

BANCO DE SABADELL, S.A. AND COMPANIES FORMING BANCO SABADELL GROUP

Consolidated annual accounts
for the year ended 31 December 2017

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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		-	-
<i>Memorandum item: loaned or pledged as security with sale or pledging rights</i>		<i>20,245</i>	-
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		-	-
<i>Memorandum item: loaned or pledged as security with sale or pledging rights</i>		-	-
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
<i>Memorandum item: loaned or pledged as security with sale or pledging rights</i>		<i>2,814,601</i>	<i>6,761,231</i>
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
<i>Memorandum item: loaned or pledged as security with sale or pledging rights</i>		<i>2,028,220</i>	<i>855,145</i>
Held-to-maturity investments	8	11,172,474	4,598,190
<i>Memorandum item: loaned or pledged as security with sale or pledging rights</i>		<i>5,673,632</i>	-
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
<i>Of which: leased out under operating leases</i>		-	-
<i>Memorandum item: acquired through finance leases</i>		-	-
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
<i>Memorandum item: subordinated liabilities</i>		-	-
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
<i>Memorandum item: subordinated liabilities</i>		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		-	-
<i>Memorandum item: capital not called up</i>		-	-
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)
<i>Profit/(loss) attributable to owners of the parent company</i>		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

	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
Sources of changes in equity														
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-based 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

	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
Sources of changes in equity														
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 31/12/2016	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:
<i>Approved for application in the EU</i>		
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
<i>Not approved for application in the EU</i>		
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.

Not approved for implementation in the EU

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 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 (K_e) 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: " $K_e = R_f + \beta (P_m) + \alpha$ ", where: K_e = Required return or cost of capital; R_f = Risk-free rate; β = Company's systemic risk coefficient; P_m = 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 an 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
<i>Of which risk drawn down</i>	<i>21,091</i>	-	<i>18,460</i>	-
<i>Of which guarantees and contingent liabilities</i>	<i>620</i>	-	<i>657</i>	-
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
<i>Of which risk drawn down</i>	5,377	1,705	3,119	1,698
<i>Of which guarantees and contingent liabilities</i>	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
<i>Of which financing for construction and real estate development (business in Spain)</i>	2,319	1,211	1,989	1,210
<i>For which credit risk has been transferred</i>	1,855	969	1,591	968
<i>For which credit risk has not been transferred</i>	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:

	2017		
	Post credit risk transfer	Credit risk transfer	Pre credit risk transfer
Gross lending excluding repos	145,323	1,353	146,676
<i>Of which doubtful assets</i>	<i>7,867</i>	<i>2,488</i>	<i>10,355</i>
<i>Of which other investments</i>	<i>137,456</i>	<i>(1,135)</i>	<i>136,321</i>
Net lending excluding repos	141,597	-	141,597
<i>Of which doubtful assets</i>	<i>7,867</i>	<i>2,488</i>	<i>10,355</i>
<i>Of which other investments</i>	<i>137,456</i>	<i>(1,135)</i>	<i>136,321</i>
<i>Of which allowances</i>	<i>(3,726)</i>	<i>(1,353)</i>	<i>(5,079)</i>
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.

