1994, there has been a Risk Control Committee in the bank, whose main task is to supervise the management of all relevant risks and to align these with the risk profile defined by the Group.

- Banco Sabadell Group has a Risk Appetite Framework in place, which includes the Risk Appetite Statement, that guarantees control and proactive management of risks under a strengthened framework of corporate governance, which has been approved by the Board of Directors.

- A Basic Management Team as a key player in the acceptance and monitoring of risk. The team has existed for more than 20 years, and is formed of the relationship manager on one hand, and the risk analyst on the other. Risks are managed based on the points of view expressed by each party. Decisions must always be discussed and reached by means of an agreement between all parties involved. This provides a high degree of involvement of the team in the decision-making process and also contributes depth and solidity to the judgements.

- High degree of specialisation: there are specific management teams for each segment (Real Estate, Corporate Banking, Corporates, SMEs, Retailers, Banks and Countries, etc.) which allow a specialised risk management process to be implemented in each area.

- Advanced internal credit rating models that have served as a fundamental element of decision-making processes for over 15 years (since 1999 for individuals and since 2000 for corporates). The Group, in accordance with the relevant best practices, applies said practices in order to improve the overall efficiency of the process. Insofar as these models not only allow borrowers to be organised in ordinal terms but also provide a basis for a quantitative risk measurement, and they can be used in various key management processes: fine-tuning the delegation of powers, efficient risk monitoring, Group-wide risk management, risk-adjusted returns and the Group's capital adequacy assessment are just some examples.

- Powers for approving transactions with a degree of corporate risk at the various different levels are delegated based on expected losses. As a general policy in respect of the delegation of powers, the Group has opted for a system in which different levels are determined using the expected loss metric, which takes into account the exposure to credit risk of the transaction pending approval of the customer and risk group, the expected default rate and the estimated severity.

- A rigorous monitoring of credit risk carried out using an advanced system of early warning indicators for corporates and individuals. Risk monitoring at customer and group level can be divided into three types: operational, systematic and comprehensive. One of the key sources for this risk monitoring is the implementation of an early warning indicator system for both corporates and individuals (started in 2008 and 2011) which allows credit risk to be anticipated. These warnings are based on internal information such as, for example, the number of days past-due, overdrawn invoice discounting facilities, bank guarantees and international credit, as well as external information, such as customers classed as defaulters in the rest of the financial system or in information available from credit bureaux.

- Advanced abnormal risk management model that strengthens the anticipation and specialised management of risks. A comprehensive abnormal risk management model has been implemented which allows the treatment of risk to be aimed at those situations where default is most likely (anticipated default, refinancing, collections, etc.). This comprehensive system uses specific tools (simulators to help find the best solution on a case-by-case basis), as well as managers who specialise in the different segments and who are dedicated exclusively to this task.

- Risk-adjusted pricing. The commercial policy in respect of price management is dynamic, and is adapted to the economic and financial environment of the market (liquidity premiums, difficulty of accessing credit, interest rate volatility, etc.). It takes into account the cost of funding and the risk (expected loss and cost of capital). Risk models are a key element in setting prices and profitability objectives.

- The risk management model is fully integrated into the bank's technology platform, so that all policies can be immediately transferred for their day-to-day management: the policies, procedures, methodologies and models that make up the risk management model of Banco Sabadell are technically integrated into the bank's operational platform. This allows policies to be transferred immediately for an effective day-to-day management. This aspect has been particularly relevant in the bank's acquisitions.

- Use of stress testing as a risk management tool: For years, Banco Sabadell has been working with an internal tool to conduct stress tests, working together with internal teams with extensive experience in carrying out these tests.

4.3.2 Risk Appetite Framework

The Risk Appetite Framework includes, amongst others, the Risk Appetite Statement, which is defined as the quantity and diversity of risks that Banco Sabadell Group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The Risk Appetite Statement (RAS) is composed of quantitative measures which allow an objective monitoring to be carried out of the achievement of objectives and set limits and of qualitative elements that supplement these metrics and govern the Group's risk control and management policy.

Quantitative elements

The quantitative metrics of the RAS are divided into ten general areas:

- Capital and Solvency: level and quality of capital.
- Liquidity: liquidity buffers and financing structure.
- Profitability: balance between return and risk.
- Quality of Assets: for different significant risks and in stress scenarios.
- Credit and Concentration: individual and sector-wide.
- Market Risk.
- Structural Interest Rate and Exchange Rate Risk.
- Counterparty Risk.
- Operational Risk.

Qualitative aspects

As a supplement to the above quantitative metrics, the following qualitative principles should be used to guide the Group's risk management and control:

- The general position of the entity with regard to risk-taking aims to achieve a medium-to-low risk profile through the use of a prudent and balanced risk policy that will ensure the profitable and sustainable growth of its activity, and that it is in line with the strategic objectives of the Group, in order to maximise the generation of value while guaranteeing an adequate level of solvency.

- The Board of Directors is committed to risk management and control procedures: it approves policies, limits, the management model and procedures, as well as methodologies for risk measurement, monitoring and control.

- The Group maintains a risk culture that is embedded throughout the entity, and has various units that specialise in addressing different risks. The risk function conveys this culture by introducing policies, implementing and starting up internal models, and adapting these to the risk management procedures.

- The risk management policies and procedures are geared towards adapting the risk profile to the Risk Appetite Framework, whilst maintaining a balance between the expected return and risk.

- The risk control and management system in Banco Sabadell Group is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are integrated into an efficient decision-making structure. The risk variable is taken into account when making any kind of decision and is quantified in terms of allocated capital using a common measurement method.

- Risk management requires sound and on-going control procedures to keep risks within the pre-defined limits, with clear-cut responsibilities for identifying and monitoring indicators and early warnings, as well as an advanced risk assessment methodology.

- The levels of capital and liquidity should be sufficient to cover the risks accepted by the entity, including in unfavourable economic scenarios.

- There should be no risk concentration levels that could significantly compromise own funds.

- The objectives behind accepting market risk for trading purposes are to handle the flow of transactions produced by customers' operations and seize market opportunities, whilst maintaining a position in line with the bank's market share, risk appetite, risk-taking capacities and risk profile.

- The risk function is independent and senior management has a high degree of involvement that guarantees a strong risk culture focused on protecting and ensuring an appropriate return on capital.

- The Group's aim in terms of fiscal risk is to ensure compliance with fiscal obligations whilst guaranteeing an adequate return for shareholders.

- The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

- The entity will have at its disposal the necessary human and technological resources to monitor, control and manage all risks that may arise during the course of its activities.

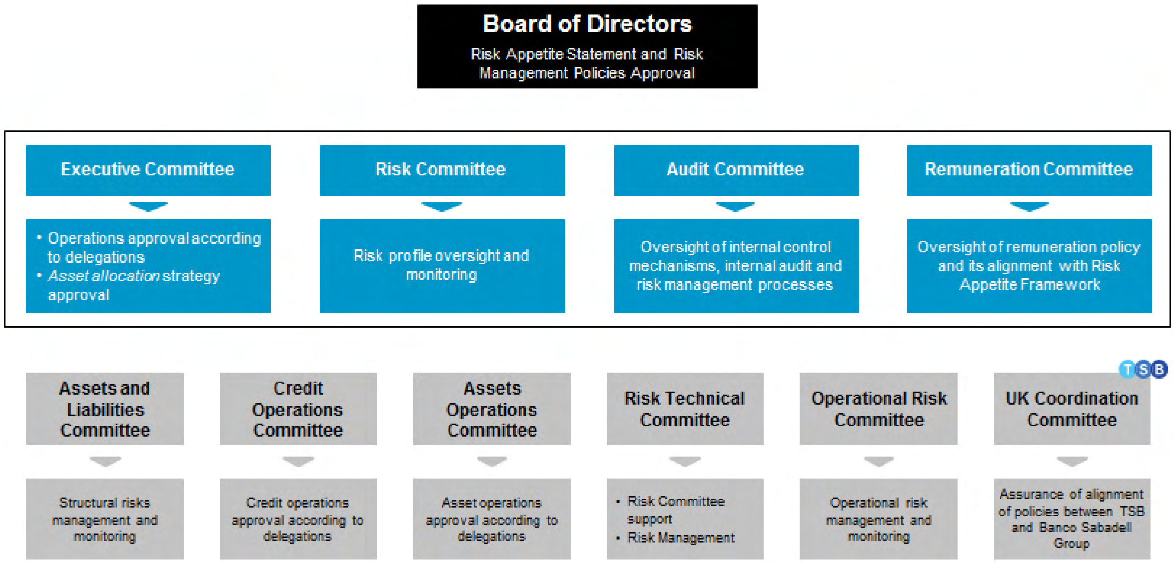
- The Group's remuneration systems should align the interests of employees and Senior Management with compliance with the Risk Appetite Framework.

4.3.3 General Organisation of the Risk Function

The Group has a risk culture that is embedded throughout all units, with units specialised in the treatment of risks, thereby guaranteeing the independence of the risk function and a close involvement of Senior Management.

The Board of Directors is the body responsible for setting forth general guidelines on the organisational structure of risk management and control functions and for determining the main strategies in this regard. It is the body responsible for approving the Risk Appetite Framework (prepared together with the Chief Executive Officer, the Chief Risk Officer and the Chief Financial Officer) and ensuring that it is aligned with the entity's short- and long-term objectives, as well as with the business plan, capital planning, risk-taking capacity and compensation schemes.

There are four Delegated Committees in operation to which the Board of Directors delegates functions by making use of the powers conferred to it in the Articles of Association, which report to the full Board on the performance of their activities and report on any decisions made.



The Group has established its Control Framework based on the model of Three Lines of Defence, structured around the following assignment of functions:

- **First line of defence**, consisting mainly of business units and corporate centres, among the most noteworthy of which are the Risk Management Division, the Financial Division and the Treasury and Capital Markets Division. The first line of defence is responsible for the management of risks inherent in the bank's activity, mainly in the acceptance, monitoring, measurement and assessment of risks and associated processes.

  They are responsible for implementing corrective actions to correct weaknesses in their processes and controls. The core functions attributed to this line of defence under the control framework are:

  – Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;
  – Identifying, assessing, controlling and mitigating risks, following internal policies and procedures and ensuring that activities are consistent with the bank's aims and objectives;
  – Establishing adequate management and oversight processes to ensure regulatory compliance and focusing on control errors, inadequate procedures and unexpected events.

- **Second line of defence**, consisting mainly of:

  – The Risk Control Division is independent from the first line of defence and is responsible for identifying, assessing, monitoring and controlling the Group's significant risks and for providing information related thereto.
  – The Compliance, Corporate Social Responsibility and Corporate Governance Division, which aims to minimise the risk of failing to comply with regulations and ensure that any instances of non-compliance are diligently identified, reported and resolved and that the appropriate preventive measures are implemented.
  – The Internal Validation function, which is responsible for reviewing these models and ensuring that they work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

- The IT Control Division is responsible for identifying risk situations associated with the use of technology across all units in the Group that could give rise to operational or reputational risks for the Group. It also promotes necessary training and support among the Group's units to enable them to resolve risk situations associated with their scope of responsibility and actions, and independently transfers any significant residual risks that have not been covered by the implemented controls to the Group's Operational Risk Division.

In general, the second line of defence ensures that the first line of defence is well designed, performs the tasks assigned to it and puts forward suggestions for its continuous improvement. The core functions attributed to this line of defence under the control framework are:

- Proposing the risk management and control framework.
- Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.
- Cooperating in the implementation of risk management processes and controls.
- Identifying changes in the underlying risk appetite of the organisation.
- Verifying compliance with regulations applicable to the Group in the performance of its business activities.
- Providing the technological infrastructure for risk management, measurement and control.
- Analysing and comparing existing and future incidents by reviewing available information.
- Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
- Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.
- Guaranteeing both the operational continuity of ordinary business activities and the security of the information on which such activities are based.

• As a **Third Line of Defence**, the Internal Audit function:

- The Internal Audit Division conducts an independent and objective verification and advisory services, governed by a philosophy of adding value and helping the Group to fulfil its objectives.
- It provides assistance to the Group in achieving its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the organisation's governance processes and the risk management and internal control activities.

4.4 Managing and monitoring the main significant risks

4.4.1 Credit risk

Credit risk arises from the possibility of losses arising from defaults on payment obligations by borrowers, as well as losses of value due to the impairment of borrowers' credit rating.

4.4.1.1 Credit risk management framework.

Acceptance and monitoring

Credit risk exposure is subject to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour their payment obligations to the Group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also usual practice to mitigate exposure to credit risk by requiring borrowers to provide collateral and guarantees to the bank.

The Board of Directors grants powers and discretions to the Executive Committee to allow the latter to delegate responsibilities to different decision-making levels. The implementation of authority thresholds in credit approval management systems ensures that powers delegated at each level are linked to the expected loss calculated for each business loan or other transaction that is requested.

To optimise the business opportunities provided by each customer and to guarantee an appropriate degree of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst, who by maintaining effective communication with the corresponding units, are able to obtain a comprehensive view of each customer's individual circumstances.

The account manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking, whilst the risk analyst takes a more system-based approach making use of his/her specialised knowledge.

The implementation of advanced methodologies for managing risk (adapted to the New Basel Capital Accord and industry best practice) also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are rating tools such as credit rating for corporate borrowers and credit scoring for retail customers, as well as early warning indicators for monitoring risk.

The analysis of indicators and early warnings, in addition to rating reviews, allows an integrated and continuous measurement to be made of the level of the accepted risk. The establishment of efficient procedures to manage performing loans also benefits the management of past-due loans by enabling a proactive policy to be devised based on a preliminary identification of any cases with propensity to default.

Risk monitoring is carried out for all exposures in order to identify potential problematic situations and to prevent the deterioration of credit quality. In general, this monitoring is based on an early warnings system at both transaction/borrower level and at portfolio level, and they both use the Bank's internal information and external information in order to obtain results. The monitoring is carried out on a forward-looking basis, i.e. with a forward-looking outlook in accordance with the foreseeable development of circumstances, in order to determine both actions to strengthen the business (increase in lending) and prevent risk (risk mitigation, improvement of guarantees, etc.).

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who determine the different types of procedures that should be implemented. Therefore, based on risks in excess of a set limit and predicted default rates, groups or categories are established to be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

Abnormal risk management

Generally, during stages of weakness of the economic cycle, debt refinancing and restructuring operations are the most significant technical risk management operations. The bank's objective, when faced by debtors and borrowers that have, or are expected to have, financial difficulties when honouring their payment obligations under the agreed contractual terms, is to facilitate the repayment of the debt by reducing the likelihood of default as much as possible. A number of common policies to achieve this are in place across the entity, including procedures for the approval, monitoring and control of debt refinancing and restructuring processes, the most relevant of which are the following:

- The availability of a sufficiently detailed compliance record for the borrower and a manifest intention to repay the loan, assessing the time-frame of the financial difficulties affecting the customer.
- Refinancing and restructuring conditions based on a realistic repayment schedule which is in line with the borrower's current and predicted payment capacity, preventing issues being put off until a later date.
- If new guarantees are provided, these must be regarded as a secondary and exceptional means for recovering the debt, so as to avoid adversely affecting existing means. All ordinary interest accrued must always be paid up to the refinancing date.
- A maximum length is applied to grace periods.

The Group continually monitors compliance with the agreed terms and conditions and with the above policies.

Internal risk models

Banco Sabadell Group also has a system in place which is made up of three lines of defence to ensure the quality and oversight of internal models, as well as a governance process which has been specifically designed to manage and monitor these models and to ensure compliance with regulations and the Supervisor's instructions.

The governance framework of internal credit risk and impairment models (risk management, regulatory capital and provisions) is based on the following pillars:

- Effective management of changes to internal models.
- On-going monitoring of the environment of internal models.
- Regular reporting, both internal and external.
- Internal model management tools.

Some of the main bodies within the governance framework of internal risk and impairment models include the Models Committee, which meets on a monthly basis and carries out internal approval functions, in line with the levels of materiality of the risks, and monitors internal credit risk models.

Banco Sabadell Group also has an advanced abnormal risk management model in place to manage the impaired assets portfolio. The purpose of managing abnormal risk is to identify the best solution for the customer upon detecting the first symptoms of impairment, whilst reducing the entry into default of customers with economic difficulties, ensuring the smooth progression and consistent management across the different phases.

For further quantitative information, see Schedule 6 "*Other risk information: refinancing and restructuring operations*".

Real estate credit risk management

As part of its on-going risk management and, in particular, its policy on the construction and real estate development industries, the Group has a number of specific policies in place for mitigating risks.

The main measure being implemented is the continuous monitoring of risks and the reappraisal of borrowers' financial viability in the new economic environment. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with fresh commitments being required where appropriate in light of the new circumstances.

The policy to be implemented depends in each case on the type of asset being financed. For completed developments, sale support actions are carried out through the Group's distribution channels, setting a competitive price which enables the transactions to be processed and allowing final buyers access to financing, provided they comply with risk requirements. For works in progress, the main objective is to complete the work, provided that short and medium term market expectations are sufficient to absorb the resulting supply of property.

For land-related loans, the saleability of properties to be built on the site is the key consideration in deciding on the provision of finance for construction.

Where monitoring and scrutiny of a borrower's position do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt and/or the purchase of assets.

Where a solution of this kind is not practicable, legal proceedings will be taken, leading to forbearance of the assets.

All assets taken into possession by the Group, whether by surrender in settlement of debt or by purchase, or as a result of legal proceedings, to ensure collection or to execute other lending improvements are mainly foreclosed tangible assets received from borrowers and other obligors of the bank, to satisfy financial assets representing the bank's collection rights, and are actively managed with the primary purpose of divestment.

In terms of the stage of the construction process of real estate assets, three strategic lines of action have been established:

1. New funding: real estate development business

A commercial unit was established at the end of 2014, for the exclusive management of new funding for real estate developers, having identified the requirements of the market and the solvency of its new players. A new monitoring approach was developed for this unit, which allows Banco Sabadell to have a detailed knowledge of the projects being considered in the unit (including the surface area for sale, the number of units being sold, the construction budget and the extent of pre-marketing activities).

In parallel, a new "Real Estate Analysis" division has been created, responsible for analysing all of the real estate projects that the bank is considering awarding funding to from a perspective of real estate business only, analysing the location, suitability of the product, as well as potential current supply and demand, and comparing in each case the figures of the business plan submitted by the customer (particularly costs, sales and timelines). The new analysis model is coupled with a model for monitoring approved real estate development projects. The progress of each real estate development project is monitored to control drawdowns and the compliance with the business plan (sales, costs and timelines).

The new management model has allowed a system of warnings to be developed for monitoring purposes, which is used by both the "Analysis and monitoring" division and the "Risks" division, both of which were involved in the process to define the system. In addition to warnings for already approved real estate development projects, new funding uses the "real estate development framework", which defines the optimum allocation of the new business on the basis of the quality of the customer and development project.

2. Management of problematic real estate lending

Problematic loans are managed in line with the defined policy. In general, they are managed taking into account the customer, guarantees and status of the loan (from the time when a potential warning is triggered, warning of a potential deterioration of the current status, up to the materialisation of payment in kind / purchase under amicable management proceedings, or until an auction is held following an enforcement process and whenever there is a deed of foreclosure).

After analysing the three aforementioned aspects, an optimum solution is sought to stabilise or settle the position (whether through amicable or judicial proceedings), which differs in line with the evolution of each customer / case file. Cases in which the stabilisation or settlement of the loan by the customer is not a feasible option are managed using support models on the basis of the type of loan or funded property. In the case of finished real estate developments or completed non-residential properties, customers are given a possibility to sell the assets via Solvia at competitive prices. In the case of plots of land, a possibility can be given to increase the debt to develop housing projects if the internal teams at Banco Sabadell identify a demand for housing in that location and are responsible for controlling their investment and marketing. For other funded real estate, the possibility of closing sale agreements with third parties is considered and friendly solutions are proposed (purchase, payment in kind, which in the case of properties owned by retail customers can be coupled with favourable conditions for relocation or social renting depending on the needs of the customer) or else legal proceedings are initiated.

3. Foreclosed real estate asset management

Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset and its location, to identify the potential of each asset according to its potential demand. The main disposal mechanism is the sale of the asset, for which the bank, through Solvia, has developed different channels on the basis of the type of property and customer. The success of these sales channels is reflected in the high volumes of properties that are sold year after year, the significant growth in the volume of sales of non-residential properties, land ready for development and plots under management, a growth which began when the market began to be more interested in these types of assets and customers began to entrust the sale of their properties to Solvia.

A decision has been made to invest in certain land sites and plots under management with a high potential demand located in markets for which significant price increases are forecast, in order to optimise the revenue from such assets considering the forecast income and applying conservative growth assumptions.

The Group, given the importance of reaching a high degree of concentration of this risk in the past, has a first tier RAS metric in place which establishes a maximum level of concentration in terms of concentration metric for real estate development based on TIER 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risk Committee, the Risk Committee and the Board of Directors.

Lastly, it is worth highlighting that the Risk Control Division, together with the Business and Risk divisions, regularly monitors the adequacy of new financing granted to real estate developers. The monitoring process includes a review of compliance with policies and asset allocation. Results of this monitoring exercise are escalated to the Technical Risk Committee for information.

For further quantitative information, see Schedule 6 "*Credit risk: Risk concentration and exposure to construction and real estate sectors*".

4.4.1.2. Risk management models

Rating

Credit risks incurred with corporates, developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on the analysis of real default trends. A predicted default rate is assigned to each internal credit rating level, which also allows a homogeneous comparison to be made of other segments and credit ratings from external credit agencies using a master ratings scale.

%

Breakdown by rating of BS corporates portfolio										
9	8	7	6	5	4	3	2	1	0	**TOTAL**
0.38%	7.94%	15.46%	19.80%	31.39%	16.29%	6.31%	2.00%	0.33%	0.09%	100%

Includes Sovereigns, Corporates and Financial Institutions.

Credit scoring

In general, credit risks undertaken with individual customers are rated using scoring systems which are in turn based on a quantitative model of historic statistical data, where the relevant predictive factors are identified. In geographies in which scoring takes place, the latter is divided into two types:

Behavioural scoring: the system automatically classifies customers based on information regarding their activity and on each product which they have acquired. These scorings are mainly used in: the granting of transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or repayment procedures.

Reactive scoring: this is used to evaluate applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated debt capacity, financial profile and, if applicable, the level of pledged assets.

If no scoring system exists, it is replaced with individual assessments supplemented with policies.

%

Breakdown by rating of individuals portfolio										
9	8	7	6	5	4	3	2	1	0	TOTAL
0.87%	3.61%	17.49%	40.53%	19.93%	11.02%	3.63%	1.55%	0.66%	0.71%	100%

Excludes operations from TSB and retail banking customer operations from Banco Cam, BMN-Penedès, Banco Gallego and Sabadell Solbank (formerly, Lloyds Bank).

Warning tools

In general, Banco Sabadell Group has a system in place of early warnings comprised of both individual warnings and advanced early warning models for both the Corporates sector and the Individuals sector. These early warnings are based on behavioural factors obtained from available sources of information (rating or scoring, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information of a sector-based or operative nature, etc.). They measure the risk presented by the customer on a short-term basis (predicted propensity to default), obtaining a high level of predictability to detect potential defaulters. The rating, which is obtained automatically, is one of the basic input data used when monitoring the risk of corporates and individual customers.

This warnings system offers:

- More effective monitoring of customers with the lowest rating (different cut-off points for each group).
- Actions to be taken in advance to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Regular control of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.

4.4.1.3. Credit risk exposure

The tables below show the breakdown, by headings of the consolidated balance sheet, of the Group's maximum gross exposure to credit risk at 31 December 2017 and 31 December 2016, without deducting collateral or credit upgrades received in order to ensure compliance with payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum exposure to credit risk	Note	2017	2016
Financial assets held for trading		**131,761**	**1,649,726**
Equity instruments	9	7,432	10,629
Debt securities	8	124,329	1,639,097
Loans and advances		-	-
Financial assets designated at fair value through profit or loss		**39,526**	**34,827**
Equity instruments	9	39,526	34,827
Debt securities		-	-
Loans and advances		-	-
Available-for-sale financial assets		**13,380,567**	**18,895,134**
Equity instruments	9	606,697	766,609
Debt securities	8	12,773,870	18,128,525
Loans and receivables		**153,284,561**	**155,324,475**
Debt securities	8	575,450	930,585
Loans and advances	11	152,709,111	154,393,890
Held-to-maturity investments	**8**	**11,173,210**	**4,598,190**
Derivatives	10, 12	**1,814,764**	**2,369,655**
Total risk due to financial assets		179,824,389	182,872,007
Guarantees given	26	8,726,847	8,529,354
Other commitments given	27	24,079,340	25,208,687
Total commitments and guarantees given		**32,806,187**	**33,738,041**
Total maximum credit risk exposure		**212,630,576**	**216,610,048**

The Group also has guarantees and contingent commitments given to borrowers, materialised by the establishment of guaranties provided or commitments inherent in the credit agreements up to an availability level or limit ensuring financing for the customer when required. These facilities also imply the acceptance of a credit risk and are subject to the same management and monitoring systems described above.

Information on the value of financial guarantees given at 31 December 2017 and 2016 year-end is shown below:

Thousand euro

	2017	2016
Loan commitments given	20,906,053	19,567,289
Of which classified as doubtful	*61,719*	*48,270*
Amount recorded under liabilities on the balance sheet	23,677	23,160
Financial guarantees given (*)	1,983,143	1,872,647
Of which classified as doubtful	*48,163*	*42,507*
Amount recorded under liabilities on the balance sheet (**)	32,500	35,382
Other commitments given	9,916,991	12,298,105
Of which classified as doubtful	*9,729*	*61,632*
Amount recorded under liabilities on the balance sheet	28,772	25,490

(*) Of which 90 and 89 million euros in December 2017 and 2016 granted in relation to construction and real estate development.

(**) Of which 5 and 2 million euros in December 2017 and 2016 recorded under liabilities on the balance sheet in relation to real estate development.

The credit risk exposure described above includes the amount of collateral and other credit enhancements to ensure compliance, which are commonly used in the types of financial instrument managed by the entity.

Schedule 6 of these consolidated annual accounts shows quantitative data relating to credit risk exposure by geography.

4.4.1.4. Credit risk mitigation

Credit risk exposure is subject to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour their payment obligations to the Group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also usual practice to mitigate exposure to credit risk by requiring borrowers to provide collateral and guarantees to the bank.

Generally, these take the form of financial collateral, mainly mortgages on properties used as housing, whether finished or under construction. The entity also accepts, although to a lesser degree, other types of financial collateral, such as mortgages on retail properties, industrial warehouses, etc. and financial assets. Another credit risk mitigation technique that is commonly used by the entity is the acceptance of guarantees, in this case subject to the guarantor presenting a certificate of good standing.

All of these mitigation techniques are established ensuring their legal certainty, i.e. under legal contracts that are legally binding for all parties and which are enforceable in all relevant jurisdictions, thus guaranteeing that the collateral can be seized at any time. This process is fully subject to an internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be requested and applied where these contracts have been entered into under foreign legislation.

All collateral is formalised before a notary public through a public document, thus ensuring their enforceability before third parties. In the case of property mortgages, these public documents are also registered with the corresponding land registries, thus gaining constitutional weight before third parties. In the case of pledges, the pledged items are generally deposited with the entity. Unilateral cancellation by the debtor is not permitted, and the guarantee remains valid until repayment in full of the debt.

Personal guaranties or bonds are established in favour of the entity and, except in certain exceptional circumstances, are also formalised before a notary public through a public document, to vest the agreement with the highest possible legal security of formalisation and to allow legal claims to be submitted through executive proceedings in case of non-payment. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.

In addition to the mitigation of the risk arising from guarantees formalised between the debtors and the entity as a result of the acquisition of Banco CAM, the Group has an additional guarantee for a particular asset portfolio, provided by the APS, with retroactive effects from 31 July 2011, and for a period of ten years (see further details in Note 2).

The bank has not received significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic to treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying value (see Note 6). The fair value of the assets sold with a buyback agreement arising from reverse repos is included under the heading "*Financial liabilities held for trading*" as part of the short positions of securities.

Conversely, assets assigned under the same transactions amount to €1,719,118 thousand and are included in line with their nature under the repos heading in Notes 18 and 19.

The value of the guarantees received to ensure collection of debts, broken down into collateral and other guarantees, at 31 December 2017 and at 2016 year-end, are as follows:

Thousand euro

Guarantees received	2017	2016
Value of collateral	89,271,478	87,667,577
Of which: guarantees doubtful risks	*3,983,614*	*4,500,350*
Value of other collateral	12,462,899	8,911,554
Of which: guarantees doubtful risks	*355,839*	*485,640*
Total value of guarantees received	**101,734,377**	**96,579,131**

The main concentration of risk in relation to all of these types of collateral and credit enhancements corresponds to the use of the mortgage guarantees as a credit risk mitigation technique in exposures of loans for use in the financing or construction of housing or other types of real estate. On a like-for-like basis, mortgage loans represent 63% of gross lending.

In the case of market operations, counterparty risk is managed as explained in section 4.4.1.7.

4.4.1.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the NBCA. However, not all portfolios in which credit risk is incurred use internal models, partly due to the fact that a minimum level of experience in cases of non-payment is required in order for them to be reasonably designed.

The (original) percentage exposure, calculated using internal models, in terms of solvency for the entity is 52%.

The breakdown of the exposure, rated based on the internal rating levels, is as follows:

%

Breakdown of exposure by rating	Risk assigned rating /scoring 2017	2016
AAA/AA	3	5
A	15	14
BBB	60	55
BB	19	20
B	3	5
Rest	-	1
Total	**100**	**100**

Does not include operations derived from TSB, or individuals' operations from Banco Cam, BMN-Penedès, Banco Gallego and Sabadell Solbank (formerly Lloyds bank).

Further details on the rating and scoring models are included in section 4.4.1.2 of these consolidated annual accounts.

During 2017 an improvement has been observed in the reduction of doubtful assets, which have been reduced by €1,770 million during the year, resulting in a reduction of the NPL ratio as shown in the table below.

%

	2017	2016
NPL ratio (*)	5.14	6.14
NPL coverage ratio (*)	48.27	51.55

(*) The NPL ratio excluding TSB stands at 6,57 and the NPL coverage ratio at 48,13 (in 2016, 7,72 and 51,53).

The loan loss ratio, broken down by financing segment, is set out below:

%

	Proforma 2017 (*)	2017	Proforma 2016 (*)	2016
Real-estate development and construction	21.37	21.30	29.05	28.98
Non-real-estate construction	6.87	6.86	9.68	9.67
Companies	3.33	3.33	3.82	3.82
SMEs and independent contractors	8.09	8.04	8.47	8.42
Private individuals with 1st mortgage guarantee	6.88	3.97	7.25	4.36
BS Group NPL ratio	6.57	5.14	7.72	6.14

(*) Corresponds to the NPL ratio excluding the addition of TSB.

Further information on the quantitative breakdown of hedges and doubtful assets is included in Note 11, and further information on the quantitative data relating to refinancing and restructuring operations are included in Schedule 6 of these consolidated annual accounts.

4.4.1.6. Concentration risk

Concentration risk refers to exposures whose risk of incurring losses is great enough to pose a threat to the financial solvency of the institution or the viability of its ordinary business activities. Concentration risk is organised into two basic sub-types:

- Individual concentration risk: imperfect diversification of the idiosyncratic risk within the portfolio due to either its reduced size, or due to significant exposures in specific customers.

- Sector concentration risk: imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, etc.

Banco Sabadell has a series of specific tools and policies to ensure efficient management of concentration risk:

- Quantitative measures from the Risk Appetite Statement and their subsequent monitoring, such as level one metrics.

- Individual limits of risks or customers considered significant, set by the Executive Committee.

- Authority thresholds that ensure that all transactions carried out by the most significant customers are approved by the Credit Operations Committee or even the Executive Committee.

4.4.1.6.1 Exposure to customers or significant risks

At 31 December 2017 there were no borrowers with approved lending that individually exceeded 10% of the Group's own funds.

4.4.1.6.2. Country risk: geographic exposure to credit risk

Country risk is defined as the risk of a country's debts taken as a whole due to factors inherent in the sovereignty and economic situation of a country, i.e., for circumstances other than regular credit risk. It manifests itself in the eventual inability of a debtor to honour their foreign currency payment obligations to external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it or the non-enforceability of legal action against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country risk not only affects debts contracted with a state or entities guaranteed by it, but also all private debtors that belong to that that state and who, for reasons outside their control and not at their volition, are generally unable to honour debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Executive Committee and the corresponding decision-making bodies, as per their delegated powers, and they are continuously monitored to ensure that any deterioration in the political, economic or social situation of a country can be detected in good time.

The main component of the framework for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. The various risks are monitored by Senior Management using this structure, and the delegated bodies establish the Group's risk appetite.

The structure of limits comprises two levels: first tier metrics in the RAS and second tier limits or management.

Additionally, different indicators and tools are used to manage country risk: ratings, credit default swaps, macroeconomic indicators, etc.

Schedule 6 includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

4.4.1.6.3. Exposure to sovereign risk and exposure to construction and real estate sectors

Schedule 6 includes quantitative data relating to sovereign risk exposure and exposure to the construction and real estate development sector.

4.4.1.7. Counterparty risk

This heading contemplates credit risk associated with activities in financial markets involving transactions with counterparty risk. Counterparty risk refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

Exposure to counterparty risk is mainly concentrated in customers, financial institutions and counterparty clearing houses.

The following two tables show the breakdown of exposure by rating and geographies in which the Group operates.

%

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	
	-	-	7.2%	4.1%	9.6%	10.7%	37.9%	10.7%	4.2%	2.5%	2.2%	3.3%	3.4%	1.1%	3.0%	**100.0%**

%

	2017
Euro Zone	65.3%
Rest of Europe	26.3%
U.S.A and Canada	7.0%
Rest of the World	1.3%
Total	**100.0%**

As can be seen in the table, the risk is concentrated into counterparties with a high credit quality rating, with 69% of the risk with counterparties having a rating of A.

Since 2016, under the European Market Infrastructure Regulation EMIR (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group susceptible to the foregoing are channelled via these agents. At the same time, the Group has strengthened the standardisation of OTC derivatives with a view to promoting the use of CCPs. The exposure to risk with CCPs largely depends on the amount of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), in line with management criteria, it is deemed that there is no exposure, given that there is no risk as the OMs act as a counterparty in the transactions and a settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets depending on whether the counterparty is another financial institution, clearing house or organised market is as follows:

€ million

	2017	2016
Operations with organised markets	3,582	2,195
OTC Operations	170,015	133,379
Settled through clearing houses	*49,017*	*25,140*
Total	**173,597**	**135,574**

There are currently no transactions that meet the criteria set forth in IAS 32 to offset the balance of financial asset and liability transactions. The offsetting of derivative and repo transactions are only material when calculating the amount pending collateralisation, and are not material in terms of their recognition on the balance sheet.

The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for the years 2017 and 2016:

Thousand euro

	2017				
	Financial assets subject to collateral agreements				
	Amount recognized in the balance sheet	Offsetting amounts (only for collateral calculation)	Collateral received		Net value
			Cash	Debt securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,204,328	1,042,820	132,061	-	29,447
Repurchase agreements	4,966,485	-	23,127	4,883,010	60,348
Total	**6,170,813**	**1,042,820**	**155,188**	**4,883,010**	**89,795**

Thousand euro

	2017				
	Financial liabilities subject to collateral agreements				
	Amount recognized in the balance sheet	Offsetting amounts (only for collateral calculation)	Cash given		Net value
			Cash	Debt securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,129,342	1,042,820	1,370,579	274	(284,331)
Repurchase agreements	14,123,760	-	314,593	14,583,471	(774,304)
Total	**16,253,102**	**1,042,820**	**1,685,172**	**14,583,745**	**(1,058,635)**

Thousand euro

	2016				
	Financial assets subject to collateral agreements				
	Amount recognized in the balance sheet	Offsetting amounts (only for collateral calculation)	Collateral received		Net value
			Cash	Debt securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,681,362	1,534,349	136,142	-	10,871
Repurchase agreements	1,711,930	-	12,690	1,700,588	(1,348)
Total	**3,393,292**	**1,534,349**	**148,832**	**1,700,588**	**9,523**

Thousand euro

	2016				
	Financial liabilities subject to collateral agreements				
	Amount recognized in the balance sheet	Offsetting amounts (only for collateral calculation)	Cash given		Net value
			Cash	Debt securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,712,049	1,534,349	1,723,313	8,002	(553,615)
Repurchase agreements	9,179,782	-	326,152	9,350,064	(496,434)
Total	**11,891,831**	**1,534,349**	**2,049,465**	**9,358,066**	**(1,050,049)**

The amounts of derivative financial instruments which are settled through a clearing house represent, at 31 December 2017:

Thousand euro

	2017	2016
Derivative financial assets settled through a clearing house	275,169	348,850
Derivative financial liabilities settled through a clearing house	249,248	293,150

The philosophy behind counterparty risk management is in line with the business strategy, and seeks to ensure the creation of value whilst maintaining a balance between return and risk. To this end, criteria have been established for controlling and monitoring counterparty risk arising from activity in financial markets so as to ensure that the bank can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

The approach for quantifying counterparty risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event that a counterparty defaults at the present time. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents a potential risk that could be associated with a transaction over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out through a collateral agreement, it represents the possible MtM changes throughout the life of the transaction.

Each day at close of business all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation mechanisms established by the Group. In this manner, exposures are subjected to day-to-day monitoring and are controlled in accordance the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and areas responsible for their management and monitoring.

With regard to counterparty risk, the Group adopts different mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and EMA).
- Collateral agreements for derivatives (CSA and Schedule 3 - EMA) and repos (GMRA, EMA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with such counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to operate with derivatives.

Collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having collateral agreements. The Group’s standard collateral agreement is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees, always in cash and always denominated in euro.

4.4.1.8 Assets pledged in financing operations

At the end of 2017 and 2016, there are certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issue of covered bonds, territorial bonds or long-term securitisation bonds (see Note 20 and Schedules 3 for transactions linked to the Spanish Mortgage Market and 4 for details of issues). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to back derivative transactions.

Information on mortgage loans awarded in Spain and included in the "*Loans and advances - Customers*" portfolio which are linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law is included in Schedule 3 on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, implementing Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The bank has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Group, identifying those in which the risks and associated economic benefits have been transferred, is as follows:

Thousand euro

	2017	2016
Derecognised in full from the balance sheet	**986,224**	**1,200,421**
Securitised mortgage assets	322,074	485,119
Other securitised assets	16,712	19,332
Other financial assets transferred	647,438	695,971
Retained in full on the balance sheet:	**17,813,667**	**17,873,959**
Securitised mortgage assets	15,773,930	16,911,366
Other securitised assets	2,039,737	962,593
Other transfers to credit institutions	-	-
Total	**18,799,891**	**19,074,380**

The assets and liabilities associated with securitisation funds of assets which originated after 1 January 2004, and for which inherent risks and benefits have not been transferred to third parties, have been maintained in the consolidated financial statements. In terms of the assets shown, the risk is not transferred as some form of subordinated financing or credit enhancement has been transferred to the securitisation funds.

The heading 'other transferred financial assets fully derecognised from the balance sheet' included mainly assets transferred to the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB) by Banco Gallego, as they continue to be managed by the entity. These assets amount to €655,625 thousand.

Details of Securitisation Funds are included in Schedule 2.

4.4.2. Liquidity risk

4.4.2.1. Description

Liquidity risk refers to the possibility of losses being incurred as a result of the bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of its being unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the bank itself.

In this regard, the objective of Banco Sabadell Group is to maintain liquid assets and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to honour its payment commitments normally and at a 'reasonable cost', under business-as-usual conditions or under a stress situation caused by systemic and/or idiosyncratic factors.

The governance structure in terms of Banco Sabadell's liquidity management is based on the direct involvement of the Board of Directors and Senior Management, a clear-cut definition of the Three Lines of Defence, a strict separation of functions and a clear structure of responsibilities in Committees, General Divisions and functional areas.

4.4.2.2 Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its commercial activity at an appropriate cost and term while minimising liquidity risk. The bank's funding policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, and supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

In order to manage its liquidity, the Group applies a structure based on Liquidity Management Units (UGLs, for their acronym in Spanish). Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. At present, the UGLs are Banco Sabadell (includes overseas branches - OFEX), Banc Sabadell d'Andorra (BSA) and TSB.
In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs' retail business model and the defined strategic objectives:

- The involvement of the Board of the Directors and Senior Management in the management and control of liquidity and funding risk.
- Clear separation of functions between the different areas within the organisation, with a clear-cut definition of the three lines of defence, to give a degree of independence when evaluating positions and when controlling and assessing risks.
- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
- Sound identification, measurement, management, control and reporting processes on the different liquidity and funding risks to which the Group is exposed.
- Existence of a transfer pricing system to transfer the cost of funding.
- Balanced funding structure largely based on customer deposits.
- Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprises the first line of defence of the Group.
- Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.

- Self-funding by the main banking subsidiaries outside of Spain.

- Monitoring of the balance sheet volume being used as collateral in funding transactions (encumbrance).

- Maintenance of a second line of liquidity that includes the issuing capacity of covered bonds and territorial bonds.

- Availability of a Liquidity Contingency Plan.

With respect to TSB, although ring-fencing will not officially enter into effect until 2019, TSB is an autonomous unit within the Group's liquidity management as it is an independent UGL. The future economic performance of the United Kingdom should not generate liquidity problems, as TSB operates independently from its parent company.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group defines two sets of metrics that allow it to measure and control its liquidity risk: 1) first-tier RAS metrics and 2) second-tier metrics. Liquidity risk is also monitored and controlled on a daily basis through the Early Warning Indicators (EWI) system and the Structural Treasury Report.

The Board of Directors of Banco Sabadell is responsible for defining the Group's liquidity and funding risk appetite statement (RAS) at a consolidated level and for setting indicators that Liquidity Management Units (UGLs, for their acronym in Spanish) must include in their local RAS, even if they include other additional indicators.

The RAS is comprised of quantitative metrics that allow the management of risks to be objectively monitored, as well as the qualitative aspects that complement these metrics.

Aside from the metrics included in the Risk Appetite Framework, each UGL defines a set of second-tier metrics which contribute to the assessment and monitoring of funding and liquidity risk. These metrics are monitored on an on-going basis in each of the local Asset and Liability Committees.

Lastly, it should be mentioned that the Group has designed and implemented an early warning indicators (EWIs) system at the UGL level, which includes market and liquidity indicators adapted to the funding structure and the business model of each UGL. The deployment of these metrics at UGL level complements the RAS indicators and second-tier metrics and allows local threats to the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for guaranteeing that the institution has sufficient management capacities and measures in place to limit any negative impacts of a crisis situation affecting is liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate business continuity in the management of liquidity, particularly in the event that the crisis has arisen due to a flawed performance of one or more market infrastructures. The LCP can be activated in response to different crisis situations of either the markets or the bank itself. In general, following the impact channels considered in the bank's stress tests, these situations can be classified into systemic crises, idiosyncratic crises and combined crises.

The risk control and reporting framework for the liquidity risk management limits is comprised of, amongst others:

- Daily monitoring of risk indicators and limits, reporting to the various management units.

- Systematic control and analysis of drawdowns, identifying instances of non-compliance and activating the necessary procedures for their correction.

4.4.2.3. Residual term of transactions

The table below shows the breakdown by contractual balance maturity, excluding, in some cases, value adjustments and losses due to impairment, of certain balance totals on the consolidated balance sheet at 31 December 2017 and 2016, under business-as-usual market conditions:

Thousand euro

	2017									
Time to review or maturity	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Money Market	98,234	28,722,208	657,491	1,044,861	22,238	-	-	-	-	**30,545,032**
Lending	745,849	5,627,569	5,063,749	12,928,020	10,292,763	9,492,673	9,014,589	8,722,157	67,624,312	**129,841,681**
Debt securities	2,000	2,126,329	522,038	957,593	442,519	601,843	1,593,241	459,736	16,735,917	**23,441,216**
Other assets	4	2	-	25	1	13	115	308	4,099	**4,567**
Total assets	**846,087**	**36,776,108**	**6,273,278**	**14,930,499**	**10,757,521**	**10,094,529**	**10,607,945**	**9,182,201**	**84,364,328**	**183,832,496**
Money Market	3	10,614,572	3,336,963	2,497,925	21,559	10,307,232	16,878,502	42,564	24,506	**43,723,816**
Of which: Repos	-	8,916,680	2,737,601	2,437,884	-	264,091	-	-	-	***14,356,256***
Customer funds	96,403,851	4,011,728	6,068,825	16,129,945	2,460,154	464,116	51,679	534,378	7,835	**126,132,511**
Debits represented by marketable securities (*)	-	1,712,134	1,664,857	3,317,464	3,116,107	3,647,214	2,869,381	3,055,315	7,244,767	**26,627,239**
Of which: Secured senior debt	-	1,074,546	203,007	700,993	1,540,181	2,678,627	2,322,562	1,807,315	5,715,075	***16,042,308***
Of which: Unsecured senior debt	-	-	5,125	1,531,682	1,575,926	543,987	112,884	98,000	1,014,667	***4,882,271***
Of which: Subordinated liabilities	-	-	-	-	-	424,600	433,935	1,150,000	515,025	***2,522,560***
Other liabilities	-	69,001	108,638	603,812	528,657	331,588	228,519	145,445	485,948	**2,501,608**
Total liabilities:	**96,403,854**	**16,407,435**	**11,179,283**	**22,549,146**	**6,126,477**	**14,750,150**	**20,028,081**	**3,777,692**	**7,763,056**	**198,985,174**
Of which:										
Secured liabilities	-	9,991,228	2,931,408	3,132,369	1,540,181	2,948,353	9,085,180	1,807,315	5,715,075	***37,151,109***
Unsecured liabilities	96,403,853	6,416,207	8,247,875	19,416,777	4,586,297	11,801,797	10,942,901	1,970,377	2,047,981	***161,834,065***
Trading and Hedging Derivatives										
Receivable	-	9,295,770	7,137,872	21,000,797	12,599,015	10,661,451	13,577,220	12,749,192	58,599,454	**145,620,771**
Payable	-	6,608,953	7,232,680	22,519,319	12,605,849	14,793,592	13,509,551	13,218,907	59,013,772	**149,502,623**
Net	-	**2,686,817**	**(94,808)**	**(1,518,522)**	**(6,834)**	**(4,132,141)**	**67,669**	**(469,715)**	**(414,318)**	**(3,881,852)**
Contingent risks										
Financial guarantees	20,848	37,839	95,317	300,100	210,704	98,594	107,150	43,590	1,489,956	**2,404,098**

(*) See information on the maturity of issues aimed at institutional investors in section 4.4.2.4

Thousand euro

	2016									
Time to review or maturity	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total**
Money Market	170,474	11,063,327	507,680	807,461	10,056	15,433	435,058	-	-	**13,009,489**
Lending	336,373	4,126,377	5,729,403	14,821,219	13,191,790	11,073,040	9,404,320	8,694,346	59,651,403	**127,228,271**
Debt securities	-	42,087	4,038	962,006	786,435	871,977	723,343	1,678,589	16,406,306	**21,474,781**
Other assets	546,756	-	-	-	-	-	-	-	-	**546,756**
Total assets	**1,053,603**	**15,231,791**	**6,241,121**	**16,590,686**	**13,988,281**	**11,960,450**	**10,562,721**	**10,372,935**	**76,257,709**	**162,259,297**
Money Market	1,534	9,546,899	1,952,059	2,423,471	304,337	2,244,063	10,650,509	66,769	53,170	**27,242,811**
Of which: Repos	-	7,034,550	1,764,037	2,373,006	300,052	-	264,091	-	-	**11,725,736**
Customer funds	79,835,871	5,985,791	8,195,210	22,040,866	4,853,125	1,101,274	350,298	373,936	55,571	**122,791,942**
Debits represented by marketable securities (*)	-	2,093,948	2,355,005	4,435,996	3,366,608	1,757,627	3,908,428	3,278,376	5,985,687	**27,271,675**
Of which: Secured senior debt	-	1,442,997	40,419	1,127,854	1,774,737	1,574,548	2,270,419	2,204,446	5,385,729	***15,821,149***
Of which: Unsecured senior debt	-	299,885	1,059,050	901,253	1,591,871	183,079	564,734	121,184	66,533	***4,787,589***
Of which: Subordinated liabilities	-	-	-	83,730	-	-	424,600	490,061	533,425	***1,531,816***
Other liabilities	-	410,667	243,272	1,397,473	802,843	614,196	403,583	298,528	1,767,318	**5,937,880**
Total liabilities:	**79,837,406**	**18,037,305**	**12,745,546**	**30,297,806**	**9,326,913**	**5,717,160**	**15,402,818**	**4,017,609**	**7,861,746**	**183,244,308**
Of which:										
Secured liabilities	-	8,477,547	1,794,456	3,500,861	2,074,789	3,807,671	3,647,860	2,667,130	5,385,729	***31,356,043***
Unsecured liabilities	79,837,406	15,813,575	12,707,876	26,293,988	7,552,175	1,909,489	12,019,049	1,350,479	2,476,018	***161,960,054***
Trading and Hedging Derivatives										
Receivable	-	9,001,830	9,145,760	18,968,059	16,589,433	7,200,243	5,940,177	8,066,168	44,857,154	**119,768,824**
Payable	-	11,218,731	16,426,905	21,830,001	16,721,936	7,358,290	9,372,160	6,721,421	45,770,028	**135,419,472**
Net	**-**	**(2,216,901)**	**(7,281,145)**	**(2,861,942)**	**(132,503)**	**(158,047)**	**(3,431,983)**	**1,344,747**	**(912,874)**	**(15,650,648)**
Contingent risks										
Financial guarantees	177	69,575	86,285	355,536	110,901	117,505	53,501	101,541	1,278,547	**2,173,568**

In this analysis, very short-term loans traditionally present financing needs as they contain the continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they end up actually covering such needs and even resulting in an increase of the outstanding balances.

It should be noted that it systematically verifies that the Group's funding capacity in capital markets can meet short, medium and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table is a snapshot of the balance sheet which shows residual time to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable financing needs, as it does not include performance models of the asset/liability items.

It should also be noted that cash flows broken down in the parent company have not been discounted.

The parent company's treatment of the contractual maturities of financial liabilities with specific characteristics for the purpose of showing the same are as follows:

- For any transaction that includes flows corresponding to early repayments (regular or irregular), each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual amortisation schedule).

In the case of demand liabilities, they are included in the “demand” tranche, without taking into account their type (stable vs. unstable).

- There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities granted with limits that have not been drawn at the balance sheet date by the borrowers. The Board of Directors also establishes limits in this regard for its control.

  Note 27 includes a breakdown of balances of contingent commitments. Given the characteristics of these contracts, contingent commitments are generally enforceable from the time of their contractual formalisation. It is for this reason that they should appear as “demand” in the table of the parent company’s contractual maturities.

- Balances from financial guarantee contracts have been included in the parent company’s table, assigning them the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a downgrade in credit rating) is reduced in line with the Group’s financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

- At 31 December 2017 the Group has no additional instruments regulated by master agreements associated with the acquisition of derivatives or repos/reverse repos.

- The Group does not have any instruments which allow the entity to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares at 31 December 2017.

- At 31 December 2017 the Group does not have instruments which are subject to master netting agreements.

4.4.2.4 Funding strategy and development of liquidity throughout 2017

The main source of the Group’s funding is customer deposits (mainly sight accounts and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the entity maintains various short-term and long-term funding programmes in order to achieve an adequate level of diversification by type of product, term and investor. The institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to financing operations with the European Central Bank (ECB).

On-balance sheet customer funds

At 31 December 2017, the balances of on-balance sheet customer funds amounted to:

In million euros

	2017	2016	Year-on year change (%)	Ex TSB 2017	Ex TSB 2016	Year-on year change (%)
On-balance sheet customer funds	132,096	133,457	(1.0)	97,686	99,123	(1.4)
Sight accounts	98,020	92,011	6.5	68,039	62,624	8.6
Customer term deposits (*)	32,425	40,154	(19.2)	27,996	35,207	(20.5)

(*) Includes deposits redeemable at notice and hybrid financial liabilities.

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to sight accounts and off-balance sheet funds.

On-balance sheet customer funds by maturity (balance sheet):

€ million

	2017	3 months	6 months	12 months	>12months	No mat.
Total on balance sheet customer funds (*)	**132,096**	**8.4%**	**4.8%**	**7.2%**	**5.4%**	**74.2%**
Deposits with agreed maturity	29,816	33.9%	19.4%	29.7%	17.1%	-
Demand deposits	98,020	-	-	-	-	100.0%
Retail issues	4,260	24.0%	12.9%	15.2%	47.8%	-

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: mandatory convertible bonds, non-convertible Banco Sabadell bonds, promissory notes and others.

€ million

	2016	3 months	6 months	12 months	>12months	No mat.
Total on balance sheet customer funds (*)	**133,457**	**10.3%**	**6.8%**	**7.9%**	**5.9%**	**68.9%**
Deposits with agreed maturity	37,214	34.7%	21.3%	26.7%	17.3%	-
Demand deposits	92,011	-	-	-	-	100.0%
Retail issues	4,232	21.4%	28.0%	15.7%	34.9%	-

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: mandatory convertible bonds, non-convertible Banco Sabadell bonds, promissory notes and others.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 28 to these consolidated annual accounts.

The deposits of the entity are sold through the following business units/companies of the Group (Retail and Business Banking, Corporate Banking and Global Businesses, Private Banking and TSB). Details of the volumes of these business units are included in the section on business results of the Directors' Report.

In 2017, the positive trend in terms of the generation of a customer funding gap observed in recent years has continued, which has allowed the entity to continue with its policy to partially refinance capital market maturities and, at the same time, continue reducing the Group's Loan to Deposit (LtD) ratio (from 147% at 2010 year-end to 104.3% at 2017 year-end).

Capital Markets

The level of funding in capital markets has declined in recent years, due to, amongst other aspects, the positive evolution of the customer funding gap. The outstanding balance of funding in capital markets by type of product as at December 2017 and 2016 is shown below:

Million euros

	2017	2016
Performing Balance	**22,390**	**25,160**
Covered Bonds	13,335	13,607
Of which: TSB	*564*	-
Promissory notes and ECP	2,037	2,612
Senior debt	1,669	1,741
Subordinated debt and preference shares	2,497	1,514
Of which: TSB	*434*	*450*
Securitisation bonds	2,820	5,653
Of which: TSB	*925*	*3,433*
Other	33	33

Maturities of issuances aimed at institutional investors by type of product at 31 December 2017 are analysed below:

€ million

	2018	2019	2020	2021	2022	2023	>2023	Outstanding balance
Bonds and mortgage covered bonds (*)	1,556	1,124	2,015	1,808	1,683	1,388	3,761	13,335
Senior Debt (**)	644	-	-	-	25	1,000	-	1,669
Subordinated debt and preference shares (**)	-	-	403	434	-	-	1,660	2,497
Other medium/long term financial instruments (**)	18	-	-	10	-	-	5	33
Total	**2,217**	**1,124**	**2,418**	**2,252**	**1,708**	**2,388**	**5,426**	**17,534**

(*) Secured issues

(**) Unsecured issues

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its sources of liquidity.

In terms of short-term financing, the entity maintains a company promissory notes programme and a Euro Commercial Paper (ECP) programme:

- Company promissory notes programme: this programme regulates issues of promissory notes and is aimed at institutional and retail investors. On 02 March 2017, the promissory notes programme of Banco Sabadell for 2017 was registered with the CNMV (Spanish Securities Commission), with an issue limit of €7 billion, extendible to €9 billion. The outstanding balance of the promissory notes programme has been declining over the year. At 31 December 2017, the outstanding balance of the programme was of €2,823 million (net of promissory notes subscribed by companies of the Group), compared with the €3,676 million at 31 December 2016.

- Euro Commercial Paper (ECP) Programme, aimed at institutional investors, whereby short-term securities are issued in various foreign currencies: EUR, USD and GBP. On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of €3.5 billion. At 31 December 2017 the outstanding balance of the programme stood at €346 million, in comparison to €246 million at the end of 2016.

Regarding medium- and long-term funding, the entity maintains the following active programmes:

- Programme for the issue of non-equity securities (“Fixed Income Programme”) registered with the CNMV on 11 April 2017, with a maximum issue amount of €16,500 million: this programme regulates the issues of bonds and debentures, both non-convertible and subordinated, as well as covered bonds, territorial bonds and structured bonds carried out under Spanish law through the CNMV (Spanish National Securities Market Commission) and aimed at both national and foreign institutional and retail investors. The limit available for new issues under the Programme for the issue of non-equity securities for 2017 of Banco Sabadell at 31 December 2017, was of €10,046 million (at 31 December 2016, the limit available under the Fixed Income Programme was of €10,638.8 million).

During 2017, Banco Sabadell has carried out public issuances under the Fixed-Income Scheme in force for a total of €3,044.6 million. Throughout the year, the entity has accessed the market on several occasions taking advantage of available liquidity windows. Specifically, Banco Sabadell carried out the following issuances:

Million euros

	ISIN Code	Type of investor	Issue Date	Amount	Term
Non-Convertible Bonds VIII/2016	ES03138602T3	Retail	March-17	591	2 years
Covered Bonds I/2017	ES0413860596	Institutional	April-17	1,000	10 years
Issue of Non-Convertible Bonds II/2017	ES03138602V9	Retail	April-17	342	2 years
Issue of Non-Convertible Bonds III/2017	ES03138602W7	Retail	June-17	465	2 years
EIB Covered Bonds I/2017	ES0413860604	Institutional	July-17	500	8 years
Issue of Non-Convertible Bonds IV 2017	ES0213860275	Retail	July-17	10	5 years
Issue of Non-Convertible Bonds 5/2017	ES03138602X5	Retail	July-17	27	5 years
Issue of Non-Convertible Bonds 6/2017	ES03138602Y3	Retail	September-17	10	5 years
Covered Bonds I/2017	ES0413860596	Institutional	October-17	100	10 years

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 22 March 2017. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in any currency, with a maximum limit of €5 billion. On 5 December 2017, Banco Sabadell carried out an issuance of 5-year and 3-month senior debt amounting to €1 billion under this programme.

Similarly, throughout the year, two issues of preference shares contingently convertible into the bank's ordinary shares (Additional Tier 1) have been carried out. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to €750 million with a coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to €400 million with a coupon rate of 6.125%.

On 24 February 2017, the FCA approved TSB's new Covered Bonds programme with a limit on covered bond issuance of £5bn. On 7 December 2017, TSB carried out its first Covered Bond issuance, launching a 5-year operation in the institutional market of £500 million with a 3 month Libor coupon + 24bps.

In relation to asset securitisation:

- Since 1993, the Group has been an active participant in this market and has taken part in a number of securitisation programmes, in some cases in conjunction with other highly solvent institutions, awarding mortgage loans, SME loans, consumer loans and finance lease receivables.

- There are currently 27 outstanding asset securitisation operations (including those performed by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB), although part of the bonds issued were retained by the issuing entity as liquid assets eligible for financing operations with the European Central Bank, the rest of the bonds were placed on capital markets. At the end of 2017, the balance of securitisation bonds placed in the market stood at €2,820 million.

- For efficiency reasons, nine securitisation operations were redeemed early in 2017 (see further details on securitisation funds in Schedule 2 of these consolidated annual accounts).

- On 4 December 2017, Banco Sabadell carried out a securitisation of residential mortgage loans named TDA Sabadell RMBS 4, for an amount of €6 billion; the loans were retained in their entirety. Subsequently, on 20 December 2017, Banco Sabadell carried out a new securitisation of loans awarded to SMEs named IM Sabadell Pyme 11, for an amount of €1.9 billion; of which €150 million were placed on the market and the remaining amount was retained.

In general, the tone of the markets has been very positive in 2017, which is reflected in the tightening of credit spreads for issues in the market, although there have been various peaks of volatility caused mainly by political uncertainty, which has led to tensions and even the occasional closure of markets.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted long-term refinancing operations programme (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell has taken part in TLTRO II for a total amount of €20,500 million (€10,000 million in the first auction of June 2016 and €10,500 million in the last auction of March 2017).

In 2016, Bank of England also implemented a series of measures to support economic growth. This package includes a cut in the Bank Base Rate and the introduction of the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by Bank of England, through which British banks can carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), has made use of the TFS throughout 2017, with an amount drawn of €6,334 million as at 2017 year-end.

Liquid Assets

In addition to these sources of funding, Banco Sabadell maintains a liquidity buffer in the form of liquid assets with which to meet possible liquidity needs.

In million euro

	2017	2016
Cash(*) + Net Interbank Position	22,361	8,002
Balance available in Bank of Spain facility	5,393	6,869
Assets pledged in the facility(**)	*26,894*	*18,687*
Balance drawn from Bank of Spain facility(***)	*21,501*	*11,818*
Assets eligible as collateral to access ECB facility not pledged in facility	4,013	8,423
Other marketable assets not deemed eligible by the European Central Bank (****)	1,398	3,587
Memorandum item: Balance drawn from Bank of England Term Funding Scheme	6,334	6
Total Available Liquid Assets	**33,165**	**26,881**

(*) Surplus of reserves in Central Banks.

(**) In market value, after applying the ECB's haircut for monetary policy transactions.

(***) Includes TLTRO-II.

(****) In market value, after applying the haircut of the Liquidity Coverage Ratio (LCR). Includes Fixed-Income qualifying as a High Quality Liquid Asset (HQLA) in accordance with the LCR and other marketable assets from various Group companies.

With respect to 2016, Banco Sabadell's first line of liquidity has grown by €6,284 million, mainly due to the generation of a customer funding gap. The balance in central banks and the net interbank credit position are particularly noteworthy, increasing by €14,359 million in 2017, while the available eligible balance with the ECB has declined by €5,886 million, of which €1,476 million correspond to the lower available balance in the Bank of Spain facility. Marketable assets not eligible in exchange for access to the ECB facility have declined by €2,189 million, which is largely explained by the assets that were previously contributed by Sabadell United Bank (SUB) as at the end of 2016.

In the case of TSB, the first line of liquidity at 31 December 2017 is mainly comprised of gilts amounting to €761 million (€1,678 million at 31 December 2016) and a surplus of reserves in Bank of England (BoE) amounting to €8,286 million (€4,191 million at 31 December 2016), mostly derived from the drawdowns of the TFS carried out throughout the year.

It should be noted that Banco Sabadell Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the requirements of eligibility, availability and liquidity set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

In addition to the first line of liquidity, the bank maintains a buffer of real estate assets and loans to general governments eligible as collateral for covered bonds and territorial bonds respectively, which at the end of 2017 contributed €2,666 million in terms of the capacity to issue new treasury bonds eligible as collateral in exchange for access to the ECB facility. At the end of 2017, available liquidity amounted to €35,831 million in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity to issue covered mortgage and territorial bonds as at the end of December.

