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.

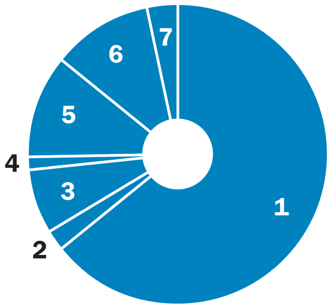
The institution continued to access the capital markets on a normal basis. €3,206 million in capital market funding matured in 2017. In contrast, Banco Sabadell issued €5,194.6 million. Specifically, it issued €1,000 million in 10-year mortgage covered bonds in April, plus a €100 million tap in October; €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.

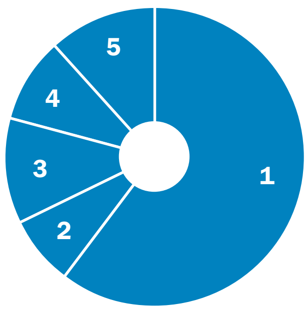
In 2016, the Bank of England implemented a number of measures to support economic growth. They included a reduction in the bank base rate and the introduction, in August 2016, of the Term Funding Scheme (TFS), designed to encourage lending by enabling UK banks to borrow for four years against eligible 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.