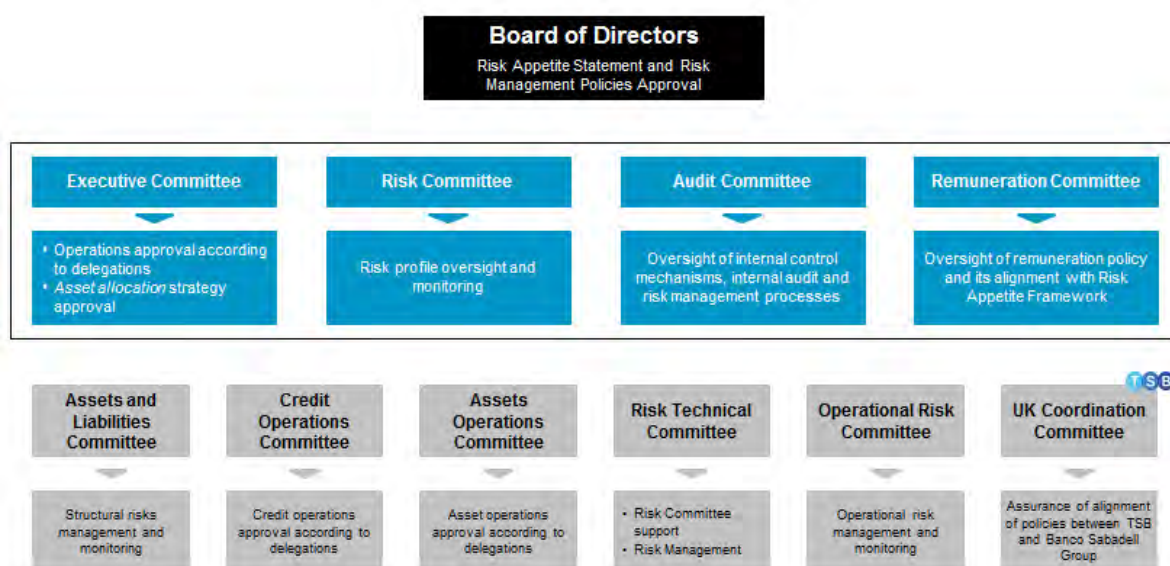
- The Board of Directors is committed to risk management and control procedures: it approves policies, limits, the management model and procedures, as well as methodologies for risk measurement, monitoring and control.
- The Group maintains a risk culture that is embedded throughout the entity, and has 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
<i>Of which classified as doubtful</i>	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
<i>Of which classified as doubtful</i>	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
<i>Of which classified as doubtful</i>	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
<i>Of which: guarantees doubtful risks</i>	<i>3,983,614</i>	<i>4,500,350</i>
Value of other collateral	12,462,899	8,911,554
<i>Of which: guarantees doubtful risks</i>	<i>355,839</i>	<i>485,640</i>
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 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
<i>Settled through clearing houses</i>	<i>49,017</i>	<i>25,140</i>
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 its 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	5,927,569	5,093,749	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	42,554	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	-	1,074,548	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	2,523,560
Other liabilities	-	69,001	108,638	603,812	528,657	331,588	228,519	145,445	485,948	2,601,608
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	338,373	4,126,377	5,729,403	14,821,219	13,191,790	11,073,040	9,404,320	8,694,348	59,851,403	127,228,271
Debt securities	-	42,087	4,038	962,006	786,435	871,977	723,343	1,678,589	16,408,306	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	1,754,037	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	3,998,428	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:	79,837,405	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	79,837,405	15,813,575	12,707,876	28,293,988	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)	(16,650,648)
Contingent risks										
Financial guarantees	177	69,575	86,285	355,536	110,901	117,505	53,501	101,541	1,278,547	2,173,668

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
<i>Of which: TSB</i>	<i>564</i>	<i>-</i>
Promissory notes and ECP	2,037	2,612
Senior debt	1,669	1,741
Subordinated debt and preference shares	2,497	1,514
<i>Of which: TSB</i>	<i>434</i>	<i>450</i>
Securitisation bonds	2,820	5,653
<i>Of which: TSB</i>	<i>925</i>	<i>3,433</i>
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:

	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

€ million

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	18,613,945	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	71,158	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.

Interest rate sensitivity	Instant and parallel increase of 100 b.p's	
	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:

Impact on net interest margin 2nd year	Instant and parallel increase of 100 bps	
	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 its 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 2002/87/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
<i>CET1 (%)</i>	13.4	12.0	
Preference shares, convertible bonds and deductions	697,882	-	-
Tier one additional resources	697,882	-	-
Tier I additional (%)	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: <ul style="list-style-type: none"> - An estimate of pre-payment rates - Issuers' credit risk - Current market interest rates 	<ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - Estimated cash flows for the company - Sector risk for the company - Macroeconomic inputs 	<ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - Monte Carlo simulations 	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. <ul style="list-style-type: none"> - SABR: stochastic volatility model. 	For equity derivatives, inflation, currencies and commodities: <ul style="list-style-type: none"> - Historical volatilities - Historical correlations - PD for calculation of CVA and DVA (b)
	For credit derivatives: <ul style="list-style-type: none"> - Intensity models 	These models assume a default probability structure resulting from term-based default intensity rates	For credit derivatives: <ul style="list-style-type: none"> - Estimated credit spreads of the issuer or a similar issuer - Historical volatility of credit spreads
	For interest rate derivatives: <ul style="list-style-type: none"> - Standard Model - Shifted Libor Market Model 	These models assume that: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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

		2017		2016	
	Note	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

		2017		2016	
	Note	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

		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

		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
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	-