4.4.2.5 Compliance with regulatory ratios

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the set of UGLs.

In terms of LCR, as from 1 January 2017, the regulatory required minimum LCR is 80%, a level which is amply surpassed by all of the institution's UGLs. At Group level, throughout the year the LCR has consistently been well above 100%, with the cases of Banco Sabadell Spain and TSB being particularly noteworthy, with very high LCRs. At the end of December 2017, the LCR stood at 168% for the Group (excl. TSB) and at 295% in TSB.

In terms of NSFR, this is still undergoing evaluation and has yet to be finalised, despite its implementation being scheduled for January 2018 and, as with the LCR, it will follow a phase-in implementation. However, the Group has already started monitoring this ratio as a liquidity metric for UGLs.

Given the bank's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long-term, the bank has maintained stable levels consistently over 100%.

4.4.3. Market risk

This risk is defined as the possibility of loss in the market value of financial asset positions due to changes in risk factors with an impact on their market prices and trading, volatility or correlation between them.

These positions that generate market risk are usually limited to trading activities, consisting of hedging transactions arranged by the bank to provide services to its customers and the maintenance of the entity's discretionary proprietary positions.

Market risk may also arise simply by maintaining overall balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the entity uses the market risk management and monitoring system to manage the structural exchange rate risk position.

The items of the Group's consolidated balance sheet are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**221,348,314**	**1,445,794**	**219,902,520**	
Cash and cash balances at central banks and other demand deposits	26,362,807	-	26,362,807	Interest Rate
Financial assets held for trading	1,572,504	1,120,867	451,637	Interest Rate
Financial liabilities designated at fair value through profit or loss	39,526	-	39,526	Interest Rate
Available-for-sale financial assets	15,674,318	324,927	15,349,391	Interest Rate, Credit Spread
Derivatives – Hedge accounting	374,021	-	374,021	Interest Rate
Investments in joint ventures and associates	575,644	-	575,644	Equity, Exchange Rate
Loans and receivables	149,551,294	-	149,551,294	Interest Rate
Held-to-maturity investments	11,172,474	-	11,172,474	Interest Rate, Credit Spread
Other financial assets	48,289	-	48,289	Interest Rate
Other non-financial assets	15,977,437	-	15,977,437	
Liabilities subject to market risk	**208,126,533**	**1,119,563**	**207,006,970**	
Financial liabilities held for trading	1,431,215	1,119,563	311,652	Interest Rate
Financial liabilities designated at fair value through profit or loss	39,540	-	39,540	Interest Rate
Derivatives – Hedge accounting	999,261	-	999,261	Interest Rate
Financial liabilities measured at amortised cost	204,045,481	-	204,045,481	Interest Rate
Provisions	317,538	-	317,538	Interest Rate
Other financial liabilities	20,645	-	20,645	Interest Rate
Other non-financial liabilities	1,272,853	-	1,272,853	
Equity	**13,221,781**	**-**	**13,221,781**	

The market risk acceptance, management and oversight system is based on setting limits for specifically assigned positions and approving transactions of each business unit. The various management units therefore have the duty and obligation to manage their positions within the established limits and to obtain approval from the risk department.

4.4.3.1 Trading activity

The principal risk factors considered by Banco Sabadell in its trading activity are:

- Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit operations, fixed-income and interest rate derivatives.

- Credit spread risk: this risk derives from the fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the reference currency. In the case of Banco Sabadell, the reference currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity risk: risk which derives from the fluctuation in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, given that the Group's exposure is marginal, both direct and in underlying assets.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss that could affect a position due to an adverse but normal movement of any of the identified parameters influencing market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specific time horizon. A 99% confidence level is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on the full appreciation of the transactions under recent historic scenarios, and no assumptions are required concerning the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a potential event did not materialise within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the contemplated confidence level. Backtesting consists of a comparison between daily VaR and daily results. If losses exceed the level of VaR, an exception occurs. In 2017 there were no exceptions to backtesting due to the low exposure to the year's significant events, such as the euro swap rates hike and the devaluation of the dollar against the euro on 27 June, or movements in short-term swap rates for the dollar throughout December.

Stressed VaR is calculated in the same way as VaR but with a historical window of variations in the risk factors in stressed market conditions. This stress situation is determined on the basis of current operations, and it can vary if the risk profile of portfolios changes. The methodology used for this risk metric is historical simulation.

This monitoring is supplemented with additional measures such as sensitivities, which refer to a change taking place in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out with extreme market scenarios (stress testing), in which the impacts of different past and theoretical scenarios on portfolios are analysed.

Market risks are monitored on a daily basis and reports are made to the oversight bodies on the existing risk levels and on the compliance with the limits set forth by the Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

Trading market risk incurred in terms of the 1-day VaR with 99% confidence for 2017 and 2016 is as follows:

€ million

	2017			2016		
	Medium	Maximum	Minimum	Medium	Maximum	Minimum
Interest rate risk	1.13	3.27	0.40	0.90	2.86	0.45
Currency risk-trading	0.17	0.41	0.05	0.20	0.55	0.04
Equity risk	1.17	3.40	0.30	0.69	1.62	0.30
Credit spread	0.37	2.38	0.08	0.99	3.58	0.32
Aggregate VaR	**2.84**	**5.34**	**1.35**	**2.78**	**7.90**	**1.23**

4.4.3.2. Structural interest rate risk

Structural Interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking activities and is defined as the possibility of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (income and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).

The following types are considered under structural interest rate risk:

- Repricing risk: related to a temporary mismatch between the maturity dates and the repricing of assets, liabilities and short and long-term off-balance sheet positions.

- Curve risk: arising from changes in the form or gradient of the interest rate curve.

- Basis risk: arising from hedging an interest rate exposure using exposure to an interest rate that is repriced in different conditions.

- Optionality risk: arising from options, including implicit options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market best practices and are consistently implemented across all balance sheet management units (UGBs, for their acronym in Spanish), and by local asset and liability committees. The effect of diversification between currencies and UGBs is taken into account when presenting overall key figures.

The Group's current interest rate risk management strategy relies particularly on the following principles and pillars, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and process and robust systems in order to properly identify, measure, manage, control and report on IRRBB. This allows them to obtain information from all of the identified sources of IRRBB, assess their effect on financial margins and the economic value of assets and measure the vulnerability of the Group/UGB to potential losses deriving from IRRBB under different stress scenarios.

- At corporate level, a set of limits is established for overseeing and monitoring the level of IRRBB exposure that are appropriate in the light of internal risk tolerance policies. However, each UGB has the autonomy to set any other additional limits deemed necessary, based on their specific needs and the nature of its activities.

- The existence of a transfer pricing system.

- The set of systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap, a static measure which shows the breakdown of maturities and repricing of sensitive items on the balance sheet. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered to make assumptions as to stability and remuneration on the basis of the type of product.

The following table gives details of the Group's interest rate gap as at 31 December 2017:

Thousand euro

Time to review or maturity	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Money Market	28,825,928	649,923	1,046,944	22,238	-	-	-	-	**30,545,033**
Loans and receivables	27,273,002	20,914,127	44,235,765	9,030,573	7,074,288	5,044,521	5,067,425	11,201,982	**129,841,683**
Debt securities	2,484,525	851,492	428,938	416,701	586,401	1,599,322	459,890	16,613,945	**23,441,214**
Other assets	303	899	3,097	-	-	-	-	268	**4,567**
Total assets	**58,583,758**	**22,416,441**	**45,714,744**	**9,469,512**	**7,660,689**	**6,643,843**	**5,527,315**	**27,816,195**	**183,832,497**
Money Market	17,110,856	3,360,900	2,487,970	-	10,264,091	10,500,000	-	-	**43,723,817**
Customer funds	25,785,818	29,841,443	17,767,668	4,692,156	2,654,073	38,803,597	2,731,634	3,856,121	**126,132,510**
Debits represented by marketable securities	3,673,267	5,354,270	3,070,605	2,043,572	2,662,109	2,144,535	1,942,444	5,736,436	**26,627,238**
Of which: Subordinated liabilities	-	-	-	-	*424,600*	*433,935*	*1,150,000*	*515,025*	***2,523,560***
Other liabilities	212,932	320,200	1,035,084	312,673	190,887	120,396	71,168	238,278	**2,501,608**
Total liabilities:	**46,782,873**	**38,876,813**	**24,361,327**	**7,048,401**	**15,771,160**	**51,568,528**	**4,745,236**	**9,830,835**	**198,985,173**
Hedging Derivatives	**2,018,354**	**6,425,088**	**(499,882)**	**(1,774,210)**	**(662,508)**	**1,864,081**	**(483,566)**	**(6,812,511)**	**74,846**
Interest rate gap	**13,347,423**	**(14,591,767)**	**22,372,266**	**2,262,272**	**(7,886,986)**	**(44,085,861)**	**696,272**	**12,817,548**	**(15,068,833)**

Additionally, the sensitivity of different key economic figures (net interest margin, economic value) to changes in the interest rate curve is calculated. The following table shows the interest rate risk level in terms of the sensitivity of the main currencies of the Group at 2017 year-end.

	Instant and parallel increase of 100 b.p's	
Interest rate sensitivity	Impact on financial spread	Impact on economic value
EUR	4.0%	2.1%
GBP	1.2%	0.2%
USD	0.1%	(0.5%)

In addition to the impact on the net interest margin within the time horizon of one year shown in the previous table, the Group calculates the impact on the margin over a time horizon of two years, the result of which is notably more positive for all of the currencies. In particular, the income sensitivity for the second year considering the main currencies of the Group has a high "pass through", i.e. the percentage increase in benchmark interest rates which is transferred to customers' term deposits and remunerated sight accounts stands at 14.4%, whereas with an average pass through this increases to 20%, as shown in the following table:

	Instant and parallel increase of 100 bps	
Impact on net interest margin 2nd year	High "Pass Through"	Medium "Pass Through"
Total	14.4%	20.0%
Of which EUR	*11.0%*	*13.8%*
Of which GBP	*2.9%*	*5.6%*

Given the current level of market interest rates, the scenario of a decline in interest rates uses, for the points of the curve in which rates are positive, a maximum shift of 100 basis points in each term, so that the resulting interest rate is always greater than or equal to zero. In the points of the curve in which rates are negative, no shift will be applied.

Derivatives are arranged in financial markets to hedge risks, mainly interest rate swaps (IRS), which qualify for hedge accounting. Two separate types of macro-hedging are used:

- Interest rate macro-hedging of cash flows, the purpose of which is to reduce the volatility of the net interest margin as a result of interest rate fluctuations, for a one-year time horizon.

- Fair value interest rate macro-hedges, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

4.4.3.3 Structural exchange rate risk

Structural exchange rate risk arises in the event that changes in market rates between different currencies generate losses on financial investments and on permanent investments in overseas branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise its impact on the value of the portfolio / the entity's equity due to adverse movements in currency markets. The risk appetite defined in the RAS takes precedence and the established levels for the risk metrics must be complied with at all times.

Exchange rate risk is monitored on a regular basis and reports on current risk levels and compliance with the limits assigned to each unit are sent to the established risk control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the entity in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in terms of Tier 1.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

The bank’s Financial Division, through the ALCO, designs and executes strategies for the coverage of foreign exchange structural positions with the primary aim of minimising the impact on CET1 capital ratios caused by exchange rate fluctuations.

The effective sale of Sabadell United Bank, N.A. was carried out on 31 July 2017 (see Note 2), reducing the structural position in USD from USD 811 million at 31 December 2016 to USD 442 million (€368 million) at 31 December 2017.

In terms of permanent investments in Mexican pesos, given the uncertainty surrounding NAFTA and the increase in political risk in Mexico as the presidential elections of July 2018 draw nearer, the capital buffer has been adjusted from MXN 1,293 million as at 31 December 2016 to MXN 7,054 million as at 31 December 2017, representing 73% of the total investment made (see Note 12 on allowances for net investments in business overseas).

In terms of the structural position in pound sterling, in a context of economic weakness and domestic political instability in the United Kingdom, Banco de Sabadell, S.A. closely monitors changes in the EUR/GBP exchange rate on a continuous basis. The Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that could be experienced as a result of changes in the aforementioned EUR/GBP exchange rate. Thus, the bank has maintained an economic hedge of profits and flows expected from its subsidiary TSB through an open position in GBP to offset exchange rate fluctuations of this currency, recognised as a trading position.

Considering the foregoing, in 2017 adjustments have been made to the capital buffer, going from GBP 1,368 million as at 31 December 2016 to GBP 1,268 million as at 31 December 2017, representing 63% of total investments (see Note 12 on coverage of net investments in business overseas).

The exchange value in euro of assets and liabilities in foreign currencies maintained by the Group at 31 December 2017 and 2016, classified in accordance with their nature, is as follows:

Thousand euro

	2017			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**8,996,748**	**49,113,676**	**1,597,970**	**59,708,394**
Cash and cash balances with central banks and other demand deposits	435,237	8,552,609	136,379	9,124,225
Debt securities	1,635,972	2,386,903	56,072	4,078,947
Loans and advances				
Central banks and credit institutions	244,307	723,556	75,666	1,043,529
Customers	6,498,962	36,368,360	1,225,320	44,092,642
Other assets	182,270	1,082,248	104,533	1,369,051
Liabilities denominated in foreign currency:	**8,320,641**	**46,172,977**	**687,767**	**55,181,385**
Deposits				
Central banks and credit institutions	2,666,442	6,411,793	276,525	9,354,760
Customers	5,435,033	36,422,687	372,318	42,230,038
Other liabilities	219,166	3,338,497	38,924	3,596,587

Thousand euro

	2016			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**15,878,614**	**44,435,457**	**1,133,974**	**61,448,045**
Cash and cash balances with central banks and other demand deposits	652,889	4,266,002	165,408	5,084,299
Debt securities	3,731,567	2,450,815	60,693	6,243,075
Loans and advances				
Central banks and credit institutions	277,689	721,908	12,572	1,012,168
Customers	10,735,376	35,012,927	810,188	46,558,492
Other assets	481,094	1,983,805	85,112	2,550,010
Liabilities denominated in foreign currency:	**14,864,643**	**41,702,364**	**418,332**	**56,985,338**
Deposits				
Central banks and credit institutions	4,639,081	969,118	208,281	5,816,480
Customers	9,873,168	35,482,586	166,121	45,521,875
Other liabilities	352,393	5,250,659	43,930	5,646,983

The net position of foreign currency assets and liabilities includes the structural position of the bank valued at historic exchange rates which amounted to €1,372 million, which includes €834 million corresponding to permanent shareholdings in GBP, €368 million corresponding to permanent shareholdings in USD and €131 million to shareholdings in MXN. Net assets and liabilities valued at exchange rate are hedged with forwards transactions and options denominated in foreign currencies in line with the Group's risk management policy.

At the end of 2017, the equity exposure sensitivity to a 1% devaluation in exchange rates against the euro of the main currencies to which the bank is exposed amounted to €14 million, of which 61% correspond to the sterling pound, 27% to the US dollar and 10% to the Mexican peso.

4.4.4. Operational Risk

Operational risk is defined as the risk of incurring losses due to the inadequacy or failures of internal processes, people or systems or due to unexpected external events. This definition includes reputational risk, conduct risk, technology risk, model risk and outsourcing risk.

Management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data throughout the organisation. The Group has a central unit specialised in the management of operational risk, whose main functions are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in the management of this risk by approving the management framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of Senior Management members from different functional areas within the bank. The management of this risk also requires regular audits to be carried out on the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first line of action is based on the analysis of processes, the identification of risks associated with such processes that may result in losses, a qualitative assessment of the risks and the associated controls, carried out jointly between process managers and the central operational risk unit. This provides an assessment which lets the bank know its future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be efficiently planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators, causing the establishment of alerts to warn of any increase in this exposure, the identification of the causes for this increase, and the measurement of the efficiency of the resulting controls and improvements.

At the same time, a check is carried out to ensure that processes identified as being highly critical in the event of discontinued service have specific business continuity plans in place and implemented. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of action is based on experience. It consists in recording all losses incurred by the bank in a database, which provides information about operational risks encountered by each line of business as well as their causes, so that action may be taken to minimise these risks.

Additionally, this information allows the consistency between the estimates of potential and real losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Operational risk includes management and oversight of the following main risks:

- Reputation risk: possibility of incurring losses derived from negative publicity related to the bank's practices and business, which may also generate a lack of confidence in the institution, thereby affecting is solvency.

- Technology risk: possibility of incurring losses derived from an inability of the systems' infrastructure to fully continue carrying out its day-to-day activities.

- Outsourcing risk: the possibility of incurring losses deriving from suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations.

- Model risk: the possibility of incurring losses deriving from decisions taken based on the use of inadequate models.

4.4.5. Tax Risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to comply with the tax obligations that may result in an undue lack of income, or the occurrence of any other event that generates potential damages for the bank in terms of its meeting objectives.

- On the other hand, the probability of undue income during attempts to comply with tax obligations, thus negatively affecting shareholders and other stakeholders.

Banco Sabadell's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and objectives are systematically identified, measured and managed so as to comply with the new requirements of the Spanish Capital Companies Act and meet the demands of Banco Sabadell Group stakeholders.

In terms of fiscal risk, Banco Sabadell aims to comply with its fiscal obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell's fiscal strategy reflects its commitment to promoting responsible taxation, promoting the prevention and development of key transparency schemes in order to gain the trust of the various stakeholders.

The Group's fiscal strategy is aligned with its business strategy, and manages fiscal aspects efficiently and in line with the principles of prudence and mitigation of fiscal risk.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the bank's tax strategy.

- Approving investments and operations of all types which are considered strategic or to have a particular fiscal risk due to their amounts or particular characteristics, except when such approval corresponds to the Annual General Meeting.

- Approving the creation or acquisition of equity interests in special purpose entities or entities domiciled in countries or territories considered tax havens.

- Approving any transaction which, due to its complexity, might undermine the transparency of the entity and its Group.

Thus, the responsibilities of the Board of Directors of Banco Sabadell include the obligation to approve the corporate fiscal policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

4.4.6. Compliance risk

Compliance risk is the risk of incurring legal or administrative sanctions, significant financial losses or loss or damage to the entity's reputation as a result of an infringement of laws, regulations, internal procedures and codes of conduct applicable to the banking industry.

An essential aspect of Banco Sabadell Group's policy, and one of the foundations of its organisational culture, is the meticulous fulfilment of all legal terms and conditions. The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

To this end, the Group has a Compliance Division, the purpose of which is to promote and endeavour to reach the highest degrees of compliance with the legislation in force and the professional ethics of the Group, minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved and that the appropriate preventive measures are adopted in the event that these are not already in place.

The compliance model assigns responsibility for establishing policies, procedures and controls to the parent undertaking. Responsibility for the execution of control programmes also resides with the parent undertaking. Overseas branches and subsidiary undertakings are assigned responsibility for the implementation of those policies, procedures and controls that directly affect them, and are therefore the functional directors of such procedures and controls.

It is a flexible model focused on risk, which is continuously adapted to the Group's strategy and which takes full advantage of synergies, maintaining an overall focus on any aspects that fall within the general scope and/or which require significant technological development, but which is also adapted to the specific characteristics and legislation affecting each business or country.

The main challenge is the standardisation within the Group of compliance control levels by setting mandatory minimum standards, irrespective of the activity or country in which this activity is being carried out.

This model is formed of two pillars:

(i) A central unit which provides services to the whole Group and which is aimed at the Group-wide management of compliance risk. Its main tasks are the analysis, distribution and implementation control of any new regulations that could impact the Group, as well as the control, focused on risk, of the correct compliance with the regulations already in place.

Additionally, it is directly responsible for the execution of various processes which have been categorised as high risk, as they require comprehensive and direct control methods: anti-money laundering and combating the financing of terrorism, control of market abuse practices, control of fulfilment of Internal Code of Conduct and the implementation and monitoring elements for investor protection (MiFID).

(ii) A network of compliance supervisors located in each subsidiary and overseas branch (with functional dependency on the central compliance unit and hierarchical reliance on the manager of the subsidiary or foreign branch) and which operate their own control programmes. They regularly report to the central unit to ensure the fulfilment of internal rules and regulations and compliance with the legislation in force that govern the countries in which these subsidiaries and overseas branches operate, and the activities that they carry out.

To ensure its efficiency, this model is implemented and enhanced using six catalysts (technology, training, procedures, communication channels, oversight and monitoring programmes, and product and rule approval processes).

Note 5 – Minimum own funds and capital management

Regulatory Framework

The new regulatory framework with which the European Union implemented the capital regulations set forth in the Basel III accords by the Basel Committee on Banking Supervision (BCBS) entered into force on 1 January 2014 in the form of a phase-in model spanning from such date until 1 January 2019.

This regulation, which is split into three pillars, regulates the minimum own funds required to be kept by credit institutions, on both an individual and consolidated basis, considering the way in which these own funds must be calculated (Pillar I), the internal capital assessment and oversight process (Pillar II), and the public information that must be disclosed to the market (Pillar III).

This regulatory framework is based on the following legal acts:

- Directive 2013/36/EU (generally known as CRD-IV) of 26 June, of the European Parliament and of the Council, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 202/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

- Regulation (EU) 575/2013 (generally known as CRR) of 26 June 2013, of the European Parliament and of the Council, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.

Directive CRD-IV was transposed into the Spanish legal system through:

- RD-Law 14/2013 of 29 November, on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions.

- Law 10/2014 of 26 June, on the organisation, supervision and solvency of credit institutions.

- Royal Decree 84/2015 of 13 February, implementing Law 10/2014 of 26 June, on the organisation, supervision and solvency of credit institutions, completing the regulatory implementation of the above law, while merging into a single text all of the regulatory requirements for the organisation and discipline of credit institutions.

- Bank of Spain Circular 2/2016 of 2 February, the primary objective of which is to complete, in matters related to credit institutions, the transposition of Directive 2013/36/EU (Supervision of Credit Institutions) into the Spanish legal system.

The CRR, which is directly applicable to Member States and, as such, to Spanish credit institutions, grants authority to the national authorities of competent jurisdictions to make use of certain regulatory options.

In this respect, Bank of Spain, by virtue of the enabling clause included in RD Law 14/2013, published Circulars 2/2014 and 3/2014, of 31 January and 30 July, respectively. It also recently published Circular 2/2016 by which it makes use of and implements these regulatory options.

Under the requirements set forth in the CRR, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority under the new regulatory framework and require institutions to maintain additional capital.

The entity received a notification on 14 December 2017 from the European Central Bank regarding the decision on the prudential minimum requirements applicable to the bank for 2018, deriving from the Supervisory Review and Evaluation Process (SREP), determining that Banco Sabadell Group must maintain, on a consolidated basis, a CET1 ratio of 8.3125% measured against phased-in regulatory capital. This requirement includes the minimum required by Pillar 1 (4.50%), the Pillar 2 requirement (1.75%), the capital conservation buffer (1.875%) and the requirement arising from its consideration as an O-SII (0.1875%). Furthermore, this is the consolidated CET1 level below which the Group would be obligated to calculate the maximum distributable amount (MDA), which would limit its distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 equity securities.

The note published by Bank of Spain on 24 November 2017, which designates systemic institutions and sets their capital buffers in line with the European Banking Authority Guidelines on criteria for the assessment of O-SII (EBA/GL/2014/10), included in Standard 14 and Annex 1 to Bank of Spain Circular 2/2016, confirms the consideration of Banco Sabadell as an O-SII (Other Systemically Important Institution), setting the capital buffer at 0.1875% for 2018.

In terms of the specific counter-cyclical buffer of Banco Sabadell, which has been calculated following that set forth in Bank of Spain Circular 2/2016 of 2 February, this has been kept at 0% throughout 2017.

As at 31 December 2017, the Group's CET1 capital ratio stood at 13.4% therefore, with regard to the capital requirements mentioned in previous points, this does not imply any of the limitations mentioned.

Capital management

The management of capital funds is the result of the ongoing capital planning process. This process considers the expected evolution of the economic, regulatory, and sectoral environment, as well as more adverse scenarios. It takes into account the expected capital consumption in different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the various actions that could be considered for implementation. The process is enshrined within the strategic objectives of the bank and aims to achieve an attractive return for shareholders, whilst also ensuring that its own funds are appropriate in terms of the inherent risks of banking activity.

As regards capital management, as a general policy, the Bank aims to adjust available capital on a global scale to the incurred risks.

The Group follows the guidelines set out in CRD-IV and associated regulations in order to establish own funds requirements that are inherent to the risks that have been incurred by the Bank, based on internal risk measurement models that have been previously validated by independent parties. To this end, the Group has been authorised by the supervisor to use the majority of its internal models in place to calculate regulatory capital requirements.

The following table outlines the status of credit rating models developed by Banco Sabadell Group in terms of the authorisation by the Supervisor for their usage when calculating own funds requirements:

Breakdown of portfolios authorised by the supervisor for the use or gradual application of the internal-ratings based (IRB) approach.					
Bank	Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimates Used	Internal ratings-based approach	Status
BSab	Corporates	Portfolios subject to rating models for customers ranging from corporate banking customers to SMEs and RE developers	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 01/2008
BSab	Retail	Mortgage Scoring	Probability of Default (PD) Loss Given Default (LGD)	Advanced IRB	Authorised on 01/2008
BSab	Retail	Consumer Scoring	Probability of Default (PD) Loss Given Default (LGD)	Advanced IRB	Authorised on 01/2008
BSab	Corporates	Project Finance	Probability of Default (PD)	Supervisory Slotting Criteria	Authorised on 12/2009
BSab	Retail	Retailers and self-employed	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 12/2010
BSab	Retail	Behavioural scoring of Cards and Loans	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 12/2011
BSab	Retail	Behavioural Scoring of Consumer Loans	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 01/2008
BSab	Retail	Behavioural scoring of Mortgage Loans	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 01/2008
BSab	Institutions	Financial institutions	Probability of Default (PD)	Foundation IRB	Authorised on 12/2012
TSB	Retail	Mortgage Scoring	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 06/2014
TSB	Retail	Consumer Loans Scoring	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 10/2014
TSB	Retail	Cards Scoring	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 06/2015
TSB	Retail	Current Accounts Scoring	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factor (CCF)	Advanced IRB	Authorised on 06/2015

Data of models approved by the Supervisor, as at 31 December 2017.

The date of authorisation refers to the date on which the Supervisor authorised the use of IRB models for each specific portfolio. After the date of authorisation for the use of IRB models, different authorisations have been given for new specific models.

- Behavioural Scoring of Consumer Loans
- Scoring to grant Consumer Loans
- Behavioural Scoring of Mortgage Loans
- Scoring to grant Mortgage Loans

The Group carries out frequent backtesting exercises on its IRB models, at least on an annual basis. These exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risk Committee and the Risk Committee (delegated Board committees). Additionally, the backtesting results that affect the risk parameters, and the main conclusions from these results, taking into account the criteria established by the EBA in its disclosure Guidelines, are included in the annual Pillar III Disclosures report.

Similarly, based on the risk measurements provided by the new methodologies, the Group has a comprehensive risk measurement model under one internal measurement unit, in terms of allocated capital.

The allocation of capital by risk type at the end of 2017 is as follows:

%	2017
Credit risk	82%
Structural risk	5%
Operational risk	9%
Market risk	1%
Other	3%
Total	**100%**

The Group has a sophisticated system to measure each type of risk incurred as well as methodologies capable of integrating all of them. Such approach requires a broad perspective of risk that takes account of possible stress scenarios and suitable financial planning in each case. The risk assessment systems used are in line with current best practices.

Each year the Group carries out an internal capital assessment process. This process starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk and the corresponding mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the institution's own models (such as borrower credit rating and scoring systems) and other internal estimates appropriate to each type of risk. The assessments for each type of risk are then integrated and a figure is calculated to be used as an indicator in terms of allocated capital. In addition, the Institution's business and financial objectives and stress testing exercises are reviewed to reach a determination as to whether certain business developments or extreme scenarios could pose a threat to its solvency when compared to its available own funds.

The risk assessment in terms of necessary allocated capital enables it to be linked to the yield obtained from the customer and operation level up to a business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and be included in the transaction pricing process.

The level and quality of capital are metrics corresponding to the Risk Appetite Statement, and are included within the Group's Risk Strategic Framework, which is detailed in Note 4. Financial risk management.

For more information on capital management see the document published annually regarding Pillar III Disclosures, available on the bank's website (www.grupbancsabadell.com) under the section Information for Shareholders and investors / Financial information.

Eligible capital and capital ratios

At 31 December 2017, the Group's eligible capital amounted to €12,524 million, representing a surplus of €6,313 million, as shown below:

Thousand euro

	2017	2016	Year-on year change (%)
Capital	703,371	702,019	0.19
Reserves	12,106,567	11,874,214	1.96
Bonds convertible into shares	-	-	-
Minority interests	16,909	21,490	(21.32)
Deductions	(2,403,752)	(2,265,363)	6.11
CET1 resources	**10,423,095**	**10,332,360**	**0.88**
CET1 (%)	13.4	12.0	
Preference shares, convertible bonds and deductions	697,882	-	-
Tier one aditional resources	**697,882**	**-**	**-**
Tier I aditional (%)	0.9	-	
Tier one resources	**11,120,977**	**10,332,360**	**7.63**
Tier I (%)	14.3	12.0	
Tier two resources	**1,403,274**	**1,519,237**	**(7.63)**
Tier II (%)	1.8	1.8	
Capital base	**12,524,251**	**11,851,597**	**5.68**
Minimum capital requirement	6,211,052	6,885,598	(9.80)
Capital surplus	**6,313,199**	**4,965,999**	**27.13**
BIS ratio (%)	**16.1**	**13.8**	**17.15**
Risk weighted assets (RWA)	**77,638,150**	**86,069,980**	**(9.80)**

Common Equity Tier 1 (CET1) capital accounted for 83% of eligible capital. Deductions are mainly comprised of goodwill and intangible assets.

In Basel III, Tier 1 capital is comprised, in addition to CET1 funds, by items that largely make up Additional Tier 1 capital, in turn made up of, one hand, capital instruments comprised of preference shares and, on the other hand, deductions, mainly comprised of deductions due to goodwill and intangible assets in the corresponding percentage for the transitional period (20%) and deductions due to insufficient provisions for expected credit losses according to IRB models, also in the corresponding percentage for the transitional period (10%).

Secondary or Tier II capital provides a further 11% of the BIS ratio and is made up very largely of subordinated debt and generic provisions (subject to regulatory limits as to eligibility), and other required deductions.

Over the last 5 years, the bank has increased its capital base by over €5 billion, through the organic generation of profits and issues of capital qualifying as CET1, including the capital increase with pre-emptive subscription rights of €1,607 million carried out in 2015 as a result of the acquisition of TSB.

Changes in regulatory capital during the period are shown below:

Thousand euro	
Opening CET1 (31/12/2016)	**10,332,360**
Profit attributable to the Group	801,468
Dividends	(392,977)
Reserves	(9,669)
Minority interests	(4,581)
Valuation adjustments	(210,316)
Deductions	(93,167)
Closing CET1 (31/12/2017)	**10,423,118**

Thousand euro	
Additional Tier I (31/12/2016)	**-**
Eligible instruments	1,132,320
Minority interests	425
Deductions	(434,863)
Additional Tier I (31/12/2017)	**697,882**

Thousand euro	
Tier II (31/12/2016)	**1,519,237**
Eligible instruments	(123,124)
Credit risk adjustments	(2,334)
Minority interests	518
Deductions	8,977
Tier II (31/12/2017)	**1,403,274**

Changes in phased-in Common Equity Tier 1 (CET1) capital between 2016 and 2017 are due mainly to retained earnings during the year, lower deductions, and also due to the fact that two issuances of perpetual securities convertible into ordinary shares of Banco Sabadell have been carried out in 2017, of €750 million and €400 million, respectively. These two issues have not only increased the phased-in Common Equity Tier 1 (CET1) capital but have also optimised Banco Sabadell’s capital structure.

The table below shows the reconciliation of stockholders’ equity with regulatory capital:

€ million	2017	2016
Own funds	13,426	12,926
Valuation adjustments	(265)	107
Minority interests	61	50
Total net equity	**13,222**	**13,083**
Goodwill and intangibles	(1,797)	(2,128)
Other adjustments	(1,002)	(623)
Regulatory accounting adjustments	**(2,799)**	**(2,751)**
Common equity tier 1	**10,423**	**10,332**
Additional tier 1 capital	**698**	**-**
Tier 2 capital	**1,403**	**1,519**
Total regulatory capital	**12,524**	**11,852**

As at 31 December 2017, there is no significant difference between the public consolidation scope and the regulatory consolidation scope.

Risk-weighted assets (RWAs) for the period stand at €77,638,150 thousand, which represents a 9.80% decrease compared with the previous year. Note should be taken of the sale of the subsidiary Sabadell United Bank, the use of new models for retail customers and Group adjustments for capital requirements calculations, and the improvement of customers' credit profiles. The following table shows the reasons for changes in RWAs due to Credit Risk occurring during the year:

Thousand euro

	RWA	Capital requirements (*)
Balance at 31 December 2016	**77,140,579**	**6,171,246**
Change in business volume	(3,797,210)	(303,777)
Asset quality	(1,516,333)	(121,307)
Changes in models	(1,909,671)	(152,774)
Methodology, parameters and policies	(522,086)	(41,767)
Exchange rate (**)	(301,215)	(24,097)
Other	(662,007)	(52,961)
Balance at 31 December 2017	**68,432,058**	**5,474,563**

Excludes credit risk adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs.

(*) Calculated as 8% of RWAs.

(**) Changes due to exchange rate fluctuations are due to structural positions in GBP and USD, which are not hedged in order to protect the capital ratio against adverse exchange rate effects.

In its strategic business plan, the Group expects to continue managing capital in such a way as to maintain its comfortable capital position of recent years, demonstrated by the results of the Supervisory Review and Evaluation Process (SREP), which are given in the first section of this note.

All of these actions and events, both in terms of available capital and in terms of risk weighted assets, have enabled Banco Sabadell to reach a phased-in Common Equity Tier 1 (CET 1) ratio of 13.4%, and a total capital ratio of 16.1% as at December 2017, substantially above regulatory framework.

In 2017, risk weighted assets (RWAs) are distributed by risk type, as shown below, with Credit Risk representing the largest proportion.

%

	2017
Credit risk (*)	88.43%
Operational risk	10.77%
Market risk	0.79%
Total	**100%**

(*) Includes counterparty risk.

The tables below show risk-weighted assets for the type of risk that represents the most significant risk in terms of volume (credit risk), broken down by geography, sector and regulatory segment.

%

	2017
Spain	72.58%
United Kingdom	13.84%
Latin America	5.90%
Rest of European Union	3.35%
North America	3.07%
Rest of the world	1.19%
Other OECD countries	0.08%
Total	**100%**

Includes counterparty risk.

%	2017
Finance, retailers and other services	43.57%
Retailers	38.33%
Transportation, distribution and hospitality	6.67%
Real estate activity	3.49%
Manufacturing industries	3.28%
Generation and distribution of energy	3.12%
Construction	1.01%
Agriculture, farming and fishing	0.40%
Extractive industries	0.16%
Total	**100%**

Includes counterparty risk.

The table below also shows the breakdown of regulatory exposures and risk-weighted assets by segments and by approach:

%	EAD	*IRB*	*STDA*	RWA	*IRB*	*STDA*
Public sector	22.99%	-	*100.00%*	1.70%	-	*100.00%*
Financial institutions	2.27%	*43.14%*	*56.86%*	2.20%	*56.02%*	*43.98%*
Corporates	10.66%	*90.45%*	*9.55%*	20.08%	*90.00%*	*10.00%*
SMEs (Business banking)	8.31%	*83.09%*	*16.91%*	12.05%	*83.62%*	*16.38%*
SMEs (Retail banking)	6.27%	*83.66%*	*16.34%*	5.43%	*76.75%*	*23.25%*
Retailers and sole proprietors	1.48%	*80.94%*	*19.06%*	1.11%	*73.18%*	*26.82%*
Mortgage loans	32.74%	*70.21%*	*29.79%*	19.47%	*39.70%*	*60.30%*
Loans	2.15%	*71.66%*	*28.34%*	5.11%	*79.68%*	*20.32%*
Other retail banking customers	3.61%	*73.85%*	*26.15%*	4.08%	*53.54%*	*46.46%*
Other	8.73%	-	*100.00%*	23.32%	-	*100.00%*
Equity	0.79%	-	*100.00%*	5.45%	-	*100.00%*
Total	**100%**			**100%**		

Includes counterparty risk.

In addition to capital ratios, the Leverage Ratio (LR) aims to strengthen capital requirements by providing a supplementary measure which is not linked to the risk level. The leverage ratio is the ratio between eligible primary capital (Tier 1) and the exposure measurement, calculated pursuant to that set forth in Commission Delegated Regulation (EU) 2015/62 of 10 October 2014.

The CRR sets forth a leverage ratio compliance with which is mandatory as of 1 January 2018. Previously, a definition and calibration period between 2014 and 2017 was established, during which institutions are required to disclose their leverage ratio and send information relative to the ratio to the supervisor who, based on the results, shall implement amendments as they see fit for its entry into force. At present, the bank reports to the supervisor on a quarterly basis and a reference level of 3% is considered.

As mentioned previously, the level of exposure is calculated in line with the definition contained in Commission Delegated Regulation (EU) 2015/62. The leverage ratio at 31 December 2017 and 2016 is shown below:

Thousand euro	2017	2016
Tier 1 capital	11,120,977	10,332,360
Exposure	223,785,758	217,918,574
Leverage ratio	**4.97%**	**4.74%**

It should be noted that the improvement in the ratio during the year is due to, amongst other reasons, the issue of preference shares qualifying as Additional Tier 1 (AT1) capital, as well as the effect on exposures of the sale of the North American subsidiary, Sabadell United Bank, which partly offsets the asset growth trend.

For more information on capital ratios and the leverage ratio, their composition, details of parameters and their management see the document published annually regarding Pillar III Disclosures, available on the bank's website (www.grupbancsabadell.com) under the section Information for Shareholders and investors / Financial information.

Note 6 – Fair value of assets and liabilities

Financial assets and liabilities

The fair value of a financial asset or liability at a given date is understood as the amount at which it could be sold or transferred, respectively, at that date, between independent and knowledgeable parties acting freely and prudently and without coercion in market conditions. The most objective and commonly used reference for the fair value of a financial asset or liability is the price that would be paid on in organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or liability, the fair value is estimated from the values established for similar instruments in recent transactions or, failing that, by using mathematical valuation models suitably tested by the international financial community. When using these models, the specific characteristics of the financial asset or liability being valued are taken into account, particularly the different types of risk that may be associated with them. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments the fair value measurements disclosed in the financial statements are classified according to the following fair value levels:

- Level I: Fair values are obtained from the prices (unadjusted) being quoted on active markets a single instruments.

- Level II: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other measurement techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level III: Fair values are obtained through measurement techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of instrument concerned:

Level 2 financial instruments	Valuation methods	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk	- Issuer credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied.	- NACE codes - Share price listings in organised markets
Derivatives (a)	Black-Scholes model (analytic/semi-analytic formulae)	For equity derivatives, inflation, currencies and commodities: - Black-Scholes assumes a lognormal process of forward rates taking into account potential convexity adjustments.	For equity derivatives, inflation, currencies or commodities: - Forward structure of the underlying asset, given by market data (dividends, swaps points, etc.) - Option volatility surfaces For interest rate derivatives: - Interest rate time structure - Underlying Options asset volatility surfaces on Libor rate (caps) and Swaps rates (swaptions) - Probability of default for CVA and DVA calculation (b) For credit derivatives: - Credit Default Swaps (CDS) values - Historic credit spread volatility
	For equity derivatives, currencies and commodities: - Monte Carlo simulations - SABR	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates. - Forward rates in the term structure of the interest rate curve are fully correlated.	
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and t

Level 3 financial instruments	Valuation methods	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk - Current market interest rates	- Estimated credit spreads of the issuer or a similar issuer.
Equity instruments	Discounted cash flow method	Calculation of the present value of future cash flows discounted at risk-adjusted market interest rates (CAPM method), taking into account: - Estimated cash flows for the company - Sector risk for the company - Macroeconomic inputs	- The bank's business plans - Risk premiums for the company's sector -Adjustment for systematic risk (Beta parameter)
Derivatives (a)	For equity derivatives, currencies and commodities: - Monte Carlo simulations	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	For equity derivatives, inflation, currencies and commodities: - Historical volatilities - Historical correlations - PD for calculation of CVA and DVA (b)
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	For credit derivatives: - Estimated credit spreads of the issuer or a similar issuer - Historical volatility of credit spreads
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates - Forward rates in the term structure of the interest rate curve are fully correlated	For interest-rate derivatives: - Internal PD for calculation of CVA and DVA (b)

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and t

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and the related fair value is as follows:

Thousand euro

	Note	2017		2016	
		Accounting balance	Fair value	Accounting balance	Fair value
Assets:					
Cash, cash and cash balances with central banks and other demand deposits	7	26,362,807	26,362,807	11,688,250	11,688,250
Financial assets held for trading	9, 10	1,572,504	1,572,504	3,484,221	3,484,221
Financial assets at fair value through profit or loss	9	39,526	39,526	34,827	34,827
Available-for-sale financial assets	8, 9	13,180,716	13,180,716	18,718,339	18,718,339
Loans and receivables	8, 11	149,551,292	156,117,282	150,384,445	158,022,457
Held to maturity investments		11,172,474	11,701,077	4,598,190	4,956,486
Derivatives - hedge accounting	12	374,021	374,021	535,160	535,160
Fair value changes of the hedged items in portfolio hedge of interest rate risk		48,289	48,289	965	965
Total assets		**202,301,629**	**209,396,222**	**189,444,397**	**197,440,705**

Thousand euro

	Note	2017		2016	
		Accounting balance	Fair value	Accounting balance	Fair value
Liabilities:					
Financial liabilities held for trading	10	1,431,215	1,431,215	1,975,806	1,975,806
Financial liabilities designated at fair value through profit or loss		39,540	39,540	34,836	34,836
Financial liabilities at amortised cost	18, 19, 20, 21	204,045,482	203,506,188	192,011,024	193,175,272
Derivatives - hedge accounting	12	1,003,854	1,003,854	1,105,806	1,105,806
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(4,593)	(4,593)	64,348	64,348
Total liabilities		**206,515,498**	**205,976,204**	**195,191,820**	**196,356,068**

In relation to financial instruments the book value of which differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "*Cash and cash balances with central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings "*Loans and receivables*" and "*Financial liabilities measured at amortised cost*" has been estimated by the discounted cash flow method, using market interest rates at the end of each year.

– The fair value of the heading "Investments held to maturity" has been estimated using market prices at year-end.

–The heading "*Fair value changes of the hedged items in portfolio hedge of interest rate risk*" on the accompanying consolidated balance sheets records the difference between the carrying amount of the deposits covered (recorded in "*Loans and receivables*") and the fair value calculated using internal models and observable market variables.

The following table shows the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

		2017			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		110,358	1,462,146	-	1,572,504
Derivatives	10	325	1,440,418	-	1,440,743
Equity instruments	9	-	7,432	-	7,432
Debt securities	8	110,033	14,296	-	124,329
Loans and advances-Customers	11	-	-	-	-
Financial assets designated at fair value through profit or loss		-	39,526	-	39,526
Equity instruments	9	-	39,526	-	39,526
Debt securities		-	-	-	-
Loans and advances-Credit institutions		-	-	-	-
Available-for-sale financial assets		12,529,039	475,395	176,282	13,180,716
Equity instruments	9	56,717	180,299	176,282	413,298
Debt securities	8	12,472,322	295,096	-	12,767,418
Derivatives - hedge accounting	12	41,039	332,982	-	374,021
Total assets		**12,680,436**	**2,310,049**	**176,282**	**15,166,767**

Thousand euro

		2017			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		70,165	1,361,050	-	1,431,215
Derivatives	10	311	1,361,050	-	1,361,361
Short positions		69,854	-	-	69,854
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	39,540	-	39,540
Derivatives - hedge accounting	12	22,502	981,352	-	1,003,854
Total liabilities		**92,667**	**2,381,942**	**-**	**2,474,609**

Thousand euro

		2016			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		1,624,748	1,859,473	-	3,484,221
Derivatives	10	3,774	1,830,721	-	1,834,495
Equity instruments	9	-	10,629	-	10,629
Debt securities	8	1,620,974	18,123	-	1,639,097
Loans and advances-Customers	11	-	-	-	-
Financial assets designated at fair value through profit or loss		-	34,827	-	34,827
Equity instruments	9	-	34,827	-	34,827
Debt securities		-	-	-	-
Loans and advances-Credit institutions		-	-	-	-
Available-for-sale financial assets		16,784,526	1,683,006	250,807	18,718,339
Equity instruments	9	100,006	246,996	250,807	597,809
Debt securities	8	16,684,520	1,436,010	-	18,120,530
Derivatives - hedge accounting	12	108,078	427,082	-	535,160
Total assets		**18,517,352**	**4,004,388**	**250,807**	**22,772,547**

Thousand euro

		2016			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		59,900	1,915,906	-	1,975,806
Derivatives	10	8	1,915,906	-	1,915,914
Short positions		59,892	-	-	59,892
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives - hedge accounting	12	63,745	1,042,061	-	1,105,806
Total liabilities		**123,645**	**2,957,967**	**-**	**3,081,612**

Derivatives without a collateral contract (CSAs) include credit valuation adjustment (CVA) and debit valuation adjustment (DVA) in their fair value. The fair value of these derivatives represents 7.04% of the total, and their adjustment for credit and debit risks represents 3.22% of their fair value.

The movements in the balances of the financial assets and liabilities classified as Level 3 that are disclosed in the accompanying consolidated balance sheets are as follows:

Thousand euro

	Assets	Liabilities
Balance at 31 December 2015	**967,605**	**434,238**
Valuation adjustments recorded to profit and loss (*)	-	-
Valuation adjustments not recorded to profit and loss	-	-
Purchases, sales and write-offs	61,447	(24,339)
Net additions/(exits) on Level 3	(773,540)	(409,899)
Exchange differences and other	(4,705)	-
Balance at 31 December 2016	**250,807**	**-**
Valuation adjustments recorded to profit and loss (*)	(45,857)	-
Valuation adjustments not recorded to profit and loss	716	-
Purchases, sales and write-offs	(37,536)	-
Net additions/(exits) on Level 3	8,193	-
Exchange differences and other	(41)	-
Balance at 31 December 2017	**176,282**	**-**

(*) Relates to securities kept on the balance sheet

Financial instruments that were transferred between valuation levels during 2017 present the following balances in the accompanying consolidated balance sheet at 31 December 2017:

Thousand euro

	2017					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	-	-	353,314	8,193	-	-
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives - hedge accounting	-	-	-	-	-	-
Total	**-**	**-**	**353,314**	**8,193**	**-**	**-**

Thousand euro

	2016					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	634,920
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Derivatives	-	-	-	-	-	138,620
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	226,050
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives - hedge accounting	-	-	-	-	-	183,849
Total	**-**	**-**	**-**	**-**	**-**	**1,183,439**

In 2016, transfers from Level 3 to Level 2 were due to an assessment made of the impact of non-observable market data on the valuation of these instruments and, as such valuation was residual, it was deemed appropriate to transfer these instruments to Level 2.

At 31 December 2017, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) in the range that is considered likely, is not significant.

The instruments considered as level 3 mainly correspond to the investment that the entity holds in the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria*, SAREB), and also because, given the singularity of this investment, it is measured at fair value calculated based on the business plan and financial projections of that entity.

Loans and financial liabilities designated at fair value through profit or loss

At 31 December 2017 and 2016, there were no loans or other financial liabilities at fair value other than those recognised under "*Financial assets held for trading – Loans and advances to Customers*", "*Other assets designated at fair value through profit or loss*" and "*Other liabilities designated at fair value through profit or loss*" in the accompanying consolidated balance sheets.

Financial instruments at cost

At the end of both years there were no derivatives using equity instruments as underlyings or interests in discretionary gains in any companies.

There are also no equity instruments valued at their cost of acquisition (that could be considered significant).

Non-financial assets

Real estate assets

At 31 December 2017 and 2016, net book values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section “Guarantees”, in Note 1.3.4. of these consolidated annual accounts.

The valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and non-observable or non-verifiable data to a minimum.

The following measurement hierarchy levels would correspond to the main valuation methods used:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate income and there is a representative market of comparable data.

- Statistical model: This model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces provided by external valuation companies and demographic data from the Spanish National Statistics Institute to calculate sensitivity at a municipality level. At the same time, the value obtained is adjusted based on the degree of maturity (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the statistical procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Calculation of fair value

The following table shows the main real estate assets broken down using the valuation method used in their fair value estimate:

Thousand euro

	2017			
	Level 1	Level 2	Level 3	Total
Housing	-	3,086,525	-	3,086,525
Offices, retail outlets and other properties	-	2,342,601	-	2,342,601
Land and building plots	-	-	1,481,920	1,481,920
Work in progress	-	-	383,916	383,916
Total assets	**-**	**5,429,126**	**1,865,836**	**7,294,962**

Significant non-observable variables used in valuations classed as Level 3 have been developed not by the Group but by the independent valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the non-observable variables used reflect the assumptions frequently used by all valuation firms. Regarding the weight of the non-observable variables in the appraisals, these represent almost all of the value of these appraisals.

The movements of balances during 2017 classed as Level 3 are shown below:

Thousand euro

	Housing	Offices, retail outlets and other properties	Land, building plots and work in progress
Balance at 31 December 2016	**-**	**-**	**2,429,521**
Purchases	-	-	268,515
Sales	-	-	(276,344)
Impairments recorded on income statement (*)	-	-	(429,529)
Net additions/(exits) on Level 3	-	-	(126,327)
Balance at 31 December 2017	**-**	**-**	**1,865,836**

(*) Relates to assets kept on the balance sheet at 31 December 2017 and 2016 (see note 36).

During 2017, certain real estate assets have been transferred between the different valuation levels, owing to the transformation of assets in the process of construction becoming finished products.

The fair value of real estate assets valued by appraisal companies, portfolios of foreclosed assets and own-use assets classified as "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" in 2017 is as follows:

Thousand euro

	Non-current assets held for sale		Tangible assets	
Appraisal company	For own use	Foreclosed	Real estate investments	Inventories
Afes técnicas de tasación, S.A.	11,343	11,125	4,881	1,415
Alia tasaciones, S.A.	-	255,860	152,162	84,126
Arco valoraciones, S.A.	1,198	3,485	1,039	66
Cohispania	-	232	-	-
Col·lectiu d'arquitectes taxadors	86	6,828	7,495	2,649
Cushman & Wakefield	-	-	14,182	-
Egara informes, S.L.	-	327	-	-
Eurovaloraciones, S.A.	14,363	154,299	87,638	321,959
Gestión de valoraciones y tasaciones, S.A.	2,687	202,137	566,424	229,329
Ibérica de tasaciones, S.A.	-	11,050	8,204	-
Ibertasa, S.A.	2,146	154,045	106,213	107,014
Instituto de valoraciones, S.A.	-	89,942	42,024	136,226
Internacional de transacciones y SE	-	135	-	-
Krata, S.A.	1,000	165,998	59,376	125,213
LKS tasaciones, S.A.	-	-	967	-
Peritand	-	5,941	10,652	-
Sociedad de tasación, S.A.	466	777,691	116,359	527,324
Tabimed gestión de proyectos, S.L.	-	7,108	635	177
Tasaciones de bienes mediterráneo, S.A.	-	9,040	577	-
Tasaciones hipotecarias	-	80,122	48,180	35,647
Tasaciones inmobiliarias, S.A.	-	90,041	26,917	15,892
Tasasur sociedad de tasaciones, S.A.	-	275	254	-
Tecglen tasaciones, S.A.	654	-	-	-
Técnicos en tasación, S.A.	-	-	352	-
Tecnitasa técnicos en tasación, S.A.	1,340	89,970	108,552	175,013
Thirsa	-	40,281	31,491	7,158
Tinsa	804	579	2,025	-
Valoraciones mediterráneo, S.A.	-	154,660	96,374	144,149
Valtécnic, S.A.	-	6,662	37,604	124
Rest	429	25,982	433,180	162,811
Total	**36,517**	**2,343,816**	**1,963,756**	**2,076,294**

The fair value of property, plant and equipment does not differ significantly from its net carrying value.

Note 7 – Cash and cash balances at central banks and other demand deposits

The composition of this asset heading in the consolidated balance sheets at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017	2016
By nature:		
Cash	733,923	759,357
Cash balances at central banks	25,097,038	10,122,725
Other demand deposits	531,846	806,168
Total	**26,362,807**	**11,688,250**
By currency:		
In euro	17,238,582	6,603,951
In foreign currency	9,124,225	5,084,299
Total	**26,362,807**	**11,688,250**

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheet at 31 December 2017 and 2016 are analysed below:

Thousand euro

	2017	2016
By heading		
Financial assets held for trading	124,329	1,639,097
Financial assets designated at fair value through profit or loss	-	-
Available-for-sale financial assets	12,767,418	18,120,530
Loans and receivables	574,171	918,584
Held to maturity investments	11,172,474	4,598,190
Total	**24,638,392**	**25,276,401**
By nature:		
Central Banks	-	-
General Governments	22,311,211	22,877,291
Credit institutions	870,676	925,180
Other sectors	1,451,848	1,476,902
Doubtful assets	13,124	9,030
Impairment adjustments	(8,467)	(12,001)
Total	**24,638,392**	**25,276,401**
By currency:		
In euro	20,559,445	19,033,326
In foreign currency	4,078,947	6,243,075
Total	**24,638,392**	**25,276,401**

Details of debt instruments recorded under the heading Available-for-sale financial assets are as follows:

Thousand euro

	2017	2016
Amortised cost (*)	12,495,965	17,825,735
Fair value	12,767,418	18,120,530
Accumulated losses recognised in equity at year end	(134,950)	(101,268)
Accumulated capital gains recognised in equity at year end	406,403	396,063

(*) Includes net profit/(loss) due to impairment in the P&L account for 2017 and 2016 (€6,277.0 thousand) and €521 thousand, of which provisions during the year amounted to (€9,323.0 thousand) and (€3,935.0 thousand), and due to the reversal of impairment at €3,046 thousand and €4,456 thousand during 2017 and 2016 (see Note 35)."

The breakdown of government debt exposures classified as available-for-sale financial assets is as follows:

Thousand euro

	2017	2016
Amortised cost	10,934,418	16,174,690
Fair value	11,177,627	16,443,443
Accumulated losses recognised in equity at year end	(115,704)	(78,972)
Accumulated capital gains recognised in equity at year end	358,913	347,725

The portfolio of investments held to maturity breaks down as follows:

Thousand euro

	2017	2016
Central Banks	-	-
General Governments	11,079,997	4,598,190
Credit institutions	93,221	-
Other sectors	-	-
Impairment adjustments	(744)	-
Total	**11,172,474**	**4,598,190**

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheet at 31 December 2017 and 2016 are analysed below:

Thousand euro

	2017	2016
By heading:		
Financial assets held for trading	7,432	10,629
Financial assets designated at fair value through profit or loss	39,526	34,827
Available-for-sale financial assets	413,298	597,809
Total	**460,256**	**643,265**
By nature:		
Resident sector	266,119	361,290
Credit institutions	8,461	9,418
Other	257,658	351,872
Non resident sector	100,889	148,839
Credit institutions	59,733	95,955
Other	41,156	52,884
Equity investments in investment funds and companies	93,248	133,136
Total	**460,256**	**643,265**
By currency:		
In euro	368,184	496,356
In foreign currency	92,072	146,909
Total	**460,256**	**643,265**

At 2017 year-end there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

Financial assets designated at fair value through profit or loss consisted of investments associated with unit-linked products sold through the subsidiary Assegurances Segur Vida, S.A.

Details of equity instruments recorded under the heading "*Available-for-sale financial assets*" are as follows:

Thousand euro

	Note	2017	2016
Acquisition cost		356,159	532,378
Fair value		413,298	597,809
Accumulated losses recognised in equity at year end		(5,185)	(2,333)
Accumulated capital gains recognised in equity at year end		62,324	67,764
Losses recorded as impairment in profit and loss for the year	35	(47,097)	(112,806)

During 2017, Banco Sabadell has impaired the value of the equity interest that it held in the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB) for an amount of €37,000 thousand. At 31 December 2017, the value impairment of such equity interest amounted to €93,576 thousand, and its resulting value amounted to €133,174 thousand (€170,174 thousand in 2016).

Note 10 – Asset and liability derivatives held for trading

The breakdown by type of transaction of this heading on the asset and liability sides of the consolidated balance sheet at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Securities risk	111,239	111,701	169,449	170,058
Interest rate risk	891,179	847,753	1,122,057	1,137,713
Currency risk	426,520	389,299	467,291	530,860
Other kinds of risk	11,805	12,608	75,698	77,283
Total	**1,440,743**	**1,361,361**	**1,834,495**	**1,915,914**
By currency:				
In euro	1,271,688	1,263,837	1,609,077	1,738,788
In foreign currency	169,055	97,524	225,418	177,126
Total	**1,440,743**	**1,361,361**	**1,834,495**	**1,915,914**

Their fair values, broken down by type of derivative at 31 December 2017 and 2016, are shown below:

Thousand euro

	2017	2016
Assets		
Derivatives held for trading	*1,440,743*	*1,834,495*
Swaps, CCIRS, Call Money Swap	858,154	1,128,670
Exchange-rate options	99,858	30,068
Interest-rate options	40,527	50,591
Index and securities options	114,393	184,169
Currency forwards	326,661	437,223
Forward fixed-income bonds	1,150	3,774
Total assets held for trading	**1,440,743**	**1,834,495**
Liabilities		
Derivatives held for trading	*1,361,361*	*1,915,914*
Swaps, CCIRS, Call Money Swap	807,412	1,125,749
Exchange-rate options	101,028	31,323
Interest-rate options	39,241	100,766
Index and securities options	124,309	186,571
Currency forwards	288,271	471,497
Forward fixed-income bonds	1,100	8
Total liabilities held for trading	**1,361,361**	**1,915,914**

Note 11 – Loans and advances

Central banks and Credit institutions

The breakdown of the headings "Loans and advances - Central Banks" and "*Loans and advances - Credit institutions*" in the consolidated balance sheets at 31 December 2017 and 31 December 2016 is as follows:

Thousand euro

	2017	2016
By heading:		
Financial assets held for trading	-	-
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables	5,379,156	4,291,996
Total	5,379,156	4,291,996
By nature:		
Deposits with agreed maturity	1,769,568	2,320,133
Assets acquired under repurchase agreements	2,965,960	1,704,404
Hybrid financial assets	106	89
Other	644,885	269,122
Doubtful assets	364	368
Impairment adjustments	(5,306)	(6,681)
Other valuation adjustments (interest, fees and commissions, other)	3,579	4,560
Total	5,379,156	4,291,996
By currency:		
In euro	4,335,627	3,279,828
In foreign currency	1,043,529	1,012,168
Total	5,379,156	4,291,996

Customers

The breakdown of the heading "*Loans and advances - Customers*" (General governments and Other sectors) of the consolidated balance sheet at 31 December 2017 and 31 December 2016 is as follows:

Thousand euro

	2017	2016
By heading:		
Financial assets held for trading	-	-
Financial assets designated at fair value through profit or loss	-	-
Loans and receivables	143,597,966	145,173,865
Total	**143,597,966**	**145,173,865**
By nature:		
On-demand loans and other	7,567,029	6,801,456
Trade credit	5,801,602	5,530,045
Finance leases	2,316,285	2,168,803
Secured loans	86,581,398	90,693,505
Assets acquired under repurchase agreements	2,001,437	7,930
Other term loans	35,255,351	35,363,490
Doubtful assets	7,867,154	9,641,526
Impairment adjustments	(3,726,682)	(4,921,348)
Other valuation adjustments (interest, fees and commissions, other)	(65,608)	(111,543)
Total	**143,597,966**	**145,173,865**
By sector:		
General governments	9,802,679	9,683,466
Other sectors	129,720,423	130,881,764
Doubtful assets	7,867,154	9,641,526
Impairment adjustments	(3,726,682)	(4,921,348)
Other valuation adjustments (interest, fees and commissions, other)	(65,608)	(111,543)
Total	**143,597,966**	**145,173,865**
By currency:		
In euro	99,505,324	98,615,373
In foreign currency	44,092,642	46,558,492
Total	**143,597,966**	**145,173,865**
By geography:		
Spain	98,843,426	98,965,788
Rest of European Union	40,702,868	39,707,952
Latin America	3,695,269	3,519,712
North America	2,280,429	6,431,602
Other OECD countries	206,892	245,475
Rest of the world	1,595,764	1,224,683
Impairment adjustments	(3,726,682)	(4,921,347)
Total	**143,597,966**	**145,173,865**

The consolidated balance sheet heading "*Loans and receivables*" includes certain assets pledged in financing operations, i.e. those pledged as collateral or guarantees with respect to certain liabilities. For further information, see Note 4 "Financial risk management" in the section entitled "Credit risk".

Finance leases

Properties leased out under financial leases are recognised by the amortised cost of the instalments owed by the lessee plus the secured and unsecured residual value, excluding financial liens and value added tax. Details of the foregoing are set out hereafter:

Thousand euro

	2017	2016
Finance leases		
Total gross investment	2,271,417	2,137,815
Of which: Contingent lease payments recognised in income	*71,601*	*74,007*
Unearned financial income	234,829	245,716
Unguaranteed residual value	146,854	139,827
Impairment adjustments	(41,924)	(38,881)

The table below shows a breakdown by term of the current value of minimum future amounts receivable by the Group during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised):

Thousand euro

	Up to 1 year	1-5 years	More than 5 years	Total
Minimum lease payments receivable				
Mandatory minimum lease payments receivable	569,037	1,242,212	566,763	2,378,012

Past-due financial assets

The balance of "*Loans and advances - Customers*" past-due and pending collection not deemed as unlikely at 31 December 2017 amounted to €188,311 thousand (€222,083 thousand at 31 December 2016). Of this total, over 76% of the balance at 31 December 2017 (75% of the balance at 31 December 2016) had become due in a period no longer than one month.

Doubtful assets

Assets recognised as doubtful in the different balance sheet asset headings at 31 December 2017 and 2016 were as follows:

Thousand euro

	2017	2016
Debt securities	13,124	9,030
Loans and advances		
Customers	7,867,154	9,641,526
Central Banks and Credit Institutions	364	368
Total	**7,880,642**	**9,650,924**
By sector:		
General governments	12,432	13,863
Central Banks and Credit Institutions	364	7,276
Other private sectors	7,867,846	9,629,785
Total	**7,880,642**	**9,650,924**

The movements of doubtful assets are as follows:

Thousand euro

Balance at 31 December 2015	**12,482,401**
Additions	2,023,143
Disposals	(4,296,586)
Amortisations	(528,116)
Exchange differences and other	(29,917)
Balance at 31 December 2016	**9,650,924**
Additions	2,009,178
Disposals	(3,233,596)
Amortisations	(540,142)
Exchange differences and other	(5,722)
Balance at 31 December 2017	**7,880,642**

The breakdown of doubtful assets by type of guarantee at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Secured with a mortgage (*)	2,783,796	3,739,145
Other collateral (**)	1,894,321	1,701,950
Rest	3,202,525	4,209,829
Total	**7,880,642**	**9,650,924**

(*) Assets secured with a mortgage with an outstanding risk below 100% of their valuation amount.

(**) Includes the rest of assets secured with collateral.

The breakdown of the balance of doubtful assets by geography at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Spain	7,457,349	9,070,695
Rest of European Union	300,427	479,338
Latin America	29,958	33,933
North America	2,424	25,631
Other OECD countries	3,522	6,471
Rest of the world	86,962	34,857
Total	**7,880,642**	**9,650,924**

Accumulated financial income on impaired financial assets incurred but not recorded in the consolidated profit and loss account amounts to €551,729 thousand at 31 December 2017 and to €610,673 thousand at 31 December 2016.

The movements in impaired financial assets written off because their recovery is regarded as unlikely are as follows:

Thousand euro

Balance at 31 December 2015	**5,955,711**
Additions	**648,028**
Use of accumulated impairment balance	612,583
Directly recognised on the profit and loss account	1,296
Contractually payable interests	33,591
Other items	558
Disposals	**(1,327,929)**
Collection of principal in cash from counterparties	(109,360)
Collection of interest in cash from counterparties	(64,960)
Foreclosure of tangible assets	(92,933)
Transfers	-
Debt refinancing or restructuring	-
Sales	(982,030)
Other concepts	(78,646)
Exchange differences	**(26,127)**
Balance at 31 December 2016	**5,249,683**
Additions	**583,192**
Use of accumulated impairment balance	404,726
Directly recognised on the profit and loss account	135,416
Contractually payable interests	24,193
Other items	18,857
Disposals	**(997,940)**
Collection of principal in cash from counterparties	(153,782)
Collection of interest in cash from counterparties	(9,568)
Foreclosure of tangible assets	(16,466)
Transfers	(447,629)
Debt refinancing or restructuring	(541)
Sales	(369,954)
Exchange differences	**(8,037)**
Balance at 31 December 2017	**4,826,898**

Value adjustments

The amounts of value adjustments due to asset impairment under the different headings on the asset side of the balance sheet at 31 December 2017 and 2016 are as follows:

Thousand euro

	2017	2016
Debt securities	8,467	12,001
Loans and advances		
Customers	3,726,682	4,921,348
Central Banks and Credit Institutions	5,306	6,681
Total	**3,740,455**	**4,940,030**

The bank considers that the value adjustments due to impairment and provisions made by the Group are sufficient to absorb potential losses on its assets and the effects of the occurrence of any open contingencies of the bank.

Value adjustments due to impairment include €201 million to cover the occurrence of contingencies relating to floor clauses. Excluding the described impairment, the doubtful loan coverage ratio would stand at 45.74% and the problematic asset coverage ratio at 49.76% (45.55% and 49.71%, respectively, excluding the inclusion of TSB).

Details of the value adjustments for credit risk hedging and their cumulative amount at the start and at the end of the year is as follows:

Thousand euro

	Determined individually	Determined collectively	IBNR coverage (****)	Country risk	Total
Balance at 31 December 2015	**2,364,272**	**2,931,371**	**1,324,297**	**4,555**	**6,624,495**
Movements reflected in impairment losses (**)	**86,581**	**190,444**	**103,911**	**(1,965)**	**378,971**
Movements not reflected in impairment losses	**(1,128,701)**	**(671,925)**	**(261,218)**	**5,414**	**(2,056,430)**
Utilisation of allowances	(967,417)	(685,173)	(241,775)	-	(1,894,365)
Other movements	(161,284)	13,248	(19,443)	5,414	(162,065)
Adjustments for exchange differences	**(193)**	**(1,797)**	**(5,518)**	**502**	**(7,006)**
Balance at 31 December 2016	**1,321,959**	**2,448,093**	**1,161,472**	**8,506**	**4,940,030**
Scope additions/exclusions (*)	**-**	**(977)**	**(136,322)**	**-**	**(137,299)**
Movements reflected in impairment losses (**)	**197,259**	**827,838**	**(83,573)**	**2,516**	**944,040**
Movements not reflected in impairment losses	**(674,352)**	**(1,010,524)**	**(315,008)**	**(2,909)**	**(2,002,793)**
Utilisation of allowances	(597,222)	(1,007,257)	(212,428)	-	(1,816,907)
Other movements (***)	(77,130)	(3,267)	(102,580)	(2,909)	(185,886)
Adjustments for exchange differences	**(22)**	**(1,936)**	**(1,488)**	**(77)**	**(3,523)**
Balance at 31 December 2017	**844,844**	**2,262,494**	**625,081**	**8,036**	**3,740,455**

(*) See note 2.

(**) This figure, is included in the heading "Impairment losses on financial assets" (see Note 35).

(***)Corresponds to the transfer of €185,886 thousand of value adjustments recognised for credit risk hedging to non-current assets held for sale (see note 13) and investment properties (see note 15).

(****) Collective value adjustments for losses incurred but not reported (see Note 1.3.4).

The breakdown of the balance of value adjustments due to asset impairment at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Spain	3,488,647	4,657,319
Rest of European Union	174,943	220,814
Latin America	35,264	38,610
North America	4,982	2,317
Other OECD countries	1,378	2,998
Rest of the world	35,241	17,972
Total	**3,740,455**	**4,940,030**

Note 12 – Derivatives - Asset and liability hedge accounting

The Group enters into interest rate risk hedging contracts as part of its policy for managing interest rate risk (see Note 4 on financial risk management). The main types of hedges are described below:

- Fair value hedges:

These are hedges which cover exposure to changes in the fair value of a specific type of risk, with micro-hedging transactions being those covering the risk of an asset or liability transaction, and macro-coverage being those covering a portfolio of financial assets or financial liabilities.

The Group classifies in this category the derivatives contracted to mitigate interest rate risk in asset and liability transactions.

- Cash flow hedges:

These hedge changes in cash flows of financial instruments associated with a specific risk or a highly probable forecast transaction. The derivatives used in such hedging mainly consist of interest rate swaps and forward transactions.

- Hedging of net investments in foreign businesses:

The bank uses hedging policies with the primary objective of minimising the negative impact of adverse movements in currency markets on capital ratios and on income generated through its forex business. Hedging transactions cover the foreign exchange risk of investments made in companies of the Group located in countries in which the operating currency is not the euro (see Note 4.4.3.3).

The composition of the fair values of these headings in the consolidated balance sheets at 31 December 2017 and 2016, in terms of the type of hedge carried out, was as follows:

Thousand euro

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Micro-hedges:				
Fair value hedges	77,576	34,317	147,563	54,611
For funding operations (A)	*75,706*	*26,238*	*142,996*	*41,496*
For lending operations (B)	*1,870*	*8,079*	*4,567*	*13,115*
Cash flow hedges	227,305	152,649	339,357	216,022
For future fixed-income transactions (C)	*41,039*	*22,502*	*108,078*	*63,746*
For inflation-linked bonds (D)	*-*	*15,216*	*2,687*	*18,267*
For exchange rate (E)	*74,877*	*-*	*88,344*	*314*
For Securitisation operations (F)	*111,343*	*113,812*	*128,850*	*133,214*
Rest	*46*	*1,119*	*11,398*	*481*
Hedge of net investment in foreign operations (G)	21,888	3,249	26,934	-
Macro-hedges:				
Fair value hedges	47,252	781,374	21,306	785,819
For funding operations (H)	*3,268*	*45,098*	*-*	*72*
For lending operations (I)	*43,984*	*736,276*	*21,306*	*785,747*
Cash flow hedges (J)	-	32,266	-	49,354
Total	**374,021**	**1,003,855**	**535,160**	**1,105,806**
By currency:				
In euro	239,644	361,855	379,914	484,487
In foreign currency	134,377	642,000	155,246	621,320
Total	**374,021**	**1,003,855**	**535,160**	**1,105,806**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of the bank's financing operations in capital markets, operations involving term deposits and sight accounts contracted with customers.
B. Micro-hedges of transactions comprised of loan transactions with customers.
C. Micro-hedges of interest rates on future fixed-income security transactions. The bank designates as a hedging item derivative contracts that will be settled at their gross amount with the delivery of the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines of IAS 39, can be considered as cash flow hedges in respect of the consideration that will be settled in a future transaction that will arise from the settlement of the derivative itself in gross terms. If the derivative has not been contracted, the Group would be exposed to changes in purchase price.
D. Micro-hedges of interest rates on inflation-linked bonds. The bank has contracted financial swaps to hedge future changes in cash flows that will be settled by ILBs.
E. Micro-hedges of exchange rates to reduce the volatility in the event of exchange rate fluctuations in securitisation bonds and futures transactions.
F. Micro-hedging operations carried out by the Group's securitisation funds.
G. Hedges for net investments in business overseas currently stand at GBP 1,268 million and MXN 7,054 million (GBP 1,368 million, USD 100 million and MXN 1,293 million as at 2016), with these hedges consisting of forward exchange contracts (see Note 4.4.3.3).
H. Macro-hedges of the bank's financing operations in capital markets, operations involving term deposits and sight accounts contracted with customers.
I. Macro-hedges of debt securities classified in the available-for-sale and mortgage loan portfolio.
J. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of highly probable liabilities with a similar exposure to interest rate risk. Hedging instruments used for this purpose are interest rate swaps.

In relation to fair value hedges, the losses and gains recognised in 2017 and 2016 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2017		2016	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(56,163)**	**51,863**	**(36,928)**	**33,031**
Fixed-rate assets	(33,790)	30,969	(38,816)	35,366
Capital markets	(10,731)	10,192	(2,327)	2,607
Fixed-rate liabilities	(11,642)	10,702	4,215	(4,942)
Macro-hedges	**34,604**	**(2,486)**	**(248,285)**	**277,980**
Capital markets and fixed-rate liabilities	8,696	19,822	32,129	5,958
Fixed-rate assets	25,908	(22,308)	(280,414)	272,022
Total	**(21,559)**	**49,377**	**(285,213)**	**311,011**

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from the statement of equity and included in earnings during the year are indicated in the statement of total changes in equity of Banco Sabadell.

No inefficiency in the 2017 and 2016 results due to non-material cash flow micro-hedges has been detected.

Note 13 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the consolidated balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016	*2016 Of wich: Mediterráneo Vida*
Assets	**3,559,232**	**5,423,159**	***2,438,067***
Cash, cash balances at central banks and other demand deposits	4,169	-	-
Loans and advances	83,620	28,584	*28,585*
Credit institutions	1,346	28,284	*28,284*
Customers	82,274	301	*301*
Debt securities	-	2,375,232	*2,375,232*
Equity instruments	-	7,012	*7,012*
Tangible assets	3,411,451	2,942,683	-
Tangible assets for own use	54,556	66,958	-
Investment property	34,408	-	-
Foreclosed tangible assets	3,319,131	2,874,314	-
Leased out under operating leases	3,355	1,411	-
Rest of other assets	59,992	69,648	*27,238*
Impairment adjustments	**(997,488)**	**(844,464)**	**-**
Non-current assets and disposal groups classified as held for sale	**2,561,744**	**4,578,694**	***2,438,067***
Liabilities			
Financial liabilities measured at amortised cost	-	2,058	*2,056*
Tax liabilities	-	52,106	*52,106*
Liabilities under insurance or reinsurance contracts	-	2,159,084	*2,159,084*
Rest	20,645	119	*119*
Liabilities included in disposal groups classified as held for sale	**20,645**	**2,213,368**	***2,213,365***

The main change year-on-year corresponds to the sale of Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, as explained in Note 2 to these consolidated annual accounts.

Foreclosed tangible assets comprise assets received from borrowers and other debtors of the bank for the full or partial settlement of financial assets representing collection rights against those borrowers and debtors.

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 88.29 % of the balance corresponds to residential properties, 9.50 % to industrial properties and 2.21 % to agricultural properties.

The average term during which assets remained within the category of "*Non-current assets and assets and liabilities in disposal groups classified as held for sale - Foreclosed assets*" was 39.1 months in 2017. Policies for the disposal or use though alternative means of these assets are described in Note 4.

The percentage of foreclosed assets sold with financing granted to the buyer by the bank in 2017 was 21.58% (30.49% in 2016).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2017 and 2016 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances at 31 December 2015		**3,165,293**
Reclassification Mediterráneo Vida		2,438,066
Additions		1,094,360
Disposals		(1,062,491)
Other transfers		(58,107)
Transfer of credit losses (*)		(153,962)
Balances at 31 December 2016		**5,423,159**
Additions		972,306
Disposals		(710,022)
Mediterráneo Vida Sale		(2,438,065)
Other transfers/reclassifications (**)		476,439
Transfer of credit losses (*)		(164,585)
Balances at 31 December 2017		**3,559,232**
Value adjustments due to impairment:		
Balances at 31 December 2015		**622,907**
Impairment through profit or loss	38	778,838
Reversal of impairment through profit or loss	38	(495,648)
Utilisations		(49,010)
Other transfers		(12,623)
Balances at 31 December 2016		**844,464**
Impairment through profit or loss	38	725,326
Reversal of impairment through profit or loss	38	(512,735)
Utilisations		(198,482)
Other transfers/reclassifications (**)		138,915
Balances at 31 December 2017		**997,488**
Net balances at 31 December 2016		**4,578,695**
Net balances at 31 December 2017		**2,561,744**

(*) Allowance arising from value adjustments made in relation to credit risk hedging.

(**) The net value of these two amounts includes €297,243 thousand corresponding to investment property transfers (see Note 15).

Note 14 – Investments in joint ventures and associates

Movements in this item at 31 December 2017 and 2016 were as follows:

Thousand euro	
Balance at 31 December 2015	**340,996**
Scope additions/exclusions	(249)
Profit/(loss) for the year	74,573
Capital increase or acquisition (*)	8,953
Sale or dissolution	(21,365)
Dividends	(17,159)
Transfer	-
Impairment, valuation adjustments, translation differences and other	(5,077)
Balance at 31 December 2016	**380,672**
Scope additions/exclusions	(1,173)
Profit/(loss) for the year	308,686
Capital increase or acquisition (*)	52,930
Sale or dissolution	(9,351)
Dividends	(177,985)
Transfer	25,804
Impairment, valuation adjustments, translation differences and other	(3,939)
Balance at 31 December 2017	**575,644**

(*) See cash flow statement.

The statement of cash flows - investment activities shows, in the item on charges for investments in joint ventures and associates, the sum of €187,327 thousand, which corresponds to the sum of €9,351 thousand on sales or settlements and dividends charged amounting to €177,985 thousand, plus the profit and loss on disposals or settlements of €-9 thousand according to the details included in Schedule 1. The item on payments for investments in joint ventures includes €52,930 thousand corresponding to acquisitions carried out during the year.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2017 and 2016 are indicated in Schedule 1.

On 24 June 2017, BanSabadell Vida, S.A. de Seguros y Reaseguros ("BanSabadell Vida"), a company in which Banco Sabadell and Zurich Vida, Compañía de Seguros y Reaseguros, S.A. ("Zurich") each hold a 50% interest, entered into a reinsurance contract with the Spanish branch of the reinsurance company Swiss Re Europe, S.A., in respect of its individual life insurance portfolio as at 30 June 2017.

BanSabadell Vida received a reinsurance commission of €683.7 million, resulting in net income of approximately 253.5 million euros for Banco Sabadell Group, after deducting taxes and expenses relating to this transaction. This revenue has been recognised under the heading "*Share of profit or loss of entities accounted for using the equity method*" in the row of "Profit/(loss) for the year" in the table above.

As disclosed in Note 2 to these consolidated annual accounts, in April 2016, Banco Sabadell transferred 100% of its stake in Dexia for a total price of €52,390 thousand.

As at 31 December 2017, there was no goodwill associated with investments in joint ventures and associates (€305 thousand as at 31 December 2016).

At 31 December 2017 and 2016 no support agreements or other type of significant contractual commitment had been provided by the bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "*Investments in joint ventures and associates*" is as follows:

Thousand euro

	2017	2016
Group investment in investees (Schedule I)	243,632	230,781
Contributions due to accumulated profits	294,684	162,200
Valuation adjustments (impairment and exchange differences)	37,328	(12,308)
Total	**575,644**	**380,673**

At 31 December 2017 and 2016, the aggregate book value of investments in associates considered as non-material on an individual basis was of €225,133 thousand and €164,144 thousand, respectively.

The main financial data of the investment considered to be individually significant, BanSabadell Vida, at 31 December 2017 and 2016 are as follows:

Thousand euro

	BanSabadell Vida (*)	
	2017	2016
Total assets	9,485,336	9,396,948
Of which: financial investments	*8,952,022*	*9,163,245*
Total liabilities	8,748,778	8,920,224
Of which: technical provisions	*8,367,112*	*8,501,287*
Result of the technical life account	777,165	105,434
Of which: premiums allocated to the year	*2,594,082*	*4,366,127*
Of which: claims ratio for the year	*(2,555,765)*	*(4,297,929)*
Of which: technical financial yield	*156,735*	*133,934*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017				2016			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, Plant and Equipment	**3,378,020**	**(1,490,374)**	**(25,916)**	**1,861,730**	**3,567,707**	**(1,454,273)**	**(42,080)**	**2,071,354**
For own use:	3,078,409	(1,427,883)	(25,494)	1,625,032	3,338,350	(1,409,450)	(41,366)	1,887,534
Computer equipment and related facilities	534,237	(391,481)	-	142,756	510,075	(362,317)	-	147,758
Furniture, vehicles and other facilities	1,329,670	(724,675)	(8,580)	596,415	1,276,676	(695,499)	-	581,177
Buildings	1,178,037	(298,627)	(16,914)	862,496	1,510,659	(344,634)	(41,366)	1,124,659
Work in progress	1,844	(1)	-	1,843	10,161	-	-	10,161
Other	34,621	(13,099)	-	21,522	30,779	(7,000)	-	23,779
Leased out under operating leases	299,611	(62,491)	(422)	236,698	229,357	(44,823)	(714)	183,820
Investment property	**2,483,103**	**(122,586)**	**(395,724)**	**1,964,793**	**2,966,638**	**(181,841)**	**(380,551)**	**2,404,247**
Buildings	2,427,264	(119,394)	(377,275)	1,930,595	2,929,488	(180,655)	(374,238)	2,374,594
Rural property, plots and sites	55,839	(3,192)	(18,449)	34,198	37,150	(1,186)	(6,312)	29,652
Total	**5,861,123**	**(1,612,960)**	**(421,640)**	**3,826,523**	**6,534,345**	**(1,636,114)**	**(422,631)**	**4,475,601**

Changes in the balance of the heading "*Tangible assets*" during 2017 and 2016 were as follows:

Thousand euro

	Note	Property	Furnishings and equipment	Investment property	Assets leased out under operating leases	Total
Cost:						
Balances at 31 December 2015		1,269,098	1,765,607	2,940,088	188,919	6,163,712
Scope additions / exclusions	2	290,922	80,183	133,547	-	504,652
Additions		44,295	124,940	301,663	110,179	581,077
Disposals		(41,392)	(172,720)	(381,063)	(50,016)	(645,191)
Other transfers		23,977	3,850	(19,494)	(15,701)	(7,368)
Transfer of credit losses (*)		-	-	(8,103)	-	(8,103)
Exchange rate		(35,301)	(15,109)	-	(4,024)	(54,434)
Balances at 31 December 2016		1,551,599	1,786,751	2,966,638	229,357	6,534,345
Scope additions / exclusions	2	(323,164)	(7,630)	(140,297)	-	(471,091)
Additions		34,343	108,539	348,295	96,909	588,086
Disposals		(26,101)	(17,151)	(276,799)	(24,701)	(344,752)
Other transfers		(13,471)	(3,204)	(393,433)	(1,595)	(411,703)
Transfer of credit losses (*)		-	-	(21,301)	-	(21,301)
Exchange rate		(8,704)	(3,398)	-	(359)	(12,461)
Balances at 31 December 2017		1,214,502	1,863,907	2,483,103	299,611	5,861,123
Accumulated depreciation:						
Balances at 31 December 2015		264,923	1,036,039	149,513	50,918	1,501,393
Scope additions / exclusions	2	57,328	49,744	14,959	-	122,031
Additions		34,983	103,362	61,426	25,182	224,953
Disposals		(1,887)	(125,918)	(32,866)	(15,830)	(176,501)
Other transfers		8,690	3,613	(11,191)	(12,759)	(11,647)
Exchange rate		(12,403)	(9,024)	-	(2,688)	(24,115)
Balances at 31 December 2016		351,634	1,057,816	181,841	44,823	1,636,114
Scope additions / exclusions	2	(74,658)	(29,836)	(19,309)	-	(123,803)
Additions		46,391	113,790	63,957	33,853	257,991
Disposals		(6,271)	(19,816)	(19,836)	(15,929)	(61,852)
Other transfers		(1,739)	(3,604)	(84,067)	(95)	(89,505)
Exchange rate		(3,630)	(2,194)	-	(161)	(5,985)
Balances at 31 December 2017		311,727	1,116,156	122,586	62,491	1,612,960
Impairment losses:						
Balances at 31 December 2015		22,589	1,631	448,670	903	473,793
Scope additions / exclusions	2	18,777	-	47,050	-	65,827
Impairment through profit or loss	36	-	-	403,856	41	403,897
Reversal of impairment through profit or loss	36	-	-	(383,620)	-	(383,620)
Utilisations		-	(1,631)	(80,268)	(230)	(82,129)
Other transfers		-	-	(55,137)	-	(55,137)
Balances at 31 December 2016		41,366	-	380,551	714	422,631
Scope additions / exclusions	2	(21,878)	3,923	(61,441)	-	(79,396)
Impairment through profit or loss	36	10,643	4,657	507,510	-	522,810
Reversal of impairment through profit or loss	36	-	-	(291,468)	-	(291,468)
Utilisations		-	-	(14,830)	(292)	(15,122)
Other transfers		(13,217)	-	(124,598)	-	(137,815)
Balances at 31 December 2017		16,914	8,580	395,724	422	421,640
Net balances at 31 December 2016		1,158,599	728,935	2,404,246	183,820	4,475,600
Net balances at 31 December 2017		885,861	739,171	1,964,793	236,698	3,826,523

(*) Allowance arising from value adjustments made in relation to credit risk hedging.

Details of the net carrying value of transfers shown under the heading "*Tangible assets*" in the above table are as follows:

Thousand euro

	Note	2017	2016
Inventories	17	112,860	13,932
Non-current assets and disposal groups classified as held for sale	13	(297,243)	45,484
Credit losses		(21,301)	(8,103)
Total		**(205,684)**	**51,313**

Other information relating to tangible assets as at 31 December 2017 and 2016:

Thousand euro

	2017	2016
Gross value of own use tangible assets fully depreciated	510.673	477,722
Net book value of tangible assets relating to foreign operations	240,846	251,723

The Group has formalised transactions for the sale of properties and in the same operation formalised an operating lease contract with buyers (maintenance, insurance and taxes to be borne by the bank) for the same. The main characteristics of the most significant lease contracts in effect at the end of 2017 are as follows:

	2017			
Operating lease contracts	No. properties sold	No. contracts with purchase option	No. contracts without purchase option	Mandatory term
2010	379	379	-	10 years
2012	4	4	-	15 years
2012 (inclusion Banco CAM)	20	20	-	10 to 12 years

In connection with this set of operational lease contracts:

Thousand euro

	2017	2016
Operating lease expenses (*)	49,176	49,183
Current value of future payments up to 1 year	50,658	50,889
Current value of future payments between 1 and 5 years	142,481	155,778
Current value of future payments of more than 5 years	226,833	232,017

(*) Recognised in the "Administrative expenses" heading, in the item on property, plant and equipment (see note 34).

For the batch of 379 properties sold in April 2010 for which an operating lease was arranged at the time of the sale, the income for the mandatory term of the lease, initially set at €37.5 thousand per month, is updated annually based on the Spanish CPI with a minimum increase of 2.75% per year until April 2018. For all other real estate, the income is updated annually with the Spanish CPI.

With regard to the tangible assets leased out under operating leases heading, the bulk of the operating lease operations is carried out by BanSabadell Renting, S.A. and consists in vehicle leasing.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during the year amounted to €64,305 thousand and €32,110 thousand, respectively. Direct expenses associated with investment property that did not produce rental income amounted to €11,935 thousand.

Note 16 – Intangible assets

The composition of this item at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017	2016
Goodwill:	**1,019,440**	**1,094,526**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
Sabadell United Bank, N.A.	-	72,960
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	14,894	17,020
Other intangible assets:	**1,226,418**	**1,040,689**
With a finite useful life:	1,226,418	1,040,689
Contractual relations with customers and brand (Banco Urquijo)	2,115	5,734
Contractual relations with customers (Banco Guipuzcoano)	15,983	21,753
Private Banking Business, Miami	22,457	29,725
Contractual relations with customers (Sabadell United Bank)	-	12,488
Contractual relations with TSB customers and brand	241,481	292,043
Computer applications	942,766	675,397
Other deferred expenses	1,616	3,549
Total	**2,245,858**	**2,135,215**

Goodwill

As set forth in the regulatory framework of reference, Banco Sabadell has carried out an analysis to evaluate the existence of any potential impairment to its goodwill.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the bank over a 5-year projection period (to 2022). It is considered that by 2022, the bank will have generated recurring revenue, therefore the terminal value is calculated using that year as a reference and applying a perpetuity growth rate of 2%.

An interest rate of 10.2% was used, a figure reached through the CAPM (Capital Asset Pricing Model) approach. This rate is comprised of a risk-free rate of return on Spanish bonds, plus one market premium.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and capital ratios.

Recoverable values, both at Group-wide level and at the level of the UGEs, are higher than their respective book values and therefore no impairment has been recognised.

Furthermore, a number of sensitivity analyses have been carried out, in which individual key variables of the assessment are subjected to stress, and the results of this analysis do not show any sign of impairment.

Variables for which the various sensitivity analyses have been carried out were as follows:

- A 15% haircut on recurring fees and commissions for 2022.

- A 50% increase in recurring cost of risk for 2022.
- An increase in expenses for 2022, calculated by applying a multiplier of 5x the expected inflation to the expenses for 2022.
- A further 1% increase in the premium to calculate the interest rate.
- An increase of +0.5% of the minimum capital requirement for each year.
- No growth rate is applied.
- Aggregated assumption that jointly considers changes in all key variables: a 5% haircut in recurring fees and commissions in 2022, a 5% increase in the recurrent cost of risk for 2022, an increase in expenses as a result of the application of a multiplier of twice the expected inflation for 2022 expenses, an additional 0.5% increase in the premium to calculate the interest rate.

Macroeconomic assumptions used in the assessment of impairment to goodwill are as follows:

It is expected that the Spanish economy will maintain a positive growth moving forward and that it will continue to stand out in a positive light from other Eurozone countries. Activity will continue to be boosted by favourable funding conditions and a positive financial position of the private sector, as well as the good performance of the economy in the euro area. The adjustment of imbalances of recent years in Spain will favour a more sustainable economic growth over time. In 2018, GDP growth may be somewhat lower than that of the last three years, when economic activity experienced a significant amount of dynamism. This will occur in an environment in which many factors that had been lending support to this growth will no longer be present (the expansionary nature of the fiscal policy for 2015-2016, cheaper oil prices, etc.).

The surplus capacity which still exists in the economy offers a margin to continue growing above the potential GDP growth. Domestic demand will continue being the main driver of economic growth, while net external demand will continue to contribute positively towards GDP. Lending activity will gradually recover after the significant adjustments of recent years, although the growth rate will be slower than that of nominal GDP. In terms of the real estate sector, activity will continue to be positive, although performance will vary substantially between regions. After record highs, tourist activity may begin to slow down. The sector will be affected by factors such as Brexit and the recovery of tourist destinations that compete with Spain. As regards the labour market, a fast rate of job creation will prevail, with an ongoing decline in unemployment rates and moderate salary growth. The positive performance of the economy will allow public deficit to decline once more, and further credit rating upgrades may be seen.

Evaluation of whether there is any evidence of significant impairment to goodwill:

Banco Urquijo

The goodwill of Banco Urquijo is assigned to cash generating units (UGE, for their acronym in Spanish), which are expected to benefit from the identified synergies. The UGEs and their weight as a percentage of Banco Urquijo's total goodwill are: Private Banking UGE (12.7%), Commercial Banking UGE (21.2%), Corporate Banking UGE (1.9%) and Other UGEs (2.3%). In the case of synergies that could not be assigned to a specific UGE due to limited available historical information of the acquired entity have been assigned to the set of UGEs (61.9%).

Banco Guipuzcoano

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking UGE and reflects the future income-generating capacity of the acquired assets and liabilities, the value of the potential income and cost synergies identified and the costs associated with the transaction.

BMN-Penedès

Goodwill generated from the business combination corresponding to the acquisition of assets from BMN-Penedès was assigned to the Commercial Banking UGE.

In accordance with the specifications of the restated text of the Corporation Tax Law, the generated goodwill is not tax-deductible.

Other intangible assets

Banco Urquijo

Under other intangible assets, the main intangible assets associated with the purchase of Banco Urquijo were mainly the values of contractual rights under agreements with customers taken over from Banco Urquijo in relation to certain products (SICAVs, mutual and pension funds, credit/debit cards, short-term loans and credit, brokerage and securities custody), the values of deposits and the value of the Banco Urquijo brand.

These intangible assets have a finite useful life of twelve years for Private Banking customers, seven years for Commercial Banking customers and five years for all other customers, and are amortised on a straight-line basis depending on this useful life, in a similar way to tangible assets.

Banco Guipuzcoano

The intangible assets associated with the acquisition of Banco Guipuzcoano mainly include the value of the contractual rights arising from relationships with customers taken over from Banco Guipuzcoano for core deposits and mutual funds. The valuation of core deposits has been carried out with the income approach using the cost savings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative sources of funding. Mutual fund management was valued by the income approach using the excess earnings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the fees received for the sale of mutual funds. These assets are amortised within ten years from the date of acquisition of Banco Guipuzcoano.

Private Banking business, Miami

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from relationships with customers taken over from this business, mainly short-term lending, and deposits. These assets are amortised within 15 years from their creation.

TSB

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from relationships with customers taken over from TSB for core deposits. This asset will be amortised within 8 years.

The value of the exclusive right of use of the TSB brand was estimated at €73 million. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset will be amortised within 12 years.

To measure the evidence of impairment of other intangible assets, the value in use is calculated using the income approach (discounted cash flows), with the multi-period excess earnings technique being used for income from contractual customer relations and deposits, and the price premium technique to measure the brand value. These intangible assets have not suffered any decline in value.

Software purchase costs comprise mainly the capitalised costs of developing the Group’s computer software and the purchase of software licences.

Movements in goodwill in 2017 and 2016 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance at 31 December 2015	**1,092,777**	**-**	**1,092,777**
Additions	-	-	-
Disposals	-	-	-
Exchange differences	1,749	-	1,749
Other	-	-	-
Balance at 31 December 2016	**1,094,526**	**-**	**1,094,526**
Additions	-	(309)	(309)
Disposals	(2,126)	-	(2,126)
Exchange differences	(5,835)	-	(5,835)
Scope additions / exclusions (*)	(67,125)	309	(66,816)
Balance at 31 December 2017	**1,019,440**	**-**	**1,019,440**

(*) See note 2

Movements in other intangible assets in 2017 and 2016 were as follows:

Thousand euro

	Cost	Depreciation	Impairment	Total
Balance at 31 December 2015	**1,984,245**	**(996,399)**	**(53)**	**987,793**
Additions	288,998	(170,943)	-	118,055
Disposals	(18,987)	6,880	52	(12,055)
Other	-	-	-	-
Exchange differences	(59,079)	5,975	-	(53,104)
Balance at 31 December 2016	**2,195,177**	**(1,154,487)**	**(1)**	**1,040,689**
Additions	376,703	(144,252)	(2,292)	230,159
Disposals	(61,397)	29,798	2,292	(29,307)
Other	(2,180)	390	-	(1,790)
Exchange differences	(19,930)	6,597	-	(13,333)
Balance at 31 December 2017	**2,488,373**	**(1,261,954)**	**(1)**	**1,226,418**

The gross value of other intangible assets that were still in use and had been fully amortised at 31 December 2017 and 2016 totalled €701,379 thousand and €420,775 thousand, respectively.

Note 17 – Other assets

The composition of the heading "*Other asset*s" at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017	2016
Insurance contracts linked to pensions	139,114	153,989
Inventories	2,076,294	2,924,459
Rest of other assets	760,103	1,358,817
Total	**2,975,511**	**4,437,265**

The heading "*Rest of Other assets*" includes mainly unearned expenses paid, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2017 and 2016 were as follows:

Thousand euro

	Notes	Land	Buildings under construction	Finished buildings	Total
Balance at 31 December 2015		**2,084,808**	**313,533**	**1,257,207**	**3,655,548**
Additions		182,646	56,381	385,950	624,977
Disposals		(277,711)	(110,769)	(415,782)	(804,262)
Impairment through profit or loss	36	(183,017)	(26,660)	(328,195)	(537,872)
Reversal of impairment through profit or loss		-	-	-	-
Other transfers	15	(29,868)	2,437	13,499	(13,932)
Balance at 31 December 2016		**1,776,858**	**234,922**	**912,679**	**2,924,459**
Additions		74,692	72,132	221,350	368,174
Disposals		(211,679)	(35,253)	(291,128)	(538,060)
Impairment through profit or loss	36	(515,408)	(125,373)	(426,121)	(1,066,902)
Reversal of impairment through profit or loss	36	113,967	97,285	290,231	501,483
Other transfers	15	(31,080)	(25,213)	(56,567)	(112,860)
Balance at 31 December 2017		**1,207,350**	**218,500**	**650,444**	**2,076,294**

At 31 December 2017 and 2016, there are no inventories associated with mortgage loans.

Note 18 – Deposits with credit institutions and central banks

The breakdown of deposits in credit institutions and central banks in the consolidated balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
By heading:		
Financial liabilities measured at amortised cost	42,018,348	28,494,516
Total	**42,018,348**	**28,494,516**
By nature:		
Demand deposits	235,076	330,937
Deposits with agreed maturity	31,964,417	18,119,583
Sale of assets	9,591,000	9,858,488
Deposits redeemable at notice	-	-
Hybrid financial liabilities	62,605	-
Other accounts	151,394	170,165
Valuation adjustments	13,856	15,344
Total	**42,018,348**	**28,494,516**
By currency:		
In euro	32,663,588	22,678,036
In foreign currency	9,354,760	5,816,480
Total	**42,018,348**	**28,494,516**

The increase in term deposits is mainly due to the bank's participation in the targeted longer-term refinancing operations, TLTRO II, as explained in Note 4.4.2.4.

Note 19 – Customer deposits

The deposits from customers recognised on the consolidated balance sheets at 31 December 2017 and 2016 can be analysed as follows:

Thousand euro

	2017	2016
By heading:		
Financial liabilities measured at amortised cost	135,307,437	134,414,536
Total	**135,307,437**	**134,414,536**
By nature:		
Demand deposits	98,019,789	92,010,553
Deposits with agreed maturity	30,377,798	35,290,208
Fixed term	27,521,501	32,057,280
Non-marketable covered bonds and bonds issued	2,412,422	2,691,720
Rest	443,875	541,208
Deposits redeemable at notice	-	30,384
Hybrid financial liabilities	2,047,546	4,833,384
Sale of assets	4,749,634	2,072,155
Valuation adjustments	112,670	177,851
Total	**135,307,437**	**134,414,536**
By sector:		
General governments	5,437,779	3,700,137
Other sectors	129,756,988	130,536,548
Other valuation adjustments (interest, fees and commissions, other)	112,670	177,851
Total	**135,307,437**	**134,414,536**
By currency:		
In euro	93,077,399	88,892,661
In foreign currency	42,230,038	45,521,875
Total	**135,307,437**	**134,414,536**

Note 20 – Debt securities issued

Details of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets at 31 December 2017 and 2016 are as follows:

Thousand euro

	2017	2016
Straight bonds	4,843,573	4,743,071
Straight bonds	4,408,506	3,226,857
Structured bonds	435,067	457,164
Government guaranteed ordinary bonds	-	1,059,050
Promissory notes	3,179,100	3,938,500
Covered bonds	10,099,200	10,856,100
Territorial bonds	-	-
Covered Bond	563,552	-
Securitisation funds	2,544,173	5,345,117
Subordinated marketable debt securities	2,481,835	1,481,042
Subordinated liabilities	1,331,835	1,462,642
Preference shares	1,150,000	18,400
Valuation and other adjustments	76,411	169,708
Total	**23,787,844**	**26,533,538**

Schedule 5 shows details of the outstanding issuances at 2017 and 2016 year-end.

Two issues of preference shares contingently convertible into the bank's ordinary shares (Additional Tier 1) have been carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to €750,000 thousand with a coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to €400,000 thousand with a coupon rate of 6.125%.

Expenses relating to the remuneration of preference shares contingently convertible into ordinary shares amounted to €32,870 thousand as at 31 December 2017.

On 28 October 2017, the final maturity was reached of the Series IV/2013 Mandatory Convertible Subordinated Bond issue, resulting in the mandatory conversion of the 70,720,450 Series IV/2013 Bonds which remained in circulation into ordinary shares of Banco Sabadell. As a result, on 16 November 2017, the public deed for the capital increase of a nominal amount of €1,351,688.125 was registered with the Alicante Mercantile Registry, agreed by the Executive Committee of Banco Sabadell on 02 November 2017, to attend to the mandatory total conversion arising from the maturity of the issue of Mandatory Convertible Subordinated Bonds Series IV/2013, which gave rise to the conversion of the 70,720,450 bonds still in circulation and to the issue and allotment of a total of 10,813,505 ordinary shares of Banco Sabadell. On 23 November 2017, the National Securities Market Commission (CNMV) verified that the requirements for the admission to trading of these new shares with a par value of 0.125 euros each issued by Banco Sabadell had been satisfied. Lastly, on 23 November 2017, the Governing Bodies of the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia agreed to the admission to trading of the aforementioned new shares, for which reason the effective trading of these new shares in the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia through Spain's electronic trading system (S.I.B.E, also called *Mercado Continuo*) was initiated on 24 November 2017.

The nominal amounts issued and the outstanding nominal balance of the mandatory convertible subordinated bonds were as follows:

Thousand euro

Mandatory convertible bonds	Opening nominal balance	Outstanding nominal balance	
		2017	2016
Bonds IV/2013	70,720	-	17,680

The capital increases implemented as a result of the voluntary and mandatory partial conversions in 2017 and 2016 are as follows:

Issue	Conversion/ maturity date	Reason for conversion	Bonds converted (*)	Shares issued	Capital increase at nominal value (thousand euro)	Date of admission to trading
OSNC IV/2013	10/28/2017	mandatory total conversion	70,720,450	10,813,505	1,352	11/23/2017
Total 2017 (**)					**1,352**	
OSNC III/2013	10/28/2016	mandatory total conversion	42,237,846	35,168,313	4,396	11/16/2016
OSNC IV/2013	10/28/2016	mandatory partial conversion	-	14,721,130	1,840	11/16/2016
Total 2016 (**)					**6,236**	

(*) In the OSNC (mandatory convertibles) IV/2013 issue, each year 25% of the nominal value of the 70,720,450 bonds was converted through a reduction of 25% of the initial nominal value..

(**) See Statement of changes in equity for 2017 and 2016.

Expenses relating to the remuneration of mandatory convertible subordinated bonds amounted to €726 thousand at 31 December 2017.

On 10 November 2017, Banco Sabadell, S.A. announced by means of a significant event the early amortisation of the full nominal balance of the Subordinated Bonds Series I/2011, i.e. €40,400 thousand, once it had obtained prior authorisation from the European Central Bank on 13 October 2017. This issue was amortised with effective date of 27 November 2017, to coincide with the coupon payment date.

On 17 November 2017, Banco Sabadell announced by means of a notification in the Financial Times aimed at the holders of the ""Step Up Fixed/Floating Rate Non-Cumulative Perpetual Preferred Securities Series I/2006" Preference Shares, listed on the London Stock Exchange, once it had obtained prior authorisation from the European Central Bank on 31 October 2017, the early amortisation of the full nominal balance of this issue, i.e. €18,400 thousand. This issue was amortised with effective date of 20 December 2017, to coincide with the coupon payment date.

Note 21 – Other financial liabilities

The balance of other financial liabilities on the consolidated balance sheets at 31 December 2017 and 2016 is analysed below.

Thousand euro

	2017	2016
By heading:		
Financial liabilities designated at fair value through profit or loss	39,540	34,836
Financial liabilities measured at amortised cost	2,931,854	2,568,434
Total	**2,971,394**	**2,603,270**
By nature:		
Debentures payable	298,470	331,680
Guarantee deposits received	91,548	56,423
Clearing houses	730,746	626,516
Collection accounts	1,285,297	889,252
Other financial liabilities (*)	565,333	699,399
Total	**2,971,394**	**2,603,270**
By currency:		
In euro	2,618,984	2,426,034
In foreign currency	352,410	177,236
Total	**2,971,394**	**2,603,270**

(*) Includes trade payables.

The following table shows information relating to days payable outstanding (DPO, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2017	2016
Days		
Average payment period for suppliers	32.46	31.51
Ratio of paid operations	32.47	31.52
Ratio of operations pending payment	22.92	18.69
Amount		
Total payments made	920,214	937,522
Total payments pending	594	323

Note 22 – Provisions, contingent assets and liabilities

Details of changes to the provisions heading during the years 2017 and 2016 are given in the following table:

Thousand euro

	Pensions and other post-employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance at 31 December 2015	86,305	28,713	51,971	113,679	65,557	346,225
Scope additions/exclusions (*)	-	-	-	-	(977)	(977)
Interest and similar charges - pension commitments	1,410	400	-	-	-	1,810
Allowances charged to income statement - staff expenses	2,311	11	-	-	-	2,322
Allowances charged to income statement - provisions	546	8,109	(949)	(27,116)	16,366	(3,044)
Provisions	-	11,148	1,771	63,195	24,990	101,104
Reversal of provisions	-	-	(2,720)	(90,311)	(8,624)	(101,655)
Actuarial losses / (gains)	546	(3,039)	-	-	-	(2,493)
Exchange differences	-	-	-	(893)	(2,611)	(3,504)
Utilisations:	(11,268)	(13,050)	(10,797)	-	(18,647)	(53,762)
Contributions of the promoter	-	(1,335)	-	-	-	(1,335)
Pension payments	(9,796)	(11,689)	-	-	-	(21,485)
Other	(1,472)	(26)	(10,797)	-	(18,647)	(30,942)
Other movements	10,167	371	9,179	(1,638)	(935)	17,144
Balance at 31 December 2016	89,471	24,554	49,404	84,032	58,753	306,214
Scope additions/exclusions (*)	-	-	-	-	5	5
Interest and similar charges - pension commitments	1,050	183	-	-	-	1,233
Allowances charged to income statement - staff expenses (**)	1,995	7	-	-	-	2,002
Allowances not charged to income statement	-	-	-	-	37,644	37,644
Allowances charged to income statement - provisions	(518)	(71)	(3,446)	6,065	11,834	13,864
Provisions	-	844	413	124,099	17,761	143,117
Reversal of provisions	-	-	(3,859)	(118,034)	(5,927)	(127,820)
Actuarial losses / (gains)	(518)	(915)	-	-	-	(1,433)
Exchange differences	-	-	-	(2,485)	(787)	(3,272)
Utilisations:	(31)	(9,689)	(9,665)	-	(13,454)	(32,839)
Contributions of the promoter	-	(358)	-	-	-	(358)
Pension payments	(9,272)	(9,367)	-	-	-	(18,639)
Other	9,241	36	(9,665)	-	(13,454)	(13,842)
Other movements	(7,124)	1,507	-	(2,663)	967	(7,313)
Balance at 31 December 2017	84,843	16,491	36,293	84,949	94,962	317,538

(*) See Note 2.

(**) See Note 34.

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long term employee benefits*" includes the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "*Provisions for commitments and guarantees given*" includes the amount of provisions for the coverage of guarantees given as a result of financial guarantees or other types of contract.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary, in order to determine the probability of the Group being required to make a disbursement. For those cases in which this disbursement is considered likely, a provision is created corresponding to the amount of the best estimate of the current value of said disbursement, recorded under the heading "*Pending legal issues and tax litigation*" or under the heading "*Other provisions*". At 31 December 2017 and 2016, this heading mainly includes:

- Provisions for tax contingencies of €36 million at 31 December 2017 (€49 million at 31 December 2016) which mainly include tax office inspection records of the tax administrative authority signed on a contested basis (see Note 40) and appealed tax settlements.

- At 31 December 2017, operating losses from the sale of products to TSB customers of €39 million (€12 million at 31 December 2016). TSB is protected from the incurred losses due to historic operations through a hedge provided by Lloyds Bank Plc, and an account receivable of the equivalent amount is therefore recognised under the heading "*Other assets*". These losses are shown as a provision with no impact through profit or loss in the table above.

- Liabilities due to legal contingencies valued at €37 million at 2017 year-end (€32 million at 2016 year-end).

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the provision amount.

With regard to the potential impacts for Banco Sabadell on the reimbursement of amounts paid as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, it is necessary to take the following into account:

Banco Sabadell believes that its floor clauses are transparent and clear-cut. The aforementioned floor clauses have not been definitively generically voided by any final ruling, therefore the bank considers that it has legal arguments that should be reviewed and taken into consideration in the proceeding being pursued with the Provincial Court of Madrid against the ruling of the Juzgado Mercantil no.11 in Madrid on the nullity of interest rate floor clauses.

Our assessment is that the probability of the risk of Banco Sabadell floor clauses being definitively and generically declared null and void by higher instance courts is remote, both for underlying and temporary reasons, for which reason provisions satisfying the requirements of IAS 37 are not necessary.

The above notwithstanding, the publication of Royal Decree-Law 1/2017 of 20 January on urgent measures to protect consumers regarding floor clauses sets forth a series of measures which Banco Sabadell is implementing, which neither presuppose nor prejudge the validity of floor clauses in Banco Sabadell's mortgage contracts, for each case that is presented. These measures also require an assessment to be made on a case-by-case basis to determine whether floor clauses meet the transparency requirements set out by the Supreme Court.

In an adverse scenario which is currently not considered likely, the maximum impact would amount to €261.7 million.

Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

	2017	2016	2015	2014	2013
Obligations arising from pension commitments and similar	793,871	862,218	858,877	1,044,326	1,036,360
Assets recognised on balance sheet	-	-	-	-	696
Fair value of scheme assets	(692,537)	(749,295)	(744,256)	(922,165)	(889,575)
Net liability recognised on balance sheet	**101,334**	**112,923**	**114,621**	**122,161**	**147,481**

The yield on the Banco Sabadell pension scheme was negative at -0.15% and the yield on the E.P.S.V. was negative at -0.93% for 2017.

The yield on the Banco Sabadell pension scheme was negative at -0.91% and the yield on the E.P.S.V. (voluntary social welfare agency) was 0.15% for 2016.

Movements during 2017 and 2016 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations arising from pension commitments and similar	Fair value of scheme assets
Balance at 31 December 2015	**858,877**	**744,256**
Interest expenses	14,520	-
Interest income	-	12,710
Normal cost in year	2,322	-
Past service cost	9,813	-
Benefit payments	(58,620)	(37,135)
Settlements, reductions and terminations	(12,544)	(13,092)
Contributions made by the institution	-	(924)
Actuarial gains and losses due to changes in demographic assumptions	-	-
Actuarial gains and losses due to changes in financial assumptions	47,694	-
Actuarial gains and losses in experience assumptions	3,098	-
Yield on scheme assets excluding interest income	-	46,422
Other movements	(2,942)	(2,942)
Balance at 31 December 2016	**862,218**	**749,295**
Interest expenses	10,372	-
Interest income	-	9,139
Normal cost in year	2,002	-
Past service cost	486	-
Benefit payments	(56,244)	(37,604)
Settlements, reductions and terminations	1,724	2,242
Contributions made by the institution	-	(249)
Actuarial gains and losses due to changes in demographic assumptions	-	-
Actuarial gains and losses due to changes in financial assumptions	(23,139)	-
Actuarial gains and losses in experience assumptions	(108)	-
Yield on scheme assets excluding interest income	-	(24,683)
Other movements	(3,440)	(5,603)
Balance at 31 December 2017	**793,871**	**692,537**

The breakdown of the Group's pensions and similar commitments at 31 December 2017 and 2016, by financing vehicle, coverage and interest rate applied in their calculation, is shown below:

Thousand euro

		2017	
Financing vehicle	Coverage	Amount	Interest rate
Pension schemes		**427,904**	
Insurance policies with related parties	Matched	44,988	1.50%
Insurance policies with unrelated parties	Matched	382,916	1.50%
Insurance policies		**349,766**	
Insurance policies with related parties	Matched	89,930	1.50%
Insurance policies with unrelated parties	Matched	259,836	1.50%
Internal funds	Without cover	**16,201**	1.50%
Total commitments		**793,871**	

Thousand euro

		2016	
Financing vehicle	Coverage	Amount	Interest rate
Pension schemes		**459,487**	
Insurance policies with related parties	Matched	50,204	1.25%
Insurance policies with unrelated parties	Matched	409,283	1.25%
Insurance policies		**379,596**	
Insurance policies with related parties	Matched	98,272	1.25%
Insurance policies with unrelated parties	Matched	281,324	1.25%
Internal funds	Without cover	**23,135**	1.25%
Total commitments		**862,218**	

The amount of the commitments covered by matched insurance policies at 31 December 2017 stood at €777,670 thousand (€839,083 thousand at 31 December 2016) and therefore in 97.96% of its commitments (97.32% at 31 December 2016) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates throughout the year has not had an impact on the bank's financial situation.

Obligations covered by specific assets totalled €777,670 thousand (including €186 thousand related to commitments to early retirees) at 31 December 2017 and €839,083 thousand (including €711 thousand related to commitments to early retirees) at 31 December 2016.

The sensitivity analysis for each main actuarial assumption at 31 December 2017 and 31 December 2016 shows how the commitment and cost of the services in the current year would have been affected by reasonably possible changes at that date.

%	2017	2016
Sensitivity analysis	**Change percentage**	
Discount rate		
Discount rate -50 basis points:		
Assumption	1.00%	0.75%
Change in obligation	6.00%	6.13%
Change in cost of services in current year	8.21%	9.09%
Discount rate +50 basis points:		
Assumption	2.00%	1.75%
Change in obligation	(5.38%)	(5.58%)
Change in cost of services in current year	(7.08%)	(8.04%)
Salary increase rate		
Salary increase rate -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.30%)	(0.34%)
Change in cost of services in current year	(2.32%)	(3.42%)
Salary increase rate +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	0.31%	0.34%
Change in cost of services in current year	2.43%	3.50%

Estimates of probability-weighted present values at 31 December 2017 of benefits payable over the next ten years are shown below:

Thousand euro	Years										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	Total
Probable pensions	15,473	12,953	10,573	9,230	8,481	7,930	7,604	7,317	7,030	6,748	**93,339**

The fair value of assets linked to pensions accounted for on the asset side of the consolidated balance sheet amounted to €139,114 thousand at 31 December 2017 and €153,989 thousand at 31 December 2016.

The main categories of the scheme's assets, expressed as a percentage of the total, are shown hereafter:

%	2017	2016
Own equity items	0.02%	0.02%
Other equity instruments	-	-
Debt instruments	2.10%	2.51%
Investment funds	1.41%	1.07%
Deposits and current accounts	0.45%	0.74%
Other (insurance policies with unrelated parties)	96.02%	95.66%
Total	**100%**	**100%**

The fair value of the assets in the scheme includes the following financial instruments issued by the bank:

Thousand euro

	2017	2016
Equity instruments	165	131
Debt instruments	-	-
Deposits and current accounts	3,123	517
Total	**3,288**	**648**

Note 23 – Own funds

Own funds recognised in the consolidated balance sheets at 31 December 2017 and 2016 are analysed below:

Thousand euro

	2017	2016
Capital	703,371	702,019
Share premium	7,899,227	7,882,899
Equity instruments issued other than capital	-	-
Other equity	32,483	38,416
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	4,207,340	3,805,065
(-) Treasury shares	(106,343)	(101,384)
Profit/(loss) attributable to owners of the parent company	801,466	710,432
(-) Interim dividends	(111,628)	(111,281)
Total	**13,425,916**	**12,926,166**

Capital

Share capital at year-end

The bank’s share capital at 31 December 2017 stood at €703,370,578.625, represented by 5,626,964,701 registered shares with a par value of €0.125 each (€702,018,899.50 represented by 5,616,151,196 registered shares with the same par value at 31 December 2016). All shares have been fully disbursed and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The bank’s shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain’s electronic market (*mercado continuo*), managed by Sociedad de Bolsas, S.A.

None of the other companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders can issue a percentage of votes equivalent to the percentage of the share capital in their possession.

Changes in share capital in 2017

Thousand euro

	Number of shares	Capital
Balances at 31 December 2016	**5,616,151,196**	**702,019**
Conversion of mandatory convertible bonds IV / 2013 - November 2017 (*)	10,813,505	1,352
Balances at 31 December 2017	**5,626,964,701**	**703,371**

(*) See Note 20.

Significant investments in the bank's capital

As required by Article 23 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in Banco Sabadell (i.e. investments amounting to 3% or more of its share capital or voting rights) at 31 December 2017:

Company	Direct holding	Number of voting rights	Indirect holding
Various subsidiaries of BlackRock Inc.	4.99%	280,898	BlackRock Inc.
Fintech Investments Ltd.	3.42%	192,209	Winthrop Securities Ltd.

The sources for the information provided are communications sent by shareholders to the Spanish Securities Exchange Commission (CNMV) or directly to the institution.

Share premium

The balance in the share premium account at 31 December 2017 amounted to €7,899,227 thousand (€7,882,899 thousand as at 31 December 2016).

Changes made during 2017 and 2016 are shown below.

Thousand euro

Balance at 31 December 2015	**7,935,665**
Capital increase	-
Conversion of subordinated bonds (equity)	-
Conversion of subordinated bonds (financial liabilities)	53,682
Dividend payment	(106,448)
Reclassification of capital increase expenses to reserves	-
Rest	-
Balance at 31 December 2016	**7,882,899**
Capital increase	-
Conversion of subordinated bonds (equity)	-
Conversion of subordinated bonds (financial liabilities)	16,328
Dividend payment	-
Reclassification of capital increase expenses to reserves	-
Rest	-
Balance at 31 December 2017	**7,899,227**

Other reserves

The balance of this heading breaks down as follows on the consolidated balance sheets at 31 December 2017 and 2016:

Thousand euro

	2017	2016
Restricted reserves:	**414,921**	**377,792**
Legal reserve	140,404	135,981
Reserves for treasury shares pledged as security	226,869	194,477
Capitalisation reserve Law 27/2014	35,985	35,985
Canary Island investment reserve	8,548	8,234
Reserve for capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,806,052**	**3,317,763**
Reserves or accumulated losses of investments in joint ventures and associates	**(13,633)**	**109,510**
Total	**4,207,340**	**3,805,065**

The contributions of consolidated companies to Group reserves are shown in Schedule 1.

Other equity

Other equity includes the amounts of instruments associated with remuneration paid through long-term share-based incentives schemes (see Note 34 "*Staff expenses*") which, at 31 December 2017 and 2016 amounted to €32,483 thousand and €38,416 thousand.

Business involving equity instruments

Movements in the parent company's shares acquired by the bank were as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Holding
Balance at 31 December 2015	**114,844,636**	**14,355.58**	**1.99**	**2.11**
Purchases	238,760,796	29,845.10	1.34	4.25
Sales	301,703,766	37,712.97	1.52	5.37
Balance at 31 December 2016	**51,901,666**	**6,487.71**	**1.72**	**0.92**
Purchases	202,784,158	25,348.02	1.67	3.60
Sales	206,452,578	25,806.57	1.66	3.66
Balance at 31 December 2017	**48,233,246**	**6,029.16**	**1.82**	**0.86**

Net gains and losses arising on transactions in the bank's equity instruments have been included under the heading "Own funds - Other reserves" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to sales or cancellations of treasury shares.

At 31 December 2017, TSB owns 11,635,555 Banco Sabadell shares (7,686,005 at 2016 year-end), at a cost of €18,390 thousand (€12,004 thousand at 2016 year-end), which are recognised as treasury shares on the consolidated balance sheet.

At 31 December 2017, 136,998,348 of the bank's shares were pledged as guarantee for transactions with a nominal value of €17,125 thousand (146,996,917 shares with a nominal value of €18,375 thousand at 31 December 2016).

The number of Banco de Sabadell, S.A. equity instruments held by third parties but managed by Group companies at 31 December 2017 and 2016 was 16,051,137 securities and 16,886,009 securities, at 31 December 2017 and 2016, respectively. Their nominal value amounts to €2,006 thousand and €2,111 thousand, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this Group item at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017	2016
Items that will not be reclassified to profit or loss	6,767	13,261
Actuarial gains or (-) losses on defined benefit pension schemes	6,767	13,261
Non-current assets and disposal groups classified as held for sale	-	-
Share of the income and expenses of investments in joint ventures and associates	-	-
Other valuation adjustments	-	-
Items that may be reclassified to profit or loss	(272.078)	93,881
Hedge of net investments in foreign operations (effective portion)	236,647	151,365
Foreign currency translation	(678.451)	(428,650)
Hedging derivatives. Cash flow hedges (effective portion)	(80,402)	(21,521)
Available-for-sale financial assets	238,545	280,548
Debt instruments	195,869	229,008
Equity instruments	42,676	51,540
Other value adjustments	-	-
Non-current assets and disposal groups classified as held for sale	-	96,299
Share of the income and expenses of investments in joint ventures and associates	11,583	15,840
Total	**(265.311)!**	**107,142**

The breakdown of taxes on gains relating to each item on the statement of recognised income and expenses at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017			2016		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	(9,278)	2,783	(6,495)	1,499	(450)	1,049
Actuarial gains or (-) losses on defined benefit pension schemes	(9,278)	2,783	(6,495)	1,499	(450)	1,049
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Share of the income and expenses of investments in joint ventures and associates	-	-	-	-	-	-
Other valuation adjustments	-	-	-	-	-	-
Items that may be reclassified to profit or loss	(451,163)	85,240	(365,923)	(382,349)	33,047	(349,302)
Hedge of net investments in foreign operations (effective portion)	85,282	-	85,282	133,438	-	133,438
Foreign currency translation	(249,801)	-	(249,801)	(404,960)	-	(404,960)
Hedging derivatives. Cash flow hedges (effective portion)	(87,004)	28,123	(58,881)	(54,190)	16,257	(37,933)
Available-for-sale financial assets	(57,812)	15,845	(41,967)	(193,537)	58,061	(135,476)
Debt instruments	(45,506)	12,403	(33,103)	(380,670)	114,201	(266,469)
Equity instruments	(12,306)	3,442	(8,864)	(45,810)	13,743	(32,067)
Other value adjustments	-	-	-	232,943	(69,883)	163,060
Non-current assets and disposal groups classified as held for sale	(137,571)	41,272	(96,299)	137,570	(41,271)	96,299
Share of the income and expenses of investments in joint ventures and associates	(4,257)	-	(4,257)	(670)	-	(670)
Total	**(460,441)**	**88,023**	**(372,418)**	**(380,850)**	**32,597**	**(348,253)**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this heading are as follows:

Thousand euro

	2017			2016		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interest	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	39,874	*3,925*	49.03%	39,081	*4,659*
Business Services for Operational Support, S.A.U.	20.00%	-	*519*	20.00%	2,163	*916*
Xeresa Golf, SA	0.00%	-	-	20.00%	5,919	-
Aurica Coinvestment SL,	38.24%	20,253	*(2)*	0.00%	-	-
Rest	0.00%	1,049	*(730)*	0.00%	2,505	*(154)*
Total		**61,176**	***3,712***		**49,668**	***5,421***

Movements in this heading in 2017 and 2016 were as follows:

Thousand euro

Balances at 31 December 2015	**37,110**
Valuation adjustments	211
Rest	12,347
Scope additions/exclusions	7,650
Percentage holding and other	(724)
Profit/(loss) for the year	5,421
Balances at 31 December 2016	**49,668**
Valuation adjustments	34
Rest	11,474
Scope additions/exclusions	15,030
Percentage holding and other	(5,845)
Change in method of consolidation	(1,423)
Profit/(loss) for the year	3,712
Balances at 31 December 2017	**61,176**

Dividends paid to the minority shareholders of the Group companies in 2017 totalled €1,411 thousand (BancSabadell d'Andorra, S.A.) and €1,288 thousand in 2016.

During 2017, the companies Aurica Coinvestment S.L. and Business Services for Operational Support, S.A.U are assigned to banking business in Spain.

BancSabadell d'Andorra, S.A. is assigned to the other geographies segment.

Note 26 – Guarantees given

The composition of this item is as follows:

Thousand euro

	2017	2016
Financial guarantees	1,983,143	1,872,647
Assets under third party obligations	-	-
Non-revocable documentary credit	838,922	1,119,550
Additional settlement guarantee	20,000	20,000
Other bonds and guarantees given	5,884,782	5,517,157
Other contingent liabilities	-	-
Total	**8,726,847**	**8,529,354**

Doubtful guarantees given

Changes produced in the balance of doubtful guarantees given are as follows:

Thousand euro	
Balances at 31 December 2015	**89,827**
Additions	77,472
Disposals	(63,160)
Balances at 31 December 2016	**104,139**
Additions	21,783
Disposals	(68,030)
Balances at 31 December 2017	**57,892**

The breakdown of the balance of doubtful guarantees given by geography at 31 December 2017 and 2016 is as follows:

Thousand euro	2017	2016
Spain	56,766	103,728
Rest of European Union	22	12
Ibero-America	145	111
Rest of OECD	-	-
Rest of the world	959	288
Total	**57,892**	**104,139**

Credit risk hedging for guarantees given is as follows:

Thousand euro	2017	2016
Specific coverage determined individually:	**19,445**	**12,236**
Hedging of customer insolvency risk	19,445	12,236
Specific coverage determined collectively:	**12,454**	**13,125**
Hedging of customer insolvency risk	10,487	10,865
Allowances for country risk	1,967	2,260
IBNR coverage (*)	**34,598**	**35,510**
Total	**66,497**	**60,871**

(*) Collective value adjustments for losses incurred but not reported (see Note 1.3.4).