	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

Appraisal company	Non-current assets held for sale		Tangible assets	
	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:

	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:

	2017	2016
Assets		
<i>Derivatives held for trading</i>	<i>1,440,743</i>	<i>1,834,495</i>
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		
<i>Derivatives held for trading</i>	<i>1,361,361</i>	<i>1,915,914</i>
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
<i>Of which: Contingent lease payments recognised in income</i>	<i>71,601</i>	<i>74,007</i>
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
<i>For funding operations (A)</i>	75,706	26,238	142,996	41,496
<i>For lending operations (B)</i>	1,870	8,079	4,567	13,115
Cash flow hedges	227,305	152,649	339,357	216,022
<i>For future fixed-income transactions (C)</i>	41,039	22,502	108,078	63,746
<i>For inflation-linked bonds (D)</i>	-	15,216	2,687	18,267
<i>For exchange rate (E)</i>	74,877	-	88,344	314
<i>For Securitisation operations (F)</i>	111,343	113,812	128,850	133,214
<i>Rest</i>	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
<i>For funding operations (H)</i>	3,268	45,098	-	72
<i>For lending operations (I)</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:

	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 through 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
<i>Of which: financial investments</i>	<i>8,952,022</i>	<i>9,163,245</i>
Total liabilities	8,748,778	8,920,224
<i>Of which: technical provisions</i>	<i>8,367,112</i>	<i>8,501,287</i>
Result of the technical life account	777,165	105,434
<i>Of which: premiums allocated to the year</i>	<i>2,594,082</i>	<i>4,366,127</i>
<i>Of which: claims ratio for the year</i>	<i>(2,555,765)</i>	<i>(4,297,929)</i>
<i>Of which: technical financial yield</i>	<i>156,735</i>	<i>133,934</i>

(*) 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

		Property	Furnishings and equipment	Investment property	Assets leased out under operating leases	Total
Cost:						
	Note					
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 assets*” 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 prejudice 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)I	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	-	-	-	-	-	-
	(451,163)	85,240	(365,923)	(382,349)	33,047	(349,302)
Items that may be reclassified to profit or loss						
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 €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 €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% or 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
		(139,447)	(314,519)
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, net			
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				Total Group
	Banking business Spain	Re asset transformation	Banking business UK (*)	Other geographies (**)	
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				Total Group
	Banking business Spain	RE asset transformation	Banking business UK (*)	Other geographies (**)	
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).

	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

SEGMENTS	Consolidated					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
	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:

SEGMENTS	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
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.

SEGMENTS	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
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
<i>Effective tax rate</i>	<i>5%</i>	<i>30%</i>

(*) 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:

<u>Concept</u>	<u>Period</u>
Withholding / Payment on account	07/2012 to 12/2014
Work/Professional Remuneration	
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 García-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 independent 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-Zúñiga. 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					
			Direct	Indirect		Profit/(loss)	Dividends paid		reserves or losses in consolidated companies	Group consolidated profit/(loss)				
						Capital	Reserves		Total assets					
									(b)	(c)				
AC Dos Lerdia, S.L.U.	Real Estate Development	Barcelona	-	100.00	Si	2,793	(220)	-	2,641	2,408	-	12/17		
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real Estate	Alicante	100.00	-	Si	100	10,173	(28)	-	10,270	20,038	(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 , UCITS		Barcelona	100.00	-	Si	3,601	176	1,401	-	6,051	4,445	(669)	1,401	12/17
S.A.Unipersonal		Barcelona	-	61.76	Si	52,972	(3)	(6)	-	52,967	52,972	(2)	(4)	12/17
Aurica Convestments S.L	Holding	Barcelona	100.00	-	Si	14,200	20,768	361	-	35,350	17,492	33,755	(5,301)	12/17
Aurica XXI, S C R De R S , S A U	Other regulates companies	Barcelona	100.00	-	Si	1,598	838	(90)	-	3,025	2,439	710	(90)	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	-	-	Si	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
Bancsabaddell 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	-	Si	100	(2,469)	519	-	2,022	299	(2,668)	519	12/17
Bansabadell Financiación, E.F.C., S.A	Credit Institution	Barcelona	100.00	-	Si	24,040	28,983	207	-	700,359	24,040	28,983	207	12/17
Bansabadell Inversió Desenvolupament, S.A.U.	SPE	Barcelona	100.00	-	Si	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	Si	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	-	Si	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	-	Si	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	-	Si	6,506	2,635	227	-	10,514	9,272	(4,095)	348	12/17
Bstartup 10, S.L.U.	SPE	Barcelona	-	100.00	Si	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	-	Si	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	-	Si	61	138	29	-	100,979	2,059	125	29	12/17
Cam International Issues, S.A.U.	Other regulates companies	Alicante	100.00	-	Si	61	12	(3)	360	70	114,079	(50,206)	(8,189)	12/17
Caminsa Urbanismo, S.A.U.	Real Estate	Alicante	-	100.00	Si	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 undertakings, Funds and similar financial companies	Barcelona	87.35	-	No	7,942	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		Consolidated taxation	Company data (a)			Group investment	Contribution to reserves or losses in consolidated companies		Balance consolidated profit/(loss) sheet date		
			Direct	Indirect		Profit/(loss)	Dividends paid	Total Assets		companies	profit/(loss)			
Ederra, S.A.	Real Estate	Gupuzcoa	97.85	-	No	2,036	30,975	(340)	-	32,897	36,062	(809)	12/17	
Sabadell Asset Management Luxembourg, S.A. (2)	Other regulates companies	Luxembourg	22.00	78.00	No	125	492	71	-	776	336	74	12/17	
Europea Pall Mail Ltd.	Real Estate	London	100.00	-	No	20,843	(1,125)	(297)	-	19,529	20,843	(805)	12/17	
Fonmed 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	(207,65)	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.P.A.U.	SPE	Alicante	100.00	-	Si	13,000	119,340	108,358	36,269	132,494	255,398	55,478	471	12/17
Gupuzcoano Promoción Empresarial, S.L.	SPE	Gupuzcoa	-	100.00	No	53	(77,255)	1,906	-	7,960	7,160	(104,488)	(1,201)	12/17
Gupuzcoano 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
Hobatear, S.A.U.	Real Estate	Barcelona	-	100.00	Si	60	672	18	-	756	414	672	18	12/17
Hondarribi, S.L.	SPE	Gupuzcoa	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 Tauli, 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 María 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	4,482	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	(683)	-	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	-	502,090	589,523	(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 undertakings, Funds and Real Estate	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
Marifamendi, 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 Arranamientos 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		Consolidated taxation		Company data (a)		Total assets	Group investment	Contribution to reserves or losses in consolidated companies		Balance consolidated profit/(loss) sheet date	
			Direct	Indirect	Capital	Reserves	Profit/(loss)	Dividends paid			(b)	(c)		
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 Jaufri, 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 consolidated profit/(loss) sheet date			
			Direct	Indirect		Profit/(loss)	Dividends paid (b)	Total assets (c)						
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
Ripollat Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	20	-	-	-	-	20	-	-	12/17
Rubi Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	3	(3)	(3)	-	187,694	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 - S.G.I.I.C.	Credit Institution	São Paulo	99.99	0.01	No	905	(810)	-	-	118	250	(262)	-	12/17
Assessoria Comercial Ltda.	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 Capital S.A De C.V. Sofom ENR.	Credit Institution	Barcelona	100.00	-	Si	35,720	56,905	17,512	-	1,095,561	72,232	25,315	17,512	12/17
Sabadell Consumer Finance, S.A.U. (1)	Credit Institution	Madrid	100.00	-	Si	70	1,510	(310)	892	1,546	9,373	67	(310)	12/17
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid	-	50.97	No	300	905	264	244	2,136	300	586	135	12/17
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulates companies	Andorra	-	-	No	332	(166)	(1,991)	-	41,371	332	(165)	(2,020)	12/17
Sabadell Information Systems Limited	Provision of technology services	London	100.00	-	No	332	(166)	(1,991)	-	41,371	332	(165)	(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)	(15,672)	12/17
Sabadell Real Estate Development, S.L.U.	Real Estate	Barcelona	100.00	-	Si	15,807	(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
Solvía 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
Solvía Pacific, S.A. De C.V.	Real Estate	México	-	100.00	No	28,947	(17,513)	268	-	11,721	29,164	(11,879)	288	12/17
Solvía 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	16,823	(19,826)	2,099	12/17
Tratamientos Y Aplicaciones, S.L.U.	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) sheet date
			Direct	Indirect		Profit/(loss)	Dividends paid			
						(b)	(c)			
TSB Coverd Bonds Holdings Limited	Holding	London	-	100.00	No	1	-	1	-	12/17
TSB Scotland (Investment) Nominees Limited	Other regulates companies	Scotland	-	100.00	No	1	-	1	-	12/17
TSB Scotland Nominees Limited	Other regulates companies	Scotland	-	100.00	No	1	-	1	-	12/17
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulates companies	Madrid	-	100.00	Si	3,806	3,383	3,084	3,835	12/17
Urumea Gestión, S.L.	Other investees with their own business	Gipúzcoa	-	100.00	No	9	(5)	2	(12)	12/17
VeA Rental Homes SOCIMI, S.A	Real Estate	Barcelona	100.00	-	No	5,000	(5)	56,414	(5)	12/17
Verum Inmobiliaria Urbanismo Y Promoción, S.A	Real Estate	Barcelona	-	97.20	Si	12,000	(43,171)	17,123	(34,678)	12/17
Vitigudina Fv, S.L.	Engineering technical services	Madrid	-	100.00	Si	-	-	-	-	12/17
Xunqueira Eólica, S.L.	Wind energy	Barcelona	-	100.00	No	1,548	(3,477)	13,073	(1,999)	12/17
Total							265,182	13,800,476	4,220,973	493,149