Changes in this hedge, together with the heading "*Contingent commitments given - Provisions given*", included under the heading "*Provisions*" on the liabilities side, are detailed in Note 22.

Note 27 – Contingent commitments given

The composition of this item at 31 December 2017 and 2016 was as follows:

Thousand euro

	2017	2016
Drawable by third parties	20,906,053	19,567,289
By credit institutions	468	660
By general governments	677,317	518,018
By other resident sectors	13,750,112	11,522,581
By non-residents	6,478,156	7,526,029
Financial asset forward purchase commitments	2,825,731	2,675,004
Conventional financial asset purchase contracts	126,999	2,779,198
Subscribed securities pending disbursement	1,939	1,939
Securities placement and subscription commitments	-	-
Other contingent commitments given	218,618	185,257
Total	24,079,340	25,208,687

Note: Hedge of contingent commitments of €18,452 thousand, (€23,161 thousand in 2016) the movements of which are given in Note 22, together with movements of guarantees given.

Total commitments drawable by third parties at 31 December 2017 included credit commitments secured with a mortgage in the amount of €2,616,999 thousand (€2,180,435 thousand at 31 December 2016). As regards other commitments, in the majority of cases there are other types of guarantee which are in line with the Group's risk management policy.

Note 28 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown below:

Thousand euro

	2017	2016
Under Group management:	**23,090,028**	**20,223,209**
Investment funds and companies	19,091,344	16,571,928
Asset management	3,998,685	3,651,281
Investment funds sold but not managed	**8,283,255**	**6,022,265**
Pension funds (*)	**3,986,555**	**4,116,997**
Insurance (*)	**9,964,863**	**10,243,421**
Financial instruments deposited by third parties	**80,970,536**	**66,438,327**
Total	126,295,237	107,044,219

(*) The balance in pension funds and insurance relates to those sold by the Group.

Note 29 – Interest income and expenses

These headings in the consolidated profit and loss account include interests accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interests are recorded at their gross value, without deducting any tax withholdings exercised at the source.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through changes in equity.

The average annual interest rate during 2017 and 2016 of the indicated balance sheet headings is shown below:

%

	2017		2016	
	BS Group	Ex TSB	BS Group	Ex TSB
Assets				
Cash, cash balances at central banks and other demand deposits	0.02	(0.11)	0.27	0.22
Debt securities	1.72	1.74	2.50	2.56
Loans and advances				
Costumers	3.00	2.84	3.16	2.94
Liabilities				
Deposits				
Central banks and credit institutions	0.10	0.05	0.43	0.44
Costumers	0.19	0.12	0.39	0.30

The quarterly net interest income for 2017 and 2016 and the average income and expenses of the various components that make up total loans and advances and customer funds are broken down as follows:

Thousand euro

	2017												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Average yield of the investment	**211,690,107**	**2.33**	**1,217,554**	**219,081,800**	**2.19**	**1,195,386**	**212,629,774**	**2.15**	**1,149,302**	**214,016,641**	**2.09**	**1,125,723**	**4,687,965**
Cash and equivalents (*)	12,711,586	0.05	1,701	18,198,341	(0.01)	(536)	19,408,477	(0.03)	(1,320)	23,601,722	0.05	3,080	**2,925**
Loan and advances	138,670,199	3.02	1,033,973	139,175,529	3.02	1,048,683	135,288,462	2.98	1,015,144	134,679,510	2.96	1,004,312	**4,102,112**
Fixed-income portfolio (**)	29,762,880	2.15	158,055	31,800,063	1.59	126,279	28,417,288	1.59	113,717	25,309,784	1.51	96,265	**494,316**
Equity portfolio	982,684	-	-	911,215	-	-	1,327,913	-	-	1,091,195	-	-	-
Tangible and intangible assets	4,199,848	-	-	4,270,256	-	-	4,307,770	-	-	4,293,743	-	-	-
Rest of other assets	25,362,910	0.38	23,825	24,726,396	0.34	20,960	23,879,864	0.36	21,761	25,040,687	0.35	22,066	**88,612**
Average cost of resources	**211,690,107**	**(0.49)**	**(255,129)**	**219,081,800**	**(0.41)**	**(220,914)**	**212,629,774**	**(0.39)**	**(208,434)**	**214,016,641**	**(0.37)**	**(201,118)**	**(885,595)**
Credit institutions	20,161,775	(0.29)	(14,207)	31,187,504	(0.03)	(4,617)	30,700,166	(0.05)	(3,887)	32,010,746	(0.08)	(6,847)	**(29,558)**
Customer deposits (***)	141,349,314	(0.23)	(80,212)	141,058,478	(0.20)	(71,461)	135,198,081	(0.17)	(58,634)	135,525,086	(0.16)	(56,008)	**(266,315)**
Capital markets	26,575,834	(1.74)	(113,822)	25,299,212	(1.44)	(91,001)	25,799,705	(1.44)	(93,663)	26,410,778	(1.33)	(88,399)	**(386,885)**
Other liabilities	10,656,159	(1.78)	(46,888)	8,488,318	(2.54)	(53,835)	7,799,188	(2.66)	(52,250)	6,857,577	(2.88)	(49,864)	**(202,837)**
Own funds	12,947,025	-	-	13,048,288	-	-	13,132,634	-	-	13,212,454	-	-	-
Net interest income			**962,425**			**974,472**			**940,868**			**924,605**	**3,802,370**
Total ATAs			**211,690,107**			**219,081,800**			**212,629,774**			**214,016,641**	-
Ratio (margin/ATA)			**1.84**			**1.78**			**1.76**			**1.71**	-

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes €4,802 thousand corresponding to interest on financial assets designated at fair value through profit or loss (financial assets held for trading).

(***) Includes repos.

Financial income or expenses deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading under liabilities includes income from negative interest on liability balances with credit institutions, mainly those relating to TLTRO II.

Thousand euro

	2016												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Average yield of the investment	**204,805,768**	**2.62**	**1,332,686**	**207,152,833**	**2.53**	**1,301,850**	**206,477,426**	**2.42**	**1,255,294**	**206,618,507**	**2.40**	**1,244,039**	**5,133,869**
Cash and equivalents (*)	10,899,320	0.34	9,106	11,804,105	0.33	9,719	11,128,783	0.25	7,068	11,512,977	0.18	5,224	**31,117**
Loan and advances	138,493,620	3.28	1,129,678	139,254,470	3.21	1,112,814	137,426,703	3.10	1,071,244	137,648,550	3.03	1,047,551	**4,361,287**
Fixed-income portfolio (**)	25,060,673	2.81	175,347	25,893,234	2.46	158,657	27,174,319	2.31	158,045	27,197,843	2.42	165,174	**657,223**
Equity portfolio	966,252	-	-	980,312	-	-	1,057,539	-	-	1,012,966	-	-	-
Tangible and intangible assets	3,912,498	-	-	4,094,477	-	-	3,984,832	-	-	4,131,161	-	-	-
Rest of other assets	25,473,405	0.30	18,555	25,126,235	0.35	20,660	25,705,250	0.31	18,937	25,115,010	0.43	26,090	**84,242**
Average cost of resources	**204,805,768**	**(0.71)**	**(358,793)**	**207,152,833**	**(0.65)**	**(333,268)**	**206,477,426**	**(0.59)**	**(306,918)**	**206,618,507**	**(0.58)**	**(297,138)**	**(1,296,117)**
Credit institutions	18,204,599	(0.60)	(27,174)	18,622,667	(0.60)	(28,004)	17,393,074	(0.22)	(9,406)	17,972,285	(0.31)	(13,790)	**(78,374)**
Customer deposits (***)	133,554,180	(0.45)	(150,448)	135,300,690	(0.42)	(140,139)	134,627,536	(0.37)	(126,328)	135,678,697	(0.32)	(108,116)	**(525,031)**
Capital markets	30,640,997	(2.12)	(161,610)	30,264,910	(1.89)	(142,108)	30,440,556	(1.88)	(143,630)	29,515,748	(1.87)	(138,411)	**(585,759)**
Other liabilities	9,832,268	(0.80)	(19,561)	10,046,358	(0.92)	(23,017)	10,807,323	(1.01)	(27,554)	10,427,589	(1.39)	(36,821)	**(106,953)**
Own funds	12,573,724	-	-	12,918,208	-	-	13,208,937		-	13,024,188	-	-	-
Net interest income			**973,893**			**968,582**			**948,376**			**946,901**	**3,837,752**
Total ATAs			**204,805,768**			**207,152,833**			**206,477,426**			**206,618,507**	-
Ratio (margin/ATA)			**1.91**			**1.88**			**1.83**			**1.82**	-

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes €6,670 thousand corresponding to interest on financial assets designated at fair value through profit or loss (financial assets held for trading).

(***) Includes repos.

Financial income or expenses deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading under liabilities includes income from negative interest on liability balances with credit institutions, mainly those relating to TLTRO II.

In annual average terms, the net interest margin as a percentage of average total assets stood at 1.77% (1.64% excluding TSB), decreasing by 9 basis points compared with the previous year (1.86% in 2016). In terms of the quarterly changes in income, the net interest margin as a proportion of average total assets in the fourth quarter 2017 stood at 1.71% (1.58% excluding TSB). The net interest margin for the fourth quarter of 2016 was 1.82%.

The following table shows, for investment positions and deposits in the business in Spain - branch network operations, excluding subsidiaries' operations, the contractual spread on transactions arranged in each quarter in 2017 and 2016 (new business) and the resulting final portfolio (stock) at the end of each period:

Basis point spread	Additions (quarterly average)				Stock			
	2017				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Credit	236	257	256	250	241	238	249	241
Loans	300	263	215	250	240	240	236	238
Home mortgage loans	155	164	153	136	113	114	114	115
Leasing	305	286	313	265	238	242	245	245
Renting	449	374	446	418	513	477	468	475
Discounting	266	249	243	241	284	259	258	252
Confirming	259	249	252	232	245	231	234	223
Forfaiting	547	529	481	396	407	408	409	392
Lending								
1-month term deposit	32	27	22	30	30	22	21	26
3-month term deposit	37	17	10	24	34	19	11	21
6-month term deposit	16	24	17	25	17	22	20	23
12-month term deposit	15	14	11	20	18	15	14	16
+12-month term deposit	26	25	9	38	28	25	22	30
Term deposits								

Basis point spread	Additions (quarterly average)				Stock			
	2016				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Credit	225	257	249	258	243	234	249	247
Loans	243	261	306	253	232	238	239	240
Home mortgage loans	179	163	175	138	101	104	105	106
Leasing	294	297	290	284	214	218	221	223
Renting	532	429	524	434	558	521	513	512
Discounting	316	296	297	278	342	315	323	302
Confirming	261	265	283	275	255	252	264	254
Forfaiting	469	438	470	362	534	457	435	396
Lending	**263**	**261**	**269**	**250**	**175**	**178**	**180**	**181**
1-month term deposit	54	76	84	83	60	76	81	77
3-month term deposit	61	69	86	85	60	71	84	77
6-month term deposit	49	79	75	75	39	64	60	65
12-month term deposit	42	30	25	20	39	36	35	32
+12-month term deposit	54	46	54	42	64	53	47	44
Term deposits	**50**	**49**	**56**	**50**	**51**	**45**	**42**	**40**

With respect to the existing home mortgages portfolio at 31 December 2017, the breakdown on the basis of when the interest rate on the transaction is to be revised is as follows:

Thousand euro

Mortgage repricing schedule	Q1 18	Q2 18	Q3 18	Q4 18	Total
Home mortgages	7,732,602	7,589,963	5,707,281	6,948,247	**27,978,093**

Corresponds to Business in Spain - branch network

New deposits to 31 December 2017 and 2016, broken down by contractual maturity, are as follows:

€ million

Deposits by maturity	Additions 2017			
	Q1	Q2	Q3	Q4
Up to 3M	3,042	3,121	2,391	2,343
3 to 6M	586	902	735	961
6 to 12M	2,923	3,241	1,988	2,024
12 to 18M	601	905	906	495
More than 18M	3,445	3,757	3,756	6,829
Total deposits	**10,597**	**11,926**	**9,776**	**12,652**
%				
Up to 3M	28.7	26.2	24.5	18.5
3 to 6M	5.5	7.6	7.5	7.6
6 to 12M	27.6	27.2	20.3	16.0
12 to 18M	5.7	7.6	9.3	3.9
More than 18M	32.5	31.4	38.4	54.0
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business in Spain - branch network operations.

€ million

Deposits by maturity	Additions 2016			
	Q1	Q2	Q3	Q4
Up to 3M	2,653	2,797	3,058	3,186
3 to 6M	664	635	429	572
6 to 12M	4,112	4,359	2,867	2,749
12 to 18M	629	771	824	532
More than 18M	2,671	2,257	2,379	4,054
Total deposits	**10,729**	**10,819**	**9,557**	**11,093**
%				
Up to 3M	24.7	25.9	32.0	28.7
3 to 6M	6.2	5.9	4.5	5.2
6 to 12M	38.3	40.3	30.0	24.8
12 to 18M	5.9	7.1	8.6	4.8
More than 18M	24.9	20.9	24.9	36.5
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business Spain - branch network operations.

Note 30 – Fee and commission income and expenses

Fee and commission income and expenses on financial transactions and the provision of services were as follows:

Thousand euro

	2017	2016
Fees derived from risk operations	**304,801**	**316,676**
Asset operations	206,092	215,700
Guarantees	98,709	100,976
Service fees	**580,016**	**520,028**
Cards	205,721	191,219
Payment orders	53,982	50,408
Securities	60,413	50,392
Sight accounts	130,783	89,854
Rest	129,117	138,155
Asset management fees	**338,619**	**311,878**
Investment funds	158,409	145,714
Sale of pension funds and insurance products	152,826	140,863
Asset management	27,384	25,301
Total	1,223,436	1,148,582

Memorandum item		
Fee-related income	1,478,603	1,376,364
Fee-related expenses	(255,167)	(227,782)
Net fees and commissions	1,223,436	1,148,582

Note 31 – Net trading income

Net trading income consists of a group of headings from the consolidated profit and loss account for the years ended 31 December 2017 and 2016, which are shown below:

Thousand euro

	2017	2016
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	371,365	476,217
Gains or (-) losses on financial assets and liabilities held for trading, net	214,786	107,593
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	134	114
Gains or (-) losses from hedge accounting, net	27,819	25,798
Total	614,104	609,722
By type of financial instrument:		
Net gain/(loss) on debt securities	384,568	385,194
Net gain/(loss) other equity instruments	16,252	100,933
Net gain/(loss) on derivatives	230,622	130,987
Net gain/(loss) on other items (*)	(17,338)	(7,392)
Total	614,104	609,722

(*) Mainly includes income from the sale of various credit portfolios sold during the year.

In 2017 and 2016 the Group sold certain debt securities from its portfolio of available-for-sale financial assets, generating profits of €373,322 thousand at 31 December 2017 (€382,538 thousand at 31 December 2016). This included profits of €348,709 thousand (€362,111 thousand in 2016) on disposals of debt securities held with general governments.

As at 2 March 2017 the Group, through BanSabadell Inversió Desenvolupament, S.A.U., a subsidiary wholly-owned by Banco Sabadell, proceeded to sell its 5.00% stake held in Fluidra, S.A. through a private accelerated book building offer between qualified and institutional investors. The total sale amount was €26,749 thousand, representing net profit for the Group of approximately €10,420 thousand.

Note 32 – Other operating income

The composition of this item of the consolidated profit and loss account for the years ended 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Income from operation of investment properties	104,724	108,195
Sales and other income from the provision of non-financial services	148,452	92,537
Other operating income	85,189	85,993
Total	338,365	286,725

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios from other entities (the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria, SAREB*)).

The income recognised in other operating income mostly corresponds to income from group entities engaged in non-financial activities (mostly operating leases).

Note 33 – Other operating expenses

The composition of this item of the consolidated profit and loss account for the years ended 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Contribution to deposit guarantee funds	(98,295)	(94,880)
Banco Sabadell	(95,751)	(84,119)
TSB	(355)	(7,614)
Sabadell United Bank	(497)	(2,929)
BS IBM México	(1,692)	(218)
Other items	(448,028)	(371,994)
Contribution to resolution fund	(50,639)	(47,661)
Monetisable taxes (*)	(54,668)	(57,000)
Other	(342,721)	(267,332)
Total	**(546,323)**	**(466,873)**

(*) See Note 40.

The "*Others*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to €28,146 thousand in 2017 (€27,590 thousand in 2016), as well as expenses associated with non-financial activities.

Note 34 – Administrative expenses

This heading in the consolidated profit and loss account includes expenses incurred by the Group in respect of staff and other general administrative expenses.

Staff expenses

The staff expenses charged to the consolidated profit and loss account for the years ended 31 December 2017 and 2016 are as follows:

Thousand euro

	Note	2017	2016
Payrolls and bonuses for active staff		(1,181,796)	(1,217,862)
Social Security payments		(241,550)	(241,201)
Contributions to defined benefit pension schemes	22	(2,002)	(2,322)
Contributions to defined contribution pension schemes		(67,575)	(68,534)
Other staff expenses		(80,637)	(133,135)
Total		**(1,573,560)**	**(1,663,053)**

At 31 December 2017 and 2016, the breakdown of the average workforce for all companies within the Group by category and gender is as follows:

Average number of employees

	2017			2016		
	Men	Women	Total	Men	Women	Total
Management staff	482	154	636	490	146	636
Technical staff	10,065	10,930	20,995	9,403	9,670	19,073
Administrative staff	1,007	3,533	4,540	1,643	4,670	6,313
Total	**11,554**	**14,617**	**26,171**	**11,536**	**14,486**	**26,022**

The breakdown of the bank's average workforce by category at 31 December 2017 and 2016 and with a disability of 33% of more is as follows:

Average number of employees

	Banco Sabadell Group	
	2017	2016
Management staff	14	4
Technical staff	178	149
Administrative staff	75	108
Total	**267**	**261**

At 31 December 2017 and 2016, the distribution of employees by category and gender is as follows:

Number of employees

	2017			2016		
	Men	Women	Total	Men	Women	Total
Management staff	488	157	645	491	154	645
Technical staff	9,980	10,734	20,714	9,339	9,756	19,095
Administrative staff	999	3,487	4,486	1,610	4,595	6,205
Total	**11,467**	**14,378**	**25,845**	**11,440**	**14,505**	**25,945**

Of the total workforce at 31 December 2017, 253 had some of recognised disability (263 at 31 December 2016).

In accordance with the application of the private banking collective bargaining agreement, employees classified under the category of administrative staff have been reclassified. As a result, the group of technical staff has increased in respect of the information of 31 December 2016.

Non-recurring staff expenses amounted to €26,623 thousand at 31 December 2017. Expenses which do not form part of the entity's ordinary activities are considered non-recurring. In the case of staff expenses, these are linked to changes in the organisational structure and commercial transformation.

Deferred payment system for variable remuneration earned in previous years.

- At the Annual General Meeting held on 26 March 2013, the shareholders approved a payment scheme for the payment of variable remuneration earned during 2012 to the Executive Directors and a group of directors, through the delivery of Banco de Sabadell, S.A. stock options ("SREO 2012"). The Executive Directors could choose to receive Options up to 100% of their earned variable remuneration, and other directors up to 50%. This scheme expired in March 2016 and its settlement resulted in the delivery in cash of €2,414 thousand.

- At the Annual General Meeting held on 27 March 2014, the shareholders approved a payment scheme for the approved amounts of variable remuneration earned during 2013 to be paid to the bank's Executive Directors through the delivery of the equivalent value of that remuneration in Banco de Sabadell, S.A. stock options. This scheme expired in March 2017 and no cash was settled since the exercise price of the option was 1.75 euros.

Long-term complementary incentives scheme based on shares

At the Annual General Meeting held on 27 March 2014, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for Executive Directors, five members of Senior Management and 419 Group Management Staff. This scheme expired in March 2017, and no bank shares were given as the exercise price of the option was of €2.015.

The Group has two long-term share-based supplementary incentive schemes currently in effect, the ICLP Plan 2016 and the Incentive.

- At the Annual General Meeting held on 31 March 2016, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for three Executive Directors, seven members of Senior Management and 472 Group Management Staff ("ICLP Plan 2016").

- At the Annual General Meeting held on 30 March 2017, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for 3 Executive Directors, 7 members of Senior Management and 466 Group Management Staff ("the Incentive").

Both consist of assigning a certain number of rights to the beneficiaries, including the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a three-year period, using as a reference their share price, which shall be made effective by means of the delivery of the bank's shares.

Their main characteristics are shown below:

Incentives Schemes in effect	End date	Exercise price	Maximum number of rights affected
ICLP 2016	10/30/2019	1.494	30,000,000
The Incentive	3/30/2020	1.353	35,000,000

The fair value of services was calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance level for the individual target called "Professional Efficiency Appraisal" set by the bank's Remuneration Committee.

Movements in rights associated with both schemes were as follows:

Rights - ICLP 2016

Balance at 30 April 2015	**30,000,000**
Granted	-
Cancelled	(1,505,000)
Balance at 31 December 2016	**28,495,000**
Granted	-
Cancelled	(1,606,666)
Balance at 31 December 2017	**26,888,334**

Rights - The Incentive

Balance at 1 April 2017	**35,000,000**
Granted	-
Cancelled	(3,770,004)
Balance at 31 December 2017	**31,229,996**

- TSB Banking Group employees have a complementary incentive linked to a target achievement plan between 2016 and 2020, and this remuneration is paid in Banco Sabadell, S.A. shares and in cash.

In terms of staff expenses associated with share-based incentive schemes (see Note 1.3.15), their expenses in 2017 and 2016 totalled €17,784 thousand and €18,271 thousand, respectively; the counterparty is reflected in equity (see statement of changes in equity in the row corresponding to payments based on shares).

Other administrative expenses

This includes all other administrative expenses incurred during the year:

Thousand euro	2017	2016
Property, plant and equipment	(229,656)	(249,682)
Information technology	(394,582)	(246,396)
Communication	(43,477)	(47,156)
Publicity	(106,706)	(111,148)
Subcontracted administrative services	(95,436)	(99,097)
Contributions and taxes	(106,889)	(95,748)
Technical reports	(54,982)	(40,341)
Security services and fund transfers	(26,107)	(21,042)
Business entertainment expenses and staff travel expenses	(20,111)	(20,357)
Membership fees	(22,593)	(16,788)
Other expenses	(48,873)	(52,539)
Total	**(1,149,412)**	**(1,000,294)**

Fees with Auditing Companies

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2017 for auditing services and other audit-related services provided in Spain amounted to €1,920 thousand and €321 thousand, respectively (€1,666 thousand and €485 thousand in 2016). Auditing services provided by other companies in the PwC network in relation to branches and subsidiaries abroad totalled €2,816 thousand in 2017 (€2,782 thousand in 2016).

Fees received by other auditors in 2017 for account auditing and other audit-related services provided in Spain amounted to €52 thousand and €0 thousand, respectively (€112 thousand and €0 thousand in 2016). Fees for audit and other audit-related services for branches and subsidiaries abroad amounted to €8 thousand and €16 thousand in 2017 (€0 thousand and €25 thousand in 2016).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2017 amounted to €92 thousand and €740 thousand. The amounts recognised for these services in 2016 amounted to €183 thousand and €1,179 thousand, respectively.

Other information

At 31 December 2017, non-recurring administrative expenses amounted to €32,713 thousand, including expenses associated with specific cost-reduction schemes and from special projects associated with changes in the scope of consolidation.

The cost-to-income ratio at 2017 year-end (staff and general expenses/gross income) stood at 50.15% (48.68% in 2016), and at 42.10% excluding TSB (42.66% in 2016). This ratio has been calculated without considering the revenue from the early call of TSB's Mortgage Enhancement portfolio and the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Information about the Group's branches is given below:

Number of branches

	2017	2016
Branches	**2,473**	**2,767**
Spain	1,880	2,119
Outside Spain	593	648

Note 35 – Impairment or (-) reversal of value impairment on financial assets not measured at fair value through profit or loss

The composition of this item of the consolidated profit and loss account for the years ended 31 December 2017 and 2016 is as follows:

Thousand euro

	Nota	2017	2016
Available- for-sale financial assets		(53,374)	(112,284)
Debt securities	8	(6,277)	521
Other equity instruments	9	(47,097)	(112,806)
Loans and receivables (*)		(1,157,094)	(441,414)
Held to maturity investments		(905)	-
Total		**(1,211,373)**	**(553,698)**

(*) This figure mainly includes the provision through profit or loss for value adjustments made to hedge credit risk, as shown in the section on changes in value adjustments in Note 11, as well as other items such as the amortisation through profit or loss of financial assets derecognised from the balance sheet and the recovery of write-offs.

Note 36 – Impairment or (-) reversal of impairment of non-financial assets

The breakdown of this heading in the consolidated balance sheets for the years ended 31 December 2017 and 2016 was as follows:

Thousand euro

	Nota	2017	2016
Property plant and equipment	15	(15,300)	(41)
Investment property	15	(216,042)	(20,236)
Goodwill and other intangible assets		(2,601)	-
Inventories	17	(565,419)	(537,872)
Total		**(799,362)**	**(558,148)**

The total investment property impairment provision in 2017 and 2016 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to €1,746,296 thousand and €2,404,246 thousand in 2017 and 2016, respectively.

Of the total inventory impairment provision for 2017 and 2016, €135,890 thousand and €328,195 thousand was calculated based on Level 2 valuations, respectively, and €429,529 thousand and €209,677 thousand based on Level 3 valuations, respectively. The fair value of impaired assets amounts to €1,963,363 thousand and €2,924,459 thousand at the end of 2017 and 2016.

Note 37 – Gains or (-) losses on derecognition of non-financial assets and interests, net

The composition of this item of the consolidated profit and loss account for the years ended 31 December 2017 and 2016 is as follows:

Thousand euro

	2017	2016
Gains or (-) losses on derecognition of non-financial assets, net	**400,905**	**35,108**
Property, Plant and Equipment	(3,726)	(29,766)
Investment Properties	(15,024)	-
Intangible assets	-	-
Equity Interests (*)	418,067	46,883
Other capital instruments	-	-
Other items	1,588	17,991

(*) See Note 2 and Schedule 1 - Companies no longer consolidated.

Note 38 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The breakdown of this heading in the consolidated balance sheets for the years ended 31 December 2017 and 2016 was as follows:

Thousand euro

	Note	2017	2016
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, net		**(139,447)**	**(314,519)**
Property, plant and equipment for own use and foreclosed		(155,636)	(313,810)
Gains/losses on sales		56,955	(30,620)
Impairment/Reversal	13	(212,591)	(283,190)
Investment properties		(409)	(556)
Intangible assets		-	-
Interests (*)		16,646	-
Other capital instruments		-	(99)
Other items		(48)	(55)

(*) See Note 2 and Schedule 1 - Companies no longer consolidated.

The impairment of non-current assets held for sale excludes income from the increase in fair value less sale costs.

The total provision for the impairment of non-current assets held for sale in 2017 and 2016 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounts to €1,769,557 thousand and €2,103,086 thousand at the end of 2017 and 2016.

Note 39 – Segment information

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

The criteria that Banco Sabadell Group uses to report on results for each segment are:

- There are four separate geographies: Banking Business Spain, Asset Transformation, Banking Business United Kingdom and Other geographies.
- Each business is allocated 11% of capital over its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.
- Banking Business United Kingdom includes TSB's contribution to the Group.
- Other Geographies mostly comprises Mexico, overseas branches and representative offices. For the purpose of comparison, changes have been calculated for investment, funds and the income statement, excluding Sabadell United Bank.

In terms of the other criteria applied, segment information is first structured with a breakdown by geography and then broken down based on the customers to which each segment is aimed.

Segmentation by geography and business units

As regards the basis of presentation and approaches used, information for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expenses where particular business lines are allocated to one or more legal entities, which allows income and expenses to be allocated to each customer in line with the business to which they are assigned.

Each business unit is treated as an independent business, therefore flows of income and expenses take place between businesses for the provision of services involving the distribution of products, services and systems. The final impact on the Group's income statement is nil.

Each business unit bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of corporate units.

Capital is allocated in such a way that each business is assigned capital equivalent to the minimum regulatory capital requirements to cover its risk exposure. This regulatory minimum requirement depends on the body responsible for supervising each business.

The capital assigned to each business in order to align them with the 11% capital requirement applicable to the Group has been updated for 2017, and the capital assigned during 2016 has therefore been recalculated for the purpose of comparability.

Details of profit before tax and other key figures for each business unit for the years 2017 and 2016 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euros

	2017				
	Banking business Spain	RE asset transformation	Banking business UK (*)	Other geographies (**)	Total Group
Net interest income	**2,528**	**(52)**	**1,034**	**293**	**3,802**
Profit/(loss) for equity method and dividends	313	(1)	-	3	316
Net fees and commissions	1,076	2	96	50	1,223
Net trading income and exchange differences	541	(37)	110	9	623
Other operating income/expenses	(332)	118	(16)	3	(227)
Gross income	**4,126**	**30**	**1,223**	**358**	**5,737**
Administrative expenses and depreciations	(1,756)	(163)	(1,002)	(205)	(3,125)
Operating income	**2,370**	**(133)**	**221**	**153**	**2,612**
Provisions and impairments	(867)	(1,216)	(89)	(24)	(2,196)
Gains/(losses) on asset derecognition and others	384	41	7	1	433
Profit/(loss) before taxes	**1,887**	**(1,307)**	**139**	**130**	**848**
Income tax	(321)	364	(49)	(37)	(43)
Profit/(loss) after taxes	**1,566**	**(943)**	**90**	**93**	**805**
Profit/(loss) attributable to minority interests	-	-	-	4	4
Total profit/(loss) of the reported segments	**1,566**	**(943)**	**90**	**89**	**801**
ROE (return on equity)	17.8%	--	5.8%	8.8%	6.1%
Cost-to-income (administrative expenses over gross income)	39.1%	--	79.5%	54.5%	50.2%
NPL ratio (%)	5.7%	32.2%	0.4%	0.9%	5.1%
NPL coverage ratio (including SUB)(%)	45.6%	49.9%	55.9%	113.0%	45.7%
Employees	15,775	1,018	8,287	765	25,845
Domestic and overseas branches	1,880	-	551	42	2,473

(*) Includes TSB's contribution to consolidated income. The exchange rate applied to the Income Statement is GBP 0.875 (average).

(**) Includes mainly Mexico, overseas branches and representative offices. The exchange rate applied to the Income Statement is GBP 0.875, MXN 21.303, USD 1.132 and MAD 11.597 (average).

In million euros

	2017				
	Banking business Spain	Re asset transformation	Banking business UK (*)	Other geographies (**)	Total Group
Assets	**142,521**	**15,384**	**48,145**	**15,298**	**221,348**
Customer lending (net) excluding repos	93,394	3,865	35,501	8,836	141,596
Real estate exposure (net)	-	3,372	-	23	3,395
Liabilities	**133,370**	**13,728**	**46,597**	**14,431**	**208,127**
On-balance sheet customer funds	92,558	104	34,410	5,024	132,096
Wholesale Funding Capital Markets	20,168	-	1,920	-	22,088
Allocated capital	**9,151**	**1,656**	**1,548**	**866**	**13,222**
Off-balance sheet customer funds	**44,265**	**27**	**-**	**1,033**	**45,325**

(*) Includes TSB's contribution to consolidated income. The exchange rate applied to the Balance Sheet is GBP 0.887.

(**) Includes mainly Mexico, overseas branches and representative offices. The exchange rate applied to the Balance sheet is GBP 0.887, MXN 23.661, USD 1.119 and MAD 11.426.

Million euros

	2016				
	Banking business Spain	RE asset transformation	Banking business UK (*)	Other geographies (**)	Total Group
Net interest income	**2,513**	**(26)**	**1,051**	**300**	**3,838**
Profit/(loss) for equity method and dividends	82	(1)	-	3	85
Net fees and commissions	960	(1)	126	64	1,149
Net trading income and exchange differences	600	(50)	54	23	627
Other operating income/expenses	(340)	128	(18)	3	(227)
Gross income	**3,815**	**49**	**1,213**	**394**	**5,471**
Administrative expenses and depreciations	(1,783)	(151)	(919)	(206)	(3,059)
Operating income	**2,032**	**(102)**	**293**	**188**	**2,412**
Provisions and impairments	(570)	(801)	(28)	(29)	(1,427)
Gains/(losses) on asset derecognition and others	40	-	(4)	-	35
Profit/(loss) before taxes	**1,502**	**(903)**	**261**	**160**	**1,020**
Income tax	(431)	263	(81)	(54)	(304)
Profit/(loss) after taxes	**1,071**	**(640)**	**180**	**106**	**716**
Profit/(loss) attributable to minority interests	5	-	-	-	5
Total profit/(loss) of the reported segments	**1,065**	**(640)**	**180**	**106**	**711**
ROE (return on equity)	19.4%	--	8.0%	13.2%	5.6%
Cost-to-income (administrative expenses over gross income)	43.4%	--	69.8%	49.1%	48.7%
NPL ratio (%)	6.6%	31.7%	0.5%	0.5%	6.1%
NPL coverage ratio (including SUB)(%)	43.2%	54.2%	52.7%	174.8%	47.3%
Employees	16,001	825	8,060	1,059	25,945
Domestic and overseas branches	2,119	-	587	61	2,767

(*) Includes TSB's contribution to consolidated income. The exchange rate applied to the Income Statement is GBP 0.816 (average).

(**) Includes mainly Mexico, overseas branches and representative offices. The exchange rate applied to the Income Statement is GBP 0.816, MXN 20.736, USD 1.105 and MAD 10.666 (average).

In million euros

	2016				
	Banking business Spain	Re asset transformation	Banking business UK (*)	Other geographies (**)	Total Group
Assets	**130,092**	**17,956**	**43,720**	**20,740**	**212,508**
Customer lending (net) excluding repos	92,059	6,663	34,361	12,083	145,166
Real estate exposure (net)	-	4,716	-	22	4,738
Liabilities	**121,709**	**15,886**	**42,200**	**19,629**	**199,425**
On-balance sheet customer funds	89,835	172	34,334	9,116	133,457
Wholesale Funding Capital Markets	20,930	-	3,882	-	24,812
Allocated capital	**8,382**	**2,069**	**1,521**	**1,111**	**13,083**
Off-balance sheet customer funds	**39,603**	**15**	**-**	**988**	**40,606**

(*) Includes TSB's contribution to consolidated income. The exchange rate applied to the Balance Sheet is GBP 0.856.

(**) Includes mainly Mexico, overseas branches and representative offices. The exchange rate applied to the Balance sheet is GBP 0.856, MXN 21.771, USD 1.054 and MAD 10.652.

Average total assets for the bank as a whole at 31 December 2017 amounted to €214,356,299 thousand, compared with €206,265,187 thousand on the same date in the preceding year.

The types of products and services from which ordinary income is derived are described below for each business unit:

- Banking Business Spain includes the following business units for customers:

  - Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and loans is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension schemes.

    Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others.

  - Corporate Banking offers specialised financing services together with a comprehensive offering of solutions from transactional banking services to more complex and tailored solutions relating to financing and treasury, amongst others.

  - Markets and Private Banking offers and designs products and services with a high added value with a view to achieving a good rate of return for customers, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with good-quality management, while taking the customer relationship model towards a multichannel level.

- Asset Transformation: Asset Transformation comprehensively manages abnormal risk and real estate exposure, and also sets out and implements the strategy of real estate investee companies, such as Solvia.

- Banking business United Kingdom: The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

- Other geographies: Other Geographies mostly comprises Mexico, overseas branches and representative offices that offer all types of banking and financial services of Corporate Banking, Private Banking and Business and Retail Banking.

Ordinary income generated by each business unit for 2017 and 2016 is shown below:

Thousand euro

	Consolidated					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
SEGMENTS	2017	2016	2017	2016	2017	2016
Banking Business Spain	3,634,048	3,681,290	254,059	176,638	3,888,107	3,857,928
Asset Transformation	387,266	369,024	483	244	387,749	369,267
Banking Business UK	1,424,935	1,543,739	-	-	1,424,935	1,543,739
Other geographies	484,112	481,096	2,667	2,432	486,779	483,529
(-) Adjustments and disposals of ordinary income between segments	-	-	(257,208)	(179,314)	(257,208)	(179,314)
Total	**5,930,361**	**6,075,150**	**-**	**-**	**5,930,361**	**6,075,150**

The table below shows the balance of net interest income and income from net fees and commissions generated by each business unit as a percentage of the total for 2017 and 2016:

%

	2017				
	Breakdown net interest income and net fees and commissions				
	Customer lending		Customer deposits		Income from (*) services
	% of average balance	% Yield to total	% of average balance	% cost over total	% of total balance
SEGMENTS					
Banking Business Spain	65.6%	58.6%	70.1%	31.5%	80.5%
Asset Transformation	2.2%	2.1%	0.1%	0.1%	0.1%
Banking Business UK	25.8%	29.3%	26.0%	50.7%	14.9%
Other geographies	6.4%	10.0%	3.8%	17.7%	4.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Percentage by segment over total fees and commissions.

%

	2016				
	Breakdown net interest income and net fees and commissions				
	Customer lending		Customer deposits		Income from (*) services
	% of average balance	% Yield to total	% of average balance	% cost over total	% of total balance
SEGMENTS					
Banking Business Spain	63.1%	59.0%	67.3%	42.4%	76.7%
Asset Transformation	3.9%	2.4%	0.1%	0.2%	0.2%
Banking Business UK	24.4%	29.9%	25.7%	42.7%	17.6%
Other geographies	8.6%	8.8%	6.8%	14.8%	5.5%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Percentage by segment over total fees and commissions.

Furthermore, the breakdown by geography of interest and similar income during 2017 and 2016 is shown below:

Thousand euro

	Breakdown of interest income by geography			
	Individual		Consolidated	
	2017	2016	2017	2016
Domestic market	3,178,663	3,352,651	3,160,953	3,416,633
Exports:				
European Union	61,232	50,202	1,294,590	1,399,788
OECD countries	128,265	116,713	366,939	337,330
Other countries	4,145	3,999	17,151	16,349
Total	**3,372,305**	**3,523,565**	**4,839,633**	**5,170,100**

Section 2 of the Directors' Report gives a more detailed assessment of each of these business units.

Note 40 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a tax consolidation group for corporate income tax purposes, comprising all the Spanish companies in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law (see Schedule I).

The remaining Spanish companies in the accounting group pay corporate income tax on an individual basis.

Companies in the accounting group that are not tax residents in Spain are taxed in accordance with the tax regulations applicable to them.

Reconciliations

The reconciliation of the difference between consolidated accounting results and Corporation Tax taxable income is as follows:

Thousand euro

	2017	2016
Profit/(loss) before taxes	848,253	1,019,422
Increases in taxable income	1,218,295	1,949,598
From profits	1,218,295	1,949,598
From equity	-	-
Decreases in taxable income	(1,942,380)	(958,341)
From profits	(1,908,777)	(954,991)
From equity	(33,603)	(3,350)
Taxable income (tax gains/losses)	**124,168**	**2,010,679**
Tax payable (30%)	**37,250**	**603,204**
Deductions for double taxation, training and other	(15,363)	(2,152)
Tax payable	**21,887**	**601,052**
Due to temporary differences (net)	15,330	(306,173)
Other adjustments (net)	5,858	8,690
Tax expense or (-) income related to profit or loss from continuing operations	**43,075**	**303,569**

The "*Other adjustments*" heading in 2016 includes €9 million (loss) from the impact of Royal Decree-Law 3/2016, whereby losses on sales of certain interests are not tax-deductible as of 1 January 2017 in Spain.

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for corporation tax in the consolidated profit and loss accounts is as follows:

Thousand euro

	2017	2016
Profit/(loss) before taxes	848,253	1,019,422
Domestic tax rate (30%)	254,476	305,827
Tax-exempt profit/(loss) on sales of equity interests	(137,903)	-
Income from associates	(92,606)	(22,372)
Difference in effective tax rate on companies outside Spain (*)	8,080	14,024
Generated deductions/Non-deductible expenses	5,170	(7,222)
Rest	5,858	13,312
Tax expense or (-) income related to profit or loss from continuing operations	**43,075**	**303,569**
Effective tax rate	*5%*	*30%*

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

Taxable income – increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences:

Thousand euro

	2017	2016
Permanent difference	44,167	46,748
Temporary difference arising during the year	931,595	1,804,878
Temporary difference arising in previous years	242,533	97,972
Increases	**1,218,295**	**1,949,598**
Permanent difference	(717,153)	(76,069)
Temporary difference arising during the year	-	(4,437)
Temporary difference arising in previous years	(1,225,227)	(877,835)
Decreases	**(1,942,380)**	**(958,341)**

Deferred tax assets and liabilities

Under current tax and accounting regulations certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Royal Decree-Law 14/2013 gave rise to assets guaranteed by the Spanish State, tax assets generated by allowances for impairment of loans and other assets arising from the possible insolvency of debtors not related to the taxpayer and those pertaining to apportionments or contributions to social welfare systems and, where appropriate, early retirement (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into a loan enforceable before the Spanish Tax Authority in cases where the taxpayer incurs accounting losses or the entity is liquidated or legally declared insolvent. Similarly, they can be exchanged for Public Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to maintain the guarantee offered by the Spanish State, these are subject to an annual contribution of 1.5% of their amount as of 2016 (see Note 33).

The origins of the deferred tax assets / liabilities recognised in the balance sheets at 31 December 2017 and 2016 are as follows:

Thousand euro

Deferred tax assets	2017	2016
Monetisable	**5,336,979**	**5,806,136**
Due to credit impairment	3,524,948	3,916,675
Due to real estate asset impairment	1,674,955	1,762,269
Due to pension funds	137,076	127,192
Non-monetisable	**821,117**	**611,883**
Tax credits for losses carried forward	**350,927**	**350,261**
Deductions not applied	**22,825**	**7,057**
Total	**6,531,848**	**6,775,337**

Deferred tax liabilities	2017	2016
Property revaluations	67,865	70,239
Adjustments to value of wholesale debt issuances arising on business combinations	59,511	78,628
Other financial asset value adjustments	278,182	322,230
Other	19,898	71,168
Total	**425,456**	**542,265**

The breakdown by countries of deferred tax assets and liabilities is as follows:

Thousand euro

	2017		2016	
Country	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Spain	6,430,233	414,568	6,586,676	530,948
UK	78,182	9,449	116,287	10,796
US	1,491	1,439	58,708	472
Mexico	21,634	-	13,417	-
Other	307	-	249	49
Total	**6,531,847**	**425,456**	**6,775,337**	**542,265**

As indicated in Note 1.3.20, according to the information available at the end of the year, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards over the next four years and non-monetisable tax assets when these are deductible pursuant to current tax regulations.

Monetisable tax assets are guaranteed by the Spanish State, therefore their recoverability does not depend on the generation of future fiscal benefits.

Other disclosures

Banco Sabadell Group obtained income qualifying for the reinvestment deduction regulated by Article 42 of the revised Corporation Tax Law, which materialised in the years indicated below:

Thousand euro

Year in which qualifying income was generated	Amount of income	Year of reinvestment
2012	5,640	2013
2013	30,008	2013
2014	43,759	2013

Capitalisation reserve and reserve for investments in the Canary Islands

As explained in Note 3 to these consolidated annual accounts, the Annual General Meeting held on 30 March 2017 approved a reserve for investments in the Canary Islands of €314 thousand. This reserve was fully materialised in 2016 by means of investments carried out in that same year in various items of property, plant and equipment classified as installations.

Years subject to tax inspections

In July 2016, the Tax Authority notified Banco de Sabadell, S.A. of the beginning of verification and investigation activities relating to the following items and periods:

Concept	Period
Withholding / Payment on account Work/Professional Remuneration	07/2012 to 12/2014
Withholding / Payment on account Capital invested in loans, securities, loans, etc.	07/2012 to 12/2014
Corporation Tax	01/2012 to 12/2014
Value Added Tax	07/2012 to 12/2014

These activities are underway and are currently in the submission of documents stage, and no proposed tax settlement exists to date. The review of all taxes not verified and not legally required is still pending for other companies which are not taxed within the tax consolidation group in Spain.

The inspections in previous years by the Spanish Tax Authority led to assessments being raised for a total tax liability of €34,342 thousand, which were contested in their entirety by the bank and the acquired and subsequently merged entities. The Group has, in any event, made suitable provisions for any contingencies that could arise in relation to these tax settlements.

Tax liabilities of a contingent nature could arise as a result of different possible interpretations of the tax rules applicable to certain types of transactions within the banking industry. However, the possibility of such liabilities materialising is remote, and if they did materialise the resulting tax charge would not be such as to have any significant impact on these consolidated annual accounts.

Note 41 – Related-party transactions

There are no transactions with the company's administrators or directors that could be considered significant. Those that did take place were in the normal course of the company's business or were conducted at market prices or under the terms normally applicable to employees.

The bank is not aware of any transactions carried out at non-market prices or with companies related to the bank's administrators or Senior Management staff.

The most significant balances recognised by the Group in its dealings with related parties, and the effect on the income statement of related-party transactions, are shown below:

Thousand euro

	2017					2016
	Joint control or signif. Influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	206,829	10,991	144,983	362,803	371,022
Liabilities:						
Customer deposits and other financial liabilities	-	595,241	8,209	223,243	826,693	1,328,712
Memorandum accounts:						
Contingent exposures	-	48,584	-	10,614	59,198	10,394
Contingent commitments	-	8,894	3,223	16,845	28,962	30,204
Profit and loss account:						
Interest and similar income	-	2,961	58	3,623	6,642	11,008
Interest and similar charges	-	(6,080)	(18)	1,509	(4,588)	(10,533)
Return on capital instruments	-	-	-	-	-	-
Net fees and commissions	-	108,775	28	1,074	109,877	31,487
Other operating income	-	9,879	-	-	9,879	3,268

(*) Includes employee pension schemes.

Note 42 – Remuneration of and balances with members of the Board of Directors and Senior Management

The following table shows, for the years ended 31 December 2017 and 2016, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension Commitments		Total	
	2017	2016	2017	2016	2017	2016
José Oliu Creus (*)	214	214	32	32	246	246
José Javier Echenique Landiribar (1)	175	182	-	-	175	182
Jaime Guardiola Romojaro (*)	92	92	-	-	92	92
Anthony Frank Elliott Ball (2)	36	-	-	-	36	-
Aurora Catá Sala	138	117	-	-	138	117
Héctor-María Colonques Moreno (3)	-	81	-	-	-	81
Joaquín Folch-Rusiñol Corachán (4)	50	108	-	16	50	124
Pedro Fontana García (5)	8	-	-	-	8	-
M. Teresa Garcia-Milà Lloveras (6)	158	155	-	-	158	155
George Donald Johnston (7)	21	-	-	-	21	-
José Manuel Lara García	87	92	-	-	87	92
Joan Llonch Andreu (8)	56	126	-	16	56	142
David Martínez Guzmán	67	83	-	-	67	83
José Manuel Martínez Martínez	155	158	-	-	155	158
José Ramón Martínez Sufrategui	103	107	-	-	103	107
António Vítor Martins Monteiro (9)	-	83	-	-	-	83
José Luis Negro Rodríguez (*)	92	92	16	16	108	108
Manuel Valls Morató (10)	122	-	-	-	122	-
David Vegara Figueras	157	159	-	-	157	159
Total	**1,731**	**1,849**	**48**	**80**	**1,779**	**1,929**

(*) Perform executive functions.

(1) Held a position as lead independent director between 23 April 2015 and 21 April 2016.

(2) On 30 March 2017, the Annual General Meeting approved his appointment as member of the Board of Directors in the capacity of independent director. He took on the position on 21 September.

(3) He submitted his resignation from the position of independent director effective from 22 September 2016.

(4) He submitted his resignation from the position of non-executive director effective from 27 July 2017.

(5) On 27 July 2017 the Board of Directors approved his appointment as member of the Board of Directors in the capacity of independent director. He took on the position on 21 December.

(6) On 21 April 2016, the Board of Directors approved her appointment as lead indepedent director.

(7) On 25 May 2017, the Board of Directors approved his appointment as member of the Board of Directors in the capacity of independent director. He took on the position on 5 October.

(8) He submitted his resignation from the position of independent director effective from 25 May 2017.

(9) He submitted his resignation from the position of proprietary director effective from 20 January 2017.

(10) On 22 September 2016, the Board of Directors approved his appointment as member of the Board of Directors in the capacity of independent director. The Annual General Meeting held on 30 March 2017 ratified this appointment through co-option carried out by the Board of Directors and approved his appointment as member of the Board. He took on the position on 26 January 2017.

Aside from the items mentioned above, members of the Board of Directors have received €51 thousand as fixed remuneration in 2017 (€64 thousand in 2016) by reason of their membership of boards of directors in Banco Sabadell Group companies or advisory boards (these amounts are included in the annual report on directors' remuneration).

Contributions for life insurance premiums covering contingent pension commitments in respect of pension rights accruing in 2017 amounted to €3,605 thousand (€4,036 thousand in 2016), of which €48 thousand are detailed in the table above and €3,557 thousand correspond to directors for the performance of executive functions.

Remuneration corresponding to Directors due to their executive functions earned during 2017 amounted to €6,980 thousand (€5,254 thousand in 2016).

Loan and guarantee risks undertaken by the bank and consolidated companies for the directors of the parent company totalled €7,491 thousand at 31 December 2017, of which €5,231 thousand comprised loans and receivables and €2,260 thousand related to guarantees and documentary credit (€10,866 thousand in 2016, consisting of €8,232 thousand in loans and receivables and €2,634 thousand in guarantees and documentary credit). The average interest rate charged was 0.71% (0.79% in 2016). Liabilities balances amounted to €6,966 thousand in 2017 (€12,172 thousand in 2016).

Total Senior Management remuneration earned during 2017 amounted to €6,802 thousand. Pursuant to applicable regulations, this amount includes the remuneration of the eight Senior Management members plus the Internal Audit Officer.

Risks granted by the bank and consolidated companies to Senior Management staff (with the exception of executive directors, for whom details are provided above) totalled €6,723 thousand at 31 December 2017 (€8,642 thousand in 2016), comprising €5,760 thousand in loans and receivables and €963 thousand in guarantees and documentary credit (in 2016, €7,946 thousand relates to loans and receivables and €696 thousand to guarantees and documentary credit). Liabilities balances amounted to €1,243 thousand (€1,287 thousand in 2016).

Stock appreciation rights conferred to members of Senior Management, including executive directors, under the 2017 remuneration incentive schemes (see Note 34) resulted in staff expenses of €2.0 million during the year (€2.7 million in 2016).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Report on Corporate Governance, which forms part of the Directors' Report.

The directors and management staff mentioned above are specified below with their positions held in the bank at 31 December 2017:

Executive Directors	
José Oliu Creus	Chairman
Jaime Guardiola Romojaro	CEO for Sabadell Group
José Luis Negro Rodríguez	Director-General Manager
Senior Management	
María José García Beato	Deputy Secretary to the Board - General Secretary
Tomás Varela Muiña	General Manager
Miquel Montes Güell	General Manager
Carlos Ventura Santamans	General Manager
Rafael García Nauffal	Assistant General Manager
Ramón de la Riva Reina	Assistant General Manager
Enric Rovira Masachs	Assistant General Manager
Manuel Tresánchez Montaner	Assistant General Manager

Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance and strengthen transparency in public limited companies, the directors have notified the Company that, during 2017, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. No transactions have been carried out with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. They have not used the name of the company or their position as administrator to unduly influence the performance of private operations.

c. Have not made use of corporate assets, including the Company's confidential information, for personal purposes.

d. They have not taken undue advantage of the company's business opportunities.

e. They have not obtained advantages or remuneration from third parties other than the company or group associated with the performance of their activity, with the exception of acts of mere courtesy.

f. Have not carried out activities on their own behalf or on behalf of a third party involving competition with the Company, whether on an isolated or potential basis, or which might otherwise place them in permanent conflict with the Company's interests.

The bank has entered into a liability insurance policy for 2017 that covers the bank's Administrators and Senior officer positions. The total premium paid was €623 thousand.

Note 43 – Other information

Transactions with significant shareholders

No significant transactions with significant shareholders have been carried out during 2017 and 2016.

Information relating to the environment

All global Group operations are subject to legal requirements on environmental protection and health and safety in the workplace. The group considers that it substantially complies with these laws and it has procedures in place which have been designed to promote and guarantee such compliance.

The group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. A number of Group-wide waste treatment, consumables recycling and energy saving schemes continued to be implemented during the year. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the bank relating to the environment, see section 3 of the Director's Report.

Customer Care Service (SAC)

The Customer Care Service is located on the control line of the organisational structure of Banco Sabadell Group and its director, who is appointed by the Board of Directors, reports to the General Secretariat of the bank. Its functions are to handle and resolve complaints and claims by customers and users of the Group's financial services, when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection rules or good banking practices.

Cases handled

During 2017, the Customer Care Service received 76,505 complaints and claims (24,529 in 2016), of which 67,532 (22,565 in 2016) were accepted for processing, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. The number of cases handled, however, was 65,964 (22,131 in 2016) due to the resolution of issues pending from the previous year (1,096 cases, against 2,664 in 2017). By type, 3.5% were complaints (12.1% in 2016) and 96.5% were claims (87.9% in 2016).

Of the total complaints and claims examined by the Customer Care Service, 17.6% resulted in a decision that was favourable to the customer or user (57.3% in 2016), in 0.1% of cases the customer withdrew the claim (1.2% in 2016) and 63.7% were resolved in favour of the entity (35.1% in 2016). At 31 December 2017, 1.2% of cases had yet to be ruled on by the regulatory bodies and the Customer and Stakeholder Ombudsman. Lastly, the Customer Care Service declared itself not to be authorised to resolve 17.4% of the cases.

In addition to its main activity, the Customer Care Service also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Finance Ministry Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell Group. In this respect, the Service has handled 1,917 requests for assistance and information during 2017, compared to 1,057 in 2016.

The average response time to complaints and claims was as follows: 14,308 cases were resolved within 15 days (10,078 cases in 2016), 15,962 cases were resolved between 15 and 30 days (9,360 cases in 2016) and 35,694 cases were resolved in a period of over 30 days (2,693 cases in 2016). The Finance Ministry Order and the Bank's Regulations for the Protection of Customers and Users of Financial Services sets forth a maximum response period of 60 days.

Ombudsman

In the Group, the role of Customer and Stakeholder Ombudsman is assumed by Mr José Luís Gómez-Dégano y Ceballos-Zúniga. The Ombudsman is responsible for resolving the complaints brought by the customers and users of Banco Sabadell Group, both in the first and second instances, and for settling issues that are passed on to him by the Customer Care Service.

The Customer and Stakeholder Ombudsman received 1,044 complaints and claims in 2017 (1,087 in 2016), of which 1,022 were accepted for processing. During the year, the Ombudsman has processed and resolved 852 claims (996 in 2016), as certain matters had remained unresolved from the previous year. At 31 December 2017, 86 claims remained to be resolved by the Ombudsman (88 in 2016). In 109 cases, the Customer Care Service had yet to submit the corresponding complaints and claims.

Of the total complaints and claims resolved by the Ombudsman, 24.2% were resolved in favour of the entity (38% in 2016) and 0.7% in favour of the customer (2.3% in 2016). Of the remaining cases to be processed and resolved, the bank acquiesced to customer requests in 34.9% of the cases (40.3% in 2016). In 39.5% of the cases (17.9% in 2016) the Ombudsman did not issue any judgements due to a lack of authority (without prejudice to the claimants' option to pursue their claims elsewhere) and in 0.7% of the cases the customer withdrew the complaint (1.4% in 2016).

Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans

Under current legislation, customers and users can submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV (Spanish National Securities Market Commission) and to the Directorate General for Insurance and Pension Plans. In any event, it is a prerequisite that the parties concerned first address their complaints to the entity concerned in order to attempt to resolve the conflict.

Note 44 – Subsequent events

Since 31 December 2017, there have been no events worthy of mention.

Schedule 1 – Banco Sabadell Group companies

Banco Sabadell Group companies at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
AC Dos Lerida, S.L.U.	Real Estate Development	Barcelona	-	100.00	Sí	2,793	(220)	(27)	-	2,641	2,408	-	-	12/17
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real Estate	Alicante	100.00	-	Sí	100	10,173	(28)	-	10,270	20,038	(9,123)	(101)	12/17
Assegurances Segur Vida, S.A.U.	Other regulates companies	Andorra	-	50.97	No	602	264	126	115	40,573	602	193	64	12/17
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS	Barcelona	100.00	-	Sí	3,601	176	1,401	-	6,051	4,445	(669)	1,401	12/17
Aurica Coinvestments S.L.	Holding	Barcelona	-	61.76	Sí	52,972	(3)	(6)	-	52,967	52,972	(2)	(4)	12/17
Aurica XXI, S.C.R. De R.S., S.A.U.	Other regulates companies	Barcelona	100.00	-	Sí	14,200	20,768	361	-	35,350	17,492	33,755	(5,301)	12/17
Banco Atlantico (Bahamas) Bank & Trust Ltd	Credit Institution	Bahamas	99.99	0.01	No	1,598	838	(90)	-	3,025	2,439	710	(90)	12/17
Banco de Sabadell, S.A.	Credit Institution	Alicante	-	-	Sí	703,371	10,038,186	517,895	-	177,572,987	-	9,888,689	738,334	12/17
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit Institution	México	99.99	0.01	No	190,281	(46,080)	(16,269)	-	839,364	178,270	(19,850)	(16,780)	12/17
Bancsabadell d'Andorra, S.A.	Credit Institution	Andorra	50.97	-	No	30,069	40,792	10,400	1,466	734,992	16,108	21,865	3,881	12/17
Bansabadell Factura, S.L.U.	Other investees with their own business	Barcelona	100.00	-	Sí	100	(2,469)	519	-	2,022	299	(2,668)	519	12/17
Bansabadell Financiación, E.F.C., S.A.	Credit Institution	Barcelona	100.00	-	Sí	24,040	28,983	207	-	700,359	24,040	28,983	207	12/17
Bansabadell Inversió Desenvolupament, S.A.U.	SPE	Barcelona	100.00	-	Sí	16,975	101,781	19,882	-	181,990	108,828	29,982	16,795	12/17
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del	Other regulates companies	Barcelona	-	100.00	Sí	301	11,973	32,524	30,683	79,544	524	10,401	32,443	12/17
Bansabadell Renting, S.L.U.	Other investees with their own business	Barcelona	100.00	-	Sí	2,000	30,921	11,219	-	524,872	3,861	29,789	11,219	12/17
Bansabadell Securities Services, S.L.U.	Other investees with their own business	Barcelona	100.00	-	Sí	2,500	32,027	7,456	-	45,813	2,500	31,700	7,456	12/17
Bitarte, S.A.	Other investees with their own business	Barcelona	100.00	-	Sí	6,506	2,635	227	-	10,514	9,272	(4,095)	348	12/17
Bstartup 10, S.L.U.	SPE	Barcelona	-	100.00	Sí	1,000	(1,507)	298	-	2,875	1,000	(2,349)	325	12/17
Business Services For Operational Support, S.A.U.	Services	Barcelona	80.00	-	Sí	530	(4,114)	2,242	-	39,867	3,259	(6,027)	2,077	12/17
Cam Global Finance, S.A.U.	Other regulates companies	Alicante	100.00	-	Sí	61	138	29	-	100,979	2,059	125	29	12/17
Cam International Issues, S.A.U.	Other regulates companies	Alicante	100.00	-	Sí	61	12	(3)	360	70	114,079	(50,206)	(8,189)	12/17
Caminsa Urbanismo, S.A.U.	Real Estate	Alicante	-	100.00	Sí	2,000	(1,658)	1	-	1,365	800	(254)	(8)	12/17
Cape Holdings No 1 Limited	Fund	London	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	República Dominicana	-	100.00	No	5,016	(4,321)	-	-	711	-	18	-	12/17
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real Estate	Alicante	-	100.00	No	1,942	(89,597)	(760)	-	37	1,919	(77,454)	(760)	12/17
Duncan 2016 -1 Holdings Limited	Holding	London	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Duncan de Inversiones SICAV, S.A.	Collective investment undertakins, Funds and similar financial companies	Barcelona	87.35	-	No	7,842	1,131	(47)	-	2,747	2,560	(126)	(41)	12/17
Duncan Holdings 2015-1 Limited	Fund	London	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Subtotal									**32,624**		**569,777**	**9,903,387**	**783,824**	

Banco Sabadell Group companies at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total Assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Ederra, S.A.	Real Estate	Guipúzcoa	97.85	-	No	2,036	30,975	(340)	-	32,897	36,062	(3,284)	(809)	12/17
Sabadell Asset Management Luxembourg, S.A. (2)	Other regulates companies	Luxembourg	22.00	78.00	No	125	492	71	-	776	336	276	74	12/17
Europea Pall Mall Ltd.	Real Estate	London	100.00	-	No	20,843	(1,125)	(297)	-	19,529	20,843	(5,735)	(805)	12/17
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante	100.00	-	Si	2,810	401	97	-	3,745	2,870	344	97	12/17
Gala Domus, S.A.	Real Estate	A Coruña	-	100.00	No	4,000	(31,767)	124	-	1,266	2,000	(22,703)	124	12/17
Galeban 21 Comercial, S.L.U.	SPE	A Coruña	100.00	-	Si	10,000	(4,288)	-	-	5,711	14,477	(8,765)	-	12/17
Gazteluberri S.L.	Real Estate	Barcelona	-	100.00	Si	53	(20,765)	342	-	7,588	23,891	(62,415)	342	12/17
Gest 21 Inmobiliaria, S.L.U	SPE	Barcelona	100.00	-	Si	7,810	21	(12)	-	7,827	80,516	(68,140)	5	12/17
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L.	Real Estate	Barcelona	-	100.00	No	33,850	(31,308)	(62)	-	10,373	32,832	(12,318)	(62)	12/17
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante	100.00	-	Si	13,000	119,340	108,358	36,269	132,494	255,398	55,478	471	12/17
Guipuzcoano Promoción Empresarial, S.L.	SPE	Guipúzcoa	-	100.00	No	53	(77,255)	1,906	-	7,960	7,160	(104,488)	(1,201)	12/17
Guipuzcoano Valores, S.A.	Real Estate	Barcelona	99.99	0.01	Si	4,514	2,880	(126)	-	7,346	10,833	(3,494)	(70)	12/17
Hi Partners Holdco Gestión Activa, S.L.U.	Real Estate	Barcelona	-	100.00	Si	29,074	56,106	(8,381)	-	84,062	85,805	-	-	12/17
Hip Francia 184, S.L.U.	Real Estate	Barcelona	-	100.00	Si	3	(94)	(16)	-	124	3	-	-	12/17
Hobalear, S.A.U.	Real Estate	Barcelona	-	100.00	Si	60	672	18	-	756	414	672	18	12/17
Hondarriberri, S.L.	SPE	Guipúzcoa	99.99	0.01	No	41	(13,465)	6,475	-	66,301	120,669	(64,784)	(2,243)	12/17
Hotel Autovia del Mediterraneo 165, S.L.U.	Real Estate Development	Barcelona	-	100.00	Si	7,568	367	(1,697)	-	7,839	7,945	-	-	12/17
Hotel Calle de Los Molinos 10, S.L.U.	Real Estate Development	Barcelona	-	100.00	Si	2,077	461	(1,543)	-	2,367	2,837	-	-	12/17
Hotel Calle Mayor 34, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	2,124	345	(1,557)	-	2,381	2,499	-	-	12/17
Hotel Carretera de Taull, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3,294	109	(1,781)	-	3,277	3,414	-	-	12/17
Hotel Cavall del Mar 25, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	10,859	(24)	-	11,001	10,875	-	-	12/17
Hotel Investment Partners S.L.	Real Estate	Barcelona	100.00	-	Si	135,730	108,193	1,153	-	638,363	136,335	(4,324)	18,637	12/17
Hotel Maria Tarrida 6, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	9,544	316	(3,525)	-	10,007	9,848	-	-	12/17
Hotel Mirador Del Valle, S.L.U.	Real Estate	Barcelona	-	100.00	Si	4,462	629	(2,420)	-	4,668	5,418	-	-	12/17
Hotel Value Added Primera, S.L.U.	Real Estate Development	Barcelona	-	100.00	Si	3	22,175	(663)	-	21,593	27,527	-	-	12/17
Interstate Property Holdings, Llc.	SPE	Miami	100.00	-	No	7,293	(7,995)	4,750	-	7,287	3,804	(11,309)	3,137	12/17
Inverán Gestión, S.L.	Real Estate	Barcelona	44.83	55.17	Si	45,090	(55,908)	(839)	-	24,000	45,090	(35,164)	(915)	12/17
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante	100.00	-	Si	308,000	180,882	10,207	-	502,080	569,523	(116,858)	9,533	12/17
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real Estate	Murcia	-	55.06	No	299,090	(302,156)	-	-	881	175,124	-	-	12/17
Malbrouck, S.I.C.A.V.	Collective investment undertakins. Funds and	Madrid	99.99	-	No	14,554	2,405	(126)	-	16,703	16,679	-	-	12/17
Manston Invest, S.L.U.	Real Estate	Barcelona	100.00	-	Si	33,357	(9,635)	(3,208)	-	20,617	33,357	(11,665)	(2,929)	12/17
Mariñamendi, S.L.	Real Estate	Barcelona	-	100.00	Si	55,013	(97,062)	(5,915)	-	56,588	55,013	(93,074)	(5,915)	12/17
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Si	85,000	114,150	146,754	82,034	199,264	559,347	(503,072)	20,416	12/17
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real Estate	Alicante	98.29	-	Si	795	(557)	(3,395)	-	4,201	983	(672)	(3,458)	12/17
Orión Energía 1, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(6)	-	96	-	-	-	12/17
Orión Energía 10, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	98	-	-	-	12/17
Orión Energía 11, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	120	-	-	-	12/17
Orión Energía 12, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	118	-	-	-	12/17
Subtotal									**118,303**		**2,379,727**	**(1,075,494)**	**34,447**	

Banco Sabadell Group companies at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Orión Energía 13, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(16)	-	114	-	-	-	12/17
Orión Energía 14, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	98	-	-	-	12/17
Orión Energía 15, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 16, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(15)	-	116	-	-	-	12/17
Orión Energía 17, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	116	-	-	-	12/17
Orión Energía 18, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	116	-	-	-	12/17
Orión Energía 19, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 2, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(10)	-	97	-	-	-	12/17
Orión Energía 20, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	116	-	-	-	12/17
Orión Energía 21, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	119	-	-	-	12/17
Orión Energía 22, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	117	-	-	-	12/17
Orión Energía 23, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	118	-	-	-	12/17
Orión Energía 24, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	117	-	-	-	12/17
Orión Energía 25, S.L.	Wind energy	Madrid	-	100.00	Si	98	(145)	(13)	-	116	-	-	-	12/17
Orión Energía 26, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	117	-	-	-	12/17
Orión Energía 27, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	122	-	-	-	12/17
Orión Energía 28, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(15)	-	123	-	-	-	12/17
Orión Energía 29, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	117	-	-	-	12/17
Orión Energía 3, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	112	-	-	-	12/17
Orión Energía 30, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(14)	-	119	-	-	-	12/17
Orión Energía 4, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	122	-	-	-	12/17
Orión Energía 5, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 6, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	118	-	-	-	12/17
Orión Energía 7, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	97	-	-	-	12/17
Orión Energía 8, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	97	-	-	-	12/17
Orión Energía 9, S.L.	Wind energy	Madrid	-	100.00	Si	98	(144)	(13)	-	117	-	-	-	12/17
Parque Eólico Jaufil, S.L.U.	Wind energy	Barcelona	100.00	-	Si	163	(3,068)	159	-	5,719	163	(2,603)	159	12/17
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Barcelona	100.00	-	Si	83	(1,498)	117	-	2,989	83	(1,256)	117	12/17
Parque Eólico Lecrín, S.L.U.	Wind energy	Barcelona	100.00	-	Si	4,003	(9,999)	557	-	15,135	4,003	(8,220)	557	12/17
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Barcelona	100.00	-	Si	163	(2,704)	246	-	5,652	163	(2,212)	246	12/17
Parque Eólico Tahuna, S.L.U.	Wind energy	Barcelona	100.00	-	No	3	(8,144)	(595)	-	15,786	-	(7,324)	(595)	12/17
Parque Eólico Zorreras, S.L.U.	Wind energy	Barcelona	100.00	-	No	3	(8,328)	(79)	-	13,857	-	(7,609)	(79)	12/17
Subtotal									-		**4,412**	**(29,224)**	**405**	

Banco Sabadell Group companies at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Placements Immobiliers France, S.A.S.	Real Estate	Paris	-	100.00	No	30,002	1,238	(47)	5,321	31,204	31,225	(3,675)	(57)	12/17
Ripollet Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	20	-	-	-	-	20	-	-	12/17
Rubí Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	3	(3)	(3)	-	167,694	3	1,915	(1,921)	12/17
Sabadell Asset Management, S.A., S.G.I.I.C.	Other regulates companies	Madrid	100.00	-	Si	601	74,365	41,101	100,000	203,887	607	82,111	33,350	12/17
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit Institution	São Paulo	99.99	0.01	No	905	(810)	-	-	118	250	(262)	-	12/17
Sabadell Capital S.A.De C.V. Sofom E.N.R.	Credit Institution	México	97.50	2.50	No	306,617	(46,255)	28,941	-	1,628,125	290,004	22,211	28,960	12/17
Sabadell Consumer Finance, S.A.U (1)	Credit Institution	Barcelona	100.00	-	Si	35,720	56,905	17,512	-	1,095,561	72,232	25,315	17,512	12/17
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid	100.00	-	Si	70	1,510	(310)	892	1,546	9,373	67	(310)	12/17
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulates companies	Andorra	-	50.97	No	300	905	264	244	2,136	300	586	135	12/17
Sabadell Information Systems Limited	Provision of technology services	London	100.00	-	No	332	(166)	(1,991)	-	41,371	332	(185)	(2,020)	12/17
Sabadell Information Systems, S.A.	Provision of technology services	Barcelona	100.00	-	Si	240	78,980	18,785	-	1,245,506	3,687	66,072	12,618	12/17
Sabadell Innovation Capital, S.L.U.	Holding	Barcelona	-	100.00	Si	1,000	(1)	(16)	-	1,002	1,000	(1)	(16)	12/17
Sabadell Innovation Cells, S.L.U.	Other management consulting activities	Barcelona	100.00	-	Si	3	-	(269)	-	366	3	-	(269)	12/17
Sabadell Patrimonio Inmobiliario, S.A.U.	Real Estate	Barcelona	100.00	-	Si	30,116	788,349	13,962	-	915,208	863,895	(37,234)	9,466	12/17
Sabadell Real Estate Activos, S.A.U.	Real Estate	Barcelona	100.00	-	Si	100,060	257,957	(22,644)	-	337,885	500,622	(138,016)	(18,672)	12/17
Sabadell Real Estate Development, S.L.U.	Real Estate	Barcelona	100.00	-	Si	15,607	(1,267,894)	(614,730)	-	4,717,460	2,147,442	(3,145,212)	(506,830)	12/17
Sabadell Real Estate Housing, S.L.U.	Real Estate	Barcelona	100.00	-	Si	2,073	525	(586)	-	37,159	14,292	(11,694)	(586)	12/17
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	-	No	551	2,286	702	-	3,681	551	2,146	698	12/17
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados	Real Estate	Barcelona	100.00	-	Si	-	(473)	473	-	143	84	(557)	473	12/17
Sabadell Strategic Consulting, S.L.U.	Other investees with their own business	Barcelona	100.00	-	Si	3	394	110	-	1,037	3	394	110	12/17
Sabadell Venture Capital, S. L.U.	Holding	Barcelona	-	100.00	Si	3	880	1	-	15,113	3	(150)	1	12/17
Sinia Capital S.A. De C.V.	Holding	México	99.99	0.01	No	20,830	(3,189)	1,118	-	19,096	17,753	-	1,118	12/17
Sinia Renovables, S.A.U.	Other regulates companies	Barcelona	100.00	-	Si	15,000	(14,370)	(455)	-	25,287	15,000	(10,476)	640	12/17
Solvia Gestora de Vivienda Social, S.L.U.	Real Estate	Alicante	-	100.00	Si	3	1,988	2,779	-	6,677	3	1,988	2,779	12/17
Solvia Pacific, S.A. De C.V.	Real Estate	México	-	100.00	No	28,947	(17,513)	268	-	11,721	29,164	(11,879)	268	12/17
Solvia Servicios Inmobiliarios, S.L.U.	Real Estate	Alicante	100.00	-	Si	660	54,381	29,516	-	146,358	5,023	56,537	31,876	12/17
Stonington Spain, S.L.U.	Real Estate	Barcelona	100.00	-	Si	60,729	(6,333)	(3,547)	-	51,029	60,729	(12,566)	(3,052)	12/17
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante	99.88	0.12	Si	1,000	1,387 -		-	2,394	5,266	(514)	7	12/17
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante	100.00	-	Si	296,092	(320,127)	(70,993)	-	1,997,413	2,564,914	(1,710,292)	(23,834)	12/17
Tierras Vega Alta Del Segura, S.L.	Real Estate	Barcelona	-	100.00	Si	4,550	(15,122)	2,099	-	8,599	16,623	(19,826)	2,099	12/17
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante	100.00	-	Si	3,003	(353) -		-	2,656	4,654	2,285	-	12/17
TSB Bank Plc	Credit Institution	Edinburgh	-	100.00	No	90,710	2,040,091	131,460	-	51,711,022	1,814,636	327,540	130,284	12/17
TSB Banking Group Plc	Holding	London	100.00	-	No	7,028	1,770,152	(63)	-	2,228,368	2,156,507	(26,191)	(39,923)	12/17
Tsb Banking Group Plc Share Trust	Other regulates companies	London	-	100.00	No	1	-	-	-	-	-	(5,274)	-	12/17
Subtotal									**106,457**		**10,626,400**	**(4,544,837)**	**(325,096)**	

Banco Sabadell Group companies at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
TSB Coverd Bonds Holdings Limited	Holding	Londron	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Scotland (Investment) Nominees Limited	Other regulates companies	Scotland	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Scotland Nominees Limited	Other regulates companies	Scotland	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulates companies	Madrid	-	100.00	Si	3,606	3,383	4,510	7,798	19,809	3,084	3,835	4,580	12/17
Urumea Gestión, S.L.	Other investees with their own business	Guipúzcoa	-	100.00	No	9	(5)	(3)	-	2	9	(12)	(3)	12/17
VeA Rental Homes SOCIMI, S.A.	Real Estate	Barcelona	100.00	-	No	5,000	(5)	(2,163)	-	56,414	5,000	(5)	(2,153)	12/17
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real Estate	Barcelona	-	97.20	Si	12,000	(43,171)	(314)	-	17,123	11,664	(34,678)	(314)	12/17
Vitigudina Fv, S.L.	Engineering technical services	Madrid	-	100.00	Si	-	-	-	-	-	-	-	-	12/17
Xunqueira Eolica, S.L.	Wind energy	Barcelona	-	100.00	No	1,548	(3,477)	(2,258)	-	13,073	400	(1,999)	(2,541)	12/17
Total									265,182		13,600,476	4,220,973	493,149	

(1) Before Sabadell Consumer Finance, E.F.C., S.A.U.
(2) Before Europe Invest, S.A.

Banco Sabadell Group companies at 31 December 2017 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Reserves	Profit/loss (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Aurica III, Fondo De Capital Riesgo	Other regulates companies	Barcelona	-	48.15	35,179	(630)	(1,321)	-	33,232	16,940	(303)	(636)	12/17
Aurica IIIB, Soc. De Capital Riesgo, S.A.	Other regulates companies	Barcelona	-	41.67	22,687	(215)	(633)	-	21,844	9,465	(102)	(264)	12/17
Atrian Bakers, S.L.	Other associated	Barcelona	-	22.41	26,249	(6,396)	-	-	35,348	2,000	-	-	12/16
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulates companies	Madrid	50.00	-	7,813	43,406	(7,986)	-	49,350	40,378	(14,490)	(3,993)	12/17
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulates companies	Madrid	50.00	-	10,000	67,278	12,582	6,393	233,524	45,000	(6,674)	6,291	12/17
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulates companies	Madrid	50.00	-	43,858	96,756	601,466	167,000	9,485,336	27,106	12,301	302,037	12/17
Emte Renovables, S.L.	SPE	Barcelona	-	62.11	7,050	(7,050)	(411)	-	42,386	4,379	(4,379)	-	09/17
Esus Energía Renovable, S.L.	Services	Pontevedra	-	45.00	50	(50)	(65)	-	2,024	23	(23)	-	12/17
Financiera Iberoamericana, S.A.	Credit Institution	La Habana	50.00	-	38,288	6,308	3,064	747	81,416	19,144	1,970	1,532	12/17
Flex Equipos De Descanso, S.A.	Manufacturing	Madrid	-	19.16	66,071	(3,291)	12,048	-	222,702	-	-	-	10/17
Gate Solar Gestión, S.L.	Services	Álava	50.00	-	300	3,096	-	-	3,750	1,860	414	-	06/17
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante	-	40.00	1,000	(1,000)	-	-	27,425	7,675	(2,012)	-	12/16
Grupo Luxiona, S.L.	Other investees with their own business	Barcelona	-	20.00	2,561	(2,561)	(2,853)	-	58,637	10,835	(10,835)	-	09/17
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Real Estate Development	Barcelona	-	30.00	127	11	-	-	165	117	-	-	12/16
Hydrophytic, S.L.	Real Estate	Álava	-	50.00	186	111	13	-	450	93	55	7	09/17
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulates companies	Murcia	28.70	-	6,800	(2,020)	(631)	-	4,175	2,026	(17)	(165)	09/17
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra	23.76	-	147,614	(12,214)	(11,819)	-	987,107		-	-	10/17
Parque Eólico Los Ausines, S.L.	Alternative energy production	León	-	50.00	4,465	(728)	2,631	-	45,354	2,282	(303)	1,316	12/17
Plaxic Estelar, S.L.	Real Estate	Barcelona	-	45.01	3	115	(118)	-	31,994	2,845	(6,918)	(53)	10/17
Ribera Salud, S.A.	Services	Valencia	-	50.00	9,518	80,482	4,085	-	416,311	30,203	14,797	2,043	12/17
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg	47.24	-	37,738	6,896	(70)	-	44,715	16,400	3,052	-	11/17
Sbd Creixent, S.A.	Real Estate	Barcelona	23.05	-	5,965	229	(159)	-	16,388	3,524	(1,938)	(37)	09/17
Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A.	Other associated	Barcelona	47.75	-	4,818	4,517	417	-	5,413	422	1,935	202	12/17
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona	-	35.78	2,555	(792)	102	-	1,873	915	(163)	37	09/17
Total								**174,140**		**243,632**	**(13,633)**	**308,317**	

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group cannot take part in their management.

(a) Companies outside Spain have beed translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending for approval at the General Meeting of Shareholders.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method which considered individually is not material amounted to €1,776,022 thousand at 31 December 2017. The liabilities balance at the end of 2017 totalled €1,795,729 thousand. See the key figures at 2017 year-end for BanSabadell Vida in Note 14.

Changes in the Group's scope of consolidation in 2017

Associates and subsidiaries consolidated for the first time:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Aurica Coinvestments S.L.	Subsidiary	3/17/2017	52,972	0.00	82.48%	82.48%	Indirect	Full consolidation	a
Xunqueira Eolica, S.L.	Subsidiary	3/31/2017	400	0.00	98.55%	98.55%	Indirect	Full consolidation	b
Vitigudina Fv, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Orión Energía 1 - Orion Energía 30, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Flex Equipos De Descanso, S.A.	Associate	4/30/2017	50,930	0.00	19.16%	19.16%	Indirect	Equity method	c
Sabadell Innovation Cells, S.L.U.	Subsidiary	4/30/2017	3	0.00	100.00%	100.00%	Direct	Full consolidation	a
IFA Beach Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Continental Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Hotel Dunamar, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Tropical Partners, S.L.	Associate	6/30/2017	-	0.00	49.99%	49.99%	Indirect	Equity method	c
Parque Eólico Tahuna, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Parque Eólico Zorreras, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Sinia Capital S.A. De C.V.	Subsidiary	7/31/2017	17,753	0.00	99.99%	99.99%	Direct	Full consolidation	a
Sabadell Innovation Capital, S.L.U.	Subsidiary	7/31/2017	1,000	0.00	100.00%	100.00%	Indirect	Full consolidation	a
Ripollet Gestión, S.L.U.	Subsidiary	8/31/2017	20	0.00	100.00%	100.00%	Direct	Full consolidation	a
Notario Alemany 26 Properties, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Hotel Notario Alemany 26, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Atrian Bakers, S.L.	Associate	12/28/2017	2,000	0.00	22.41%	22.41%	Indirect	Equity method	c
Aurica III, Fondo De Capital Riesgo	Associate	12/31/2017	16,940	0.00	-	48.15%	Indirect	Equity method	d
Aurica IIIB, Soc. De Capital Riesgo, S.A	Associate	12/31/2017	9,465	0.00	-	41.67%	Indirect	Equity method	d
Total newly consolidated subsidiaries			**72,148**						
Total newly consolidated associates			**79,335**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition of associates.

(d) Additions due to change in method of consolidation.

Associates and subsidiaries no longer consolidated:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Empire Properties Spain, S.L.	Subsidiary	3/31/2017	100.00%	-	(127)	Direct	Full consolidated	a
Eólica De Cuesta Roya, S.L.	Subsidiary	3/31/2017	50.97%	-	(2)	Direct	Full consolidated	b
Exel Broker De Seguros, S.A.	Subsidiary	5/31/2017	100.00%	-	3,010	Direct	Full consolidated	a
Puerto De Tamariu, Aie	Subsidiary	1/31/2017	100.00%	10.00%	-	Direct	Full consolidated	a
Serveis D´Assessorament Bsa, S.A.U.	Subsidiary	2/28/2017	50.97%	-	-	Indirect	Full consolidated	d
Diana Capital, S.G.E.C.R., S.A.	Associate	6/30/2017	-	20.66%	-	Direct	Equity method	e
Gesta Aparcamientos, S.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Guisain, S.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Mediterráneo Vida, S.A.U. De Seguros Y Reaseguros	Subsidiary	6/30/2017	100.00%	-	16,634	Indirect	Full consolidated	c
Parque Tecnológico Fuente Álamo, S.A.	Associate	6/30/2017	-	22.54%	-	Direct	Equity method	e
Planificació Tgn2004, S.L. En Liquidación	Associate	6/30/2017	-	25.00%	-	Indirect	Equity method	e
Tremon Maroc Mediterraneo Services Immobiliers, S.A.R.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Visualmark Internacional, S.L.	Associate	6/30/2017	-	20.00%	-	Indirect	Equity method	e
Alfonso XII, 16 Inversiones, S.L.	Subsidiary	7/12/2017	100.00%	-	(28)	Indirect	Full consolidated	b
Sabadell United Bank, N.A.	Subsidiary	7/31/2017	100.00%	-	369,818	Direct	Full consolidated	a
Galeban Control y Asesoramiento, S.L.U.	Subsidiary	10/1/2017	100.00%	-	12	Direct	Full consolidated	c
Ac Dos Malaga S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidated	a
Acteón Siglo XXI, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidated	a
Aviación Regional Cántabra, A.I.E.	Associate	12/15/2017	26.42%	-	(5)	Direct	Equity method	b
Aviones Alfambra Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(2)	Direct	Equity method	b
Aviones Cabriel Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(2)	Direct	Equity method	b
Subtotal					**389,308**			

(a) Subsidiaries no longer included in the scope of consolidation due to the sale of the equity interest held. The total net cash flow arising from this removal of subsidiaries amounts to €1,100,869 thousand. See cash flow statement.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Removal from scope of consolidation of subsidiaries classified as non-current assets held for sale.

(d) Disposals due to merger.

(e) Removals due to a loss of significant influence.

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Aviones Gorgos Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(1)	Direct	Equity	b
Aviones Sella Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	-	Direct	Equity	b
Bansabadell Holding, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Direct	Full consolidation	b
Creativ Hotel Catarina, Sa.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hi Partners Holdco Value Added, S.A.U.	Subsidiary	12/22/2017	100.00%	-	50,655	Indirect	Full consolidation	a
Hotel Atocha 49, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Avenida Rhode 28, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Carretera N 632, S.L.U.	Subsidiary	12/20/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Héroe De Sostoa 17, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Jardín Tropical, Slu	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Notario Alemany 26, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Paseo Marítimo 80, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Sa Torre Mallorca, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Beach Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Continental Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Hotel Dunamar, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Notario Alemany 26 Properties, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Tropical Partners, S.L.	Associate	12/31/2017	49.99%	-	-	Indirect	Equity	a
Viacarla Inversiones, S.A.U.	Subsidiary	12/27/2017	100.00%	-	(4,483)	Indirect	Full consolidation	a
Xeresa Golf, Sa	Subsidiary	12/31/2017	80.00%	-	-	Indirect	Full consolidation	a
Hotel Malaga Palacio S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Aurica III, Fondo De Capital Riesgo	Subsidiary	12/31/2017	-	48.15%	-	Indirect	Full consolidation	f
Aurica IIIB, Soc. De Capital Riesgo, S.A	Subsidiary	12/31/2017	-	41.67%	-	Indirect	Full consolidation	f
Otros					(767)			
Total					**434,712**			

(a) Subsidiaries no longer included in the scope of consolidation due to the sale of the equity interest held. The total net cash flow arising from this removal of subsidiaries amounts to €1,100,869 thousand. See cash flow statement.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Removal from scope of consolidation of subsidiaries classified as non-current assets held for sale.

(d) Disposals due to merger.

(e) Removals due to a loss of significant influence.

(f) Removals due to change in method of consolidation.

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
AC Dos Lerida, S.L.U.	Real Estate Development	Barcelona	-	100.00		2,793	(3,292)	3,083	-	2,706	2,290	-	-	12/16
AC Dos Malaga S.L.U.	Real Estate Development	Pozuelo de Alarcón	-	100.00		2,404	(9,766)	(943)	-	11,024	22,985	-	-	12/16
Acteon siglo XXI, S.A.	Real Estate Development	Barcelona	-	100.00	No	13,130	(16,723)	15,210	-	13,325	11,030	-	-	12/16
Alfonso XII, 16 Inversiones, S.L.	Real Estate	Sant Cugat del Vallès	-	100.00	No	11,400	(25,005)	116	-	6,380	15,030	(16,185)	226	12/16
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real Estate	Alicante	100.00	-	Si	100	10,943	(769)	-	10,306	20,038	(9,219)	96	12/16
Asseguirances Segur Vida, S.A.U.	Other regulates companies	Andorra	-	50.97	No	602	311	68	-	35,843	602	159	34	12/16
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS	Barcelona	100.00	-	Si	3,601	92	84	-	4,245	4,445	(753)	84	12/16
Aurica III, Fondo de Capital Riesgo	Other regulates companies	Barcelona	-	61.31	No	3,329	-	(578)	-	2,757	2,041	-	(354)	12/16
Aurica IIIB, Soc. de Capital Riesgo, S.A.	Other regulates companies	Barcelona	-	63.00	No	1,200	(2)	(229)	-	974	756	(1)	(144)	12/16
Aurica Xxi, S.C.R. De R.S., S.A.U.	Other regulates companies	Barcelona	100.00	-	Si	14,200	30,768	(3,367)	-	42,082	17,402	37,122	(3,367)	12/16
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Bahamas	99.99	0.01	No	1,598	1,197	(29)	-	3,542	2,439	848	(137)	06/15
Banco De Sabadell, S.A.	Credit institution	Sabadell	-	-	Si	702,019	11,662,454	380,557	-	166,590,720	-	9,533,480	566,772	12/16
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	México	99.99	0.01	No	93,549	(17,740)	(13,131)	-	342,006	91,554	(6,202)	(13,244)	12/16
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra	50.97	-	No	30,069	39,244	8,491	1,339	703,222	15,326	20,075	4,046	12/16
Sabadell Strategic Consulting, S.L.U. (1)	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Si	3	252	142	-	934	3	252	142	12/16
Bansabadell Factura, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Si	100	(2,721)	252	-	1,290	299	(2,912)	244	12/16
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell	100.00	-	Si	24,040	27,372	1,611	-	688,405	24,040	27,372	1,611	12/16
Bansabadell Holding, S.L.U.	SPE	Sant Cugat del Vallès	100.00	-	Si	330,340	(435,133)	(68,073)	-	108,186	239,544	(375,946)	(68,073)	12/16
Bansabadell Inversió Desenvolupament, S.A.U	SPE	Barcelona	100.00	-	Si	16,975	117,972	4,805	-	196,561	106,690	26,649	14,052	12/16
Sabadell Asset Management, S.A., S.G.I.I.C (2)	Other regulates companies	Sant Cugat del Vallès	100.00	-	Si	601	148,545	36,858	-	260,742	607	148,539	25,774	12/16
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulates companies	Barcelona	-	100.00	Si	301	11,973	30,761	24,217	78,195	524	10,323	30,761	12/16
Bansabadell Renting, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Si	2,000	18,878	12,043	-	414,882	3,861	17,747	12,043	12/16
Bansabadell Securities Services, S.L.U	Other investees with their own business	Sabadell	100.00	-	Si	2,500	24,326	7,700	-	38,677	2,500	24,000	7,700	12/16
Bitarte, S.A.	Other investees with their own business	San Sebastián	99.99	0.01	No	6,506	3,267	(633)	-	9,289	9,272	(3,463)	(633)	12/16
Bstartup 10, S.L.U.	SPE	Barcelona	-	100.00	Si	1,000	(1,090)	(428)	-	1,595	1,000	(1,744)	(605)	12/16
SABADELL INFORMATION SYSTEMS, S.A. (3)	Other investees with their own business	Sabadell	81.00	-	Si	240	62,906	14,028	-	839,145	3,687	40,251	25,821	12/16
Business Services For Operational Support, S.A.U.	Services	Sant Cugat del Vallès	80.00	-	Si	530	2,161	4,580	-	29,000	3,259	2,137	3,664	12/16
Cam Global Finance, S.A.U.	Other regulates companies	Alicante	100.00	-	Si	61	79	58	-	100,922	2,059	67	58	12/16
Subtotal									**25,556**		**606,262**	**9,472,596**	**606,571**	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Company data (a) Reserves	Company data (a) Profit/loss (b)	Company data (a) Dividends paid (c)	Company data (a) Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Cam International Issues, S.A.U.	Other regulates companies	Alicante	100.00	-	Si	61	337	34	98	66,560	114,079	(42,413)	(7,433)	12/16
Caminsa Urbanismo, S.A.U.	Real Estate	Alicante	-	100.00	Si	2,000	(1,606)	(52)	-	1,368	800	(233)	(21)	12/16
Cape Holdings No.1 Limited	Fund	Londres	-	100.00	No	1	-	-	-	1	1	-	-	12/16
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	República Dominicana	-	100.00	No	5,016	(4,226)	-	-	809	-	18	-	12/16
Creativ Hotel Catarina, SA.	Real Estate Development	Barcelona	-	100.00	No	1,232	2,993	1,401	-	11,211	42,400	-	-	12/16
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real Estate	Alicante	-	100.00	No	1,942	(86,364)	(3,233)	-	59	13,085	(62,556)	(14,898)	12/16
Duncan 2016 -1 Holdings Limited	Holding	Londres	-	100.00	No	1	-	-	-	1	1	-	-	12/16
Duncan de Inversiones SICAV, S.A.	Collective investment undertakins, Funds and similar financial companies	Barcelona	87.35	-	No	7,842	1,177	(46)	-	2,791	2,560	(85)	(41)	12/16
Duncan Holdings 2015-1 Limited	Fund	Londres	-	100.00	No	1	-	-	-	1	1	-	-	12/16
Ederra, S.A.	Real Estate	San Sebastián	97.85	-	No	2,036	24,257	7,206	-	34,079	38,062	(10,335)	7,051	12/16
Empire Properties Spain, S.L.	Real Estate	Sant Cugat del Vallès	60.54	39.46	Si	4,963	44,643	306	-	50,667	49,607	(1)	306	12/16
Eólica De Cuesta Roya, S.L.	Services	Zaragoza	50.97	-	No	3	(15)	-	-	2	2	-	-	11/15
Europa Invest, S.A.	Other regulates companies	Luxemburgo	22.00	78.00	No	125	392	97	-	708	336	180	97	12/16
Europea Pall Mall Ltd.	Real Estate	Londres	100.00	-	No	20,843	(4,063)	82	-	17,103	20,843	(1,885)	(3,846)	12/16
Exel Broker Seguros, S.A.	Other regulates companies	San Sebastián	99.40	0.60	No	100	748	1,494	1,230	4,976	3,940	(1,192)	1,494	12/16
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante	99.97	0.03	Si	180	285	115	-	817	240	228	115	12/16
Gala Domus, S.A.	Real Estate	A Coruña	-	100.00	No	4,000	(29,131)	(2,636)	-	1,340	2,000	(20,078)	(2,624)	12/16
Galeban 21 Comercial, S.L.U.	SPE	A Coruña	100.00	-	Si	10,000	(4,256)	(32)	-	5,712	14,477	(8,730)	(32)	12/16
Galeban Control Y Asesoramiento, S.L.U.	Services	A Coruña	100.00	-	Si	8	27	(20)	-	15	80	-	-	12/16
Gazteluberri S.L.	Real Estate	San Sebastián	-	100.00	No	53	(18,476)	(2,289)	-	8,752	23,891	(60,126)	(2,289)	12/16
Gest 21 Inmobiliaria, S.L.U	SPE	Sant Cugat del Vallès	100.00	-	Si	7,810	(321)	342	-	7,857	80,516	(68,474)	340	12/16
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L.	Real Estate	Sant Cugat del Vallès	-	100.00	Si	33,850	(27,134)	(4,174)	-	10,426	32,832	(14,153)	1,835	12/16
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante	100.00	-	Si	13,000	119,270	24,647	27,614	157,037	352,584	45,376	322	12/16
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastián	-	100.00	No	53	(76,486)	(769)	-	6,490	7,160	(101,430)	(441)	12/16
Guipuzcoano Valores, S.A.	Real Estate	San Sebastián	99.99	0.01	No	4,514	2,706	118	-	7,416	10,833	(3,608)	114	12/16
Hi Partners Holdco Gestión Activa, S.L.U.	Real Estate	Barcelona	-	100.00	Si	11,070	(220)	1	-	37,382	9,398	-	-	12/16
Hi Partners Holdco Value Added, S.L.U.	Real Estate	Barcelona	-	100.00	Si	17,014	(86)	836	-	287,492	6,506	-	-	12/16
Hip Francia 184, S.L.U.	Real Estate	Barcelona	-	100.00	Si	3	(2)	(83)	-	83	3	-	-	12/16
Hobalear, S.A.U.	Real Estate	Barcelona	-	100.00	Si	60	654	18	-	756	414	654	18	12/16
Hondarriberri, S.L.	SPE	San Sebastián	99.99	0.01	No	41	(3,613)	(9,853)	-	58,570	110,169	(49,869)	(71)	12/16
Hotel Atocha 49, S.L.U.	Real Estate	Barcelona	-	100.00	Si	6,500	(24)	(32)	-	8,963	6,500	-	-	12/16
Hotel Autovia del Mediterraneo 165, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	(1)	(11)	-	57	3	-	-	12/16
Hotel Avenida Rhode 28, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	(1)	(12)	-	62	3	-	-	12/16
Hotel Calle de Los Molinos 10, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	2,077	(1)	(241)	-	2,409	3	-	-	12/16
Hotel Calle Mayor 34, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	(1)	(18)	-	109	3	-	-	12/16
Hotel Carretera de Taull, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	(1)	(9)	-	6	3	-	-	12/16
Hotel Carretera N 632, S.L.U.	Real Estate	Barcelona	-	100.00	Si	3	-	(195)	-	4,230	3	-	-	12/16
Hotel Cavall del Mar 25, S.L.U	Real Estate Development	Barcelona	-	100.00	Si	3	(1)	(12)	-	10,946	3	-	-	12/16
Subtotal									**28,942**		**941,341**	**(398,712)**	**(20,004)**	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Hotel Héroe de Sostoa 17, S.L.U.	Real estate	Barcelona	-	100.00	Si	10,511	(98)	220	-	11,809	3	-	-	12/16
Hotel Investment Partners S.L. (5)	Real estate	Barcelona	100.00	-	Si	69,145	51,206	(1,238)	-	464,016	117,308	(2,872)	396	12/16
Hotel Jardín Tropical, SL.	Real estate development	Barcelona	-	100.00	No	8,288	2,169	4,411	-	32,931	71,500	-	-	12/16
Hotel Malaga Palacio S.A.U.	Real estate development	Malaga		100.00		3,140	(777)	1,708	-	7,093	-	-	-	12/16
Hotel Maria Tarrida6, S.L.U	Real estate development	Barcelona	-	100.00	Si	8,996	(1)	19	-	9,188	8,996	-	-	12/16
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona	-	100.00	Si	3	(16)	(273)	-	(14)	3	-	-	12/16
Hotel Paseo Marítimo 80, S.L.U.	Real estate	Barcelona	-	100.00	Si	3	-	(65)	-	27,400	3	-	-	12/16
Hotel Sa Torre Mallorca, S.L.	Real estate development	Barcelona	-	100.00	No	76	(7,649)	22,883	-	16,125	13,519	-	-	12/16
Hotel Value Added Primera, S.L.U.	Real estate development	Barcelona	-	100.00	Si	3	-	(92)	-	21,624	3	-	-	12/16
Interstate Property Holdings, Llc.	SPE	Miami	100.00	-	No	7,293	(11,965)	4,175	-	14,507	3,804	(11,855)	546	12/16
Inverán Gestión, S.L.	Real estate	Sant Cugat del Vallés	44.83	55.17	Si	45,090	(55,173)	(660)	-	24,876	45,090	(34,504)	(660)	12/16
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante	100.00	-	Si	308,000	171,076	7,159	-	488,358	569,523	(94,647)	(4,422)	12/16
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Murcia	-	55.06	No	299,090	(302,156)	-	-	881	175,124	-	-	12/16
Malbrouck, S.I.C.A.V.	Collective investment undertakings, Funds and similar financial institutions	Madrid	99.99	-	No	14,554	-	(408)	-	16,703	16,679	-	-	12/16
Manston Invest, S.L.U.	Real estate	Sant Cugat del Vallés	100.00	-	Si	33,357	(4,689)	(4,946)	-	24,001	33,357	(8,147)	(3,518)	12/16
Mariñamendi, S.L.	Real estate	Sant Cugat del Vallés	-	100.00	Si	55,013	(90,911)	(6,151)	-	100,122	55,013	(93,495)	421	12/16
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Si	85,000	113,996	8,868	312	207,745	632,713	(528,079)	179	12/16
Mediterráneo Vida, S.A.U. de Seguros Y Reaseguros	Other regulated companies	Alicante	-	100.00	Si	102,044	174,958	27,246	8,489	2,521,494	127,827	6,250	27,246	12/16
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante	97.26	-	No	795	(474)	(8)	-	7,655	973	(366)	191	12/16
Parque Eólico Jaufil, S.L.U.	Wind energy	Madrid	100.00	-	No	163	(2,936)	651	-	6,504	163	-	-	12/16
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Madrid	100.00	-	No	83	(1,038)	304	-	3,739	83	-	-	12/16
Parque Eólico Lecrín, S.L.U.	Wind energy	Granada	100.00	-	No	4,003	(8,920)	(5,891)	-	16,819	4,003	-	-	12/16
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Madrid	100.00	-	No	163	(1,762)	1,565	-	7,803	163	-	-	12/16
Placements Immobiliers France, S.A.S.	Real estate	Paris	-	100.00	No	30,002	76,677	10	-	106,593	101,343	1,711	(65)	12/16
Puerto de Tamariu, AIE	Services	Santa Cruz de Tenerife	99.90	0.10	No	1	-	-	-	-	1	-	-	12/16
Rubí Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	3	-	1,915	-	78,136	3	-	1,915	12/16
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	Sao Paulo	99.99	0.01	No	905	(795)	-	-	136	250	(164)	531	12/16
Sabadell Capital S.A De C.V. Sofom E.N.R.	Credit institution	Mexico	97.50	2.50	No	284,666	(39,652)	18,828	-	1,419,245	277,016	3,219	18,992	12/16
Sabadell Consumer Finance, E.F.C., S.A.U	Credit institution	Sant Cugat del Vallés	100.00	-	Si	35,720	38,972	17,933	-	679,962	72,232	7,456	17,860	12/16
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid	100.00	-	Si	70	1,510	892	381	3,199	9,373	67	892	12/16
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra	-	50.97	No	300	892	256	-	2,138	300	455	131	12/16
Sabadell Information Systems Limited	Provision of technology services	London	100.00	-	No	332	27	(185)	-	713	332	-	(185)	12/16
Subtotal									**9,182**		**2,356,700**	**(754,971)**	**60,450**	

Banco Sabadell Group companies at 31 December 2016 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	No	30,116	843,327	19,636	-	980,768	939,334	(62,191)	19,636	12/16
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	100,060	283,564	(25,608)	-	360,179	500,622	(116,997)	(21,019)	12/16
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	15,807	(740,256)	(527,637)	-	4,838,543	2,147,442	(2,834,744)	(310,468)	12/16
Sabadell Real Estate Housing,	Real estate	Sant Cugat del Vallès	100.00	-	Yes	2,073	(1,281)	1,806	-	37,617	14,292	(13,500)	1,806	12/16
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	-	No	551	2,259	468	-	3,680	551	1,672	475	12/16
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	60	2,394	64	-	2,553	3,074	(619)	64	12/16
Sabadell United Bank, N.A.	Credit institution	Miami	100.00	-	No	3,003	536,619	43,688	-	5,490,936	371,241	103,301	50,165	12/16
Sabadell Venture Capital, S. L.U.	Holding company	Barcelona	-	100.00	No	3	(2)	(149)	-	3,871	3	(2)	(149)	12/16
Serveis d'Assessorament Bsa, S.A.U.	Other investees with their own business	Andorra	-	50.97	No	60	48	3	-	239	60	24	2	12/16
Sinia Renovables, S.A.U. (4)	Other regulated companies	Barcelona	100.00	-	Yes	15,000	(13,834)	(536)	-	15,861	15,000	(9,743)	(733)	12/16
Solvia Gestora de Vivienda Social, S.L.U.	Real estate	Alicante	-	100.00	Yes	3	481	1,506	-	4,396	3	709	1,279	12/16
Solvia Pacific, S.A. De C.V.	Real estate	Mexico	-	100.00	No	28,947	(14,927)	(1,418)	-	13,020	29,164	(10,312)	(1,418)	12/16
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante	100.00	-	Yes	660	15,493	36,890	-	138,874	5,023	14,849	41,688	12/16
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	60,729	549	(6,882)	-	54,702	60,729	(7,814)	(4,752)	12/16
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante	99.88	0.12	Yes	1,000	2,047	(667)	-	2,388	5,266	152	(667)	12/16
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante	100.00	-	Yes	296,092	(106,921)	(219,514)	-	2,295,111	2,564,914	(1,748,323)	39,345	12/16
Tierras Vega Alta Del Segura, S.L.	Real estate	Sant Cugat del Vallès	-	100.00	Yes	4,550	(14,286)	(836)	-	15,568	16,823	(21,567)	1,741	12/16
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante	100.00	-	Yes	3,003	(354)	-	-	2,656	4,654	2,285	-	12/16
TSB Bank Plc	Credit institution	Edinburgh	-	100.00	No	92,796	1,723,948	156,944	-	50,246,247	1,856,372	-	-	12/16
TSB Banking Group Plc	Holding company	London	100.00	-	No	5,840	708,749	(122)	-	2,308,833	2,214,865	119,995	176,256	12/16
TSB Covered Bonds Holdings Limited	Holding company	London		100.00	No	1	-	-	-	1	1	-	-	12/16
TSB Scotland (Investment) Nominees Limited	Other regulated companies	Scotland	-	100.00	NO	1	-	-	-	1	1	-	-	12/16
TSB Scotland Nominees Limited	Other regulated companies	Scotland	-	100.00	NO	1	-	-	-	1	1	-	-	12/16
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid	-	100.00	Yes	3,606	10,938	3,461	-	24,178	5,286	9,668	1,965	12/16
Urumea Gestión, S.L.	Other investees with their own business	San Sebastian	-	100.00	No	9	(2)	(3)	-	5	9	(9)	(3)	12/16
VeA Rental Homes SOCIMI, S.A	Independent lease of real estate assets	Sant Cugat del Valles	100.00	-	No	5,000	(3)	-	-	5,001	5,000	(3)	-	12/16
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Sant Cugat del Vallès	-	97.20	Yes	12,000	(38,609)	(4,562)	-	17,176	11,664	(30,116)	(4,562)	12/16
Viacarla Inversiones, S.A.	Services	Madrid	-	100.00	No	7,250	(8,381)	2,023	-	10,429	402	-	-	12/16
Xeresa Golf, SA	Real estate development	Alicante	-	80.00	No	4,531	38,511	(11,447)	-	63,057	24,300	-	-	12/16
Total									**63,680**		**14,700,419**	**3,715,628**	**637,668**	

(1) Formerly BanSabadell Consulting, S.L.U.
(2) Formerly Bansabadell Inversión, S.A.U., S.G.I.I.C.
(3) Formerly Business Services For Information Systems, S.A.
(4) Formerly Sinia Renovables, S.C.R. De R.S., S.A.U.
(5) Formerly Hotel Investment Partnership, S.L.

Banco Sabadell Group companies at 31 December 2016 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect	Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Aviación Regional Cántabra, A.I.E.	Services	Madrid	26.42	-	16,918	2,527	10,388	2,352	-	4,472	(1,118)	4,528	12/16
Aviones Alfambra CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,132	423	-	12,225	1,060	(269)	402	10/16
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,158	421	-	-	1,060	(269)	401	10/16
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,175	416	-	12,130	1,060	(270)	399	10/16
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,190	417	-	12,083	1,060	(270)	398	10/16
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Sant Cugat del Vallès	50.00	-	7,813	59,497	(16,098)	2,908	57,722	40,378	(6,441)	(8,049)	12/16
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	-	10,000	66,941	13,060	9,750	203,641	45,000	(6,353)	6,072	12/16
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	-	43,858	328,318	104,548	-	9,306,948	27,106	125,723	53,677	12/16
Diana Capital, S.G.E.C.R., S.A.	Other regulated companies	Madrid	20.66	-	606	3,012	(29)	-	4,296	521	173	(167)	10/16
Emte Renovables, S.L.	SPE	Barcelona	-	62.11	7,050	(632)	(8)	-	-	4,379	(4,379)	-	11/15
Esus Energía Renovable, S.L.	Services	Vigo	-	45.00	50	(295)	(8)	-	-	23	(23)	-	10/15
Financiera Iberoamericana, S.A.	Credit institution	La Habana	50.00	-	38,288	12,152	2,059	2,149	88,522	19,144	1,328	1,389	12/16
Gate Solar Gestión, S.L.	Services	Vitoria-Gasteiz	50.00	-	300	3,233	(137)	-	-	1,860	36	378	
Gesta Aparcamientos, S.L.	Real estate	Alicante	-	40.00	301	(244)	(17)	-	642	120	(1,047)	16	06/16
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante	-	40.00	1,000	(9,514)	(525)	-	27,607	7,675	(2,012)	-	09/16
Grupo Luxiona, S.L.	Other investees	Canovelles	-	20.00	2,561	9,846	(1,552)	-	65,490	10,835	(10,835)	-	09/16
Guisain, S.L.	Real estate	Vizcaya	-	40.00	4,200	(139)	(15)	-	6,829	2,593	(246)	(1,284)	03/16
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Real estate development	Barcelona	-	30.00	127	262	181	-	-	117	-	-	12/16
Hydrophytic, S.L.	Real estate	Vitoria	-	50.00	186	95	16	-	467	93	42	14	12/16
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia	28.70	-	6,800	(1,838)	(182)	-	4,799	2,026	(534)	517	09/16
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra	14.64	-	12,188	12,997	(25,360)	-	971,313	1,785	-	-	12/15
Parque Eólico Los Ausines, S.L.	Alternative energy production	Ponferrada	-	50.00	4,465	(435)	(506)	-	47,218	2,282	-	(303)	12/16
Parque Tecnológico Fuente Álamo, S.A.	Services	Murcia	22.54	-	3,508	(1,076)	(118)	-	4,827	918	(385)	622	09/16
Planificació TGN2004, S.L. en liquidación	Real estate	Tarragona	-	25.00	3,309	(31,119)	24	-	7,488	827	(154)	-	12/15
Plaxic Estelar, S.L.	Real estate	Barcelona	-	45.01	3	(21,646)	(3)	-	31,998	2,738	(6,918)	-	09/16
Ribera Salud, S.A.	Services	Valencia	-	50.00	9,518	50,888	29,594	-	412,585	30,203	-	14,797	12/15
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxemburgo	45.89	-	-	-	-	-	43,800	16,400	3,052	-	11/16
Sbd Creixent, S.A.	Real estate	Sabadell	23.05	-	5,965	284	(55)	-	16,307	3,524	(1,134)	(804)	09/16
Subtotal								**17,159**		**229,259**	**87,697**	**72,803**	

Banco Sabadell Group companies at 31 December 2016 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect	Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Sociedad De Cartera Del Vallès, S.I.C.A.V., S.A.	Other associates	Sabadell	47.87	-	4,818	4,408	109	-	4,926	422	1,981	(55)	12/16
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona	-	35.78	2,540	(743)	(10)	-	1,791	915	(190)	27	09/16
Tremon Maroc Mediterraneo Services Immobiliers, S.A.R.L.	Real state	Tanger	-	40.00	457	(405)	-	-		183	(49)	(12)	12/14
Visualmark Internacional, S.L.	Services	A Coruña	-	20.00	12	(5)	-	-	72	2	(2)	-	08/17
Total								17,159		230,781	89,437	72,763	
Total											3,805,065	710,431	

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group cannot take part in their management.

(a) Companies outside Spain have been translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending for approval at the General Meeting of Shareholders.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to €776,581 thousand at 31 December 2016. The liabilities balance of associates at the end of 2016 totalled €10,699,214 thousand.

Changes in the Group's scope of consolidation in 2016

Associates and subsidiaries consolidated for the first time:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method
Rubí Gestión, S.L.U.	Subsidiary	1/31/2016	3.00	-	100.00%	100.00%	Direct	Full consolidation
AURICA IIIB, SOC. DE CAPITAL RIESGO, S.A	Subsidiary	2/29/2016	756.00	-	63.00%	63.00%	Indirect	Full consolidation
Hotel Value Added Primera, S.L.U.	Subsidiary	2/29/2016	3.00	-	100.00%	100.00%	Indirect	Full consolidation
Parque Eólico Los Ausines, S.L	Associate	2/29/2016	2282.00	-	50.00%	50.00%	Indirect	Equity method
Duncan 2016 -1 Holdings Limited	Subsidiary	3/31/2016	1.00	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Carretera N 632, S.L.U.	Subsidiary	3/31/2016	3.00	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Paseo Marítimo 80, S.L.U.	Subsidiary	3/31/2016	3.00	-	100.00%	100.00%	Indirect	Full consolidation
Gate Solar Gestión, S.L.	Associate	3/31/2016	1860.00	-	50.00%	50.00%	Direct	Equity method
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Associate	3/31/2016	117.00	-	30.00%	30.00%	Indirect	Equity method
TSB COVERED BONDS HOLDINGS LIMITED	Subsidiary	5/15/2016	1.00	-	100.00%	100.00%	Indirect	Full consolidation
ACTEON SIGLO XXI, S.A.	Subsidiary	7/31/2016	11030.00	-	100.00%	100.00%	Indirect	Full consolidation
Creativ Hotel Catarina, SA.	Subsidiary	7/31/2016	42400.00	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Jardin Tropical, SL.	Subsidiary	7/31/2016	71500.00	-	100.00%	100.00%	Indirect	Full consolidation
HOTEL SA TORRE MALLORCA, S.L.	Subsidiary	7/31/2016	13519.00	-	100.00%	100.00%	Indirect	Full consolidation
AURICA III, FONDO DE CAPITAL RIESGO	Subsidiary	9/30/2016	2041.00	-	61.31%	61.31%	Indirect	Full consolidation
Empire Properties Spain, S.L.	Subsidiary	9/30/2016	49607.00	-	100.00%	100.00%	Direct	Full consolidation
MALBROUCK, S.I.C.A.V.	Subsidiary	9/30/2016	16679.00	-	99.99%	99.99%	Direct	Full consolidation
Sabadell Information Systems Limited	Subsidiary	9/30/2016	332.00	-	100.00%	100.00%	Direct	Full consolidation
VeA Rental Homes SOCIMI, S.A	Subsidiary	9/30/2016	5000.00	-	100.00%	100.00%	Direct	Full consolidation
AC DOS LERIDA, S.L.U.	Subsidiary	10/31/2016	2290.00	-	100.00%	100.00%	Indirect	Full consolidation
AC DOS MALAGA S.L.U.	Subsidiary	10/31/2016	22985.00	-	100.00%	100.00%	Indirect	Full consolidation
HOTEL MALAGA PALACIO S.A.U.	Subsidiary	10/31/2016	-	-	100.00%	100.00%	Indirect	Full consolidation
Puerto de Tamariu, AIE	Subsidiary	12/5/2016	1.00	-	100.00%	100.00%	Direct	Full consolidation
Xeresa Golf, SA	Subsidiary	12/31/2016	24300.00	-	80.00%	80.00%	Indirect	Full consolidation
Total newly consolidated subsidiaries (*)			**262,454**					
Total newly consolidated associates (*)			**4,259**					

(*) See cash flow statement - investment activities, under Investment Payments/Collections in joint ventures and associates.

Associates and subsidiaries no longer consolidated:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Activos Valencia I, S.A.U. en liquidación	Subsidiary	1/31/2016	100.00%	-	(1,233)	Indirect	Full consolidation	b
Parque Eólico Loma del Capón, S.L.U.	Subsidiary	2/29/2016	100.00%	-	(517)	Indirect	Full consolidation	a
Energías Renovables Sierra Sesnández, S.L.	Associate	2/29/2016	40.00%	-	(61)	Indirect	Equity method	a
Sistema Eléctrico de Conexión Valcaire, S.L.	Associate	2/29/2016	46.88%	-	-	Indirect	Equity method	a
Parque Eólico Magaz, S.L.	Associate	2/29/2016	49.00%	-	(37)	Indirect	Equity method	a
Torre Sureste, S.L.	Associate	2/29/2016	40.00%	-	(7)	Indirect	Equity method	b
Fomento de la Coruña, S.A.U.	Subsidiary	3/31/2016	100.00%	-	6	Indirect	Full consolidation	a
Gate Solar, S.L.	Associate	3/31/2016	50.00%	-	-	Direct	Equity method	d
Blue-Lor, S.L. (en liquidación)	Associate	3/31/2016	27.62%	-	-	Indirect	Equity method	b
Dexia Sabadell , S.A.	Associate	4/30/2016	20.99%	-	47,891	Direct	Equity method	a
Solvia Actividades y Servicios Inmobiliarios, S.A.U.	Subsidiary	5/31/2016	100.00%	-	(6)	Direct	Full consolidation	b
Mirador del Segura 21, S.L. en liquidación	Subsidiary	5/31/2016	100.00%	-	32	Indirect	Full consolidation	b
Vistas del Parque 21, S.L. en liquidación	Subsidiary	5/31/2016	100.00%	-	30	Indirect	Full consolidation	b
CAM Capital, S.A.U. en liquidación	Subsidiary	5/31/2016	100.00%	-	243	Direct	Full consolidation	b
Cantabria Generación, S.L.U.	Subsidiary	6/30/2016	100.00%	-	8	Direct	Full consolidation	b
Sabadell Asia Trade Services, Ltd.	Subsidiary	6/30/2016	100.00%	-	(152)	Direct	Full consolidation	b
Proteo Banking Software, S.L.U.	Subsidiary	6/30/2016	100.00%	-	3	Direct	Full consolidation	b
Easo Bolsa, S.A.	Subsidiary	6/30/2016	100.00%	-	15	Direct	Full consolidation	b
Desarrollo Y Ejecución Urbanística Del Mediterráneo, S.L.	Subsidiary	7/31/2016	100.00%	-	(48)	Indirect	Full consolidation	b
Gest Galinver, S.L.	Subsidiary	7/31/2016	100.00%	-	206	Indirect	Full consolidation	b
Herrero Internacional Gestión, S.L.U.	Subsidiary	7/31/2016	100.00%	-	-	Indirect	Full consolidation	b
Procom Residencial Rivas, S.A.U.	Subsidiary	7/31/2016	100.00%	-	2	Indirect	Full consolidation	b
Simat Banol, S.L.U.	Subsidiary	7/31/2016	100.00%	-	450	Indirect	Full consolidation	b
Bajo Almanzora Desarrollos Inmobiliarios, S.L. (en liquidación)	Associate	7/31/2016	39.14%	-	-	Indirect	Equity method	b
Intermas Nets, S.A.	Associate	7/31/2016	20.00%	-	-	Indirect	Equity method	a
Promociones E Inmuebles Blauverd Mediterráneo, S.L.U.	Subsidiary	8/31/2016	100.00%	-	409	Indirect	Full consolidation	b
Aviones Carraixet CRJ-200 Ii A.I.E.	Associate	9/30/2016	25.00%	-	150	Direct	Equity method	b
Aviones Portacoli CRJ-200 Iii A.I.E.	Associate	9/30/2016	25.00%	-	179	Direct	Equity method	b
Aviones Turia CRJ-200 I, A.I.E.	Associate	9/30/2016	25.00%	-	185	Direct	Equity method	b
Ballerton Servicios, S.L.U.	Subsidiary	11/30/2016	100.00%	-	(22)	Indirect	Full consolidation	b
Eólica De Valdejalón, S.L.	Subsidiary	11/30/2016	50.97%	-	(2)	Direct	Full consolidation	a
Épila Renovables, S.L.	Subsidiary	11/30/2016	51.00%	-	(74)	Direct	Full consolidation	a
Mursiya Golf, S.L.	Associate	12/15/2016	49.70%	-	-	Indirect	Equity method	a
Promociones Y Financiaciones Herrero, S.A.	Subsidiary	12/16/2016	100.00%	-	(313)	Direct	Full consolidation	b
Delta Swing, S.A.U.	Subsidiary	12/31/2016	100.00%	-	(10)	Indirect	Full consolidation	b
Otros					(444)			
Total					**46,883**			

(a) Disposals from the scope of consolidation due to sale of shareholding.
(b) Disposals from the scope due to dissolution and/or liquidation.
(c) Disposals due to reclassification into non-current assets held for sale.
(d) Disposals due to merger.

Schedule 2 – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds retained in full on the balance sheet	Entity	Total securitised assets at 31/12/2017
2004	GC SABADELL 1, F.T.H	Banc Sabadell	145,382
2004	TDA CAM 3, F.T.A	Banco CAM	109,889
2005	TDA 23, F.T.A	Banco Guipuzcoano	38,249
2005	TDA CAM 4 F.T.A	Banco CAM	327,468
2005	TDA CAM 5 F.T.A	Banco CAM	549,493
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	100,235
2006	TDA CAM 6 F.T.A	Banco CAM	375,769
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	163,354
2006	TDA CAM 7 F.T.A	Banco CAM	571,809
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	267,338
2007	TDA 29, F.T.A	Banco Guipuzcoano	121,405
2007	TDA CAM 8 F.T.A	Banco CAM	557,575
2007	TDA CAM 9 F.T.A	Banco CAM	525,421
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	67,828
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	213,008
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	89,943
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	10,586
2015	DUNCAN FUNDING 2015-1 PLC	TSB	1,802,139
2016	DUNCAN FUNDING 2016-1 PLC	TSB	3,062,744
2016	IM SABADELL PYME 10	Banc Sabadell	953,077
2017	TDA SABADELL RMBS 4, FT	Banc Sabadell	5,905,031
2017	IM SABADELL PYME 11, FT	Banc Sabadell	1,855,924
Total			**17,813,667**

Thousand euro

Year	Securitisation funds derecognised in full from the balance sheet	Entity	Total securitised assets at 31/12/2017
2001	TDA 14-MIXTO, F.T.A	Banco Guipuzcoano	3,546
2001	TDA 14-MIXTO, F.T.A	BMN- Penedés	19,817
2002	TDA 15-MIXTO, F.T.A	Banco Guipuzcoano	9,617
2003	TDA 17-MIXTO, F.T.A	Banco Guipuzcoano	19,010
2003	TDA CAM 2	Banco CAM	106,121
2006	TDA 25, FTA (*)	Banco Gallego	7,786
2010	FTPYMES 1 LIMITED	Banco CAM	172,889
Total			**338,786**

(*) Securitisation fund in process of early liquidation.

Schedule 3 –Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Lending transactions (recognised as assets)

Details of the aggregate nominal values of mortgage loans and credit at 31 December 2017 and 2016 backing issues of asset-backed securities, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)

	2017	2016
Total mortgage loan and credit portfolio	**55,956,292**	**60,284,332**
Participation mortgages issued	**3,370,130**	**5,144,462**
Of which : Loans held on balance sheet	*3,174,791*	*4,835,597*
Mortgage transfer certificates	**7,860,991**	**3,963,115**
Of which : Loans held on balance sheet	*7,734,256*	*3,768,861*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**44,725,171**	**51,176,755**
Ineligible loans	15,943,345	15,411,370
Fulfil eligibility requirements except for limit set forth by Article 5.1 of Royal Decree 716/2009	13,965,022	12,290,896
Rest	1,978,323	3,120,474
Eligible loans	28,781,826	35,765,385
Non-qualifying portions	83,249	107,768
Qualifying portions	28,698,577	35,657,617
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	28,698,577	35,657,617
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues

	2017		2016	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Origin of operations	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Originated by the Bank	43,999,139	*28,398,509*	50,346,578	*35,295,368*
Subrogated from other entities	237,588	*180,011*	269,891	*224,558*
Rest	488,444	*203,306*	560,286	*245,459*
Currency	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Euro	44,619,869	*28,702,376*	51,045,668	*35,705,266*
Other currencies	105,302	*79,450*	131,087	*60,119*
Payment status	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Satisfactory payment	38,240,207	*27,002,079*	41,444,636	*32,026,465*
Other situations	6,484,964	*1,779,747*	9,732,119	*3,738,920*
Average residual period to maturity	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Up to 10 years	12,566,865	*8,170,011*	14,278,937	*8,669,175*
10 to 20 years	17,416,966	*12,343,583*	17,327,453	*13,335,178*
20 to 30 years	12,156,652	*7,425,285*	14,651,158	*10,747,915*
More than 30 years	2,584,688	*842,947*	4,919,207	*3,013,117*
Interest rate	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Fixed	10,240,956	*7,418,574*	9,321,347	*6,334,684*
Variable	34,484,215	*21,363,252*	41,855,408	*29,430,701*
Mixed	-	-	-	-
Holders	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Legal entities and individual entrepreneurs	16,428,024	*8,882,296*	19,786,398	*10,745,538*
Of which: Real estate developments	*4,555,082*	*1,546,541*	*6,539,086*	*2,537,346*
Other individuals and NPISHs	28,297,147	*19,899,530*	31,390,357	*25,019,847*
Type of guarantee	44,725,171	*28,781,826*	51,176,755	*35,765,385*
Assets /finished buildings	42,086,553	*27,930,395*	46,669,023	*34,402,220*
Residential	*33,344,659*	*22,390,471*	*37,442,623*	*28,517,150*
Of which: Subsidised housing	*1,500,528*	*1,153,703*	*1,744,996*	*1,233,156*
Commercial	*8,559,381*	*5,421,465*	*9,088,092*	*5,783,908*
Other	*182,513*	*118,459*	*138,308*	*101,162*
Assets/ buildings under construction	277,855	*149,543*	535,955	*312,429*
Residential	*262,645*	*139,681*	*495,870*	*278,110*
Of which: Subsidised housing	*62*	*1*	*63*	-
Commercial	*14,247*	*8,899*	*36,568*	*30,804*
Other	*963*	*963*	*3,517*	*3,515*
Land	2,360,763	*701,888*	3,971,777	*1,050,736*
Developed	*1,210,598*	*220,792*	*2,158,151*	*452,427*
Rest	*1,150,165*	*481,096*	*1,813,626*	*598,309*

The nominal values of drawable funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Drawable balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds	2017	2016
Potentially eligible	925,789	1,057,382
Ineligible	2,506,240	1,537,366

The distribution of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds	2017	2016
Secured on residential property	**22,613,853**	**28,928,427**
Of which LTV < 40%	*7,075,581*	*8,594,798*
Of which LTV 40%-60%	*8,353,242*	*11,062,573*
Of which LTV 60%-80%	*7,185,030*	*9,271,056*
Of which LTV > 80%	-	-
Secured on other properties	**6,167,973**	**6,836,958**
Of which LTV < 40%	*3,754,551*	*4,131,633*
Of which LTV 40%-60%	*2,413,422*	*2,705,325*
Of which LTV > 60%	-	-

Changes during 2017 and 2016 in the nominal values of mortgage loans that secure issuances of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	Eligible	Ineligible
Balance at 31 December 2015	**36,863,878**	**19,382,351**
Disposals during the year	**(6,365,271)**	**(6,806,531)**
Terminations at maturity	(2,439,564)	(550,120)
Early terminations	(1,190,892)	(558,712)
Subrogations by other entities	(28,495)	(8,661)
Rest	(2,706,320)	(5,689,038)
Additions during the year	**5,266,778**	**2,835,550**
Originated by the Bank	3,256,162	1,593,583
Subrogations from other entities	27,712	12,309
Rest	1,982,904	1,229,658
Balance at 31 December 2016	**35,765,385**	**15,411,370**
Disposals during the year	**(13,588,188)**	**(7,315,145)**
Terminations at maturity	(2,593,920)	(852,488)
Early terminations	(1,171,986)	(803,018)
Subrogations by other entities	(13,996)	(3,085)
Derecognised by securitisations	(3,105,737)	-
Rest	(6,702,549)	(5,656,554)
Additions during the year	**6,604,629**	**7,847,120**
Originated by the Bank	3,447,310	1,337,231
Subrogations from other entities	22,465	3,632
Rest	3,134,854	6,506,257
Balance at 31 December 2017	**28,781,826**	**15,943,345**

B) Funding operations

Information on issuances carried out and secured with Banco Sabadell's mortgage lending portfolios is provided in the following table, analysed by residual maturity and according to whether the sale was by public offering or otherwise.