(1) Before Sabadell Consumer Finance, E.F.C., S.A.U.

(2) Before Europa 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		Company data (a)			Group investment	Contribution to reserves or losses in consolidated companies		Balance sheet date
			Direct	Indirect	Profit/loss	Dividends paid	Total assets		Group consolidated companies	Contribution to profit/(loss)	
					(b)	(c)					
Aurica III, Fondo De Capital Riesgo	Other regulates companies	Barcelona	-	48.15	(630)	-	33,232	16,940	(303)	(636)	12/17
Aurica IIIB, Soc. De Capital Riesgo, S.A.	Other regulates companies	Barcelona	-	41.67	(215)	-	21,844	9,465	(102)	(264)	12/17
Arrian Bakers, S.L.	Other associated	Barcelona	-	22.41	(6,396)	-	35,348	2,000	-	-	12/16
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulates companies	Madrid	50.00	-	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	-	67,278	12,582	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	601,466	9,485,336	27,106	12,301	302,037	12/17
Ente Renovables, S.L.	SPE	Barcelona	-	62.11	(7,050)	(411)	42,386	4,379	(4,379)	-	09/17
Esus Energía Renovable, S.L. Services	Portevendra	Portevendra	-	45.00	(50)	(65)	2,024	23	(23)	-	12/17
Financiera Iberoamericana, S.A.	Credit Institution	La Habana	50.00	-	38,288	3,064	747	81,416	1,970	1,532	12/17
Flex Equipos De Descanso, S.A.	Manufacturing	Madrid	-	19.16	(3,291)	12,048	222,702	-	-	-	10/17
Gate Solar Gestión, S.L.	Services	Alava	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)	-	27,425	7,675	(2,012)	-	12/16
Grupo Luxiona, S.L.	Other investees with their own business	Barcelona	-	20.00	(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	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	(165)	09/17
Nueva Pescanova, S.L.	Wholesale trade	Portevendra	23.76	-	147,614	(11,819)	987,107	-	-	-	10/17
Parque Eólico Los Ausines, S.L.	Alternative energy production	León	-	50.00	(728)	2,631	45,354	2,282	(303)	1,316	12/17
Plaxic Estelar, S.L.	Real Estate	Barcelona	-	45.01	3	(118)	31,994	2,845	(6,918)	(53)	10/17
Ribera Salud, S.A.	Services	Valencia	-	50.00	9,518	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	(70)	44,715	16,400	3,052	-	11/17
Sbd Creixent, S.A.	Real Estate	Barcelona	23.05	-	5,965	(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	417	5,413	422	1,935	202	12/17
Societat D'inversió Dels Enginyers, S.L.	SPE	Barcelona	-	35.78	2,555	(792)	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 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 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				% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition	% Voting rights acquired					
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
Edica 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 Tamarit, Ale	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
Tremor 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 Cri-900, A.I.E.	Associate	12/15/2017	25.00%	-	(2)	Direct	Equity method	b
Aviones Gabriel Cri-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
Aviones Sella Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	-	-	Direct	Equity
Bansabadell Holding, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Direct	Full consolidation
Creativ Hotel Catarina, Sa	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hi Partners Holdco Value Added, S.A.U.	Subsidiary	12/22/2017	100.00%	-	50,655	-	Indirect	Full consolidation
Hotel Atocha 49, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Avenida Rhode 28, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Carretera N 632, S.L.U.	Subsidiary	12/20/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Héroe De Sostoa 17, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Jardín Tropical, Slu	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Notario Alemany 26, S.L.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Paseo Marítimo 80, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Hotel Sa Torre Mallorca, S.L.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Ifa Beach Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Ifa Continental Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Ifa Hotel Dunamar, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Notario Alemany 26 Properties, S.L.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Tropical Partners, S.L.	Associate	12/31/2017	49.99%	-	-	-	Indirect	Equity