Thousand euro

Nominal value	2017	2016
Covered bonds issued	**20,727,543**	**23,457,544**
Of which: Not recognised on liabilities side of the balance sheet	*7,913,800*	*9,556,900*
Debt securities. Issued through public offering	**7,200,000**	**7,600,000**
Time to maturity up to one year	1,000,000	1,500,000
Time to maturity from one to two years	-	1,000,000
Time to maturity from two to three years	1,750,000	-
Time to maturity from three to five years	1,350,000	3,100,000
Time to maturity from five to ten years	3,100,000	2,000,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**10,813,000**	**12,813,000**
Time to maturity up to one year	150,000	500,000
Time to maturity from one to two years	3,150,000	1,150,000
Time to maturity from two to three years	4,380,000	3,150,000
Time to maturity from three to five years	1,445,000	6,380,000
Time to maturity from five to ten years	1,688,000	1,633,000
Time to maturity more than ten years	-	-
Deposits	**2,714,543**	**3,044,544**
Time to maturity up to one year	593,710	330,000
Time to maturity from one to two years	524,146	593,710
Time to maturity from two to three years	145,833	524,146
Time to maturity from three to five years	994,444	445,833
Time to maturity from five to ten years	436,410	1,130,855
Time to maturity more than ten years	20,000	20,000

	2017		2016	
	Nominal value (thousand euro)	Average residual time to maturity (years)	Nominal value (thousand euro)	Average residual time to maturity (years)
Mortgage transfer certificates	**7,860,991**	**23**	**3,963,115**	**17**
Issued through public offering	-	-	-	-
Other issues	7,860,991	23	3,963,115	17
Participation mortgages	**3,370,130**	**13**	**5,144,462**	**16**
Issued through public offering	-	-	-	-
Other issues	3,370,130	13	5,144,462	16

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 216% at 31 December 2017 (218% at 31 December 2016).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the entity has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 4.3, Financial risk management). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to its Executive Committee, which then sub-delegates authority at each level of decision-making. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which serve as cover for the Group's covered bond issues, are described in detail below for each

Private customers

Analyses and decisions on approving lending and guarantees to private customers are based on the scoring tools described in Note 4.4.1.2 on financial risk management. Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well they match their possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which Banco Sabadell's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional security; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the assessed value of the security (hereinafter, loan-to-value, or LTV) and the purchase value, if that is the purpose of the loan. As a general rule, under internal Group policies the lower of the maximum LTV and the purchase value is applicable to purchases by individuals of properties for use as their usual residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the scoring tools are the main reference for determining the feasibility of the operation. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the operation, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 4.4.1.2 on financial risk management, the Group has an integrated monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees provided.

Businesses (other than construction/real estate development)

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4.4.1.2 on financial risk management. A range of other data and parameters is also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Review process of charges associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels at which decisions may be taken. In each of these, there is the figure of the “basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, operations are monitored using early warning tools. There are also procedures to ensure that the borrower's security and guarantees are constantly being reviewed and validated.

Businesses (construction/real estate development)

Real estate assets and real estate developer loans are handled by the bank's Asset Transformation and Industrial and Real Estate Investees division. This division is organisationally structured to focus on the specialised management of assets of this type based on knowledge of the situation and development of the real-estate market. Managing the risks in this portfolio is the responsibility of the bank's Asset Risk unit, part of the Risk Management division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Investment Divisions to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include the rating of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth study of current credit risks whether related to completed developments, land holdings or other assets.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of asset portfolio handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in the entity's internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the state of progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

Banco Sabadell Group is an active participant in the capital markets and has a number of funding programmes in operation (see Note 4.4.2.4). As one element of its funding strategy, Banco de Sabadell, S.A. is an issuer of mortgage covered bonds. Covered bonds are issued backed by the bank's portfolio of mortgage loans that meet the eligibility criteria set forth in Royal Decree 716/2009, which provides rules on the mortgage market and mortgage finance in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves maintaining special accounting records of all mortgage loans and credit — and any assets that replace them — used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans and other assets meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule 4 – Information on issuers of territorial bonds and on the special accounting record of territorial bonds

Details of the data from the special accounting record of territorial bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

A) Lending operations

Details of the aggregate nominal values of loans and credit in pubic administrations at 31 December 2017 covering issues of asset-backed securities, their eligibility and the extent to which they qualify as such for territorial bond hedging purposes are presented in the following table:

Thousand euro

	2017		
	Total	Residents in Spain	Residents in other countries in the European Economic Area
Central Governments	167,305	167,305	-
Regional Governments or Governments in Autonomous Communities	1,182,839	1,182,839	-
Local Governments	557,573	557,573	-
Social Security Funds	44	44	-
Total loans and credit portfolio	**1,907,761**	**1,907,761**	**-**

Thousand euro

	2016		
	Total	Residents in Spain	Residents in other countries in the European Economic Area
Central Governments	278,620	278,620	-
Regional Governments or Governments in Autonomous Communities	1,206,406	1,206,406	-
Local Governments	739,233	739,233	-
Social Security Funds	-	-	-
Total loans and credit portfolio	**2,224,259**	**2,224,259**	**-**

B) Funding operations

Information on issuances carried out and collateralised using the bank’s portfolio of loans and credit to general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2017	2016
Territorial bonds issued	900,000	900,000
Of which: Not recognised on liabilities side of the balance sheet	*900,000*	*900,000*
Issued through public offering	-	-
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-
Other issues	900,000	900,000
Time to maturity up to one year	-	-
Time to maturity from one to two years	900,000	-
Time to maturity from two to three years	-	900,000
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-

The over-collateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of territorial bonds divided by the nominal value of issued territorial bonds) for Banco de Sabadell, S.A. stood at 212 % at 31 December 2017 (247% at 31 December 2016).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the bank has a set of policies and procedures in place relating to the financing activities of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 on financial risk management).

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to its Executive Committee, which then sub-delegates authority at each level of decision-making. The internal procedures set up to handle the origination and monitoring of the assets that make up the Group’s loans and receivables and particularly assets with public entities, which back the Group's territorial covered bond issues.

Schedule 5 – Details of outstanding subordinate assets and liabilities of the Group

Debt securities issued

The breakdown of the Group's issues at 31 December 2017 and 2016 is as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
Banco Gallego, S.A. (*)	28/10/2013	186	186	2.00%	29/12/2019	Euro	Retail
Banco de Sabadell, S.A.	10/03/2014	409	1,495	EURIBOR 6M + 3,50	10/03/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	1,833	2,604	EURIBOR 6M + 3,50	10/03/2020	Euro	Institutional
Banco de Sabadell, S.A.	18/03/2014	5,000	5,000	EURIBOR 3M + 1,35	18/03/2019	Euro	Institutional
Banco de Sabadell, S.A.	18/03/2014	11,500	11,500	EURIBOR 3M + 1,65	18/03/2019	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	348	1,109	4.30%	10/04/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	563	1,994	EURIBOR 6M + 3,50	10/04/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	388	1,270	4.18%	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	445	1,309	4.22%	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	1,128	4,455	EURIBOR 6M + 3,50	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	2,268	3,180	4.42%	10/05/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	3,046	4,452	EURIBOR 6M + 3,50	10/05/2020	Euro	Institutional
Banco de Sabadell, S.A.	13/05/2014	20,000	20,000	EURIBOR 3M + 0,90	13/05/2019	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	444	1,309	3.39%	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	875	2,577	3.63%	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	428	1,284	EURIBOR 6M + 2,75	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	592	1,972	EURIBOR 6M + 3,00	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	1,545	2,216	EURIBOR 6M + 2,75	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,103	3,005	EURIBOR 6M + 3,00	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	27/06/2014	20,000	20,000	EURIBOR 3M + 0,85	27/06/2019	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	836	1,643	3.52%	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	1,330	2,613	3.61%	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	2,276	4,904	EURIBOR 6M + 2,75	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	3,051	5,705	EURIBOR 6M + 2,75	10/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	1,607	3,157	3.64%	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	884	1,736	3.73%	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	2,029	4,184	EURIBOR 6M + 2,75	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	2,710	4,458	EURIBOR 6M + 2,75	10/08/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	944	1,853	3.71%	10/09/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	1,088	2,289	EURIBOR 6M + 2,75	10/09/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	1,441	1,922	EURIBOR 6M + 2,35	10/10/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	762	1,705	3.34%	10/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	2,494	5,630	EURIBOR 6M + 2,35	10/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	2,652	3,681	EURIBOR 6M + 2,35	10/11/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	2,743	5,985	EURIBOR 6M + 2,35	10/12/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	982	1,934	3.19%	10/12/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	3,031	4,512	EURIBOR 6M + 2,35	10/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	16/10/2015	-	300,000	-	16/01/2017	Euro	Retail
Banco de Sabadell, S.A.	26/11/2015	-	300,000	-	26/05/2017	Euro	Retail
Banco de Sabadell, S.A.	03/02/2016	-	300,000	-	03/05/2017	Euro	Retail
Banco de Sabadell, S.A.	05/04/2016	-	300,000	-	05/07/2017	Euro	Retail
Banco de Sabadell, S.A.	14/06/2016	300,000	300,000	0.60%	14/06/2018	Euro	Retail
Banco de Sabadell, S.A.	26/07/2016	316,371	316,371	0.50%	26/07/2018	Euro	Retail
Banco de Sabadell, S.A.	20/09/2018	256,479	256,479	0.40%	20/09/2018	Euro	Retail
Banco de Sabadell, S.A.	05/12/2016	500,000	500,000	0.65%	05/03/2020	Euro	Retail
Banco de Sabadell, S.A.	12/12/2016	15,000	15,000	MAX(EURIBOR 3M; 0,5%)	12/12/2019	Euro	Retail
Banco de Sabadell, S.A.	29/12/2016	500,000	500,000	0.30%	29/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	07/03/2017	591,066	-	0.40%	07/03/2019	Euro	Retail
Banco de Sabadell, S.A.	24/04/2017	342,017	-	0.40%	24/04/2019	Euro	Retail
Banco de Sabadell, S.A.	21/06/2017	464,764	-	0.40%	21/06/2019	Euro	Retail
Banco de Sabadell, S.A.	03/07/2017	10,000	-	MAX(EURIBOR 3M + 0,30; 0,3%)	04/07/2022	Euro	Retail
Banco de Sabadell, S.A.	28/07/2017	26,800	-	MAX(EURIBOR 3M; 0,60%)	28/07/2022	Euro	Retail
Banco de Sabadell, S.A.	28/09/2017	10,000	-	MAX(EURIBOR 3M + 0,30; 0,3%)	28/09/2022	Euro	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	-	0.88%	05/03/2023	Euro	Institutional
Subscribed by Group companies		(27,951)	(9,820)				
Total straight bonds		4,408,507	3,226,858				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euro	Institutional
CAM Global Finance, S.A.U.	04/06/2008	100,000	100,000	ref . underlying assets	04/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	ref . underlying assets	25/07/2022	Euro	Retail
Banco de Sabadell, S.A.	10/10/2012	-	1,425	-	10/10/2017	Euro	Retail
Banco de Sabadell, S.A.	20/12/2012	3,000	3,000	ref . underlying assets	20/12/2019	Euro	Retail
Banco de Sabadell, S.A.	16/05/2013	5,000	5,000	ref . underlying assets	16/05/2018	Euro	Retail
Banco de Sabadell, S.A.	27/05/2014	5,000	5,000	ref . underlying assets	27/05/2019	Euro	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	ref . underlying assets	15/07/2024	Euro	Retail
Banco de Sabadell, S.A.	14/07/2014	3,000	3,000	ref . underlying assets	14/07/2021	Euro	Retail
Banco de Sabadell, S.A.	16/07/2014	5,000	5,000	ref . underlying assets	16/07/2019	Euro	Retail
Banco de Sabadell, S.A.	24/07/2014	4,000	4,000	ref . underlying assets	24/07/2019	Euro	Retail
Banco de Sabadell, S.A.	18/12/2014	-	5,000	-	18/12/2019	Euro	Retail
Banco de Sabadell, S.A.	03/02/2015	7,000	7,000	ref . underlying assets	03/02/2020	Euro	Retail
Banco de Sabadell, S.A.	15/04/2015	4,000	4,000	ref . underlying assets	15/04/2020	Euro	Retail
Banco de Sabadell, S.A.	15/04/2015	8,000	8,000	ref . underlying assets	15/04/2020	Euro	Retail
Banco de Sabadell, S.A.	06/07/2015	1,800	1,800	ref . underlying assets	06/07/2020	Euro	Retail
Banco de Sabadell, S.A.	24/07/2015	39,998	39,998	ref . underlying assets	24/07/2018	Euro	Retail
Banco de Sabadell, S.A.	18/12/2015	-	8,200	-	18/12/2020	Euro	Retail
Banco de Sabadell, S.A.	12/02/2016	13,500	13,500	ref . underlying assets	12/02/2021	Euro	Retail
Banco de Sabadell, S.A.	15/03/2016	10,500	10,500	ref . underlying assets	15/03/2021	Euro	Retail
Banco de Sabadell, S.A.	01/04/2016	13,200	13,200	ref . underlying assets	01/04/2022	Euro	Retail
Banco de Sabadell, S.A.	01/04/2016	10,000	10,000	ref . underlying assets	01/04/2022	Euro	Retail
Banco de Sabadell, S.A.	13/05/2016	11,600	11,600	ref . underlying assets	13/05/2021	Euro	Retail
Banco de Sabadell, S.A.	01/06/2016	6,000	6,000	ref . underlying assets	03/06/2019	Euro	Retail
Banco de Sabadell, S.A.	17/06/2016	75,000	75,000	ref . underlying assets	17/06/2019	Euro	Retail
Banco de Sabadell, S.A.	20/06/2016	-	8,000	-	20/06/2017	Euro	Retail
Banco de Sabadell, S.A.	21/06/2016	8,500	8,500	ref . underlying assets	21/06/2019	Euro	Retail
Banco de Sabadell, S.A.	23/06/2016	19,000	19,300	ref . underlying assets	23/06/2021	Euro	Retail
Banco de Sabadell, S.A.	30/11/2016	45,000	45,000	ref . underlying assets	30/11/2021	Euro	Retail
Subscribed by Group companies		(1,031)	(1,859)				
Total structured bonds		**435,067**	**457,164**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
Banco CAM, S.A. (*)	09/03/2012	-	1,059,050	-	09/03/2017	Euro	Institutional
Subscribed by Group companies		-	-				
Total ordinary government guarantee bonds		**-**	**1,059,050**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate term 31/12/2017	Interest rate term 31/12/2016	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (ofic. Londres) (*)	18/12/2015	346,500	246,089	0.12%	0.25%	Various	Euro	Institutional
Banco de Sabadell, S.A. (**)	02/03/2017	5,075,495	6,024,080	0.18%	0.29%	Various	Euro	Institutional
Subscribed by Group companies		(2,242,895)	(2,331,669)					
Total promissory notes		**3,179,100**	**3,938,500**					

(*) Promissory notes (ECP).

(**) Prospectus for € 7.000.000 thousand, extendable to € 9.000.000 thousand, filed with the Spanish National Securities Exchange Commission (CNMV).

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	24/01/2007	-	1,500,000	-	24/01/2017	Euro	Institutional
Banco de Sabadell, S.A.	20/06/2007	-	300,000	-	20/06/2017	Euro	Institutional
Banco de Sabadell, S.A.	08/05/2009	100,000	100,000	EURIBOR 3M + 1	08/05/2021	Euro	Institutional
Banco de Sabadell, S.A.	31/07/2009	-	200,000	-	31/07/2017	Euro	Institutional
Banco de Sabadell, S.A.	18/09/2009	150,000	150,000	EURIBOR 3M + 0,90	18/09/2018	Euro	Institutional
Banco CAM, S.A. (*)	27/04/2010	30,000	30,000	4.60%	31/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2010	150,000	150,000	EURIBOR 3M + 2,35	10/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	11/01/2011	100,000	100,000	EURIBOR 3M + 2,60	11/01/2019	Euro	Institutional
Banco Guipuzcoano, S.A. (*)	19/01/2011	100,000	100,000	EURIBOR 3M + 2,75	19/01/2019	Euro	Institutional
Banco de Sabadell, S.A.	07/06/2011	200,000	200,000	EURIBOR 3M + 2,25	07/06/2019	Euro	Institutional
Banco de Sabadell, S.A.	13/07/2011	50,000	50,000	EURIBOR 3M + 2,60	13/07/2021	Euro	Institutional
Banco de Sabadell, S.A.	12/12/2011	150,000	150,000	EURIBOR 3M + 3,10	12/12/2021	Euro	Institutional
Banco de Sabadell, S.A.	05/10/2012	95,000	95,000	EURIBOR 3M + 4,80	05/10/2022	Euro	Institutional
Banco de Sabadell, S.A.	28/12/2012	200,000	200,000	EURIBOR 3M + 4,15	28/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	23/01/2013	1,000,000	1,000,000	3.375%	23/01/2018	Euro	Institutional
Banco de Sabadell, S.A.	09/12/2013	200,000	200,000	EURIBOR 3M+ 1,60	09/12/2021	Euro	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0,70	26/09/2022	Euro	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0,68	03/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	12/11/2014	1,350,000	1,350,000	0.88%	12/11/2021	Euro	Institutional
Banco de Sabadell, S.A.	26/11/2014	-	1,000,000	-	26/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0,40	05/12/2022	Euro	Institutional
Banco de Sabadell, S.A.	29/01/2015	1,250,000	1,250,000	EURIBOR 12 M + 0,232	29/01/2019	Euro	Institutional
Banco de Sabadell, S.A.	23/04/2015	1,500,000	1,500,000	EURIBOR 12 M + 0,08	23/04/2019	Euro	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0,13	04/05/2023	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2015	750,000	750,000	0.38%	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	18/06/2015	1,500,000	1,500,000	EURIBOR 12 M + 0,05	18/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0,20	03/07/2023	Euro	Institutional
Banco de Sabadell, S.A.	20/07/2015	1,500,000	1,500,000	EURIBOR 12 M + 0,05	20/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	16/09/2015	1,000,000	1,000,000	EURIBOR 12 M + 0,07	16/09/2020	Euro	Institutional
Banco de Sabadell, S.A.	03/11/2015	1,000,000	1,000,000	0.63%	03/11/2020	Euro	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0,80	26/01/2024	Euro	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0,535	24/05/2024	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euro	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	15/12/2016	-	1,000,000	-	15/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2016	500,000	500,000	EURIBOR 12M + 0,27	21/12/2021	Euro	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euro	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	-	1.00%	26/04/2027	Euro	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	-	0.89%	21/07/2025	Euro	Institutional
Subscribed by Group companies		(7,913,800)	(9,556,900)				
Total covered bonds		**10,099,200**	**10,856,100**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	23/04/2015	500,000	500,000	EURIBOR 12M + 0,13	23/04/2019	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2015	400,000	400,000	EURIBOR 12M + 0,33	16/12/2019	Euros	Institutional
Subscribed by Group companies		(900,000)	(900,000)				
Total covered bonds		**-**	**-**				

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
TSB Banking Group Plc (*)	07/12/2017	563,552	-	LIBOR 3M + 0,24	07/12/2022	Pound sterling	Institutional
Subscribed by Group companies		-	-				
Total covered bonds		**563,552**	**-**				

(*) Companies merged with Banco Sabadell.

Securitisations

The following table shows the bonds issued by securitisation funds of assets pending depreciation at 31 December 2017 and 2016, respectively:

Thousand euro

Year	Type of assets securitised	Quotation	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2017	Outstanding balance of liabilities: 2016	Yield
2004	TDA CAM 3,FTA	(A)	12,000	1,200,000	92,354	117,948	EURIBOR 3M + (between 0,23% and 0,70%)
2004	GC SABADELL 1, F.T.H.	(A)	12,000	1,200,000	101,069	134,309	EURIBOR 3M + (between 0,06% and 0,78%)
2004	FTPYME TDA CAM 2 F.T.A	(A) (C)	1,968	196,800	-	8,748	EURIBOR 3M + (between 0% and 0,70%)
2005	TDA CAM 4,FTA	(A)	20,000	2,000,000	208,778	255,169	EURIBOR 3M + (between 0,09% and 0,24%)
2005	TDA CAM 5,FTA	(A)	20,000	2,000,000	222,355	250,566	EURIBOR 3M + (between 0,12% and 0,35%)
2005	TDA 23, FTA	(A)	8,557	289,500	-	24,747	EURIBOR 3M + (between 0,09% and 0,75%)
2006	TDA CAM 6 F.T.A	(A)	13,000	1,300,000	150,333	171,566	EURIBOR 3M + (between 0,13% and 0,27%)
2006	EMPRESAS HIPO TDA CAM 3 F.T.A	(A) (C)	5,750	575,000	-	21,079	EURIBOR 3M + (between 0,18% and 0,80%)
2006	TDA CAM 7 F.T.A	(A)	15,000	1,500,000	178,462	202,119	EURIBOR 3M + (between 0,14% and 0,30%)
2006	CAIXA PENEDES 1 TDA, FTA	(A)	10,000	1,000,000	71,738	82,962	EURIBOR 3M + (between 0,14% and 0,55%)
2006	TDA 26-MIXTO, FTA	(A)	6,783	435,500	-	5,079	EURIBOR 3M + (between 0,14% and 3,50%)
2006	FTPYME TDA CAM 4 F.T.A	(A)	11,918	1,191,800	79,910	103,915	EURIBOR 3M + (between 0,02% and 4%)
2007	TDA CAM 8 F.T.A	(A)	17,128	1,712,800	166,212	188,620	EURIBOR 3M + (between 0,13% and 3,50%)
2007	CAIXA PENEDES PYMES 1 TDA, FTA	(A)	7,900	790,000	300	9,183	EURIBOR 3M + (between 0,19% and 0,80%)
2007	TDA CAM 9 F.T.A	(A)	15,150	1,515,000	197,550	220,748	EURIBOR 3M + (between 0,12% and 3,50%)
2007	TDA 29, FTA	(A)	8,128	452,173	-	116,097	EURIBOR 3M + (between 0,20% and 3,50%)
2007	CAIXA PENEDES 2 TDA, FTA	(A)	7,500	750,000	-	-	EURIBOR 3M + (between 0,30% and 1,75%)
2008	IM SABADELL RMBS 2, F.T.A.	(A) (C)	14,000	1,400,000	-	-	EURIBOR 3M + (between 0,45% and 1,75%)
2008	FTPYME TDA CAM 7 F.T.A	(A) (C)	10,000	1,000,000	-	-	EURIBOR 3M + (between 0,30% and 1,50%)
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	(A)	5,700	570,000	-	-	EURIBOR 3M + (between 0,35% and 1,75%)
2008	TDA CAM 11 F.T.A	(A) (C)	13,812	1,381,200	-	-	EURIBOR 3M + (between 0,40% and 3,50%)
2008	IM SABADELL RMBS 3, F.T.A.	(A) (C)	14,400	1,440,000	-	-	EURIBOR 3M + (between 0,40% and 1,25%)
2009	TDA CAM 12 F.T.A	(A)	15,960	1,596,000	-	-	EURIBOR 3M + (between 0,40% and 3,50%)
2014	CAPE FUNDING 2014-1 PLC (*)	(C)	3	3,315,420	-	2,235,915	£ LIBOR 3M + 0.6%
2015	DUNCAN FUNDING 2015-1 PLC (*)	(B)	20,912	2,940,691	527,816	601,347	EURIBOR 3M +0,48% and £ LIBOR 3M +(between 0% and 1,5%)
2016	DUNCAN FUNDING 2016-1 PLC (*)	(B)	30,120	4,354,356	397,294	595,000	EURIBOR 3 M +0,40% and £ LIBOR 3 M + (between 0,77% and 2,5%)
2016	IM SABADELL PYME 10, F.T.	(A)	17,500	1,750,000	-	-	EURIBOR 3M + (between 0,75% and 0,90%)
2017	TDA SABADELL RMBS4, F.T.	(A)	60,000	6,000,000	-	-	EURIBOR 3M + (between 0,50% and 0,65%)
2017	IM SABADELL PYME 11, F.T.	(A)	19,000	1,900,000	150,000	-	EURIBOR 3M + (between 0,75% and 0,90%)
Subtotal					2,544,173	5,345,117	

(*) TSB securitisation funds in effect. The funds held in Cape Funding 2014-1 PLC were drawn in full in November.

(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.

(B) Issues quoted on the LSE market.

(C) Securitisation funds liquidated during 2017.

Subordinated liabilities

Subordinated liabilities issued by the Group at 31 December 2017 and 2016 are as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date/ cancellation	Issue currency	Target of offering
CAM International Issues, S.A.U. (*)	26/04/2007	-	66,050	-	4/26/2017	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2010	424,600	424,600	6.250%	4/26/2020	Euros	Institutional
Banco de Sabadell, S.A.	25/02/2011	-	40,400	-	11/21/2017	Euros	Institutional
Banco de Sabadell, S.A. (**)	28/10/2013	-	17,680	-	10/28/2017	Euros	Institutional
TSB Banking Group Plc	01/05/2014	433,935	449,672	5.750%	06/05/2021	Libras esterlinas	Institutional
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	06/05/2026	Euros	Institutional
Subscribed by Group companies		(26,700)	(35,760)				
Total subordinated bonds		**1,331,835**	**1,462,642**				

(*) Currently merged with Banco de Sabadell. S.A.

(**) Convertible subordinated bonds.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/2017	Amount 31/12/2016	Interest rate ruling at 31/12/2017	Maturity date/ cancellation	Issue currency	Target of offering
Banco de Sabadell, S.A.	20/09/2006	-	18,400	-	12/20/2017	Euros	Institutional
Banco de Sabadell, S.A. (*)	18/05/2017	750,000	-	6.500%	5/18/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	-	6.125%	11/23/2022	Euros	Institutional
Subscribed by Group companies		-	-				
Total preference shares		**1,150,000**	**18,400**				

(*) Perpetual issuance. Reported as date of maturity/termination of first call option.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's unsecured creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components that have entailed their movements:

Total subordinated liabilities 31/12/2016	1,481,042
New issuances (*)	1,150,000
Amortised (*)	(124,850)
Capitalisation	(17,680)
Exchange rate	(15,737)
Change in those subscribed by Group companies	9,060
Total subordinated liabilities 31/12/2017	**2,481,835**

(*) See cash flow statement

Schedule 6 – Other risk information

Credit risk exposure

Loans and advances to customers broken down by activity and type of guarantee

The breakdown of the heading "*Loans and advances - Customers*" by activity and guarantee, excluding advances not classed as loans, at 31 December 2017 and 2016, respectively, is as follows:

Thousand euro

	2017							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,802,135**	**50,981**	**8,963**	**9,554**	**26,553**	**19,800**	**24**	**4,013**
Other financial companies and individual entrepreneurs (financial business activity)	**3,355,667**	**304,495**	**11,125**	**43,973**	**151,308**	**78,950**	**12,425**	**28,964**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**51,614,091**	**14,465,696**	**5,959,639**	**5,450,336**	**5,063,969**	**3,372,490**	**1,769,468**	**4,769,072**
Real estate construction and development (including land)	5,505,009	3,205,020	1,319,307	833,687	1,049,651	604,155	473,793	1,563,041
Civil engineering construction	805,568	63,450	51,238	28,783	24,464	13,459	8,189	39,793
Other purposes	45,303,514	11,197,226	4,589,094	4,587,866	3,989,854	2,754,876	1,287,486	3,166,238
Large companies	19,246,033	1,455,937	1,191,051	567,034	506,788	420,870	248,620	903,676
SMES and individual entrepreneurs	26,057,481	9,741,289	3,398,043	4,020,832	3,483,066	2,334,006	1,038,866	2,262,562
Rest of households	**77,452,450**	**69,228,253**	**389,659**	**14,180,152**	**19,478,490**	**21,021,346**	**8,565,037**	**6,372,887**
Housing	69,765,811	68,764,278	167,496	14,067,294	19,329,811	20,824,378	8,461,523	6,248,768
Consumer loans	6,412,559	358,098	112,257	93,172	112,475	130,887	61,669	72,152
Other purposes	1,274,080	105,877	109,906	19,686	36,204	66,081	41,845	51,967
TOTAL	**142,224,343**	**84,049,425**	**6,369,386**	**19,684,015**	**24,720,320**	**24,492,586**	**10,346,954**	**11,174,936**
MEMORANDUM ITEM **Refinancing, refinanced and restructured loans**	5,598,948	3,556,115	536,656	657,191	818,657	791,768	662,169	1,162,986

Thousand euro

	2016							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,672,203**	**63,328**	**29,611**	**33,797**	**26,686**	**21,300**	**10,914**	**242**
Other financial companies and individual entrepreneurs (financial business activity)	**1,529,964**	**225,431**	**11,544**	**129,186**	**61,213**	**32,120**	**418**	**14,038**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**54,865,311**	**21,039,638**	**2,118,596**	**8,682,983**	**5,619,744**	**3,279,982**	**1,764,821**	**3,810,704**
Real estate construction and development (including land)	7,384,262	6,414,054	59,769	1,873,838	1,312,792	794,888	564,358	1,927,947
Civil engineering construction	929,939	109,506	5,157	47,865	30,444	12,022	10,183	14,149
Other purposes	46,551,110	14,516,078	2,053,670	6,761,280	4,276,508	2,473,072	1,190,280	1,868,608
Large companies	23,147,491	2,212,883	1,014,578	1,982,462	300,686	326,487	341,261	276,565
SMES and individual entrepreneurs	23,403,619	12,303,195	1,039,092	4,778,818	3,975,822	2,146,585	849,019	1,592,043
Rest of households	**78,337,895**	**71,880,048**	**171,628**	**16,989,062**	**24,219,106**	**21,953,567**	**6,810,869**	**2,079,072**
Housing	67,015,350	66,723,129	15,227	15,008,921	22,647,654	20,966,329	6,422,914	1,692,538
Consumer loans	7,513,943	3,819,744	44,510	1,517,874	1,177,020	738,124	246,145	185,091
Other purposes	3,808,602	1,337,175	111,891	462,267	394,432	249,114	141,810	201,443
TOTAL	**144,405,373**	**93,208,445**	**2,331,379**	**25,835,028**	**29,926,749**	**25,286,969**	**8,587,022**	**5,904,056**
MEMORANDUM ITEM **Refinancing, refinanced and restructured loans**	7,599,200	5,944,077	106,074	1,349,978	1,539,868	1,450,836	820,973	888,496

In terms of risks with LTV >80%, which mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to hedge such risks. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute additional guarantees (personal guarantees and/or pledges) to the mortgage guarantees already considered in the LTV ratio.

Refinancing and restructuring operations

The outstanding balance of refinanced and restructured loans as at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017						
	Credit institutions	General governments	Other financial companies and individual entrepreneurs (financial business activities)	Non-financial companies and individual entrepreneurs (non-financial business activity)	*Of which: finance for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Unsecured							
Number of transactions	-	17	1,485	18,579	2,208	50,332	**70,413**
Gross carrying amount	-	11,694	66,256	2,320,530	502,404	456,378	**2,854,858**
With financial collateral							
Number of transactions	-	5	70	12,464	3,104	25,731	**38,270**
Gross carrying amount	-	439	15,361	1,848,443	402,286	2,123,692	**3,987,935**
Impairment adjustments	-	2,613	13,739	900,329	301,944	327,166	**1,243,847**
Of which doubtful risk							
Unsecured							
Number of transactions	-	*13*	*25*	*9,706*	*2,016*	*27,361*	***37,105***
Gross carrying amount	-	*9,170*	*14,263*	*1,335,529*	*427,225*	*276,460*	***1,635,422***
With financial collateral							
Number of transactions	-	*4*	*9*	*7,494*	*2,615*	*14,270*	***21,777***
Gross carrying amount	-	*440*	*14,692*	*1,047,340*	*300,708*	*1,162,091*	***2,224,563***
Specific coverage	-	*2,613*	*13,575*	*861,480*	*298,760*	*303,457*	***1,181,125***
TOTAL							
Number of operations	-	22	1,555	31,043	5,312	76,063	**108,683**
Gross amount	-	12,133	81,617	4,168,973	904,690	2,580,070	**6,842,793**
Impairment adjustments	-	2,613	13,739	900,329	301,944	327,166	**1,243,847**
Additional information: finance classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

Thousand euro

	2016						
	Credit institutions	General governments	Other financial companies and individual entrepreneurs (financial business activities)	Non-financial companies and individual entrepreneurs (non-financial business activity)	*Of which: finance for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Unsecured							
Number of transactions	-	-	56	19,308	*700*	60,132	**79,496**
Gross carrying amount	-	-	134,220	1,403,486	*152,090*	214,648	**1,752,354**
With financial collateral							
Number of transactions	-	28	23	20,241	*7,609*	51,912	**72,204**
Gross carrying amount	-	21,259	12,253	3,929,309	*1,412,073*	3,548,530	**7,511,351**
Impairment adjustments	-	865	255	1,240,631	*558,242*	422,435	**1,664,186**
Of which doubtful risk							
Unsecured							
Number of transactions	-	-	*11*	*5,219*	*381*	*24,434*	***29,664***
Gross carrying amount	-	-	*417*	*602,180*	*136,516*	*89,514*	***692,111***
With financial collateral							
Number of transactions	-	*9*	*12*	*11,373*	*6,342*	*20,735*	***32,129***
Gross carrying amount	-	*3,125*	*689*	*2,388,137*	*1,112,891*	*1,669,943*	***4,061,894***
Specific coverage	-	*865*	*228*	*1,150,073*	*550,584*	*380,629*	***1,531,795***
TOTAL							
Number of operations	-	28	79	39,549	*8,309*	112,044	**151,700**
Gross amount	-	21,259	146,473	5,332,795	*1,564,163*	3,763,178	**9,263,705**
Impairment adjustments	-	865	255	1,240,631	*558,242*	422,435	**1,664,186**
Additional information: finance classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

The value of the guarantees received to ensure collection associated with refinancing and restructuring operations, broken down into collateral and other guarantees, at 31 December 2017 and 2016 year-end, are as follows:

Thousand euro

Guarantees received	2017	2016
Value of collateral	3,884,087	5,817,830
Of which: guarantees doubtful risks	*2,040,788*	*2,621,019*
Value of other collateral	650,696	653,986
Of which: guarantees doubtful risks	*205,177*	*250,968*
Total value of guarantees received	**4,534,783**	**6,471,816**

Detailed movements of the balance of refinancing and restructuring operations during 2017 and 2016 are as follows:

Thousand euro

	2017	2016
Opening balance	9,263,705	14,816,307
(+) Refinancing and restructuring in the period	1,179,598	1,687,111
(+) Memorandum item: impact recognised in profit and loss account for the period	*96,622*	*89,471*
(-) Debt amortisations	(1,529,500)	(1,790,243)
(-) Foreclosure	(295,542)	(551,942)
(-) Derecognised from the balance sheet (reclassified as write-off)	(161,109)	(175,353)
(+)/(-) Other changes (*)	(1,614,359)	(4,722,175)
Balance at the end of the year	**6,842,793**	**9,263,705**

(*) Includes operations which are no longer identified as refinancing, refinanced or restructured, as they comply with requirements for their reclassification into standard exposures given that they exceed the cure period(see Note 1.3.4).

The table below shows the value of operations which, after refinancing or restructuring, have been classified as doubtful exposures during 2017 and 2016:

Thousand euro	2017	2016
General governments	394	707
Other corporate borrowers and individual entrepreneurs	244,101	444,792
Of which: Finance for construction and real estate development	*52,155*	*124,975*
Other individual borrowers	205,198	349,306
Total	449,693	794,805

The average probability of default on current refinancing and restructuring operations per activity at 31 December 2017 and 2016 is as follows:

%	2017	2016
Central governments (*)	-	-
Other corporate borrowers and individual entrepreneurs	8	11
Of which: Finance for construction and real estate development	*7*	*12*
Other individual borrowers	10	12

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated at September 2017.

The PD of refinancing operations has been reduced since December 2016, owing to the entry into force of Circular 4/2016 in October 2016.

Thereafter, distressed refinancings are gradually classified as subjective doubtful loans as stricter criteria than before are applied. The result is a performing refinanced population with an improved credit quality and therefore a lower PD.

Concentration risk

Geographic exposure

Global

The breakdown of risk concentration by activity and at global level at 31 December 2017 and 2016 is as follows:

Thousand euro

	2017				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**33,301,907**	**18,525,878**	**13,118,641**	**1,121,174**	**536,214**
General Governments	**32,278,166**	**17,848,223**	**13,076,483**	**1,265,606**	**87,854**
Central Governments	26,641,501	12,574,456	13,076,483	932,383	58,179
Rest	5,636,665	5,273,767	-	333,223	29,675
Other financial institutions	**5,809,643**	**4,875,460**	**463,407**	**419,712**	**51,064**
Non-financial companies and individual entrepreneurs	**60,959,366**	**50,935,258**	**3,519,954**	**5,959,932**	**544,222**
Real estate construction and development	6,341,800	5,688,531	17,564	548,302	87,403
Civil engineering construction	1,592,291	1,567,467	14,798	7,762	2,264
Other purposes	53,025,275	43,679,260	3,487,592	5,403,868	454,555
Large companies	24,968,944	17,122,231	2,875,366	4,731,480	239,867
SMEs and individual entrepreneurs	28,056,331	26,557,029	612,226	672,388	214,688
Non-profit institutions serving households (NPISH)	**78,472,832**	**39,820,667**	**37,131,213**	**474,989**	**1,045,963**
Housing	69,779,706	34,981,757	33,727,534	165,500	904,915
Consumer loans	6,394,650	3,540,223	2,422,644	300,970	130,813
Other purposes	2,298,476	1,298,687	981,035	8,519	10,235
TOTAL	**210,821,914**	**132,005,486**	**67,309,698**	**9,241,413**	**2,265,317**

Thousand euro

	2016				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**18,269,730**	**8,058,200**	**8,463,915**	**1,208,778**	**538,837**
General governments	**32,794,943**	**19,758,603**	**9,533,956**	**3,425,625**	**76,759**
Central Governments	25,016,113	14,395,295	9,403,079	1,179,130	38,609
Rest	7,778,830	5,363,308	130,877	2,246,495	38,150
Other financial institutions	**3,761,100**	**2,700,955**	**525,918**	**481,114**	**53,113**
Non-financial companies and individual entrepreneurs	**64,159,247**	**51,874,700**	**3,429,712**	**8,211,138**	**643,697**
Real estate construction and	7,647,180	7,008,309	87,631	505,737	45,503
Civil engineering construction	1,879,036	1,820,929	23,810	22,712	11,585
Other purposes	54,633,031	43,045,462	3,318,271	7,682,689	586,609
Large companies	24,658,629	16,496,530	2,424,411	5,408,744	328,944
SMES and individual entrepreneurs	29,974,402	26,548,932	893,860	2,273,945	257,665
Non-profit institutions serving households (NPISH)	**78,609,080**	**39,866,067**	**36,253,458**	**1,614,775**	**874,780**
Housing	67,015,350	31,112,369	33,598,901	1,579,745	724,335
Consumer loans	7,515,541	5,764,952	1,603,144	17,097	130,348
Other purposes	4,078,189	2,988,746	1,051,413	17,933	20,097
TOTAL	**197,594,100**	**122,258,525**	**58,206,959**	**14,941,430**	**2,187,186**

By autonomous communities

The risk concentration broken down by activity, at the level of Spanish autonomous communities and at global level at 31 December 2017 and 31 December 2016, respectively, is as follows:

Thousand euro

		2017									
		AUTONOMOUS REGIONS									
	TOTAL	Andalusia	Aragón	Asturias	alearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Credit institutions	**18,525,878**	**13,607**	**698**	**13,551**	**601**	**652**	**644,705**	**346**	**840**	**558,932**
General Governments	**17,848,223**	**204,913**	**104,168**	**202,122**	**81,582**	**41,909**	**27,476**	**41,709**	**430,272**	**1,001,741**
Central Governments	12,574,456	-	-	-	-	-	-	-	-	-
Rest	5,273,767	204,913	104,168	202,122	81,582	41,909	27,476	41,709	430,272	1,001,741
Other financial institutions	**4,875,460**	**10,586**	**1,990**	**3,808**	**4,008**	**1,285**	**304**	**861**	**10,595**	**1,122,616**
Non-financial companies and individual entrepreneurs	**50,935,258**	**2,898,298**	**921,245**	**1,642,346**	**1,631,870**	**1,113,424**	**261,101**	**565,772**	**1,302,141**	**15,045,796**
Real estate construction and development	5,688,531	603,106	88,607	111,348	139,393	109,371	18,292	63,792	64,207	1,269,408
Civil engineering construction	1,567,467	40,495	30,975	43,360	8,607	2,804	4,325	9,498	25,817	375,306
Other purposes	43,679,260	2,254,697	801,663	1,487,638	1,483,870	1,001,249	238,484	492,482	1,212,117	13,401,082
Large companies	17,122,231	652,075	235,516	514,926	448,014	286,005	93,985	118,991	363,629	4,594,027
SMEs and individual entrepreneurs	26,557,029	1,602,622	566,147	972,712	1,035,856	715,244	144,499	373,491	848,488	8,807,055
Non-profit institutions serving households (NPISH)	**39,820,667**	**2,650,641**	**486,787**	**1,242,662**	**1,517,518**	**596,319**	**112,123**	**567,103**	**706,408**	**14,396,666**
Housing	34,981,757	2,314,848	421,615	1,028,818	1,382,754	471,402	98,099	504,462	596,971	12,686,662
Consumer loans	3,540,223	258,140	44,365	148,761	97,892	111,921	10,111	46,229	78,128	1,237,708
Other purposes	1,298,687	77,653	20,807	65,083	36,872	12,996	3,913	16,412	31,309	472,296
TOTAL	**132,005,486**	**5,778,045**	**1,514,888**	**3,104,489**	**3,235,579**	**1,753,589**	**1,045,709**	**1,175,791**	**2,450,256**	**32,125,751**

Thousand euro

	2017								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Credit institutions	**50**	**17,170**	**16,726,676**	**3,722**	**71**	**101,015**	**442,922**	**269**	**51**
General Governments	**50,349**	**114,106**	**1,290,498**	**41,876**	**129,386**	**844,593**	**581,604**	**78,558**	**6,905**
Central Governments	-	-	-	-	-	-	-	-	-
Rest	50,349	114,106	1,290,498	41,876	129,386	844,593	581,604	78,558	6,905
Other financial institutions	**260**	**7,513**	**3,606,420**	**8,607**	**729**	**64,586**	**31,134**	**59**	**99**
Non-financial companies and individual entrepreneurs	**151,374**	**2,005,562**	**12,862,583**	**1,402,548**	**594,790**	**4,929,443**	**3,393,948**	**194,937**	**18,080**
Real estate construction and development	9,234	99,479	1,517,101	463,061	23,695	917,968	164,449	25,285	735
Civil engineering construction	3,858	92,607	716,017	9,219	9,993	53,199	140,757	628	2
Other purposes	138,282	1,813,476	10,629,465	930,268	561,102	3,958,276	3,088,742	169,024	17,343
Large companies	27,635	501,448	5,928,947	228,750	273,057	1,201,734	1,614,793	37,911	788
SMEs and individual entrepreneurs	110,647	1,312,028	4,700,518	701,518	288,045	2,756,542	1,473,949	131,113	16,555
Non-profit institutions serving households (NPISH)	**126,429**	**757,265**	**4,722,715**	**2,613,091**	**160,680**	**7,975,707**	**1,053,146**	**74,680**	**60,727**
Housing	105,937	594,254	4,095,427	2,369,195	130,075	7,160,409	902,941	61,102	56,786
Consumer loans	17,267	120,073	461,450	175,816	24,185	590,054	104,843	10,133	3,147
Other purposes	3,225	42,938	165,838	68,080	6,420	225,244	45,362	3,445	794
TOTAL	**328,462**	**2,901,616**	**39,208,892**	**4,069,844**	**885,656**	**13,915,344**	**5,502,754**	**348,503**	**85,862**

Thousand euro

	2016									
		AUTONOMOUS REGIONS								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Credit institutions	**8,058,200**	**159,408**	**268**	**21,191**	**660**	**530**	**67,007**	**667**	**810**	**963,535**
General Governments	**19,758,603**	**262,488**	**102,732**	**198,955**	**77,310**	**46,294**	**27,866**	**34,531**	**455,564**	**908,625**
Central Governments	14,395,295	-	-	-	-	-	-	-	-	-
Rest	5,363,308	262,488	102,732	198,955	77,310	46,294	27,866	34,531	455,564	908,625
Other financial institutions	**2,700,955**	**3,485**	**573**	**2,568**	**1,192**	**336**	**243**	**10,912**	**6,356**	**1,103,938**
Non-financial companies and individual entrepreneurs	**51,874,700**	**3,022,132**	**920,867**	**1,783,544**	**1,744,371**	**918,666**	**248,723**	**772,935**	**1,344,358**	**15,452,306**
Real estate construction and development	7,008,309	809,916	131,480	162,490	168,889	121,984	20,999	87,377	76,785	1,516,773
Civil engineering construction	1,820,929	66,313	33,551	62,007	9,993	3,569	4,935	10,701	29,719	457,671
Other purposes	43,045,462	2,145,903	755,836	1,559,047	1,565,489	793,113	222,789	674,857	1,237,854	13,477,862
Large companies	16,496,530	623,660	202,157	505,496	606,523	274,833	106,154	309,685	356,569	4,218,630
SMEs and individual entrepreneurs	26,548,932	1,522,243	553,679	1,053,551	958,966	518,280	116,635	365,172	881,285	9,259,232
Non-profit institutions serving households (NPISH)	**39,866,067**	**2,676,893**	**491,153**	**1,251,325**	**1,547,361**	**601,614**	**113,166**	**603,886**	**696,765**	**13,926,972**
Housing	31,112,369	2,120,396	385,655	932,183	1,244,639	438,654	86,041	477,313	545,996	10,843,832
Consumer loans	5,764,952	394,163	79,137	208,159	194,390	130,065	20,591	85,630	101,401	2,184,199
Other purposes	2,988,746	162,334	26,361	110,983	108,332	32,895	6,534	40,943	49,368	898,941
TOTAL	**122,258,525**	**6,124,406**	**1,515,593**	**3,257,583**	**3,370,894**	**1,567,440**	**457,005**	**1,422,931**	**2,503,853**	**32,355,376**

Thousand euro

	2016								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Credit institutions	**57**	**16,192**	**6,257,400**	**5,194**	**96**	**140,057**	**425,039**	**59**	**30**
General Governments	**51,105**	**111,799**	**1,395,725**	**50,704**	**135,033**	**801,309**	**648,641**	**46,504**	**8,123**
Rest	51,105	111,799	1,395,725	50,704	135,033	801,309	648,641	46,504	8,123
Other financial institutions	**105**	**4,410**	**1,331,397**	**3,860**	**388**	**144,341**	**86,757**	**-**	**94**
Non-financial companies and individual entrepreneurs	**142,876**	**1,788,990**	**12,409,279**	**1,655,492**	**566,155**	**5,476,742**	**3,408,825**	**196,008**	**22,431**
Real estate construction and development	12,010	114,673	1,399,907	673,205	25,821	1,429,989	218,541	33,275	4,195
Civil engineering construction	4,013	119,996	802,568	9,541	9,767	66,475	129,163	947	-
Other purposes	126,853	1,554,321	10,206,804	972,746	530,567	3,980,278	3,061,121	161,786	18,236
Large companies	40,352	368,535	5,699,514	205,117	213,023	1,124,970	1,606,150	34,866	296
SMEs and individual entrepreneurs	86,501	1,185,786	4,507,290	767,629	317,544	2,855,308	1,454,971	126,920	17,940
Non-profit institutions serving households (NPISH)	**124,839**	**733,164**	**4,702,056**	**2,732,930**	**162,883**	**8,414,576**	**962,429**	**71,437**	**52,618**
Housing	96,037	514,363	3,809,902	2,029,706	119,493	6,592,794	773,925	55,165	46,275
Consumer loans	22,327	157,083	525,936	427,443	24,594	1,082,532	110,169	12,132	5,001
Other purposes	6,475	61,718	366,218	275,781	18,796	739,250	78,335	4,140	1,342
TOTAL	**318,982**	**2,654,555**	**26,095,857**	**4,448,180**	**864,555**	**14,977,025**	**5,531,691**	**314,008**	**83,296**

Sovereign risk exposure

The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), at 31 December 2017 and 31 December 2016, is as follows:

Thousand euro

	2017										
	Sovereign debt securities					Loans and advances to customers (**)	Derivatives		Total	Other exposures (***)	%
Sovereign risk exposure by country (*)	Held for Trading	Short positions	Available-for-sale	Loans and receivables	Held until maturity		Direct exposure	Indirect exposure			
Spain	43,319	(69,854)	5,026,477	-	2,595,434	10,504,135	-	274	18,099,785	(4,199)	55.9%
Italy	-	-	2,832,605	-	6,793,888	-	-	18,930	9,645,423	-	29.8%
United States	-	-	170,746	-	-	3	-	-	170,749	-	0.5%
United Kingdom	-	-	1,940,311	-	-	13	-	-	1,940,324	-	6.0%
Portugal	-	-	55,254	-	1,074,046	-	-	(502)	1,128,798	-	3.5%
Mexico	-	-	175,375	-	480,532	-	-	-	655,907	-	2.0%
Rest of the world	-	-	529,086	-	135,566	68,400	-	-	733,052	-	2.3%
Total	**43,319**	**(69,854)**	**10,729,854**	**-**	**11,079,466**	**10,572,551**	**-**	**18,702**	**32,374,038**	**(4,199)**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (699 million euros at 31 December 2017).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2016										
	Sovereign debt securities					Loans and advances to customers (**)	Derivatives		Total	Otras exposiciones (***)	%
Sovereign risk exposure by country (*)	Held for Trading	Short positions	Available-for-sale	Loans and receivables	Held until maturity		Direct exposure	Indirect exposure			
Spain	932,175	(59,891)	8,461,114	320,667	-	10,080,456	-	13,352	19,747,873	99,927	57.4%
Italy	502,026	-	2,711,220	-	2,818,518	-	-	4,026	6,035,790	2,362,526	24.3%
United States	-	-	1,323,396	-	-	93,665	-	30,720	1,447,781	265,456	5.0%
United Kingdom	-	-	2,187,458	-	-	19	-	-	2,187,477	-	6.3%
Portugal	-	-	-	-	1,106,401	-	-	-	1,106,401	-	3.2%
Mexico	-	-	201,802	-	550,184	-	-	-	751,986	-	2.2%
Rest of the world	10,332	-	324,489	-	123,088	125,818	-	-	583,727	(1)	1.7%
Total	**1,444,533**	**(59,891)**	**15,209,479**	**320,667**	**4,598,191**	**10,299,957**	**-**	**48,099**	**31,861,035**	**2,727,908**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (544 million euros at 31 December 2016).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development

Details of financing intended for construction and real estate development and its coverage are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than real estate construction or development, it is not included in this table; or (b) a company whose principal activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

€ million

	2017				
	Gross carrying amount	*Of which: APS (*)*	Excess value of the collateral	*Of which: APS (*)*	Impairment adjustments (**)
Finance for construction and real-estate development (including land)(business in Spain)	5,694	1,855	1,809	882	660
Of which: doubtful	*1,363*	*-*	*579*	*-*	*641*

(*) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.

(**) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€ million

	2016				
	Gross carrying amount	*Of which: APS (*)*	Excess value of the collateral	*Of which: APS (*)*	Impairment adjustments (**)
Finance for construction and real-estate development (including land)(business in Spain)	7,762	*3,008*	2,602	*1,301*	1,183
Of which: doubtful	*2,387*	-	*759*	-	*1,136*

(*) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.
(**) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€ million

	Gross carrying amount	
Memorandum item	2017	2016
Written-off assets (*)	208	136

€ million

	Amount	Amount
Memorandum item	2017	2016
Loans and advances to customers, excluding General Governments (business in Spain) (carrying amount)	93,238	93,865
Total assets (total operations) (carrying amount)	221,348	212,508
Value adjustments and provisions for exposures classed as standard (total operations)	525	880

(*) Refers to financing aimed at construction and real estate development reclassified as write-offs during the year.

The breakdown of financing intended for construction and real estate development for operations registered by credit institutions (business in Spain) is as follows:

€ million

	Gross carrying amount 2017	*Of which: APS*	Gross carrying amount 2016	*Of which: APS*
Unsecured	1,124	*286*	701	*62*
With collateral	4,571	*1,570*	7,061	*2,945*
Buildings and other finished constructions	2,451	*860*	4,820	*1,717*
Housing	1,715	*646*	3,487	*1,281*
Rest	736	*214*	1,333	*436*
Buildings and other constructions In progress	891	*116*	380	*245*
Housing	785	*100*	343	*222*
Rest	106	*15*	37	*23*
Land	1,229	*594*	1,861	*984*
Consolidated urban land	1,061	*475*	1,555	*805*
Other land	169	*119*	306	*179*
Total	5,694	*1,855*	7,762	*3,008*

The figures shown do not show the total value of guarantees received, but rather the net book value of the associated exposure.

Guarantees received associated with financing intended for construction and real estate development are shown hereafter, for both periods:

€ million

Guarantees received	2017	2016
Value of collateral	3,638	4,141
Of which: guarantees doubtful risks	*632*	*1,068*
Value of other collateral	1,245	1,127
Of which: guarantees doubtful risks	*38*	*64*
Total value of guarantees received	**4,883**	**5,268**

The breakdown of lending to households for the acquisition of property for transactions recorded by credit institutions (business in Spain) is as follows:

€ million

	2017		
	Gross carrying amount	*Of which: APS*	*Of which: doubtful*
Loans for property purchase	**32,609**	**619**	**1,786**
Without mortgage guarantee	1,147	*42*	234
With mortgage guarantee	31,462	*577*	1,552

€ million

	2016		
	Gross carrying amount	*Of which: APS*	*Of which: doubtful*
Loans for property purchase	**33,697**	**693**	**2,052**
Without mortgage guarantee	199	*1*	4
With mortgage guarantee	33,497	*692*	2,047

The table below shows the breakdown of secured mortgage loans granted to households for the purchase of housing by the percentage of the last available valuation amount represented by the total risk for transactions recorded by credit institutions (business in Spain):

€ million

	2017		
	Gross amount	*Of which: APS*	*Of which: doubtful*
LTV ranges	**31,462**	***577***	***1,552***
LTV <= 40%	5,613	*48*	*116*
40% < LTV <= 60%	7,491	*106*	*192*
60% < LTV <= 80%	7,944	*123*	*301*
80% < LTV <= 100%	4,718	*106*	*324*
LTV > 100%	5,696	*194*	*619*

€ million

	2016		
	Gross amount	*Of which: APS*	*Of which: doubtful*
LTV ranges	**33,497**	***692***	***2,047***
LTV <= 40%	5,837	*51*	*161*
40% < LTV <= 60%	7,736	*119*	*258*
60% < LTV <= 80%	9,490	*184*	*456*
80% < LTV <= 100%	6,729	*170*	*570*
LTV > 100%	3,705	*168*	*602*

Lastly, the table below gives details of foreclosed assets of companies in the consolidated group for transactions recorded by credit institutions in Spain:

€ million

	2017			
	Gross carrying amount	Value adjustments	*Gross amount (*)*	Value adjustments *(*)*
Real estate assets deriving from financing of construction and real estate development	**6,062**	**2,743**	***5,479***	***3,126***
Finished buildings	3,037	887	*2,681*	*1,119*
Housing	1,572	355	*1,302*	*505*
Rest	1,465	533	*1,379*	*614*
Buildings under construction	349	135	*289*	*165*
Housing	295	112	*245*	*137*
Rest	54	24	*44*	*28*
Land	2,675	1,720	*2,509*	*1,843*
Building land	921	534	*832*	*603*
Other land	1,754	1,186	*1,677*	*1,240*
Real estate assets deriving from home loan mortgages	**1,961**	**584**	***1,914***	***872***
Rest of real-estate assets received in payment of debts	-	-	-	-
Foreclosed capital instruments or received in payment of debts	5	5	-	-
Equity instruments of entities holding foreclosed assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed assets or received in payment of debts	-	-	-	-
Total real-estate portfolio	**8,028**	**3,331**	**7,393**	**3,998**

(*) Problematic real-estate assets including properties outside of national territory, considering the hedging in the original financing and the credit risk transferred upon application of the APS.

€ million

	2016			
	Gross carrying amount	Value adjustments	*Gross amount (*)*	Value adjustments *(*)*
Real estate assets deriving from financing of construction and real estate development	**7,842**	**3,026**	***7,116***	***3,438***
Finished buildings	3,241	855	*2,788*	*1,086*
Housing	1,729	425	*1,377*	*576*
Rest	1,512	430	*1,412*	*510*
Buildings under construction	564	176	*477*	*212*
Housing	467	140	*389*	*171*
Rest	97	36	*88*	*41*
Land	4,037	1,995	*3,851*	*2,140*
Building land	1,564	721	*1,455*	*820*
Other land	2,473	1,274	*2,396*	*1,320*
Real estate assets deriving from home loan mortgages	**1,999**	**599**	***1,918***	***859***
Rest of real-estate assets received in payment of debts	-	-	-	-
Foreclosed capital instruments or received in payment of debts	30	1	-	-
Equity instruments of entities holding foreclosed assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed assets or received in payment of debts	-	-	-	-
Total real-estate portfolio	**9,871**	**3,626**	**9,035**	**4,297**

(*) Problematic real-estate assets including properties outside of national territory, considering the hedging in the original financing and the credit risk transferred upon application of the APS.

Given that for part of these assets, the risk of loss of value is transferred by the Asset Protection Scheme, the table below shows the reconciliation with the amount corresponding to problematic real estate assets, including amounts outside of Spain.

€ million

	2017		
	Gross Value	Netcarrying value	Value adjustments
Total operations national territory	**8,023**	**4,697**	**3,326**
Total operations outside of national territory and others	23	20	3
Credit risk transferred upon application of APS	(1,322)	(1,322)	-
Hedging of the original funding	669	-	669
Total	**7,393**	**3,395**	**3,998**

€ million

	2016		
	Gross Value	Netcarrying value	Value adjustments
Total operations national territory	**9,841**	**6,216**	**3,625**
Total operations outside of national territory and others	49	45	4
Credit risk transferred upon application of APS	(1,523)	(1,523)	-
Hedging of the original funding	668	-	668
Total	**9,035**	**4,738**	**4,297**

Schedule 7 – Annual banking report

INFORMATION REQUIRED UNDER ARTILE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and Directive 2006/49/EC, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations the following information is presented on a consolidated basis and corresponds to the end of the 2017 accounting year:

Thousand euro

	Turnover	No. full time equivalent employees	Gross income before tax	Corporate income tax
Spain	4,331,651	16,668	643,538	21,071
United Kingdom	1,222,940	7,491	135,878	(48,428)
United States	96,602	166	49,143	(17,935)
Rest	86,079	524	19,694	2,218
Total	**5,737,272**	**24,849**	**848,253**	**(43,075)**

At 31 December 2017, income from the Group's assets calculated by dividing the consolidated gains/(losses) during the year between total assets amounts to 0.36%.

This information is available in Schedule I to these Group consolidated annual accounts for the year ended 31 December 2017, in which the companies operating in each jurisdiction are listed, including among other details their corporate names, geographical location and line of business.

As can be seen in Schedule 1, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally business and retail banking through an extensive range of products and services for large and medium-sized enterprises, SMEs, retailers and sole proprietors, professional groups, other individuals and Bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement for December 2017. Data on full-time equivalent staff have been obtained from the workforce of each company/country at the end of 2017.

The amount of public subsidies and aid received is not material.

CONSOLIDATED DIRECTORS' REPORT FOR 2017

This report has been prepared in line with the recommendations contained in the Guidelines for the preparation of directors' reports by listed companies, published by the Spanish National Securities Market Commission (CNMV) in July 2013.

CONTENTS

GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisation structure

The Group is organised into the following business units:

- Banking Business Spain includes the following business units for customers:

  - Commercial Banking: this is the largest single business line in the Group; it focuses on offering financial products and services to large and medium-sized enterprises, SMEs, retailers and sole proprietors, individuals and professional groups, consumer finance and Bancassurance.

    Sabadell is the reference brand which operates in the majority of the Spanish market. It also operates under the following brands;

    - SabadellHerrero in Asturias and Leon.
    - SabadellGuipuzcoano in Basque Country, Navarre and La Rioja.
    - SabadellGallego in Galicia.
    - SabadellSolbank in the Canary Islands, Balearic Islands, and coastal regions in the South and the Levante region.
    - ActivoBank focuses its activity on customers who operate exclusively over the internet and/or by phone.

  - Corporate Banking; this unit offers products and services to large enterprises and financial institutions, both national and international. Its activities encompass corporate banking, structured finance, and trade finance & IFI.

  - Markets and Private Banking: this unit offers savings and investment management services to Banco Sabadell customers, including the analysis of investment options, market trading, active asset management and custody services. It comprises the following businesses, which are managed on an integrated basis: SabadellUrquijo Private Banking, the investment, products and analysis unit, Treasury and Capital Markets, and Securities Trading and Custody.

  - Asset Transformation manages the bank’s real estate balance sheet with an overall perspective of the entire transformation process, providing services to the real estate portfolio of the Group and of third parties, with a business vocation and added value.

  - Banking Business United Kingdom: The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

  - Other Geographies: this heading mostly comprises Mexico, overseas branches and representative offices that offer all types of banking and financial services related to Corporate Banking, Private Banking and Commercial (Retail and Business) Banking. This activity is mainly carried out in Mexico through Sabadell Capital Sofom e Institución de Banca Múltiple, in the United States through Banco Sabadell Miami Branch and Sabadell Securities, and in EMEA in Banco Sabadell London, Banco Sabadell France, Banco Sabadell Casablanca and Banco Sabadell Andorra.

Banco Sabadell is the parent company of a group of companies which at 31 December 2017 numbered a total of 165, of which 141 are considered part of the group and 24 are associates (at 31 December 2016, they numbered 159, of which 127 were considered Group companies and 32 were associates).

The Board of Directors is the highest decision-making body of the company and its consolidated group, as it is responsible under the law and the Articles of Association for managing and representing the bank. The Board of Directors is essentially set up as an oversight and control instrument, delegating the management of ordinary business to the executive bodies and the management team.

The Board of Directors is governed by clear-cut and transparent governance regulations, specifically the Articles of Association and the Regulations of the Board of Directors in accordance with corporate governance standards.

Its responsibilities include:

b) appointing and, if appropriate, discharging directors in the various subsidiaries;

c) identifying the company's main risks and implementing and monitoring the appropriate internal control and reporting systems;

d) setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;

e) setting policies on the treasury portfolio in accordance with any guidelines laid down at the Annual General Meeting;

f) approving the Annual Report on Corporate Governance;

g) authorising transactions between the company and its directors and significant shareholders that may pose a conflict of interest; and

h) generally deciding on business and financial transactions that are of particular importance for the company.

The composition of the Board of Directors at 31 December 2017 is as follows:

Composition of the Board

	Position
José Oliu Creus	Chairman
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	CEO for Banco Sabadell
Anthony Frank Elliott Ball	Director
Aurora Catá Sala	Director
Pedro Fontana García	Director
María Teresa Garcia-Milá Lloveras	Director
George Donald Johnston	Director
José Manuel Lara García	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
José Luis Negro Rodríguez	Director-General Manager
Manuel Valls Morató	Director
David Vegara Figueras	Director
Miquel Roca i Junyent	Non-voting Secretary
María José García Beato	Non-voting Deputy Secretary

The Board of Directors has implemented a series of clear-cut and transparent rules and regulations on corporate governance, which are in line with Spanish regulations on corporate governance. The majority of the Board members (12 of 15) are non-executive directors, including 10 independent directors.

At present, there are five Delegated Committees in operation to which the Board of Directors delegates functions by making use of the powers conferred to it in the Articles of Association; meetings of the committees are also attended by members of the General Management.

These Delegated Committees are:

- The Executive Committee
- The Audit and Control Committee
- The Appointments Committee
- The Remuneration Committee
- The Risk Committee

The composition of these Delegated Committees at 31 December 2017 is shown in the table below:

Composition of Committees

Position	Executive	Audit Control	Appointments	Remuneration	Risk
Chairman	José Oliu Creus	Manuel Valls Morató	Aurora Catá Sala	Aurora Catá Sala	David Vegara Figueras
Member	José Javier Echenique Landiribar	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Maria Teresa Garcia-Milà Lloveras
Member	Jaime Guardiola Romojaro	Maria Teresa Garcia-Milà Lloveras	María Teresa Garcia-Milà Lloveras	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston
Member	José Manuel Martínez Martínez	José Manuel Lara García	-	George Donald Johnston	Manuel Valls Morató
Member	José Luis Negro Rodríguez	José Ramón Martínez Sufrategui	-	-	-
Non-voting Secretary	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2017	35	6	11	12	11

Executive Committee

The Executive Committee is responsible for coordinating the bank's Executive Division, adopting to this end any resolutions and decisions within the scope of the powers conferred to it by the Board of Directors, for monitoring the bank's ordinary activity. Any decisions adopted during Committee meetings are reported to the Board of Directors, without prejudice to any other functions assigned to the Executive Committee in the Articles of Association and the Regulations of the Board of Directors.

Audit and Control Committee

The Audit and Control Committee is responsible for functions established by Law, including:

a) reporting to the General Meeting on all issues raised by shareholders that are within its remit;

b) monitoring the effectiveness of the Company's internal controls, any Internal Audit carried out and the risk management systems, including those for fiscal risks, in place, and discussing with account auditors or auditing firms any significant internal control weaknesses identified in the course of the audit;

c) overseeing the preparation and presentation of statutory financial information;

d) making recommendations to the Board of Directors, for submission at the Annual General Meeting, on the appointment of external account auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the renewal or non-renewal of their engagement; reviewing compliance with the auditing agreement and ensuring that the opinion on the annual accounts and the key findings of the auditor's report are expressed in a clear and precise way;

e) advising on the annual accounts and the quarterly and half-yearly financial statements and any prospectuses required to be filed with the regulatory or supervisory authorities; monitoring regulatory compliance and ensuring that generally accepted accounting principles have been correctly applied, and reporting on any proposed amendments to those principles;

f) establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions or in the audit rules;

g) advising on any issues referred to the Committee by the Board of Directors that are within its remit;

h) any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

Pursuant to its Regulations, the Audit and Control Committee performs functions related to the process of financial reporting and internal control systems, functions related to account auditing, functions related to economic and financial information, functions related to internal audit services and functions related to compliance with regulatory provisions, legal requirements and good governance codes, specifically:

a) overseeing compliance with the law, internal regulations and regulatory provisions concerning Company activities;

b) assessing the sufficiency and compliance of the Regulations of the Annual General Meeting, the Regulations of the Board of Directors, the Company's Code of Conduct and, particularly, the Internal Code of Conduct for Trading on the Securities Market;

c) reviewing compliance with the company's rules on corporate governance and submitting recommendations for improvement to the Board as it sees fit; and

d) supervising the corporate governance report to be approved by the Board of Directors and included in the annual report.

Appointments Committee

The Appointments Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) make recommendations to the Board of Directors on the appointment of independent directors for their co-opted appointment or for their subjection to the decision reached at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

b) submit the proposals for the appointment of the remaining directors for their co-opted appointment or for their subjection to the decision reached at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

c) ensure compliance with the qualitative composition of the Board of Directors, in accordance with Article 53 of the Articles of Association;

d) evaluate the suitability, skills, knowledge and experience necessary for members of the Board of Directors;

e) submit the proposals for the appointment and discharge of officers and of the Designated Group;

f) report on the basic terms of the contracts with executive directors and officers;

g) examine and organise succession plans for the Chairman of the Board of Directors and of the bank's chief executive and, as appropriate, make proposals to the Board;

h) establish an objective for gender diversity in the Board of Directors and prepare ideas on how to reach this objective.

Remuneration Committee

The Remuneration Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Remuneration Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) propose to the Board of Directors the remuneration policy of the directors;

b) propose to the Board of Directors the remuneration policy of the General Managers and those performing Senior Management functions who report directly to the Board, Executive Committee members or CEOs, and the individual remuneration and other contractual terms of the Executive Directors, ensuring their compliance;

c) regularly review the remuneration policy;

d) report on the schemes for remuneration in the form of shares and/or options;

e) regularly review the general principles in matters of remuneration, and the remuneration schemes of all employees, weighing their alignment with these principles;

f) ensure that remuneration is transparent;

g) ensure that any potential conflicts of interest do not jeopardise the independence of external consultants;

h) verify the information on remuneration contained in the various corporate documents, including the Directors' Remuneration Report.

Risk Committee

The Risk Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Risk Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) supervising the implementation of the Risk Appetite Framework;

b) determining and making recommendations to the full Board on annual levels of investment in the real estate market, as well as criteria and volumes applicable to all different types of such investments;

c) reporting to the full Board on the performance of its functions, in accordance with this Article and any other applicable legal or statutory provisions;

d) making quarterly reports to the full Board on the levels of risks taken, investments carried out and on their evolution, as well as on any possible repercussions on the Group's income caused by interest rate fluctuations and their adjustment to their VAR approved by the Board;

e) monitoring and detecting any ruptures of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect;

f) reporting to the Remuneration Committee on whether the employees' Remuneration Schemes are consistent with the bank's risk, capital and liquidity levels.

1.2. Business model, main objectives achieved and actions implemented

The development of the Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile within the framework of ethical and professional codes and taking into account the interests of different stakeholders.

The bank's management model is focused on long-term customer retention, through on-going efforts designed to build customer loyalty by taking initiatives and being proactive in its relationship with customers. The bank has a comprehensive offering of products and services, a qualified work force, an IT platform that supports growth and a constant focus on the pursuit for quality.

Since the onset of the financial crisis, Spain's banking sector has been going through an unprecedented process of consolidation. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from capital markets are some of the factors that have driven Spanish entities to merge and thus expand their footprint, maximise efficiency and improve their balance sheets.

During the last decade, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to significantly expand its balance sheet. In 2013 Banco Sabadell was able to undertake further corporate actions on economically acceptable terms in a context of banking sector restructuring. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2015, Banco Sabadell is well positioned to grow organically and to benefit from the economic recovery in Spain and a future interest rate hike.

Acquisitions and organic growth in recent years have enabled Banco Sabadell to strengthen its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase its market share in other key areas. Based on the most recent information available, Banco Sabadell's market share in Spain stands at 7.9% in lending and 6.8% in deposits (November 2017). Furthermore, Banco Sabadell stands out in products such as trade credit, with a market share of 9.8% (November 2017), business loans with a market share of 11.0% (September 2017), mutual funds with a market share of 6.3% (November 2017), securities trading with a market share of 12.2% (December 2017) and POS turnover with a market share of 15.3% (September 2017).

Banco Sabadell maintains its distinction in terms of quality with respect to the sector, and holds first place in the ranking that measures customer experience (net promoter score) for large enterprises and SMEs.

In terms of international business, Banco Sabadell has always been exemplary. This has not changed in 2017 and Sabadell has continued being present in strategic areas and has helped companies in their international activity, reaching market shares of 32.1% and 14.5% in export and import documentary credit, respectively (December 2017). Over the last few years, Banco Sabadell has expanded its international footprint, and its main milestones have been: the acquisition of British bank TSB and the entry into the Mexican market, after obtaining a licence to operate in this country as a commercial bank. This year, it has sold Sabadell United Bank, its retail banking subsidiary in the US, for USD 1,025M, although it continues to perform its Corporate Banking and international Private Banking activities through its American branch in Florida. Despite this, as at December 2017, 31% of the Group's loans and credit was generated overseas (25% in the United Kingdom and 6% in the Americas and other geographies).

TSB has focused on the implementation of its current business plan on one hand, and migration and technological integration on the other. Going forward, the high market share of Banco Sabadell in the SMEs sector in Spain, together with its international experience, will be a sound added-value tool to support TSB in the provision of efficient and high-quality services for SMEs also in the United Kingdom.

In 2017, Banco Sabadell Group has strengthened its balance sheet position, maintaining its successful NPA reduction strategy, reducing them by €3,400 million, allowing it to achieve an NPL coverage ratio of 49.8%, not including provisions associated with mortgage floor clauses.

Banco Sabadell carries out its business in an ethical and responsible manner, guiding its commitment to society in a way that its activity has a positive impact on people and the environment. All of the people that form part of the organisation apply the principles and policies of corporate social responsibility, whilst also guaranteeing the quality and transparency in customer service.

In addition to complying with applicable rules, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee this ethical and responsible behaviour throughout the organisation, which address all of the Group's activity.

Within the Risk Appetite Framework, the control and monitoring of these matters is carried out through two committees. The Corporate Ethics Committee, which ensures the Group's compliance with all of the codes of conduct of the securities market and with the general code of conduct, the Internal Control Body, in which all of the Group's companies are represented and are liable parties, and which ensures compliance with anti-money laundering, counter-terrorist financing and the control of international sanctions.

The mission of the Compliance Division is to promote and endeavour to reach the highest degrees of compliance with the legislation in force and the professional ethics of the Group, minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved and that the appropriate preventive measures are adopted in the event that these are not already in place. It is also directly responsible for the implementation of a number of processes that are classified as high risk, including anti-money laundering, counter-terrorist financing, the control of international sanctions, the control of market abuse practices, the oversight of compliance with the Internal Code of Conduct and the control of the investor protection regulation (MiFID) and consumer protection regulations.

In addition to the foregoing, in 2016 the Corporate Social Responsibility Committee was set up, chaired by the General Secretary, which is responsible for promoting and coordinating the Group's CSR strategy, policies and projects geared towards Banco Sabadell's commitment to its customers, employees, environment and society. The bank is a member of a number of international initiatives and has obtained multiple certificates and qualifications.

2 – BUSINESS PERFORMANCE AND RESULTS

2.1. Economic and financial environment

2017 has been affected by the political and geopolitical environment and the steps taken by the major central banks towards monetary normalisation. The year began with a change in government in the US and subsequently the spotlight fell on Europe, with the beginning of Brexit negotiations and elections in France, the UK and Germany. The strengthening of the global economy and a somewhat higher rate of inflation than in recent years contributed towards the confirmation by central banks in the main developed economies of this intention to initiate or continue with a gradual reversal of the extremely accommodating policies adopted in recent years. In this scenario, financial markets have performed well throughout the year, amidst growing complacency.

Political events in the various regions have captured the attention of financial markets, although with isolated and limited impacts on the latter.

In the United Kingdom, the government officially requested its withdrawal from the European Union (EU) by triggering Article 50. Brexit negotiations began in June with positions that were quite far apart, despite the UK accepting the schedule set out by the EU. An agreement was reached to first address the terms of the withdrawal in order to then address, in a second stage, the shape that the new trade relationship between the UK and the EU will take. The UK Prime Minister moderated her stance with respect to the three priority aspects of the first stage of negotiations: the divorce bill, rights of expatriated citizens and the Irish border. This helped pave the way towards a preliminary withdrawal agreement, and opened the door to the second stage of negotiations. In domestic terms, T. May's leadership capabilities were called into question following the loss of her party's absolute majority in the snap elections held in June, the limited support within her own party and Cabinet, the resignation of three ministers due to a failure to respect codes of conduct and the increase in popularity of the leader of the Labour Party, J. Corbyn.

In the rest of Europe, elections in France and Germany particularly stood out. In France, the presidential elections were preceded by considerable political noise, in the face of corruption scandals involving one of the key candidates and the possibility of M. Le Pen, the candidate of the eurosceptic party the National Front, securing a victory. The liberal E. Macron, a pro-European, was eventually victorious. In Germany, A. Merkel's party was the most voted party in the general elections, although it failed to secure an absolute majority, which is making it difficult to form a government. In Spain, the political environment became more complex as a result of the sovereignty process in Catalonia. Lastly, in the regional elections held in December, Ciudadanos was the political party that received the most votes and seats, while the parliamentary majority of pro-independence parties was reaffirmed.

In the United States, D. Trump adopted a less aggressive and more pragmatic tone than in the run-up to his presidency. He did not formally accuse China of currency manipulation, nor did he withdraw from NAFTA. A number of the most controversial policies that he intended to implement have been stalled owing to a lack of consensus in his own party or of the judicial powers, whilst the main achievement has been the approval of the tax reform. At the same time, the internal rift in the Republican Party has been made evident, and it also suffered significant defeats in the elections held in certain states in November, reducing its already narrow majority in the Senate. Domestic political noise has been exacerbated by the investigation into the links between Russia and Trump's electoral campaign, which has led to the resignation of several ministers and advisors. In the geopolitical arena, the increase in tensions between the US and North Korea attracted media attention during the second half of the year, although its impact on financial markets was limited and concentrated in Asian assets.

As regards economic activity, growth has become more robust and in sync with the major developed economies throughout the year. In the euro area, the economy has registered high growth rates, with a greater balance between the various components than in previous years. In the US, activity has continued to be solid, and has proven resilient to the impacts of the summer hurricanes. The unemployment rate has thus been reduced to levels not seen since the early 2000s. In Japan, the economy has continued to perform well, supported by the positive economic situation in Asia. The exception to this environment has been the UK, which has experienced modest economic growth, hindered by uncertainty associated with Brexit negotiations.

Emerging economies have left behind the worst stage of the economic adjustment that they have experienced in the past few years. Growth in China has exceeded governmental objectives, and authorities have placed emphasis on regulatory efforts and the reduction of financial risks. Trump has not followed through with his threat of a trade war with China and has instead shown a level of rapprochement with the Asian country in exchange for its cooperation in the conflict with North Korea. In Brazil, the reformist momentum has supported the start of the country's economic recovery. In Mexico, GDP growth has been better than expected following the arrival of Trump, largely thanks to the positive performance of foreign trade. In the interim, US, Mexico and Canada have initiated discussions to renegotiate the free trade agreement between the three countries, and aim to reach an agreement by March 2018.

Inflation has been higher than in 2016 in the main developed economies, although it has remained below the objectives of the monetary policy, with the exception of the UK, in which it clearly surpassed these objectives. During the first months of the year there was an upturn in inflation in all economies, supported by the favourable base effect of oil prices, reaching maximums last seen in 2012-2013. Since then, performance has been varied. In the euro area, inflation slid downwards, whilst in the US it was hindered by a number of transitional factors. In the UK, inflation continued its sharp upturn, supported by the devaluation of the pound as a result of Brexit negotiations and May's political weakness.

Oil prices reached maximums last seen in mid-2015, supported by the extension of production cuts by the OPEC and other oil producing countries to the end of 2018. To this was added the slow-down in the growth of crude oil supplies from the US, robust demand data and geopolitical instability in the Middle East.

The Spanish economy has maintained significant dynamism, and has once again stood out in a positive light within the euro area with a growth of c.3.0% for the third consecutive year. With respect to the labour market, the unemployment rate has fallen to levels last seen at the end of 2008. In terms of foreign trade, current accounts will have ended the year with a surplus for the fifth consecutive year. The development of public accounts has so far been compatible with the compliance of the deficit target. The real estate market has confirmed its recovery, although the extent of this recovery is disparate across regions. Lastly, the domestic political environment led to a downward adjustment of growth forecasts for 2018 by the government.

Global financial markets have performed well in a context of growing complacency and have been hindered only occasionally by certain political and geopolitical episodes. Volatility levels have reached historic minima in the majority of assets. Financial conditions have continued to be lax despite hikes in the Fed funds rate. In this context, a number of international bodies have warned of an increase in risks, particularly outside of the non-banking financial sector.

Central banks in the main developed economies have been taking steps towards the normalisation of their monetary policies. The ECB initiated the change of approach of its monetary policy in June, by ruling out further cuts to the benchmark rate and showing fewer concerns regarding risks associated with activity. In October it changed its asset purchase programme. It thereby extended the duration of the programme until at least September 2018, although it will reduce its monthly purchase rate from €60bn to €30bn as of January 2018. The ECB insisted that it would make no changes to interest rates for a prolonged period of time, even beyond the end of the asset purchase programme. In the UK, Bank of England increased its reference rate to 0.50%, thereby undoing the cut implemented following the Brexit referendum. The central bank justified its decision by citing high inflation and a record low unemployment rate. In the US, the Fed hiked its Fed funds rate on three occasions, to 1.25%-1.50%, and showed its intention to implement a further three hikes in 2018. It also began to reduce its balance sheet in line with the details of the plan published months earlier. It was also revealed that Powell, currently a member of the Board of Governors of the Fed, will be the new Chairman, once Yellen withdraws from his position on the Board in February 2018. Lastly, Bank of Japan has been reducing its purchases of public debt although it has made no official statement regarding this change.

Yields of long-term government bonds in the main developed economies have remained at reduced levels with no definite trend. Throughout the year, political events, actions taken by central banks and inflation have been the main factors affecting asset performance. In the US, political noise, together with Trump's difficulties in implementing his electoral programme and the moderation and unexpected falls in inflation rates were the main catalysts. In the final quarter of the year, the approval of the tax reform bill led to an upturn in yields. Yields on German government bonds were influenced by political noise surrounding elections in France in the beginning of the year and by the ECB's management of the initial stages of the normalisation of its monetary policy.

Risk premiums in countries in the European periphery have continued to be supported by the ECB's accommodating policy and, in particular, by its asset purchase programme. Spreads in Spain and Italy experienced an upturn during the first half of the year, influenced by the political noise surrounding the French elections. Once elections had been held, the Italian spread was reduced, further supported by the upgrade in the credit rating of its public debt. The Spanish risk premium was subject to volatility as a result of its domestic political situation. Risk premiums in Portugal and Greece experienced a significant decline, supported by upgrades in the credit rating of their public debt, the favourable economic environment and, in the case of Greece, positive news regarding its bailout programme. This context has allowed the country to carry out its first issuance of long-term public debt since 2014. In the case of Portugal, Standard & Poor's and Fitch once again classed the country's public debt as investment grade.

In currency markets, the year has been characterised by the appreciation of the euro against the dollar and the pound. In its currency pair with the dollar, the euro reached maximum levels not seen since the end of 2014, after breaking the fluctuation range that had been maintained during the last two and a half years. The single currency was mainly supported by political noise in the US and the consolidation of the economic recovery of the euro area. The sterling pound has been devalued against the euro to minima last seen in 2011, hindered by the various political events related to Brexit and domestic politics. Bank of England's monetary policy has attempted to contain the weakness of the currency. Lastly, the yen showed significant volatility in its currency pair with the dollar. The Japanese currency was supported by the favourable economic situation in the country, political noise in the US and an increase in geopolitical tensions with North Korea in the summer.

Equity markets have recorded significant revaluations in the main developed economies, reaching historic maximums in some of these. In Italy and Spain, the positive performance of their banking sectors constituted a supporting factor. Political and geopolitical events have only momentarily hindered asset performance, in a context of growing complacency in financial markets.

Lastly, financial markets in emerging countries generally exhibited positive performance throughout the year. Risk premiums have benefited from: (i) the easing of concerns regarding the development of activity in China, (ii) the less aggressive stance adopted by Trump, (iii) the devaluation of the dollar, (iv) the outlook of a smooth normalisation of the monetary policy in developed countries and (v) oil prices that have reached the highest levels in over two years.

2.2. Key financial and non-financial indicators

The key figures for the bank, including financial and non-financial data of critical importance for the management of the bank, are set out below:

		2017	2016	Change (%) YoY
Income statement (in million euros)	(A)			
Net interest income		3,802.4	3,837.8	(0.9)
Gross income		5,737.3	5,470.7	4.9
Pre-provisions income		2,612.1	2,411.5	8.3
Profit attributed to the Group		801.5	710.4	12.8
Balance sheet (in million euros)	(B)			
Total assets		221,348	212,508	4.2
Gross performing loans		137,522	140,557	(2.2)
Gross lending to customers		147,325	150,095	(1.8)
On-balance sheet funds		159,095	160,948	(1.2)
Of which: on-balance sheet customer funds		*132,096*	*133,457*	*(1.0)*
Mutual funds		27,375	22,594	21.2
Pension funds and insurance products sold by the Group		13,951	14,360	(2.8)
Funds under management		204,420	201,554	1.4
Equity		13,222	13,083	1.1
Own funds		13,426	12,926	3.9
Profitability and efficiency (%)	(C)			
ROA		0.38%	0.35%	
RORWA		1.03%	0.83%	
ROE		6.10%	5.59%	
ROTE		7.27%	6.72%	
Cost-to-income		50.15%	48.68%	
Risk management	(D)			
Doubtful loans (in million euros)		7,925	9,746	
Total problematic assets (in million euros)		15,318	18,781	
Loan loss ratio (%)		5.14	6.14	
NPL coverage ratio (%) (excl. floor clauses)		45.7	47.3	
NPA coverage ratio (%) (excl. floor clauses)		49.8	47.4	
Capital management	(E)			
Risk-weighted assets (RWAs) (in million euros)		77,638	86,070	
Phase-in Common Equity Tier 1 (%)	(1)	13.4	12.0	
Phase-in Tier I (%)	(2)	14.3	12.0	
Phase-in Total Capital ratio (%)	(3)	16.1	13.8	
Phase-in leverage ratio (%)		4.97	4.74	
Liquidity management	(F)			
Loan to deposit ratio (%)		104.3	105.1	
Shareholders and shares (figures at year-end)	(G)			
Number of shareholders		235,130	260,948	
Average number of shares (in million)		5,570	5,452	
Share price (euro)		1.656	1.323	
Market capitalisation (in million euros)		9,224	7,213	
Net attributed earnings per share (EPS)(euro)		0.14	0.13	
Book value per share (euro)		2.41	2.37	
Price/book value		0.69	0.56	
PER (share price / EPS)		11.85	10.15	
Other data				
Branches		2,473	2,767	
Employees		25,845	25,945	

(A) This section sets out key components of the income statement for the last two years.
(B) The purpose of these key figures is to provide a general overview of year-on-year changes in the main items on the Group's consolidated balance sheet, focusing particularly on data related to lending and customer funds.
(C) These ratios have been included to give a meaningful indication of profitability and efficiency in the last two years.

(D) This section gives some key balances related to risk and risk management within the Group, as well as the most significant ratios related to risk.
(E) These ratios have been included to give a meaningful indication of capital adequacy in the last two years.
(F) This section has been included to give a meaningful indication of liquidity in the last two years.
(G) This section provides information related to the share price and other stock market ratios and indicators.

(1) Core capital / risk-weighted assets (RWA).
(2) Tier 1 capital / risk-weighted assets (RWA).
(3) Total capital / risk-weighted assets (RWA).

2.3. Financial review

Balance sheet and income statement

During 2017, the Group has reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros. It has also reached an agreement to sell shares representing 100% of the share capital of its subsidiary Sabadell United Bank, N.A. to the US bank Iberiabank Corporation and closed a deal for the sale of 100% of the share capital of HI Partners Holdco Value Added, S.A.U. by the subsidiary Hotel Investment Partners, S.L. The Mortgage Enhancement portfolio (a segmented portfolio of mortgage assets that was assigned to TSB to drive profits) was also returned to Lloyds in 2017, having achieved its purpose. The success of TSB's business model has enabled the agreement to be terminated one year ahead of schedule.

Banco Sabadell and its group ended 2017 with net attributed profit of €801.5 million (€711.2 million excluding TSB).

Positive performance of the ordinary business, control of recurring operating expenses, judicious management of customer spreads and the continuous reduction of problematic assets were the main factors behind Banco Sabadell's business performance in 2017.

Balance sheet

At the end of 2017, total assets for Banco Sabadell and its group amounted to €221,348 million (€173,203 million excluding TSB), compared with the 2016 year-end figures of €212,508 million (€168,787 million excluding TSB).

Million euro

	2017	2016	Change (%) year-on-year
Cash and cash balances at central banks and other demand deposits	26,363	11,688	125.5
Financial assets held for trading	1,573	3,484	(54.9)
Financial assets designated at fair value through profit or loss	40	35	13.5
Available-for-sale financial assets	13,181	18,718	(29.6)
Loans and receivables	149,551	150,384	(0.6)
Debt securities	574	919	(37.5)
Loans and advances	148,977	149,466	(0.3)
Investments held to maturity	11,172	4,598	143.0
Investments in joint ventures and associates	576	381	51.2
Tangible assets	3,827	4,476	(14.5)
Intangible assets	2,246	2,135	5.2
Other assets	12,821	16,608	(22.8)
Total assets	**221,348**	**212,508**	**4.2**
Financial liabilities held for trading	1,431	1,976	(27.6)
Financial liabilities designated at fair value through profit or loss	40	35	13.5
Financial liabilities measured at amortised cost	204,045	192,011	6.3
Deposits	177,326	162,909	8.8
Central banks	27,848	11,828	135.4
Credit institutions	14,171	16,667	(15.0)
Customers	135,307	134,415	0.7
Debt securities issued	23,788	26,534	(10.3)
Other financial liabilities	2,932	2,568	14.1
Provisions	318	306	3.7
Other liabilities	2,293	5,097	(55.0)
Total liabilities	**208,127**	**199,425**	**4.4**
Own funds	13,426	12,926	3.9
Accumulated other comprehensive income	(265)	107	--
Minority interests (non-controlling interests)	61	50	23.2
Net equity	**13,222**	**13,083**	**1.1**
Total equity and total liabilities	**221,348**	**212,508**	**4.2**
Guarantees given	8,727	8,529	2.3
Contingent commitments given	24,079	25,209	(4.5)
Total off balance sheet items	**32,806**	**33,738**	**(2.8)**

Gross performing loans amounted to €137,522 million at 2017 year-end (€102,119 million excluding TSB). Year-on-year, they decreased by -2.2% (-3.9% excluding TSB), and the reduction of doubtful loans was -18.7% (-18.8% excluding TSB). Secured mortgage loans form the largest single component of gross loans and receivables, amounting to €84,267 million at 31 December 2017, representing over 61% of total gross performing loans.

Excluding the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's mortgage enhancement portfolio, as at 2016 year-end performing loans amounted to €134,288 million, therefore 2017 represents a year-on-year increase of 2.4%

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
Loans and credit secured with mortgages	84,267	88,431	(4.7)	52,259	56,692	(7.8)
Loans and credit secured with other collateral	2,315	2,263	2.3	2,315	2,263	2.3
Trade credit	5,802	5,530	4.9	5,802	5,530	4.9
Finance leases	2,316	2,169	6.8	2,316	2,169	6.8
Loans on demand and miscellaneous	42,822	42,165	1.6	39,427	39,651	(0.6)
Gross performing loans	137,522	140,557	(2.2)	102,119	106,305	(3.9)
Doubtful assets (customers)	7,867	9,642	(18.4)	7,723	9,478	(18.5)
Accrual adjustments	(66)	(112)	(41.2)	(100)	(142)	(29.9)
Gross lending to customers excluding repos	145,323	150,087	(3.2)	109,742	115,640	(5.1)
Repos	2,001	8	--	2,001	8	--
Gross lending to customers	147,325	150,095	(1.8)	111,743	115,648	(3.4)
Allowances for loan losses and country risk	(3,727)	(4,921)	(24.3)	(3,646)	(4,835)	(24.6)
Loans and advances to customers	143,598	145,174	(1.1)	108,097	110,813	(2.5)

The evolution of doubtful assets has shown improvement throughout 2017. Quarter-on-quarter changes in these assets excl. TSB (NPLs plus real estate assets not covered by the Asset Protection Scheme) were as follows:

Million euro

	2017				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Ordinary net inflows	(261)	(541)	(203)	(339)	(457)	(969)	(333)	(474)
Change in real estate assets	(67)	(51)	(154)	(1,370)	(41)	71	(158)	(73)
Ordinary net inflows + properties	**(328)**	**(592)**	**(357)**	**(1,709)**	**(498)**	**(898)**	**(491)**	**(547)**
Write-offs	178	61	152	66	213	70	144	101
QoQ ordinary change in balance of doubtful and real estate assets	**(506)**	**(653)**	**(509)**	**(1,775)**	**(711)**	**(968)**	**(635)**	**(648)**

The reduction in NPLs was reflected in a loan loss ratio of 5.14% at the end of 2017, compared with 6.14% at the end of 2016 – a fall of -100 basis points. The NPL coverage ratio at 31 December 2017 was 48.3%, compared with 51.6% one year earlier.

At the end of 2017, on-balance sheet customer funds amount to €132,096 million (€97,686 million excluding TSB), compared with €133,457 million at the end of 2016 (€99,123 million excluding TSB), representing a 1.0% decline (1.4% excluding TSB). Without considering the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's Mortgage Enhancement portfolio, at 2016 year-end on-balance sheet customer funds amounted to €129,562 million (€95,229 million excluding TSB), representing a year-on-year increase of 2.0% (2.6% excluding TSB).

Total off -balance sheet customer funds amounted to €45,325 million, an 11.6% increase year-on-year. Within this chapter, particularly worthy of note was the uninterrupted growth in assets in Collective Investment Undertakings (CIUs), which at 31 December 2017, stood at €27,375 million, a 21.2% increase compared to 2016 year-end, and asset management, which amounted to €3,999 million, representing a 9.5% increase compared to 2016 year-end.

Issued debt securities (borrowing operations and other marketable securities and subordinated liabilities) amounted to €23,788 million at 2017 year-end (€21,845 million excluding TSB), compared with €26,534 million (€22,618 million excluding TSB) at 31 December 2016.

Total funds under management at 31 December 2017 amounted to €204,420 million (€166,447 million excluding TSB), compared with €201,554 million at 31 December 2016 (€162,550 million excluding TSB), representing an increase during 2017 of 1.4% (an increase of 2.4% excluding TSB). Without considering the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's Mortgage Enhancement portfolio, at 2016 year-end total funds under management amounted to €197,469 million (€158,465 million excluding TSB), representing a year-on-year increase of 3.5% (5.0% excluding TSB).

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
On-balance sheet customer funds (*)	**132,096**	**133,457**	**(1.0)**	**97,686**	**99,123**	**(1.4)**
Customer deposits	135,307	134,415	0.7	99,277	99,326	-
Current and savings accounts	98,020	92,011	6.5	68,039	62,624	8.6
Deposits with agreed maturity	32,425	40,154	(19.2)	27,996	35,207	(20.5)
Assets sold under repurchase agreements	4,750	2,072	129.2	3,119	1,303	139.4
Accrual adjustments and hedges using derivatives	113	178	(36.6)	123	192	(36.0)
Borrowing operations and other marketable securities	21,250	24,987	(15.0)	19,764	21,555	(8.3)
Subordinated liabilities (**)	2,537	1,546	64.1	2,081	1,063	95.7
On-balance sheet funds	**159,095**	**160,948**	**(1.2)**	**121,122**	**121,944**	**(0.7)**
Mutual funds	27,375	22,594	21.2	27,375	22,594	21.2
Equity investment funds	1,929	1,313	46.9	1,929	1,313	46.9
Mixed investment funds	6,490	4,253	52.6	6,490	4,253	52.6
Fixed income investment funds	4,488	4,773	(6.0)	4,488	4,773	(6.0)
Guaranteed investment funds	3,829	4,057	(5.6)	3,829	4,057	(5.6)
Real estate investment funds	125	88	42.0	125	88	42.0
Venture capital investment funds	38	21	77.7	38	21	77.7
Investment companies	2,192	2,065	6.1	2,192	2,065	6.1
UCITS schemes sold but not managed	8,283	6,022	37.5	8,283	6,022	37.5
Asset management	3,999	3,651	9.5	3,999	3,651	9.5
Pension funds	3,987	4,117	(3.2)	3,987	4,117	(3.2)
Individuals	2,476	2,621	(5.5)	2,476	2,621	(5.5)
Corporates	1,498	1,481	1.1	1,498	1,481	1.1
Associates	13	15	(13.0)	13	15	(13.0)
Insurance products sold	9,965	10,243	(2.7)	9,965	10,243	(2.7)
Off balance sheet funds	**45,325**	**40,606**	**11.6**	**45,325**	**40,606**	**11.6**
Funds under management	**204,420**	**201,554**	**1.4**	**166,447**	**162,550**	**2.4**

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: mandatory convertible bonds, non-convertible Banco Sabadell bonds, promissory notes and others.

(**) These are subordinated liabilities of debt securities.

Income statement

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
Interest and similar income	4,839.6	5,170.1	(6.4)	3,605.9	3,820.5	(5.6)
Interest and similar charges	(1,037.3)	(1,332.3)	(22.1)	(837.1)	(1,033.6)	(19.0)
Net interest income	**3,802.4**	**3,837.8**	**(0.9)**	**2,768.8**	**2,786.9**	**(0.6)**
Return on capital instruments	7.3	10.0	(27.7)	7.1	10.0	(29.7)
Share of profit/(loss) of companies accounted for by equity method	308.7	74.6	313.9	308.7	74.6	313.9
Net fees and commissions	1,223.4	1,148.6	6.5	1,127.8	1,022.8	10.3
Net trading income	614.1	609.7	0.7	504.5	556.2	(9.3)
Exchange differences (net)	8.4	16.9	(50.1)	8.4	16.9	(50.1)
Other operating income and expenses	(227.0)	(226.9)	0.1	(211.3)	(209.1)	1.1
Gross income	**5,737.3**	**5,470.7**	**4.9**	**4,514.0**	**4,258.3**	**6.0**
Staff expenses	(1,573.6)	(1,663.1)	(5.4)	(1,178.9)	(1,235.6)	(4.6)
Recurrents	(1,546.9)	(1,595.1)	(3.0)	(1,163.0)	(1,186.4)	(2.0)
Non-recurring	(26.6)	(68.0)	(60.8)	(15.8)	(49.3)	(67.9)
Other general administrative expenses	(1,149.4)	(1,000.3)	14.9	(614.8)	(581.0)	5.8
Recurrents	(1,116.7)	(981.2)	13.8	(614.8)	(581.0)	5.8
Non-recurring	(32.7)	(19.1)	71.5	-	-	--
Depreciation	(402.2)	(395.9)	1.6	(329.6)	(323.2)	2.0
Pre-provisions income	**2,612.1**	**2,411.5**	**8.3**	**2,390.8**	**2,118.4**	**12.9**
Insolvency provisions and other impairments	(1,225.2)	(550.7)	122.5	(1,136.4)	(522.5)	117.5
Other provisions and impairments	(971.1)	(876.5)	10.8	(971.1)	(876.5)	10.8
Capital gains on asset sales and other revenue	432.6	35.1	--	425.9	39.5	--
Negative goodwill	-	-	--	-	-	--
Profit/(loss) before tax	**848.3**	**1,019.4**	**(16.8)**	**709.1**	**758.9**	**(6.6)**
Corporate income tax	(43.1)	(303.6)	(85.8)	5.8	(222.4)	--
Consolidated profit/(loss) for the year	**805.2**	**715.9**	**12.5**	**714.9**	**536.5**	**33.2**
Profit/(loss) attributed to minority interests	3.7	5.4	(31.5)	3.7	5.4	(31.5)
Profit attributed to the Group	**801.5**	**710.4**	**12.8**	**711.2**	**531.1**	**33.9**
Memorandum item:						
Average total assets	214,356	206,265	3.9	168,418	163,326	3.1
Earnings per share (euro)	0.14	0.13		0.13	0.09	

Net interest income in 2017 amounted to €3,802.4 million, a -0.9% decrease compared to the net interest income obtained in the previous year. Excluding TSB, net interest income amounted to €2,768.8 million at 2017 year-end, a -0.6% decrease compared with the previous year. Considering a constant scope of consolidation, this item increased by 4.9% year-on-year (2.9% excluding TSB).

In cumulative average terms, the net interest margin as a percentage of average total assets stood at 1.77% (1.86% in 2016). The decrease in average returns on average total assets, despite the increase in the customer spread (due mainly to lower funding costs of customer deposits) was due to many factors, mainly the lower returns on fixed-income.

Thousand euro

	2017			2016			Change	Effect			
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit i	16,512,411	2,925	0.02	11,336,212	31,117	0.27	7,176,199	(28,192)	(33,404)	5,312	(100)
Lending to customers	136,937,930	4,102,112	3.00	138,202,184	4,361,287	3.16	(1,264,254)	(259,175)	(232,728)	(18,442)	(8,005)
Fixed-income portfolio	28,809,194	494,316	1.72	26,336,187	657,223	2.50	2,473,007	(162,907)	(187,182)	25,446	(1,171)
Subtotal	**184,259,535**	**4,599,353**	**2.50**	**175,874,583**	**5,049,627**	**2.87**	**8,384,952**	**(450,274)**	**(453,314)**	**12,316**	**(9,276)**
Equity portfolio	1,079,233	-	-	1,004,437	-	-	74,796	-	-	-	-
Tangible and intangible fixed as	4,268,271	-	-	4,030,891	-	-	237,380	-	-	-	-
Other assets	24,749,190	88,612	0.36	25,355,276	84,242	0.33	(606,086)	4,370	-	4,370	-
Total Lending	**214,356,229**	**4,687,965**	**2.19**	**206,265,187**	**5,133,869**	**2.49**	**8,091,042**	**(445,904)**	**(453,314)**	**16,686**	**(9,276)**
Credit institutions	28,553,497	(29,558)	(0.10)	18,046,159	(78,374)	(0.43)	10,507,338	48,816	44,696	33,947	(29,827)
Customer deposits	138,258,332	(266,315)	(0.19)	134,792,258	(525,031)	(0.39)	3,466,074	258,716	226,128	1,423	31,165
Capital markets	26,020,323	(386,885)	(1.49)	30,214,256	(585,759)	(1.94)	(4,193,933)	198,874	110,473	86,693	1,708
Subtotal	**192,832,152**	**(682,758)**	**(0.35)**	**183,052,673**	**(1,189,164)**	**(0.65)**	**9,779,479**	**506,406**	**381,297**	**122,063**	**3,046**
Other liabilities	8,438,119	(202,837)	(2.40)	10,280,237	(106,953)	(1.04)	(1,842,118)	(95,884)	-	(95,884)	-
Own funds	13,085,958	-	-	12,932,277	-	-	153,681	-	-	-	-
Total funds	**214,356,229**	**(885,595)**	**(0.41)**	**206,265,187**	**(1,296,117)**	**(0.63)**	**8,091,042**	**410,522**	**381,297**	**26,179**	**3,046**
Total ATAs	**214,356,229**	**3,802,370**	**1.77**	**206,265,187**	**3,837,752**	**1.86**	**8,091,042**	**(35,382)**	**(72,017)**	**42,865**	**(6,230)**

Financial income or costs deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions item under liabilities includes negative interest from balances of liability headings of credit institutions, the most significant of which is income from TLTRO II.

Dividends charged and earnings from companies consolidated under the equity method together amount to €315.9 million, compared with €84.6 million in 2016. This income mainly includes results from the insurance and pension business and net fees charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe during the third quarter of 2017.

Income from net fees and commissions amounted to €1,223.4 million (€1,127.8 million excluding TSB), increasing by 6.5% year-on-year (10.3% excluding TSB). This growth has come about in consequence of the positive performance of both service fees, which increased by increased by 11.5% (16.2% excluding TSB) and asset management fees, which increased by 8.6% with respect to the preceding year.

Net trading income amounted to €614.1 million (€504.5 million excluding TSB), including the early call of TSB's Mortgage Enhancement portfolio during the second quarter. During 2016, net trading income amounted to €609.7 million (€556.2 million excluding TSB), including €109.5 million in gains on the sale of 100% of Visa Europe shares.

Net earnings on exchange differences amounted to €8.4 million, compared with €16.9 million in 2016.

Other operating income and expenses amounted to €-227.0 million (€-211.3 million excluding TSB), compared with €-226.9 million (€-209.1 million excluding TSB) in 2016. Particularly worthy of note in this heading are contributions to the Deposit Guarantee Fund, which include TSB's contribution to the Financial Services Compensation Scheme, of €-98.3 million (€-94.9 million in the preceding year), capital contributions associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority of €-54.7 million (€-57.0 million during the previous year) and the contribution to the Tax on Deposits of Credit Institutions (IDEC) of €-28.1 million (€-27.6 million in the preceding year).

Operating expenses (staff and general) during 2017 amounted to €2,723.0 million (€1,793.6 million excluding TSB), of which €59.3 million are attributable to non-recurrent items (€15.8 million excluding TSB). During 2016, operating expenses amounted to €2,663.3 million (€1,816.7 million excluding TSB), and included €87.1 million in non-recurrent items (€49.3 million excluding TSB). This year-on-year increase corresponds to TSB's one-off technology expenses which were already forecast.

The cost-to-income ratio during 2017 stood at 50.15% (42.10% excluding TSB), compared with 48.68% (42.66% excluding TSB) in 2016. It should be noted that in 2017 this ratio excludes the impacts of the revenue from the early call of TSB's Mortgage Enhancement portfolio and the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

As a result of the foregoing, pre-provisions income at 2017 year-end amounted to €2,612.1 million (€2,390.8 million excluding TSB), compared with €2,411.5 million in 2016 (€2,118.4 million excluding TSB), representing an increase of 8.3% (12.9% excluding TSB), mainly due to the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Total provisions and impairments amounted to €-2,196.4 million (€-2,107.6 million excluding TSB), compared with €-1,427.1 million in 2016 (€-1,399.0 million excluding TSB). This increase in 2017 is due mainly to the extraordinary gains generated by recent corporate transactions that have been used to increase provisions.

Gains on asset sales amounted to €432.6 million (€35.1 million during the preceding year) and mainly included net gains on the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of the capital in HI Partners Holdco Value Added, S.A.U. by the subsidiary Hotel Investment Partners, S.L. (HIP). In 2016, they include mainly gross gains of €52 million on the sale of the stake held in Dexia Sabadell.

After deducting income tax and minority interests, net profit attributed to the Group amounted to €801.5 million at the end of 2017, a 12.8% increase compared with the previous year. Excluding TSB, net profit attributable to the Group amounted to €711.2 million at 2017 year-end, a 33.9% increase compared 2016 year-end.

2.4. Business review

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the segment reporting described in Note 39 to these consolidated annual accounts.

Banking business Spain

Net profit as at December 2017 amounted to €1,566.1 million, a year-on-year increase of 47.0% due to the 3.8% increase in core revenue and sales of businesses carried out during the year, although gross operating income also increased to €4,125.8 million, representing an 8.1% increase year-on-year.

Net interest income stood at €2,528.2 million, a 0.6% increase compared to 2016 year-end.

Net fees and commissions stood at €1,075.9 million, 12.1% higher than in the previous year due to the positive performance of service fees and asset management fees.

Net trading income and income from exchange differences amounted to €541.1 million.

Administrative expenses and depreciations amounted to €-1,755.6 million, a -1.5% decline compared to the same quarter in the previous year.

Provisions and impairments amounted to €-867.4 million due to extraordinary provisions allocated during the year.

Capital gains on the sale of assets and other income amounted to €383.7 million and included gains on the sale of Mediterráneo Vida and Sabadell United Bank.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**2,528**	**2,513**	**0.6**
Profit/(loss) for equity method and dividends	313	82	279.9
Net fees and commissions	1,076	960	12.1
Net trading income and exchange differences	541	600	(9.8)
Other operating income/expenses	(332)	(340)	(2.4)
Gross income	**4,126**	**3,815**	**8.1**
Administrative expenses and depreciations	(1,756)	(1,783)	(1.5)
Operating income	**2,370**	**2,032**	**16.6**
Provisions and impairments	(867)	(570)	52.2
Gains/(losses) on asset derecognition and others	384	40	864.5
Profit/(loss) before taxes	**1,887**	**1,502**	**25.6**
Income tax	(321)	(431)	(25.6)
Profit/(loss) after taxes	**1,566**	**1,071**	**46.2**
Profit/(loss) attributable to minority interests	-	5	(106.7)
Profit/(loss) attributable to the Group	**1,566**	**1,065**	**47.0**
ROE (earnings divided by average own funds)	17.8%	19.4%	
Cost-to-income (administrative expenses divided by gross income)	39.1%	43.4%	
Loan loss ratio (%)	5.7%	6.6%	
NPL coverage ratio (%)	45.6%	43.2%	

Loans and advances to customers (excluding ATAs) amounted to €93,394 million and grew by 1.5% year-on-year.

On-balance sheet customer funds increased by 3.0% year-on-year, with a significant growth of sight accounts. Off-balance sheet funds increased by 11.8%, with a strong growth in mutual funds.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**142,521**	**130,092**	**9.6**
Customer lending (net) excluding repos	93,394	92,059	1.5
Liabilities	**133,370**	**121,709**	**9.6**
On-balance sheet customer funds	92,558	89,835	3.0
Wholesale Funding Capital Markets	20,168	20,930	(3.6)
Allocated capital	**9,151**	**8,382**	**9.2**
Off-balance sheet customer funds	**44,265**	**39,603**	**11.8**
Other indicators			
Employees	15,775	16,001	(1.4)
Branches	1,880	2,119	(11.3)

Within banking business in Spain, note should be taken of the most significant business areas, about which information is given on the evolution of results and key figures.

Commercial Banking

The Group's largest business line is Commercial Banking, which focuses its activity on providing a range of financial products and services for large and medium-sized enterprises, SMEs and retailers, private customers (including private banking, personal banking and mass markets), non-residents and professional groups, with a degree of specialisation to allow tailored services to be offered to customers in line with their requirements, whether via experts throughout its multi-brand branch network or via other channels intended to support the customer relationship and give access to remote banking services.

Net profit as at December 2017 amounted to €886.0 million, representing a year-on-year growth of 8.3% considering the sales of Mediterráneo Vida and Exel Broker, the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the extraordinary increase in provisions and impairments. Gross income, which stood at €3,202.4 million, recorded an increase of 9.4%. Core revenue of €3,120.2 million increased by 2.2%, and by 4.0% considering a constant scope of consolidation (excluding Mediterráneo Vida and Exel Broker).

Net interest income stood at €2,278.9 million, remaining stable compared to 2016 year-end. Considering a constant scope of consolidation, this item increased by 1.7%.

Results calculated using the equity method and dividends include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Net fees and commissions stood at €841.3 million, 10.5% higher than in the previous year due to the positive performance of sight account and credit card fees.

Net trading income and income from exchange differences include the impacts of the sales of bad debt portfolios.

Administrative expenses and depreciations amounted to €-1,467.6 million, a -0.8% decline compared to the same period in the previous year.

Provisions and impairments amounted to €-631.5 million due to extraordinary provisions allocated during the year.

The gains and losses on derecognised assets and others heading includes the gains of Mediterráneo Vida and Exel Broker.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**2,279**	**2,292**	**(0.6)**
Profit/(loss) for equity method and dividends	304	52	484.6
Net fees and commissions	841	761	10.5
Net trading income and exchange differences	(37)	20	(285.0)
Other operating income/expenses	(185)	(198)	(6.6)
Gross income	**3,202**	**2,927**	**9.4**
Administrative expenses and depreciations	(1,468)	(1,480)	(0.8)
Operating income	**1,734**	**1,447**	**19.8**
Provisions and impairments	(632)	(317)	99.4
Gains/(losses) on asset derecognition and others	22	15	-
Profit/(loss) before taxes	**1,124**	**1,145**	**(1.8)**
Income tax	(238)	(327)	(27.2)
Profit/(loss) after taxes	**886**	**818**	**8.3**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**886**	**818**	**8.3**
ROE (earnings divided by average own funds)	21.3%	18.2%	
Cost-to-income (administrative expenses divided by gross income)	45.0%	49.6%	
Loan loss ratio (%)	6.4%	7.7%	
NPL coverage ratio (%)	40.5%	39.7%	

Net lending has increased by +0.5%, on--balance sheet funds have remained stable and off-balance sheet funds have increased by +7.7%, mainly due to the increase in Investment Funds.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**158,697**	**161,286**	**(1.6)**
Customer lending (net) excluding repos	75,121	74,760	0.5
Liabilities	**154,718**	**156,922**	**(1.4)**
On-balance sheet customer funds	79,475	79,543	(0.1)
Allocated capital	**3,979**	**4,365**	**(8.8)**
Off-balance sheet customer funds	**23,691**	**21,989**	**7.7**
Other indicators			
Employees	11,427	11,865	-
Branches	1,868	2,105	-

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large companies and financial institutions, both national (Spanish) and international. Its activities encompass corporate banking, structured finance, and trade finance & IFI.

Net profit as at December 2017 amounted to €139.5 million, representing a year-on-year increase of 7.7%, mainly due to the decline in provisions and impairments. Gross income of €302 million increased by 1.0%. Excluding the sales recognised under net trading income in 2016, this increase would be of 5.0%. Core revenue, which stood at €309.0 million, recorded an increase of 6.8%.

Net interest income, which stood at €192.3 million, increased year-on-year by 9.1%.

Net fees and commissions stood at €116.7 million, 3.5% higher than in the previous year due to higher fees and commissions on syndicated loans.

Net trading income and exchange differences declined by -81.3%, as extraordinary gains on sales of loan portfolios were recognised in 2016.

Administrative expenses and depreciations amounted to €-33.5 million, and remained stable with respect to the same period in the previous year.

Provisions and impairments amounted to €-68.6 million, representing a reduction of -13.7%.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**192**	**176**	**9.1**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	117	113	3.5
Net trading income and exchange differences	3	16	(81.3)
Other operating income/expenses	(10)	(6)	66.7
Gross income	**302**	**299**	**1.0**
Administrative expenses and depreciations	(33)	(33)	-
Operating income	**269**	**266**	**1.1**
Provisions and impairments	(69)	(80)	(13.7)
Gains/(losses) on asset derecognition and others	-	-	-
Profit/(loss) before taxes	**200**	**186**	**7.5**
Income tax	(60)	(56)	7.1
Profit/(loss) after taxes	**140**	**130**	**7.7**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**140**	**130**	**7.7**
ROE (earnings divided by average own funds)	16.2%	15.4%	
Cost-to-income (administrative expenses divided by gross income)	11.1%	11.1%	
Loan loss ratio (%)	4.1%	5.5%	
NPL coverage ratio (%)	94.0%	75.5%	

Net lending declined slightly by -0.9%, and on-balance sheet funds increased by 71% due to sight accounts and fixed-term deposits, while off-balance sheet funds increased by +15.4%, mainly due to employment pension schemes.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,879**	**13,255**	**19.8**
Customer lending (net) excluding repos	8,773	8,850	(0.9)
Liabilities	**15,069**	**12,377**	**21.8**
On-balance sheet customer funds	5,555	3,526	57.5
Allocated capital	**810**	**878**	**(7.7)**
Off-balance sheet customer funds	**623**	**540**	**15.4**
Other indicators			
Employees	140	150	-
Branches	2	2	-

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added-value with a view to achieving a high rate of return for the customer, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with high-quality management, while taking the customer relationship model towards a multichannel level.

Net profit as at December 2017 amounted to €96.0 million, representing a 14.3% increase year-on-year. Gross income, standing at €245.1 million, increased by 6.1% and core revenue, standing at €245.8 million, increased by 9.8%.

Net interest income amounted to €57.8 million, and increased year-on-year by 28.9%, due to the good results obtained in Treasury and Capital Markets.

Net fees and commissions stood at €188 million, 5.6% higher than in the previous year due to higher fees and commissions on mutual funds and securities.

Administrative expenses and depreciations amounted to €-105.4 million, declining by -6.3%.

Provisions and impairments amounted to €-2.7 million.

Million euro	2017	2016	Change (%) year-on-year
Net interest income	**58**	**45**	**28.9**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	188	178	5.6
Net trading income and exchange differences	1	10	(90.0)
Other operating income/expenses	(2)	(2)	-
Gross income	**245**	**231**	**6.1**
Administrative expenses and depreciations	(105)	(112)	(6.3)
Operating income	**140**	**119**	**17.6**
Provisions and impairments	(3)	-	-
Gains/(losses) on asset derecognition and others	-	-	-
Profit/(loss) before taxes	**137**	**119**	**15.1**
Income tax	(41)	(35)	17.1
Profit/(loss) after taxes	**96**	**84**	**14.3**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**96**	**84**	**14.3**
ROE (earnings divided by average own funds)	38.2%	37.8%	
Cost-to-income (administrative expenses divided by gross income)	42.5%	47.8%	
Loan loss ratio (%)	0.5%	1.4%	
NPL coverage ratio (%)	71.0%	41.7%	

Net lending has increased by +17.4%, concentrated in private banking customers jointly managed by commercial banking and private banking (hereinafter, jointly managed customers), while on-balance sheet funds declined by -7.5% due to transfers to income from off-balance sheet funds, which increased by +22.4%, mainly due to the increase in Investment Funds.

Million euro	2017	2016	Change (%) year-on-year
Assets	**8,858**	**9,210**	**(3.8)**
Customer lending (net) excluding repos	2,175	1,853	17.4
Liabilities	**8,631**	**8,988**	**(4.0)**
On-balance sheet customer funds	6,367	6,880	(7.5)
Allocated capital	**227**	**222**	**2.3**
Off-balance sheet customer funds	**17,213**	**14,064**	**22.4**
Other indicators			
Employees	531	533	-
Branches	10	12	-

Banking business United Kingdom

Net profit in December 2017 amounted to €90.3 million, with a year-on-year decline of -49.8%, as in 2016 provisions and impairments were offset against the expected losses calculated in the preliminary PPA (Purchase Price Allocation) until the fourth quarter. However, core revenue increased by 6.5% considering a constant exchange rate and excluding the mortgage enhancement portfolio (constant scope of consolidation).

Net interest income declined by -1.6% due to exchange rate fluctuations and the early call of the mortgage enhancement portfolio. Considering a constant scope of consolidation, this growth stands at 10.4%

Net fees and commissions income fell by -24.0%, mainly due to the fees paid from aggregator accounts in service fees.

Net trading income includes the results of the early call of the mortgage enhancement portfolio. The sale of Visa Europe shares was recognised in 2016.

Gross income, standing at €1,223.3 million, increased by 0.9% and by 7.3% considering a constant scope of consolidation.

Administrative expenses and depreciations increased by 9.0% to €-1,002.0 million due to extraordinary technology expenses forecast in TSB.

Provisions and impairments amounted to €-88.8 million, more than in the previous year due to the PPA in 2016.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**1,034**	**1,051**	**(1.6)**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	96	126	(24.0)
Net trading income and exchange differences	110	54	104.5
Other operating income/expenses	(16)	(18)	(11.6)
Gross income	**1,223**	**1,213**	**0.9**
Administrative expenses and depreciations	(1,002)	(919)	9.0
Operating income	**221**	**293**	**(24.6)**
Provisions and impairments	(89)	(28)	-
Gains/(losses) on asset derecognition and others	7	(4)	-
Profit/(loss) before taxes	**139**	**261**	**(46.7)**
Income tax	(49)	(81)	(39.9)
Profit/(loss) after taxes	**90**	**180**	**(49.8)**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**90**	**180**	**(49.8)**
ROE (earnings divided by average own funds)	5.8%	8.0%	
Cost-to-income (administrative expenses divided by gross income)	79.5%	69.8%	
Loan loss ratio (%)	0.4%	0.5%	
NPL coverage ratio (%)	55.9%	52.7%	

Net lending to customers amounted to €35,501 million, a 3.3% increase year-on-year due to the strong growth of mortgages and despite the early call of the Mortgage Enhancement portfolio that took place in June. Considering a constant scope of consolidation, this item increased by 14.2% compared with the previous year.

On-balance sheet customer funds amounted to €34,410 million and increased by 0.2%. Considering a constant scope of consolidation, this growth stands at 3.9%

Million euro

	2017	2016	Change (%) year-on-year
Assets	**48,145**	**43,720**	**10.1**
Customer lending (net) excluding repos	35,501	34,361	3.3
Liabilities	**46,597**	**42,200**	**10.4**
On-balance sheet customer funds	34,410	34,334	0.2
Wholesale Funding Capital Markets	1,920	3,882	(50.5)
Allocated capital	**1,548**	**1,521**	**-**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	8,287	8,060	2.8
Branches	551	587	(6.1)

Other geographies

Other Geographies mostly comprises Mexico, overseas branches and representative offices that offer all types of banking and financial services of Corporate Banking, Private Banking and Commercial (Business and Retail) Banking.

Net profit as at December 2017 amounted to €88.6 million, a year-on-year decrease of -16.0% due to the sale of Sabadell United Bank. Without considering this sale, net profit increased by 25.4%.

Net interest income, which stood at €292.7 million, fell by -2.4%. Not considering the sale of Sabadell United Bank, net interest income grew by 21.8%, particularly driven by the growth in Mexico.

Net fees and commissions decreased by -22.4% due to lower fees on Securities and Investment Funds in Banco Sabadell Andorra and smaller corporate banking operations in Mexico.

Gross income, which stood at €358.0 million, recorded a decrease of -9.1%. Not considering the sale of Sabadell United Bank, gross income grew by 9.9%.

Administrative expenses and depreciations declined by -0.4%. Excluding the sale of Sabadell United Bank, they increased by 22.3%, primarily due to expenses associated with expansion in Mexico.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**293**	**300**	**(2.4)**
Profit/(loss) for equity method and dividends	3	3	(2.0)
Net fees and commissions	50	64	(22.4)
Net trading income and exchange differences	9	23	(60.1)
Other operating income/expenses	3	3	-
Gross income	**358**	**394**	**(9.1)**
Administrative expenses and depreciations	(205)	(206)	(0.4)
Operating income	**153**	**188**	**(18.7)**
Provisions and impairments	(24)	(29)	(14.6)
Gains/(losses) on asset derecognition and others	1	-	-
Profit/(loss) before taxes	**130**	**160**	**(18.5)**
Income tax	(37)	(54)	(31.1)
Profit/(loss) after taxes	**93**	**106**	**(12.1)**
Profit/(loss) attributable to minority interests	4	-	-
Profit/(loss) attributable to the Group	**89**	**106**	**(16.0)**
ROE (earnings divided by average own funds)	8.8%	13.2%	
Cost-to-income (administrative expenses divided by gross income)	54.5%	49.1%	
Loan loss ratio (%)	0.9%	0.5%	
NPL coverage ratio (%)	113.0%	174.8%	

Net lending amounted to €8,836 million, a -26.9% decrease due to the sale of Sabadell United Bank. Not considering the sale of Sabadell United Bank, net lending grew by 9.2%, due to business in Mexico.

On-balance sheet customer funds amounted to €5,024 million and decreased by -44.9% due to the sale of Sabadell United Bank. Not considering the sale of Sabadell United Bank, on-balance sheet customer funds declined by -3.8%. Off-balance sheet customer funds amounted to €1,033 million, representing an increase of 4.5%.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,298**	**20,740**	**(26.2)**
Customer lending (net) excluding repos	8,836	12,083	(26.9)
Real estate exposure (net)	23	22	3.5
Liabilities	**14,431**	**19,629**	**(26.5)**
On-balance sheet customer funds	5,024	9,116	(44.9)
Allocated capital	**866**	**1,111**	**(22.0)**
Off-balance sheet customer funds	**1,033**	**988**	**4.5**
Other indicators			
Employees	765	1,059	(27.8)
Branches	42	61	(31.1)

Real Estate Asset Transformation

Real Estate Asset Transformation comprehensively manages abnormal risk and real estate exposure, and also sets out and implements the strategy of real estate investee companies, such as Solvia.

Net profit as at December 2017 amounted to €-943.4 million, affected by the extraordinary provisions of the previous quarter.

Net interest income amounted to €-52.1 million, a lower figure than in the previous year due to the reduction of the loan portfolio run-off.

Net trading income includes the impacts of the sales of bad debt portfolios.

Gross income amounted to €30.1 million, -38.4% less than in the previous year.

Administrative expenses and depreciations increased by 7.6% year-on-year to €-162.7 million due to the expansion of the servicer and the increase in the portfolio of hotels managed by Hotel Investment Partnership.

Provisions and impairments amounted to €-1,215.8 million due to extraordinary impairments carried out.

Gains on sales amounted to €-14.1 million and improved by 85.4% compared with the previous year. During the last two quarters of the year, gains of €8.5 million and €5.1 million respectively were recognised on sales of real estate assets.