Viacarla Inversiones, S.A.U.	Subsidiary	12/27/2017	100.00%	-	(4,483)	-	Indirect	Full consolidation
Xeresa Golf, Sa	Subsidiary	12/31/2017	80.00%	-	-	-	Indirect	Full consolidation
Hotel Malaga Palacio S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	-	Indirect	Full consolidation
Aurica III, Fondo De Capital Riesgo	Subsidiary	12/31/2017	-	48.15%	-	-	Indirect	Full consolidation
Aurica IIIB, Soc. De Capital Riesgo, S.A	Subsidiary	12/31/2017	-	41.67%	-	-	Indirect	Full consolidation
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)			Dividends paid (c)	Total assets	Investment	Group consolidated companies	Contribution to reserves or losses in companies	Contribution to Group consolidated profit/(loss) sheet date
			Direct	Indirect		Reserves	Profit/(loss)	(b)						
AC Dos Lerdia, 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 Valles	-	100.00	No	11,400	(25,005)	116	-	6,389	15,939	-	(16,185)	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
Assegurances Segur Vida, S.A.U.	Other regulates companies	Andorra	-	50.97	No	602	311	68	-	35,843	602	-	159	34
Aurica Capital Desarrollo, S.G.E.I.C., UCITS	Other regulates companies	Barcelona	100.00	-	Si	3,601	92	84	-	4,245	4,445	-	(753)	84
Aurica III, Fondo de Capital Riesgo	Other regulates companies	Barcelona	-	61.31	No	3,329	-	(578)	-	2,757	2,041	-	-	(354)
Aurica IIIB, Soc. de Capital Riesgo, S.A.	Other regulates companies	Barcelona	-	63.00	No	1,200	(2)	(229)	-	974	756	-	(1)	(144)
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	17,492	-	37,122	(3,367)
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)
Banco De Sabadell, S.A.	Credit Institution	Sabadell	-	-	Si	702,019	11,662,454	380,557	-	168,590,720	-	-	9,533,480	566,772
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)
Bansabadell 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
Sabadell Strategic Consulting, S.L.U. (1)	Other investees with their own business	Sant Cugat del Valles	100.00	-	Si	3	252	142	-	934	3	-	252	142
Bansabadell Factura, S.L.U.	Other investees with their own business	Sant Cugat del Valles	100.00	-	Si	100	(2,721)	252	-	1,290	299	-	(2,912)	244
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
Bansabadell Holding, S.L.U.	SPE	Sant Cugat del Valles	100.00	-	Si	330,340	(435,133)	(68,073)	-	168,186	239,544	-	(375,946)	(68,073)
Bansabadell Inversió Desenvolupament, S.A.U.	SPE	Barcelona	100.00	-	Si	16,975	117,972	4,805	-	198,561	108,690	-	26,649	14,052
Sabadell Asset Management, S.A., S.G.I.I.C.(2)	Other regulates companies	Sant Cugat del Valles	100.00	-	Si	601	148,545	36,858	-	260,742	607	-	148,639	25,774
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
Bansabadell Renting, S.L.U.	Other investees with their own business	Sant Cugat del Valles	100.00	-	Si	2,000	18,878	12,043	-	414,882	3,861	-	17,747	12,043
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
Bilarte, 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)
BsStartup 10, S.L.U.	SPE	Barcelona	-	100.00	Si	1,000	(1,090)	(428)	-	1,595	1,000	-	(1,744)	(605)
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
Business Services For Operational Support, S.A.U.	Services	Sant Cugat del Valles	80.00	-	Si	530	2,161	4,580	-	29,009	3,259	-	2,137	3,664
Cam Global Finance, S.A.U.	Other regulates companies	Alicante	100.00	-	Si	61	79	58	-	100,922	2,059	-	67	58