Gains on the sale of assets during this quarter mainly included the sale of the subsidiary HI Partners Holdco Value Added, of Hotel Investment Partners.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**(52)**	**(26)**	**98.8**
Profit/(loss) for equity method and dividends	(1)	(1)	(49.9)
Net fees and commissions	2	(1)	-
Net trading income and exchange differences	(37)	(50)	(25.7)
Other operating income/expenses	118	128	(7.6)
Gross income	**30**	**49**	**(38.4)**
Administrative expenses and depreciations	(163)	(151)	7.6
Operating income	**(133)**	**(102)**	**29.5**
Provisions and impairments	(1,216)	(801)	51.9
Sales Results	*(14)*	*(96)*	*(85.4)*
Gains/(losses) on asset derecognition and others	41	-	-
Profit/(loss) before taxes	**(1,307)**	**(903)**	**44.8**
Income tax	364	263	38.3
Profit/(loss) after taxes	**(943)**	**(640)**	**47.5**
Profit/(loss) attributable to minority interests	-	-	-
Total profit/(loss) of the reported segments	**(943)**	**(640)**	**47.5**
ROE (earnings divided by average own funds)	--	--	
Cost-to-income (administrative expenses divided by gross income)	--	--	
Loan loss ratio (%)	32.2%	31.7%	
NPL coverage ratio (%)	49.9%	54.2%	

The good management of real estate assets continues, net lending declined by -42.0% year-on-year and net real estate exposure declined by -28.5%.

Intra-group funding amounted to €12,627 million, -10.2% less than in the previous year.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,384**	**17,956**	**(14.3)**
Customer lending (net) excluding repos	3,865	6,663	(42.0)
Real estate exposure (net)	3,372	4,716	(28.5)
Liabilities	**13,728**	**15,886**	**(13.6)**
On-balance sheet customer funds	104	172	(39.7)
Intra-group financing	12,627	14,057	(10.2)
Allocated capital	**1,656**	**2,069**	**(20.0)**
Off-balance sheet customer funds	**27**	**15**	**83.0**
Other indicators			
Employees	1,018	825	23.4
Branches	-	-	-

3 - THE ENVIRONMENT AND OTHER SOCIAL MATTERS

3.1 - The environment

Environmental policies, commitments and partnerships

Banco Sabadell as an environmental policy in place that embodies its commitment to the environment and the fight against climate change. This policy focuses on reducing the environmental impacts of the processes, facilities and services that are inherent to its activity, adequately managing the risks and opportunities relating to the business and also promoting the environmental commitment of persons with whom the bank has a relationship.

The bank is also a member of a number of global initiatives and commitments:

- A signatory of the United Nations Global Compact, thereby committing ourselves to adopting a preventive approach to environmental protection, promoting initiatives to foster environmental responsibility and supporting the development of technologies that do not harm the environment.
- A signatory of the Equator Principles: inclusion of Environmental, Social and Governance (ESG) in the funding of large-scale projects.
- A signatory of the Carbon Disclosure Project (CDP): as part of its commitment to actively combat climate change and publish an annual inventory of corporate emissions, verified by an external auditor in accordance with Standard ISAE 3000.
- A signatory of the United Nations Principles for Responsible Investment (PRI) in the “investment manager” category: inclusion of environmental, social and good governance criteria in investment policies and practices.
- It has been included into the index of sustainability index FTSE4Good Index Series, which has been designed to measure the performance of companies demonstrating strong environmental, social and governance (ESG) practices. One of the aspects it measures is the sustainable performance of investment products.
- It has 6 central service buildings that have been certified under the international standard for environmental management systems (EMS) ISO 14001. Our environmental management system has been adapted for the rest of the Group.
- It is a holder of the LEED NC (Leadership in Energy & Environmental Design for New Construction) certificate, with GOLD rating in sustainable construction obtained for its corporate headquarters in Sant Cugat del Vallés.
- Banco Sabadell is a partner in the European GreenBuilding Programme for the sustainable construction of the Group’s logistics centre and general archive in Polinyà.

- A collaborating partner of the Spanish Association of Renewable Energy Producers and a member of the Spanish Wind Energy Association.

Main areas of activity relating to the environment and their enforcement in combating climate change

Through various areas of the organisation, Banco Sabadell meets its aims and commitments on the environment, contributing to the fight against climate change. At an operational level, global Group operations are subject to the legal requirements on environmental protection and health and safety in the workplace. Banco Sabadell has not been the subject of any fines, sanctions or penalties due to failure to comply with environmental legislation and regulations during the year. Banco Sabadell has also received no complaints regarding environmental impacts.

The main results for each area of activity are given below.

Lines of business related to the environment

Banco Sabadell promotes the development of a sustainable energy model through the funding of projects and direct investment in renewable energy.

In terms of funding, the bank's portfolio includes a variety of projects, including projects for the generation of renewable energy (wind energy, photovoltaic energy, solar thermal energy, biomass), biofuel projects, which include advisory and mediation services, the funding of energy efficient facilities through renting products that allow a number of projects to be funded, from public lighting projects to biomass boilers and cogeneration installations.

Another line of business related to sustainability and growth is the renting of sustainable transport (vehicles issuing 120 gr CO_2/km or less).

As regards investment, Banco Sabadell makes direct investments in the equity capital of renewable energy generation projects. Most of this business is carried out through Sinia Renovables, a wholly-owned subsidiary. For the 2016-2019 period, Sinia Renovables has initiated an investment cycle of €150 million in capital for this type of assets, following the bank's internationalisation strategy and looking into investments in Spain, Mexico, United Kingdom and other countries in LATAM.

Equator Principles (structured finance and corporate loans)

Since 2011, Banco Sabadell has adopted the Equator Principles, a voluntary credit risk management framework, coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to the funding of structured finance and corporate loans projects.

Since then, the bank has continued to apply the Equator Principles in all of its new structured finance projects valued at an amount greater than, or equal to, USD 10 million and corporate loans from USD 100 million. Projects are classified based on their level of risk and environmental and social impact as A, B or C, following the standard implemented by the IFC. A social and environment assessment is carried out for all projects classified as category A and B, which is then reviewed by an independent expert. This assessment not only addresses the risks and impacts, but also considers measures for an appropriate minimisation, mitigation and offsetting of these risks and impacts.

Every year, Banco Sabadell publishes a list of each of its projects associated with the Equator Principles in its report, which can be consulted through the bank's website.

Own infrastructure: environmental management and ecoefficiency measures

Banco Sabadell regularly identifies significant aspects relating to its facilities and installations in order to minimise and mitigate potential environmental impacts. Every year, it works to improve the ecoefficiency of its facilities and to reduce the environmental impacts of the services it provides to customers, which is also in line with the fight against climate change. During the year, plans have continued to be implemented for waste treatment, consumables recycling and energy saving.

In relation to management systems and their respective scope of application, the bank has an environmental management system (SGA, for its acronym in Spanish) which has been in place since 2006 and follows the ISO 14001:2004 standard. 6 corporate centres have been certified under this standard, and the environmental management system has been adapted for use at all other Group work centres in Spain.

In terms of its infrastructure, the following areas of activity are described below.

Reduction of carbon footprint

- Inventory of CO2 emissions: In 2017, emissions have been reduced by 94.71%, mainly by purchasing and using electrical power generated from renewable sources.

Energy management

- Electrical power consumption: overall consumption of electrical power in Spain in 2017 declined by 8% (reaching 82,824 MWh in 2017). It should be noted that during this year, 99.96% of the bank's total electricity consumption came from renewable sources, as Banco Sabadell continues to contract renewable energy sources through Nexus Renovables, which provides, with a guarantee of 100% renewable sources, 99.93% of the bank's total electricity consumption. Some of the actions include the centralised lighting and air-conditioning system in specific areas of the corporate centres, the installation of motion sensor lighting systems and LED (Light Emitting Diode) lights and the installation of air-conditioning systems with energy recovery ventilation.

Management and reduction of other consumption

- Paper consumption: 24-hour service for customers through remote channels and digital platforms, the commercial use of digital tables that allow customers' signatures to be captured and the use of conventional paper certified as being manufactured without chlorine by the FSC (Forest Stewardship Council).

- Water consumption: water consumption in Spain is limited to sanitary uses and to some watering of gardens.

Waste management

The bank implements a number of initiatives to encourage paper recycling, systems for the selective collection and sorting of packaging waste, organic material and batteries, recycling of used toners and the management of technological waste through authorised waste managers.

In addition, computer equipment or furniture that is in good condition, acquired from offices or work centres during a closure or merger process, that is not required by the bank is donated to NGOs and local non-profit organisations.

With regard to waste water management, all our facilities and offices are connected to the public sewage network.

Pollution and its effects on health and safety

All of Banco Sabadell's activities are carried out in urban centres, and all waste generated by Banco Sabadell is managed by authorised waste managers.

Environmental awareness

In terms of environmental awareness and management, all Group employees have access to an online training course the completion of which is mandatory for staff at certified corporate centres. Through its internal platform, "Banco Sabadell Idea", employees have made contributions and put forward suggestions on how to improve various areas of the organisation, including environmental aspects and the fight against climate change. Some examples of ideas relating to sustainability include contributions to total or partial savings of paper and digitalisation (digital signature, contracts, virtual reports, etc.), energy savings (installation of solar panels in corporate centres, etc.) and the addition of more electric vehicles for employees (for renting, subsidised purchase, etc.) Use of the internal car pooling platform is encouraged.

It also encourages holding meetings through video-conference, the use of personal video-conferencing, pilot schemes for working from home and the use of virtual classrooms for areas such as learning and continuous training.

Value chain

Banco Sabadell also keeps all its suppliers informed of the Group's environmental policy and integrates environmental and social responsibility into its supply chain in a number of ways.

In the Group-level procurement process, tenders or offers from suppliers with ISO 9001, ISO 14001/EMAS and/or EFQM certifications are looked on favourably.

Banco Sabadell's basic contract with suppliers includes specific clauses on compliance with environmental criteria, human rights and the Ten Principles of the United Nations Global Compact, as well as acceptance of the Supplier Code of Conduct. In particular, environmental requirements are included in specifications for products and services that have significant environmental impacts.

3.2 - Other social matters

Social and environmental criteria in investment and funding

Since 2011, Banco Sabadell has adopted the Equator Principles, an international voluntary credit risk management framework, which aims to identify, assess and manage environmental and social risks relating to the funding of structured finance projects (see previous section).

The full branch network has support information available in order to assess the environmental risk related to the sector or activity of the analysed companies. This assessment is also included in the record of transactions and in decision-making processes.

In terms of lending, both the pension fund management company, BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital company with equity interests in Spanish companies with projects for growth in foreign trade, follow the Principles of Responsible Investment in the asset management category. These principles include social, environmental and good governance criteria in management policies and practices.

Banco Sabadell encourages responsible investment and also offers its customers savings and investment products that contribute to charity projects such as Fondo de Inversión Sabadell Inversión Ética y Solidaria, F.I., Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A., the pension scheme Plan de Pensiones BS Ético y Solidario, P.P. and the pension scheme Plan de Pensiones BanSabadell 21 F.P, as well as to its staff through Fondo de Pensiones G.M. PENSIONES, F.P.

Housing and financial inclusion

Banco Sabadell manages, through Sogeviso (Solvia Gestora de Vivienda Social), the social issue of housing in order to responsibly address situations of social exclusion faced by its most vulnerable mortgage borrowers.

During its second year, Sogeviso has continued to include a ‘social contract’ in all of its new rental agreements for social housing. This is a service through which a manager specialising in social matters can assist customers at risk of social exclusion. This service hinges on, on one hand, finding work (it puts vulnerable customers in contact with public services and offers them training, interview preparation and coaching on how to find work) and, on the other hand, the cooperation with general governments and third sector entities. Under this framework, social contracts already represent 48% of the bank’s total rental agreements for social housing.

2017 has also seen the consolidation of the JoBS programme, which 2,464 people have benefited from since its launch in October 2016 until the end of the year, of whom 646 have since found employment. Through this programme, 3 agreements with companies from different sectors such as Manpower, Mullor and Fundació Formació i Treball have been signed.

Also during 2017, in order to limit the effects of over-indebtedness and facilitate the recovery of debts owed by debtors at risk of social exclusion, the bank has reiterated its commitment to the Code of Good Banking Practice, approving 198 mortgage loan restructuring operations. Furthermore, the bank has carried out 2,592 *datio-in-solutum* operations on a voluntary basis.

Since 2013, Banco Sabadell has been a member of the Convenio del Fondo Social de la Vivienda (FSV), an initiative implemented by the government of Spain to strengthen the protection of mortgage debtors. Sabadell has contributed to this initiative with 400 properties primarily aimed at customers who have lost their properties through payment in kind (*datio in solutum*) or repossessions since January 2008.

Furthermore, the bank has granted 101 properties to 48 non-profit institutions and foundations, intended to lend support to most disadvantaged social groups.

4 - HUMAN RESOURCES

Human Resources aims to support the transformation of the organisation through a people agenda that is an integral part of its day-to-day business operations and its growth. Its key objective is to maximise the value-creating potential of Banco Sabadell’s workforce by developing their talent, managing their expectations and fully leveraging their capabilities.

During 2017, the structure of the Human Resources Division has undergone a significant transformation, with the objective of strengthening and focusing its activities on the management of human capital, in line with the new strategic plan:

- Planning and anticipation of the future needs of the bank in terms of personnel.
- Proactive management oriented towards improving human capital.
- Cultural evolution and improvement of employee satisfaction.

Key human resources data

Number of employees

	2017	2016
Average equivalent workforce	26,171	26,022
Spanish workforce at year-end	16,764	16,771
Workforce at year-end	25,845	25,945
Turnover rate (%) (*)	1.57%	0.92%
Absenteeism (%) (**)	2.71%	2.60%
Hours of training per employee (***)	32.98	32.68

The average equivalent workforce is calculated based on the average number of employees at the end of each month.
(*)Unwanted staff turnover: number of dismissals and voluntary extended leaves of absence divided by the average workforce x100.
(**)This figure is of the absenteeism (workdays missed / total workdays * 100).
(***)In Spanish workforce

Number of employees

	Men	Women	Total
National workforce	8,275	8,489	16,764
International workforce	3,192	5,889	9,081
By gender (%)	44.4%	55.6%	100.0%
Average age (*)	43.18	42.47	43.04
Average length of service	16.14	15.78	16.19

Data calculated based on Group workforce.
(*) Only people over 18 are hired.

Number of employees

	Men	Women	Total
Administrative staff	999	3,487	4,486
Technical staff	9,980	10,734	20,714
Management staff	488	157	645
Total	**11,467**	**14,378**	**25,845**

Data calculated based on Group workforce.

Human resources management – policies and principles

Human Resources policy and the Ethics and Human Rights policy are grounded in respect for human dignity, fair and competitive remuneration, transparency and truthfulness in reporting, and lasting cooperation, in accordance with the standards of the International Labour Organisation (ILO).

Recruitment policy

Banco Sabadell has a personnel selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and career path. The Group seeks to ensure optimal professional development for its employees by encouraging them to excel and rewarding hard work. This mutual commitment is set out in the Banco Sabadell Group Code of Conduct.

In 2017, work has been made on a number of actions and projects to strengthen and improve its procedures for attracting and recruiting talent to take on higher volumes of recruitment, new profiles and geographic dispersion. These are the factors that are making it necessary to redesign and update the procedures, skills, technologies and capabilities used to attract the best candidates and provide them with a professionally rewarding experience.

To this end, and to make the internal recruitment service more dynamic, offer opportunities for career development and to favour internal movements of employees within the Group, the following measures have been taken:

- Proactive management of employee mobility. Different initiatives and projects have been launched to accompany and internally relocate Banco Sabadell professionals through plans such as the Employability plan. Currently, 160 participants have subscribed to the Employability Plan.

- Communication and visibility of the internal employee selection process: participation in different workshops and sessions to present the process, and a website has been launched specifically for professional opportunities. In this way, the process has been explained in more detail to ensure awareness of the same and to increase participation.

During 2017, 432 vacancies have been filled, 280 were filled internally and 152 externally.

This year, action has been taken to consolidate the young talent programmes (Internship, Young Talent and Talent Graduate Programmes). Ensuring the integration, participation and training of employees from these groups at the bank, through systematic and continuous monitoring by their tutors and mentors.

142 young people have been recruited through these programmes.

Significant efforts have also been made to be present in the main forums to attract young talent and build closer, stronger relationships with universities and business schools considered to be crucial for Banco Sabadell. The bank has taken part in different activities including networking sessions, stands and presentations to students: AFI, BGSE, CUNEF, Deusto, ESADE, JOBarcelona, UEM, UPC, IDEC amongst others.

These actions have also led to an improvement in external reputation indicators, including the achievement, once again, of a place in the Mercopersonas Top 25 (ranked number 21), the Spanish corporate reputation monitor, which measures the appeal of institutions as employers.

Equality, work-life balance and integration

Banco Sabadell guarantees gender equality and equal opportunities in all areas of its activity affecting its staff: recruitment, training, promotions and career development, salaries, work-life balance, etc. These principles are set out in the Banco Sabadell Group Equality Plan, the Human Resources policy and code of conduct.

Gender equality

With the bank's firm commitment, and in line with the objective set forth in the Equality Plan, which was signed by representatives of employees in 2010 (renewed in June 2016), this year 170 women have been promoted, representing 37.8% of the target set for 2020 (450 promotions nationally).

Note should also be taken of the achievement made with respect to the "*Acuerdo de Colaboración con el Ministerio de Sanidad, Servicios Sociales e Igualdad*" (Cooperation Agreement with the Ministry of Health, Social Services and Equity), which was signed in 2014 and sets a target of having 18% of managerial positions held by women by 2018. This objective has been successfully achieved prior to the indicated date, with women holding 22.27% of all managerial positions in Spain.

The new equality plan, in the same way as its previous version, aims to prevent all forms of discrimination in the work-place between women and men in the company, and sets out new lines of action, with perfected systems to monitor performance and evaluate objectives across all areas of activity corresponding to Human Resources.

%	2017	2016
Promotions given to women	50.35%	53.77%
Managerial positions held by women	24.34%	23.88%

Data calculated based on Group workforce.

Diversity and integration

The Group promotes all types of employee diversity and encourages the integration of all of its partners in the workplace and non-discriminatory career development and recruitment processes.

The Group sets out actions relating to the suitability of positions in cases of functional diversity that require such actions, in line with the special sensitivity procedures of the occupational medicine service. The bank also assists employees with paperwork in their dealings with municipal, regional and national governments, thus helping to improve employees' well-being outside the strictly professional sphere. In compliance with Spain's General Disability Act, the bank pursues other measures such as buying services and supplies from special employment centres.

As at December 2017, the Group had 253 employees with some form of disability (263 at the end of 2016).

Functional diversity is not the only diversity that is managed in a unique way by the Group. Policies aimed at making the most of talent across generations have become particularly important during 2016, due to the evolution of the age pyramid in the Group.

A comprehensive study has been conducted of the generational situation of its workforce, identifying the complexity of experiences, skills, abilities and training in each generation represented by that workforce and devising proposals for improvement that take into account their main interests, needs, expectations and concerns.

Work-life balance

Employees have at their disposal a series of social benefits agreed with the Group and union representatives in agreements on measures aimed at achieving a healthy work/life balance. The full workforce has been notified of these benefits and they can be consulted on the internal employee intranet, therefore they are widely known to the staff, who have been applying for and enjoying these benefits for a long time.

Benefits include time off from work, paid or unpaid (e.g. to nurse an infant); unpaid leave (for maternity or to care for a relative); leave in special circumstances (for studies, personal reasons, inter-country adoption); extension of paternity leave; and flexitime arrangements.

The Group also offers a wide range of measures aimed at improving the work/life balance of its workforce, by offering an option to contract services and purchase items through the employee portal, which gives employees an opportunity to save both money and time, as they receive the items in their workplace, saving transportation expenses and avoiding having to run errands outside of their working hours. The service offering also makes it easier for central services staff to run their personal errands.

In 2017, new measures to promote flexibility and the improvement of work-life balance have also been implemented, which include the possibility of buying additional holiday days and the gradual deployment of teleworking, which are particularly noteworthy measures.

Remuneration policy

During 2017 the remuneration policy has been updated to adapt to the latest regulatory requirements in terms of remuneration, having established the following policies:

- Group Remuneration Policy
- Remuneration Policy Spain
- Code Staff Identification and Remuneration Policy
- Policy for the Remuneration of Senior Management

Banco Sabadell's compensation policy is based on the principles of internal fairness, external competitiveness, transparency, differentiation, flexibility, simplicity, confidentiality and communication, as prescribed by the Group's human resources policy.

The compensation policy is based on the degree of responsibility attaching to the position and on each employee's professional development. This determines Group practices with regard to increases in both fixed and variable remuneration. In total, 87.1% of the workforce in Spain had salaries which included variable remuneration as at December 2017 (88.47% at the end of 2016).

Other types of benefit are available to employees, including interest-free loans and grants to help with training or children's schooling.

In this regard, the launch, in October of the "My Benefits" (*Mis Beneficios*) portal is particularly noteworthy, in which all employees who have entered into an agreement with the Bank can view all of their benefits in a personalised manner, and they can also see if they are already enjoying their benefits or not.

Workplace hazards

The Group has a policy of constantly striving to improve employees' health and working conditions.

As required by law, the bank has a health and safety plan setting out policy measures in this area. Each year it publishes a report on health and safety initiatives undertaken by the company, which is available on the internal employee intranet and the corporate website.

An initial risk assessment is performed on each new workplace and also on workplaces that have undergone refurbishment or alterations. A follow-up assessment is performed at a later date to evaluate individual workstations and common areas, facilities and aspects such as temperature, lighting, etc.

All Group staff and new employees receive information on workplace hazard prevention and are required to take an online course in health and safety at work. The training is supplemented by publications, such as ergonomics factsheets and equipment manuals, related to hazards which are specific to the bank's activities.

Employee development

New learning model

In 2017, the Group has continued to promote the bank's learning model, which was launched in 2016 with the consolidation of Sabadell Campus and its multiple schools and spaces. The pillars of Banco Sabadell's training model play out in this project, and are based on innovation, personalised training, alignment with the business and efficiency.

During this year, the recognition and visibility of Sabadell Campus recognition has grown enormously, as employees accessed more than 137,000 online sessions.

	2017	2016
Employees who received training (%)	89%	98%
Investment in training per employee (euro)	591.2	371.8

Data for Spain.

Consolidation of the Digital Space

Sabadell Campus puts a space at the disposal of all its employees for them to develop their digital skills, with which it aims to help the digital transformation of all Banco Sabadell employees, and which is being very successful, with a high rate of participation.

Growth of the Business School

The Commercial School, which is fully focused towards offering training to overcome challenges in the branch network, has widened the scope of the contents and topics it offers. Over 11,000 employees have accessed this school.

Promotion of the Management School

The Management School is an area of Sabadell Campus which offers content oriented towards reaching professional and personal goals through the development of skills, and it is the area which is most frequently accessed by employees (more than 9,500 employees accessed it in 2017).

Furthermore, the School has continued to promote the CMP programme (Corporate Management Programme, PCM for its acronym in Spanish). This programme includes networking with management, and project support. Project winners are offered the opportunity to join the bank.

Opening of all classes at the Technical-Financial School

The Technical-Financial School aims to improve the financial culture of the entity, offers specialised training methods and places an attractive offering of content and learning methods at the disposal of all employees.

Language Space Offer

As part of the ongoing objective to improve the level of foreign languages spoken and written by employees within the entity, they have access to the Languages Space in Sabadell Campus. This is a space in which employees can find information about the language learning options offered by the bank in line with each specific professional profile and requirement.

Growth of the internal tutoring team

One of the main pillars of Banco Sabadell's new training model is the group of internal tutors. Tutors ciliate the management of knowledge and internal talent and they make it possible for training to be available in all regions when it is required. The internal tutor team is currently comprised of a group of almost 400 professionals, all of whom who have the necessary qualifications and are extremely professional.

Leadership Management

The Talent Division has consolidated the management model with the objective of obtaining the most up-to-date information on current talent, and their potential, to ensure appropriate decision making, effective and efficient management of the development of our directors and pre-directors.

In 2016 a common Performance Management model was implemented for all of the Bank's employees, through a simplified process, anchored to the current year and aligned with the business, incorporating mechanisms (calibration) to promote rigour and enhance differentiation. This model has served as a basis for the implementation, in 2017, of a new global performance model for all of the geographies (Global Performance Management):

Models and tools to measure current, as well as potential future performance, have been implemented. Through multi-source processes information has been gathered to categorise our professionals into different types of talent, the results have been presented in different committees for decision making purposes (multicontributed) for their assignment and development. All of this has contributed to the transformation of the culture of talent management at the bank.

A new onboarding programme has been launched for Corporate Managers and Top 300, with the objective of guiding them through the inherent challenges of a new leadership role, and to help them prepare for the changing environment of the business. 61 managers have participated in this Programme during 2017.

Communication, participation and the volunteer programme

Communication

Banco Sabadell has numerous channels of communication between the different levels of the organisation to enhance internal communication and involve employees in the bank's goals.

The "Banco Sabadell Idea" platform allows employees to propose improvements in any area of the organisation. The platform is also an excellent communication channel through which employees can make queries and share experiences on products and processes. The ideas with the most votes and those which add the greatest value to the bank are considered by the persons in charge of the processes concerned and by members of a Decision Committee, who together reach a decision on their implementation. The ideas with most votes also receive a cash prize.

Participation

Banco Sabadell respects and guarantees employees' basic rights, including freedom of association and collective bargaining, enshrined in Spanish law. These principles are set out in its code of conduct and human resources policy.

Union representatives represent the entire workforce, not just union members; accordingly, labour agreements apply to all employees at the level at which the negotiation was conducted (industry, group, company, etc.). All employees are given one month's notice of significant changes. Union elections are held every four years. Banco Sabadell's management meets periodically with the general secretaries of the various trade unions and the latter participate regularly in various committees (National Health and Safety Committee, Equal Opportunities Committee, Training Committee and the Pension Plan Oversight Committee). Workplaces with more than 50 workers have a works council. Workplaces with between 6 and 10 workers may elect a union representative.

During 2017 multiple actions have been developed as a result of employees responses to the work environment survey carried out in 2015. In this regard, a pulse survey was carried out for 4,570 employees during April 2017, the results of which showed clear signs of improvement in the majority of the model's pillars (Credibility, Impartiality, Respect and Pride) and a flat outlook for Comradeship.

In November, a global survey was carried out for all employees in Spain, and improvements have been observed in all of the pillars, with a particular emphasis on the items regarding the 4 areas of improvement proposed subsequent to the 2015 survey (communication by leaders, sense of unity, reconciliation and meritocracy). The Trust Index, a key indicator of the Great Place to Work model, has increased as 61% of the workforce believe that Banco Sabadell is an excellent place to work.

Volunteer programme

The SabadellLife Portal publicises social action and corporate volunteer initiatives. The successes achieved year after year has led to a substantial increase in the number of volunteers and in the activities organised in 2017, many of which were proposed by the employees themselves.

Details of some of the most significant activities in 2017 are given below:

- Employee participation in three Oxfam Trailwalker events, representing the mobilisation of 384 participants and a total of €125,000 were raised to fund water supply projects in developing countries.

- EFEC 2017

- 5th Edition of the Financial Education in Catalonian Schools programme (*Educación Financiera en las Escuelas Cataluñ*a) programme, with the participation of a total of 179 volunteers, available in 321 schools throughout Catalonia.

- AEB "Your Finances, Your Future (*Tus Finanzas, tu futuro*) with the participation of 33 volunteers who have shared basic financial knowledge with students in their second and third years of compulsory secondary education (E.S.O for its acronymn in Spanish).

- Solidarity Attitude (*Actitud Solidaria*), as part of the agreement between Banco Sabadell and the startup Worldcoo, more than 7 fund raising activities have been carried out amongst employees, raising a total amount of 45 thousand euros, used for projects such as "Beating childhood cancer" (*Vencer el Cancer Infantil*), Emergency in Mexico (Emergencia en México) or "Mediterranean Mission" (*Misión Mediterráneo*), supporting NGOs.

- BValue Programme-Ship2B Foundation

  In collaboration with Ship2B Foundation and with the collaboration of Banco Sabadell Foundation, the BValue programme was launched, the objective of which is to help to professionalise and improve the value proposal of not-for-profit organisations in any area of activity.
  Thirty Banco Sabadell employees have collaborated as mentors, in 4 face-to-face workshops which have been held in Barcelona and Madrid.

- Feina amb Cor

  Accompaniment and care service led by Cáritas, which has the objective of incorporating persons who have been unemployed for long periods of time to re-join the labour market, these persons have family responsibilities and are aged older than 40. As part of this programme, 14 persons joined the branch network to carry out administrative and Customer Service tasks. 11 of these persons continue to carry out these functions. The remaining persons have found more stable employment.

5 – LIQUIDITY AND CAPITAL RESOURCES

5.1 Liquidity

The key aspects in the evolution of liquidity during the year at Group level have been as follows:

- The entity has continued to generate a liquidity gap in its commercial business, reducing total funding in wholesale markets.

- In 2017, the growing tendency of the generation of a customer funding gap observed in recent years has continued. The Loan to Deposit (LtD) ratio of the Group at the end of December 2017 stood at 104.3%.

The bank has continued to access capital markets as usual. €3,206 million in capital market funding matured in the year. Banco Sabadell has carried out public issuances under the Fixed-Income Scheme in force for a total of €3,044.6 million. Specifically, in March Banco Sabadell carried out one public issuance of ten-year covered bonds in April of €1 billion, which was extended by a further €100 million in October, one issuance of 8-year covered bonds of €500 million fully subscribed by the European Investment Bank (EIB); and 6 issuances of senior debt, each with a term of between two and five years, totalling €1,444.6 million. Also during the year, two issues of preferential contingent bonds convertible into ordinary shares have also been issued by the Bank (Additional Tier 1). On May 18, 2017, Banco Sabadell carried out its inaugural issue of Additional Tier 1 for €750M with a fixed rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second issue of Additional Tier 1 for the amount of 400 million euros at a fixed rate of 6.125%. Lastly, on 5 December 2017, Banco Sabadell carried out a senior debt issuance under its EMTN Programme amounting to €1,000 million with a term of 5 years and 3 months.

- In 2017, the Group has recovered its Investment Grade category with all of the credit rating agencies. On 27 June 2017 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB- from BB+ and its short-term rating to A-3 from B. The trend remains positive. With this rating upgrade, Banco Sabadell has once again attained the level of Investment Grade. S&P Global Ratings raised the rating as it considers that Banco Sabadell has continued to strengthen its solvency and that it continues to make progress in de-risking its balance sheet. Additionally, S&P Global Ratings raised its rating of Banco Sabadell's non-deferrable subordinated debt and preferred shares by two notches to BB and B, respectively.

- Banco Sabadell took part in the ECB's four-year liquidity auction (TLTRO2 or Targeted Long Term Refinancing Operations 2) carried out in March totalling €10,500 million, adding to the €10,000 million from the previous year under this scheme.

- The bank has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs, therefore the bank has continued to optimise its collateral base, with the issue of two new securitisation funds being particularly noteworthy.

- On 1 October 2015, the Liquidity Coverage Ratio (LCR) came into force, with a phase-in enforcement period up to 2018. The required ratio was 80% in 2017. All of the entity's Liquidity Management Units (UGLs, for their acronym in Spanish) comfortably surpassed this minimum. At Group level, the institution's LCR has consistently been substantially above 100% throughout the year. As regards the Net Stable Funding Ratio (NSFR), which is still in the research stage and pending its final definition, the bank has continued to maintain stable levels above 100%.

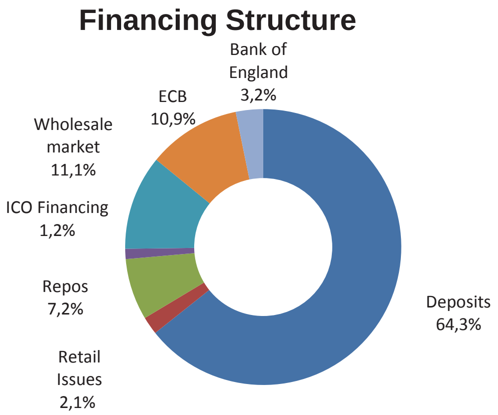
Key figures and basic liquidity ratios at year-end were:

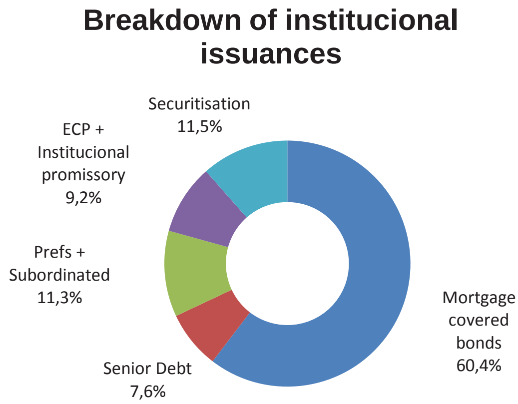
€ million

	2017	2016	Ex TSB 2017	Ex TSB 2016
Gross loans and advances to customers, excluding repos	145,323	150,087	109,742	115,640
Provisions for insolvencies and country-risk	(3,727)	(4,921)	(3,646)	(4,835)
Brokered loans	(3,835)	(4,900)	(3,110)	(4,900)
Adjusted net loans	**137,761**	**140,266**	**102,986**	**105,905**
On-balance sheet customer funds	132,096	133,457	97,686	99,123
Adjusted loans to deposits ratio (%)	**104.3**	**105.1**	**105.4**	**106.8**

The EUR/GBP exchange rate used for the balance sheet is 0.8872 at 31.12.17 and 0.8562 at 31.12.16.

The Group's main sources of funding at the end of 2017 are shown in the following figures according to the type of instrument and counterparty:





For further information regarding the Group's liquidity management, strategy and evolution, see Note 4 on Risks, under the Liquidity Risk section in the notes to the annual accounts.

5.2. Capital resources

Note 5, "*Own funds and capital management*" of the consolidated report of the Group, contains a detailed report of its capital management (regulatory framework, detailed data and capital activity).

The main figures related to capital management are shown below:

% / € million

	2017	2016
CET1	13.4	12.0
Tier I	14.3	12.0
Tier II	1.8	1.8
BIS ratio	16.1	13.8
Capital base	12,524	11,852
Minimum capital requirement	6,211	6,886
Risk weighted assets	77,638	86,070

Note 5 of the annual report explains the main changes compared with the previous year in terms of regulation, evolution of risk weighted assets (RWAs) and the main components of own funds.

In recent years, Banco Sabadell has been actively managing its capital, which is a crucial aspect for the entity's growth. In recent years, the bank has increased its capital base through issues classed as tier one capital, as shown in the table below:

€ million

		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and buy-back of preference and subordinated stock)	411	+68 pb of core tier I
February 2012	Preference share swap for ordinary shares	785	+131 pb of core tier I
March 2012	Capital increase	903	+161 pb of core tier I
July 2012	Preference debt instruments and subordinated Banco CAM debt swap for shares	1,404	+186 pb of core tier I
September 2013	Accelerated bookbuilding and capital increase with rights	1,383	+178 pb of core tier I
October 2013	Issue of Mandatory Convertible Subordinated Debentures for B. Gallego hybrid swap	122	+17 pb of core tier I
April 2015	Capital increase with pre-emptive rights - TSB	1,607	+181 pb of core tier I

Note: The impact on capital (in basis points) is calculated using figures at the close of each year, these figures have changed significantly due to the increase in the Group's scope during these years.

6- RISKS

During 2017, Banco Sabadell Group has continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

For more details regarding the corporate risk culture, strategic risk framework and global organisation of the risks function, as well as the main financial and non-financial risks, see Note 4, Financial Risk Management in the consolidated annual accounts for 2017.

This year's main milestones in terms of the Group's risk management have been the improvement of the Group's risk profile, the strengthening of the risk management and control environment, as well as the improvement of the monitoring environment and the reduction of problematic assets, as explained in greater detail in Note 4 of the annual report.

7 – POST-BALANCE SHEET EVENTS

Since 31 December 2017, there have been no significant events worthy of mention.

8 – EXPECTED FUTURE DEVELOPMENTS

Banco Sabadell adopts strategic plans in which it sets out its objectives for subsequent years in line with the regulatory and macroeconomic environment.

Following the success of the strategic plan named Triple, which covered the three-year period from 2014 to 2016, Banco Sabadell started 2017 with an even more ambitious strategic plan, following a 1 + 3 structure. 2017 has represented a year of transition in which some of the objectives achieved include: strengthening core banking revenue (net interest income and net fees and commissions), building a new state-of-the-art IT platform for TSB that is ground-breaking in the sector, increasing the rate of reduction of problematic assets, reducing them by over €3,400 million and successfully closing various corporate sales (Sabadell United Bank, Hotel Investment Partners, etc.) which have helped to strengthen provisions and increase capital. Credit rating agencies have upgraded their rating of Banco Sabadell, with all three agencies allocating it the Investment Grade category.

After the transition year, a period begins with greater clarity in the macroeconomic environment and financial system. The strategic programmes established for completion by 2020 aim to increase profitability through the growth of the business, improved efficiency and the reduction of problematic assets. Brand development and customer experience will be key factors in achieving these objectives. Technological capabilities offer a chance to develop Banco Sabadell's value proposition and improve its efficiency and scalability. All of the foregoing is supported by the ability to attract and retain talent, which leads to a differential team of people.

Banco Sabadell will focus on consolidating its internationalisation process to increase the value of the franchises in the UK and Mexico.

The achievement of strategic objectives will allow profitability to continue to grow, with the bank maintaining a solid capital and liquidity position.

9 – RESEARCH, DEVELOPMENT AND INNOVATION

2017 has been characterised by the start of the TSB project, with a strong impact on the technological organisation, which has been restructured to take on the project with the utmost guaranties. Internationally, the bank has continued working on its project in Mexico to create a full-service bank for corporates and individuals. A Systems Plan has been conducted in parallel, as intensively as in the previous year.

In terms of Digital Transformation, the changes to the model towards Direct Management have been initiated, based on the remote and simplified processes and the creation of new self-service capacities. By doing so, the aim is to grant the manager more autonomy, offering them the tools they need to operate; and on the other hand, the customer has the autonomy to carry out operations through the app (Sabadell Móvil) and on the website (BSOnline). Sabadell Wallet has also been updated, incorporating new ways to send money mobile to mobile, to fulfil customers' daily needs, and cash withdrawals methods have been improved through use of the mobile app. Actions have been carried out for the development of a new platform to create a relationship function with customers (CRM), with a vision which is focused on the customer, allowing the customer to be offered personalised products/services based on their individual profile. The deployment of the tool is expected to be carried out during the first quarter of 2018. Progress has continued with the development of the new Customer Account Registration, simplifying and optimising the most frequent operations.
This application is available both in branches and on tablets for relationship managers who travel frequently (Proteo Mobile), allowing 100% of customer on-boarding to be carried out remotely, without the customer having to visit the branch, thanks to the incorporation of a biometric signature.

Actions have been taken to improve the conversion of Sales and Customer Experience through the creation of new events (commercial and operational) and in achieving the best Digital experience for customers for those functions which are impacted by the implementation of new regulatory requirements.

In terms of Markets, all new technological capacities which are required to comply with new regulatory requirements arising from the Securities Market Reform Stage II and MiFID II have been developed. Additionally, a new platform has been implemented for the generation of reporting which is completely integrated with Banco Sabadell management circuits and multichannel capacity.

As regards Insurance Systems, a multi-simulator has been implemented which uses minimum information about the customer in order to generate a proposition centred on five products: Auto, Home, Health, Life and Funeral insurance, offering a package deal with optimum conditions, which allows relationship managers to interact with the generated proposition while negotiating with the customer, which makes the management of this type of operation extremely dynamic. Additionally, a new incidence management platform has been implemented with the branches, which allows incidences to be linked to their respective resolutions.

10 – TREASURY SHARE SALES AND BUYBACKS

For information on treasury sales and buybacks see Note 23 to the Annual Accounts.

11 – OTHER RELEVANT INFORMATION

a) Shares and share price information

Some indicators of the bank's share performance are shown in the following table:

	2017	2016	Change (%) year-on-year
Shareholders and buybacks			
Number of shareholders	235,130	260,948	(9.9)
Average number of shares (in millions)	5,570	5,452	2.2
Average daily buybacks (millions of shares)	27	30	(9.2)
Share price (euro)			
Start date	1.323	1.635	-
Maximum	1.960	1.810	-
Minimum	1.295	1.065	-
End date	1.656	1.323	-
Market capitalisation (million euros)	9,224	7,213	-
Market ratios			
Earnings per share (EPS) (euro)	0.14	0.13	-
Book value per share (euro)	2.41	2.37	-
Price / book value	0.69	0.56	-
PER (share price / EPS)	11.85	10.15	-

The bank's share price fell by +25.17% in 2017, a more significant increase than the average of listed Spanish banks (+13.18%), while the IBEX-35 depreciated by +7.40%.

b) Dividend policy

The bank's shareholder remuneration policy, in accordance with the bank's Articles of Association, is submitted to shareholders for approval on a yearly basis at the Annual General Meeting.

In 2016, the bank compensated shareholders with €0.05 per share through 100% cash remuneration. This distribution was carried out through an interim dividend of €0.02 per share and a supplementary dividend of €0.03 per share. This amount represented returns on the quoted share price of 3.8%.

On 26 October 2017, the Board of Directors agreed to distribute an interim dividend of the 2017 results totalling €111,628 thousand (€0.02 per share (gross)), payable on 29 December 2017.

Furthermore, the Board of Directors will submit a proposal at the Annual General Meeting on the distribution of a €0.07 (gross) dividend per share for 2017.

Over the coming years, Banco Sabadell anticipates maintaining cash payments as remuneration to shareholders.

c) Managing the credit rating

In 2017 the three agencies that assessed the credit quality of Banco Sabadell were S&P Global Ratings, Moody's and DBRS. The current ratings, and the last dates on which they were affirmed, are as follows:

	Long-term	Short-term	Outlook	Last updated
DBRS	BBB (high)	R-1 (low)	Stable	21.12.2017
S&P Global Rating	BBB-	A-3	Positive	27.06.2017
Moody´s Investors Service (*)	Baa3 / Baa2	P-3 / P-2	Positive/Stable	23.11.2017

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

On 27 June 2017 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB- from BB+ and its short-term rating to A-3 from B. The trend remains positive. With this rating upgrade, Banco Sabadell has once again attained the level of Investment Grade. S&P Global Ratings raised the rating as it considers that Banco Sabadell has continued to strengthen its solvency and that it continues to make progress in de-risking its balance sheet. Additionally, S&P Global Ratings raised its rating of Banco Sabadell's non-deferrable subordinated debt and preferred shares by two notches to BB and B, respectively.

On 23 November 2017, Moody's Investors Service (Moody's) confirmed the long-term deposits rating of Banco Sabadell of Baa2 with a stable trend and the long-term senior debt rating of Baa3 with a stable trend. The agency has valued the improvement in credit risk despite the high volume of problematic assets, the improved loss-absorbing capacity during the year and the adequacy of liquidity, considering the political situation in Catalonia.

On 21 December 2017, DBRS confirmed its rating of Banco Sabadell, with the long-term rating remaining at BBB (high) and the short-term rating remaining at R-1 (low) with a stable trend. The agency highlighted the growth in core revenue, despite the continued pressure of low interest rates, the reduction of problematic assets, although their volumes are still high when compared to the European average and the solid financial position, supported by its customers in Spain and in the UK. It also valued the sound level of capital, supported by an improvement in the generation of internal capital and the recent issuance of capital instruments.

During 2017, Banco Sabadell has met with the three agencies. At these visits and teleconferences, the discussions have addressed subjects such as the bank's strategy, TSB's performance since its acquisition, results, capital, liquidity, risks, credit quality, and the management of problematic assets.

d) Branch network

At the end of 2017, Banco Sabadell was operating 2,473 branches (including 551 TSB branches), a net change of -294 branches compared with 31 December 2016 (258 fewer branches excluding TSB), that is mainly due to the optimisation of the branch network.

Of the total number of Banco Sabadell Group branches, 1,404 were operating under the Sabadell brand (including 30 business banking and 2 corporate banking branches); 109 were operating as Sabadell Gallego (including 3 business banking branches); 143 under Banco Herrero in Asturias and Leon (including 3 business banking branches); 112 were SabadellGuipuzcoano branches (including 5 business banking branches); 10 were SabadellUrquijo branches; 102 were Solbank branches; and there were 593 international branches, including 7 operated by BancSabadell d'Andorra, 551 by TSB and 15 by Mexico. The distribution of the Group's branches in Spain by autonomous community is as follows:

Autonomous Community	Branches	Autonomous Community	Branches
Andalusia	135	Valencia	326
Aragon	31	Extremadura	6
Asturias	112	Galicia	109
Balearic Islands	57	La Rioja	8
Canary Islands	31	Madrid	184
Cantabria	5	Murcia	126
Castilla-La Mancha	23	Navarre	15
Castilla y Leon	59	Basque Country	92
Catalonia	559	Ceuta and Melilla	2

The Group is present in the following countries:

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
Andorra			•
France	•		
Poland		•	
Turkey	•		•
United Kingdom		•	
Americas			
Brazil		•	
Colombia		•	•
Dominican Republic	•	•	
Mexico			•
Peru		•	
United States		•	
Venezuela		•	
Asia			
China		•	
United Arab Emirates		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

Corporate Governance

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared an Annual Report on Corporate Governance for the year 2017, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of this Directors' Report, included herein as a separate document, and which includes a section on the extent to which the bank is following recommendations on corporate governance that currently exist in Spain.

Information on Corporate Governance is available on the Group's corporate website (www.grupobancosabadell.com), and can be accessed directly from the "Corporate Governance and remuneration policy" link on this website's homepage.

Glossary of terms on performance indicators

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking sector (Alternative Performance Measures, or “APMs”) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other entities.

Following the ESMA guidelines on APMs (ESMA/2015/1415es of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, the definition, calculation and reconciliation.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

Performance measure		Definition and calculation	Reconciliation (in millions of euros)	2017	2016
ROA	(*)(**)	Consolidated profit/(loss) during the year / average total assets. Considers linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds except at the year-end reporting date. The total average assets are the weighted moving average of total assets during the last twelve calendar months.	Average total assets	214,356	206,265
			Consolidated profit/(loss) during the year	805	716
			ROA (%)	**0.38**	**0.35**
ROE	(*)(***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	Average own funds (excl. net profit attributable to the Group)	13,143	12,717
			Profit attributable to the Group	801	710
			ROE (%)	**6.10**	**5.59**
RORWA	(*)	Profit/(loss) attributable to the Group / risk-weighted assets (RWAs).	Risk-weighted assets (RWAs)	77,638	86,070
			Net profit attributable to the Group	801	710
			RORWA (%)	**1.03**	**0.83**
ROTE	(*)(***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date. The denominator excludes goodwill.	Average own funds (excl. net profit attributable to the Group and intangible assets)	11,025	10,570
			Profit attributable to the Group	801	710
			ROTE (%)	**7.27**	**6.72**
Cost-to-income	(*)	Staff expenses and other general administrative expenses/gross income. To calculate this ratio, recurring net trading income based on the Group's best estimates has been considered, and it has excluded the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the income generated by the early call of TSB's Mortgage Enhancement portfolio. The denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds, except at the year-end reporting date.	Net interest income	3,802	3,838
			Return on capital instruments (dividends)	7	10
			Adjusted share of profit or loss of entities accounted for using the equity method	55	75
			Share of profit or loss of entities accounted for using the equity method	309	75
			VIF adjustment	(254)	-
			Net fees and commissions	1,223	1,149
			Recurring net trading income	560	610
			Net trading income	614	610
			Adjustment for non-recurring NTI (mortgage enhancement)	(54)	-
			Exchange differences (net)	8	17
			Other operating income and expenses	(227)	(227)
			Adjusted gross income	**5,430**	**5,471**
			Administrative expenses	(2,723)	(2,663)
			Cost-to-income ratio (%)	**50.15**	**48.68**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
Other operating income and expenses	Comprised of the following accounting items: other income and other operating expenses as well as income arising from assets and expenses arising from liabilities under insurance and reinsurance contracts.	Other operating income	338	287
		Other operating expenses	(546)	(467)
		Income arising from assets under insurance and reinsurance contracts	67	166
		Expenses arising from liabilities under insurance and reinsurance contracts	(86)	(213)
		Other operating income and expenses	**(227)**	**(227)**
Other provisions and impairments	Comprised of the following accounting items: Impairment or reversal of impairment of investments in joint ventures and associates, impairment or reversal of impairment on non-financial assets, investment property included in the heading of net gains or losses on derecognition of non-financial assets and equity interests and profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, excluding equity interests.	Impairment or reversal of impairment of investments in joint ventures and associates	(1)	(4)
		Impairment or reversal of impairment on non-financial assets	(799)	(558)
		Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(139)	(315)
		Gains on the sale of equity interests	(17)	-
		Profit/(loss) on sales of investment property	(15)	-
		Other provisions and impairments	**(971)**	**(876)**
Capital gains on asset sales and other revenue	Comprised of the following accounting items: gains or losses on derecognition of non financial assets and equity interests, net, excluding investment property and equity interests included in the heading of profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.	Gains or losses on derecognition of non financial assets and equity interests, net	401	35
		Gains on the sale of equity interests	17	-
		Profit/(loss) on sales of investment property	15	-
		Capital gains on asset sales and other revenue	**433**	**35**
Pre-provisions income	Comprised of the following accounting items: gross income plus administrative and depreciation expenses.	**Gross income**	**5,737**	**5,471**
		Administrative expenses	(2,723)	(2,663)
		Staff expenses	(1,574)	(1,663)
		Other general administrative expenses	(1,149)	(1,000)
		Depreciation expenses	(402)	(396)
		Pre-provisions income	**2,612**	**2,411**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016	2016 (*)
Customer spread	Difference between returns and expenses of customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer loans and credit. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Customer lending (net)			
		Average balance	136,938	138,202	
		Profit/(loss)	4,102	4,361	
		Interest rate (%)	3.00	3.16	
		Customer deposits			
		Average balance	138,258	134,792	
		Profit/(loss)	(266)	(525)	
		Interest rate (%)	(0.19)	(0.39)	
		Customer spread	**2.81**	**2.77**	
Other assets	Comprised of the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance and reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Derivatives - hedge accounting	374	535	
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	48	1	
		Tax assets	6,861	7,056	
		Other assets	2,976	4,437	
		Non-current assets and disposal groups classified as held for sale	2,562	4,579	
		Other assets	**12,821**	**16,608**	
Other liabilities	Comprised of the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Derivatives - hedge accounting	1,004	1,106	
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	(5)	64	
		Tax liabilities	532	779	
		Other liabilities	741	935	
		Liabilities included in disposal groups classified as held for sale.	21	2,213	
		Other liabilities	**2,293**	**5,097**	
Gross customer lending	Includes loans and advances to customers, excluding insolvency provisions and country risk reserves.	Loans and credit secured with mortgages	84,267	88,431	83,481
		Loans and credit secured with other collateral	2,315	2,263	2,263
		Trade credit	5,802	5,530	5,526
		Financial leasing	2,316	2,169	2,169
		On-demand loans and other	42,822	42,165	40,850
		Gross performing loans	**137,522**	**140,557**	**134,288**
		Non-performing assets (customers)	7,867	9,642	9,631
		Accrual adjustments	(66)	(112)	(120)
		Gross customer lending excl. repos	**145,323**	**150,087**	**143,799**
Gross performing loans	Includes gross lending to customers, excl. repos, accrual adjustments and non-performing assets.	Repos	2,001	8	8
		Gross customer lending	**147,325**	**150,095**	**143,807**
		Insolvency provisions and country risk reserves	(3,727)	(4,921)	(4,781)
		Loans and advances to customers	**143,598**	**145,174**	**139,026**

(*) Excluding SUB, Mediterráneo Vida and Mortgage Enhancement portfolio.

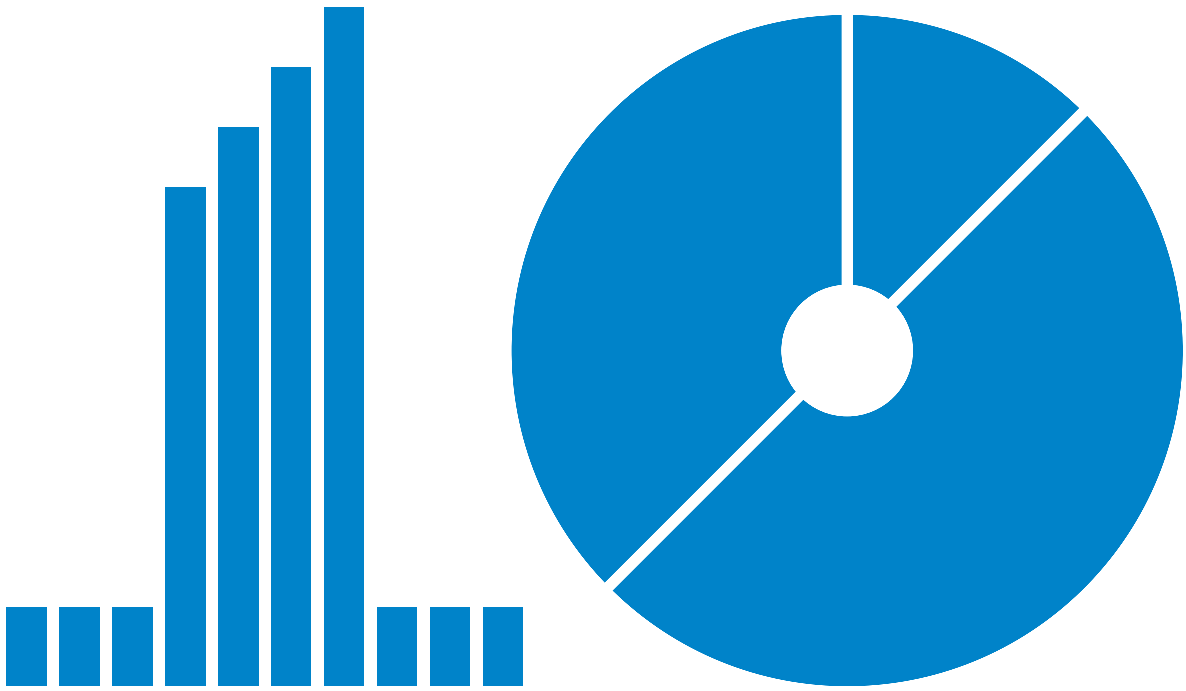
Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016	2016 (*)
		Financial liabilities at amortised cost	**204,045**	**192,011**	**185,853**
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities placed by the branch network (Banco Sabadell non-convertible bonds, promissory notes and others).	Non-retail financial liabilities	(71,949)	(58,554)	(56,291)
		Deposits from central banks	(27,848)	(11,828)	(11,828)
		Deposits from credit institutions	(14,171)	(16,667)	(16,121)
		Institutional issuances	(26,999)	(27,491)	(25,786)
		Other financial liabilities	(2,932)	(2,568)	(2,555)
		On-balance sheet customer funds	**132,096**	**133,457**	**129,562**
Off-balance sheet customer funds	Includes investment funds, equity management, pension funds and insurance products sold by the Group.	Customer deposits	135,307	134,415	130,329
		Sight accounts	98,020	92,011	88,533
		Term deposits including deposits redeemable at notice and hybrid financial liabilities	32,425	40,154	39,737
		Repos	4,750	2,072	1,882
		Accrual adjustments and derivatives hedging	113	178	177
On-balance sheet funds	Includes accounting sub-headings of customer deposits, marketable debt securities, subordinated liabilities and liabilities under insurance and reinsurance contracts.	Borrowing operations and other marketable securities	21,250	24,987	24,987
		Subordinated liabilities (**)	2,537	1,546	1,546
		On-balance sheet funds	**159,095**	**160,948**	**156,863**
		Investment funds	27,375	22,594	22,594
		Equity management	3,999	3,651	3,651
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	Pension funds	3,987	4,117	4,117
		Insurance products sold by the Group	9,965	10,243	10,243
		Total off-balance sheet funds	**45,325**	**40,606**	**40,606**
		Funds under management	**204,420**	**201,554**	**197,469**
		Loans and advances:	**7,867**	**9,642**	
Non-performing loans	The sum of accounting headings of non-performing assets within loans and advances to customers together with non-performing guarantees given.	to customers	7,867	9,642	
		to central banks and credit institutions	-	-	
		Non-performing contingent liabilities	**58**	**104**	
		Non-performing loans	**7,925**	**9,746**	

(*) Excluding SUB, Mediterráneo Vida and Mortgage Enhancement portfolio.
(**) These are subordinated liabilities of debt securities.

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
NPL coverage ratio	Gives the percentage of non-performing loans covered by provisions. Its calculation gives the ratio of impairment allowances for loans and advances to customers (including contingent liability reserves) / total non-performing loans (including non-performing contingent liabilities).	Non-performing loans	7,925	9,746
		Provisions	3,625	4,614
		NPL coverage ratio	**45.7%**	**47.3%**
		Floor clause provisions	201	410
		Provisions including floor clauses	3,825	5,024
		NPL coverage ratio including floor clauses	**48.3%**	**51.5%**
Foreclosed available-for-sale real estate assets coverage ratio	This calculation gives the ratio between impairment allowances for foreclosed real estate assets/ total foreclosed real estate assets. The amount of foreclosed real estate assets includes properties classified in the portfolio of non-current assets and disposal groups classified as held for sale.	Real estate assets	7,393	9,035
		Provisions	3,998	4,297
		Foreclosed available-for-sale real estate assets coverage ratio	**54.1%**	**47.6%**
Non-performing assets	The sum of non-performing loans and foreclosed real estate assets.	Non-performing loans	7,925	9,746
		Real estate assets	7,393	9,035
		Non-performing assets	**15,318**	**18,781**
		Provisions for non-performing loans	3,625	4,614
		Provisions for real estate assets	3,998	4,297
		Provisions for non-performing assets	**7,623**	**8,911**
		NPA coverage ratio	**49.8%**	**47.4%**
		Provision for floor clauses	201	410
		Provisions including floor clauses	7,824	9,321
		NPA coverage ratio including floor clauses	**51.1%**	**49.6%**
NPL ratio	Expresses non-performing loans as a percentage of total customer lending. All calculation components correspond to headings or sub-headings on financial statements. Calculated as the ratio between non-performing loans, including contingent liabilities / total customer loans and contingent liabilities. Non-performing loans are described in this table. Contingent liabilities include guarantees given and contingent commitments given.	Non-performing loans	7,925	9,746
		Loans to customers and contingent liabilities	154,050	158,617
		NPL ratio	**5.14%**	**6.14%**
Loan to deposits ratio	Net loans and receivables divided by retail funding. Calculated by subtracting credit mediation from the numerator. Retail funding and customer funds, defined in this table, are used as the denominator.	Loans and advances to customers	143,598	145,174
		Repos	(2,001)	(8)
		Credit mediation	(3,835)	(4,900)
		Adjusted net lending	**137,761**	**140,266**
		On-balance sheet customer funds	**132,096**	**133,457**
		Loan to deposit ratio	**104.3%**	**105.1%**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding at the reporting date.	Average number of shares (in millions)	5,570	5,452
		Share price	1.656	1.323
		Market capitalisation	**9,224**	**7,213**
Earnings per share (EPS)	This divides net profit attributed to the Group by the average number of shares outstanding at the reporting date. The numerator uses the linear annualisation of profits obtained to date adjusted by the Additional Tier I coupon amount, after tax, recognised in own funds and adjusted by the relative accrual of contributions to deposit guarantee fund and resolution fund except at the year-end reporting date.	Average number of shares (in millions)	5,570	5,452
		Profit attributable to the Group	801	710
		Adjustment for accrued AT1	(23)	-
		Adjusted profit attributed to the Group including accrued AT1	778	710
		Earnings per share	**0.14**	**0.13**
Book value per share	Calculated by dividing the book value by the average number of shares at the reporting date. Book value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	Average number of shares (in millions)	5,570	5,452
		Share price	1.656	1.323
		Adjusted own funds	13,449	12,926
		Own funds	13,426	12,926
		Adjustment for accrued AT1	23	-
Price/book value	Calculated by dividing the share price by the book value.	**Book value per share (€)**	**2.41**	**2.37**
		Earnings per share	0.14	0.13
		Price/book value	**0.69**	**0.56**
Price/earnings ratio	Calculated by dividing the share price by the earnings per share.	**Price/earnings ratio**	**11.85**	**10.15**

Contact



Contact

Press room
+34 937 485 019
BSpress@bancsabadell.com

Investor Relations
The Leadenhall Building
Level 37
122 Leadenhall Street
London EC3V 4AB
+44 (0) 2071 553 888
investorrelations@bancsabadell.com

Shareholder Relations
+34 937 288 882
accionista@bancsabadell.com

Customer Care Service (SAC)
Centro Banco Sabadell
Sena, 12
08174 Sant Cugat del Vallès
+ 34 902 323 000
sac@bancsabadell.com

Regional divisions

Catalonia Region
Av. Diagonal, 407 bis
08008 Barcelona
+34 902 030 255

Central Region
Velázquez, 50
28001 Madrid
+34 913 217 159

Eastern Region
Pintor Sorolla, 6
46002 Valencia
+34 965 906 979

Northwest Region
Fruela, 11
33007 Oviedo
+34 985 968 020

Northern Region
Ercilla, 24
48011 Bilbao
+34 944 224 062

Southern Region
Martínez, 11
29005 Málaga
+34 952 122 350

Banco Sabadell registered offices
Av. Óscar Esplà, 37
03007 Alicante

Corporate headquarters
Torre Banco Sabadell
Av. Diagonal, 407 bis
08008 Barcelona

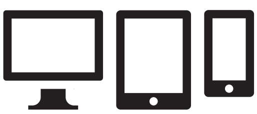
CBS Sant Cugat
Sena, 12
08174 Sant Cugat del Vallès

CBS Madrid
Isabel Colbrand, 22
Las Tablas
28050 Madrid

CBS Agua Amarga
Av. de Elche, 178
03008 Alicante

General information
+34 902 323 555
info@bancsabadell.com
www.grupobancosabadell.com

facebook.com/bancosabadell
@bancosabadell
App General Meeting of Shareholders 2017



This annual report is available on the group's website (www.grupobancosabadell.com), along with the full version and other reports and corporate policies.
If you have a smartphone or tablet, you can access these reports on your device using the QR code.

The publisher's legal name is Banco de Sabadell, S.A. and its commercial name is Banco Sabadell.
It is registered in the Alicante Mercantile Registry, in tome 4070, folio 1, sheet A-156980 and has its registered offices in Alicante, Avenida Óscar Esplà, 37.

Credits

Creative Director
Mario Eskenazi

Design
Gemma Villegas
Marta Claverol

Photography
Elena Claverol

Pages 4 and 16

Sixeart (Sergio Hidalgo Paredes)
Crisis numérica 2012
Spray paint on wall
255 × 1,730 cm
Banco Sabadell collection

Depósito legal: B-17201-2012

Sabadell