Subtotal								25,556			606,282		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		Consolidated taxation	Company data (a)		Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss) sheet date
			Direct	Indirect		Reserves	Dividends paid (c)				
Cam International Issues, S.A.U.	Other regulates companies	Alicante	100.00	-	Si	337	34	98	66,560	114,079	(7,433) 12/16
Caminsa Urbanismo, S.A.U.	Real Estate	Alicante	-	100.00	Si	2,000	(52)	-	1,368	800	(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 Catana, 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	(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. undertakings, Funds and similar financial companies	Collective investment	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
Edera, S.A.	Real Estate	San Sebastián	97.85	-	No	2,036	24,257	7,206	34,079	36,062	(10,335) 7,051 12/16
Empire Properties Spain, S.L.	Real Estate	San Cugat del Vallès	60.54	38.46	Si	4,963	44,643	306	50,667	49,607	(1) 306 12/16
Edica De Guesta Roy, 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 Pat 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	(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	(16,476)	(2,289)	8,752	23,891	(60,126) (2,289) 12/16
Gest21 Inmobiliaria, S.L.U.	SPE	San 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	San 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.P.A.U.	SPE	Alicante	100.00	-	Si	13,000	119,270	24,647	27,614	157,037	352,584 322 12/16
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastián	-	100.00	No	53	(76,486)	(769)	6,480	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
Hondarriberrí, 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 Mediterráneo 166, 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 Taulí, 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 consolidated sheet date
			Direct	Indirect		Profit/(loss) (b)	Reserves	Dividends paid (c)				
Total Héroe de Sostoa 17, S.L.U.	Real estate	Barcelona	-	100.00	Si	10,511	(98)	-	11,309	-	-	12/16
Hotel Investment Partners S.L. (5)	Real estate	Barcelona	100.00	-	Si	69,145	51,206	-	464,016	-	396	12/16
Hotel Jardín Tropical, S.L.	Real estate development	Barcelona	-	100.00	No	8,288	2,169	-	32,931	-	-	12/16
Hotel Malaga Palacio S.A.U.	Real estate development	Malaga	-	100.00	Si	3,140	(777)	-	7,093	-	-	12/16
Hotel María Tarrida 6, S.L.U.	Real estate development	Barcelona	-	100.00	Si	8,986	(1)	-	9,188	-	-	12/16
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona	-	100.00	Si	3	(16)	-	(14)	-	-	12/16
Hotel Paseo Marítimo 80, S.L.U.	Real estate	Barcelona	-	100.00	Si	3	-	-	27,400	-	-	12/16
Hotel Sa Torre Mallorca, S.L.	Real estate development	Barcelona	-	100.00	No	76	(7,649)	-	16,125	-	-	12/16
Hotel Value Added Primera, S.L.U.	Real estate development	Barcelona	-	100.00	Si	3	-	-	21,824	-	-	12/16
Interstate Property Holdings, Llc.	SPE	Miami	100.00	-	No	7,293	(11,965)	-	14,507	-	546	12/16
Inverán Gestión, S.L.	Real estate	Sant Cugat del Vallés	44.83	55.17	Si	45,090	(55,173)	-	24,876	-	(660)	12/16
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante	100.00	-	Si	308,000	171,076	-	488,358	-	(4,422)	12/16
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Murcia	-	55.06	No	299,090	(302,156)	-	881	-	-	12/16
Malbrouck, S.I.C.A.V.	Collective investment undertakings, Funds and similar financial institutions	Madrid	99.99	-	No	14,554	-	-	16,703	-	-	12/16
Manston Invest S.L.U.	Real estate	Sant Cugat del Vallés	100.00	-	Si	33,357	(4,889)	-	24,001	-	(3,518)	12/16
Marrifamendi, S.L.	Real estate	Sant Cugat del Vallés	-	100.00	Si	55,013	(90,911)	-	100,122	-	421	12/16
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Si	85,000	113,996	312	207,745	-	179	12/16
Mediterráneo Vida, S.A.U. de Seguros Y Reaseguros	Other regulated companies	Alicante	-	100.00	Si	102,044	174,958	8,489	2,521,494	-	27,246	12/16
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante	97.26	-	No	795	(474)	-	7,655	-	191	12/16
Parque Edificio Jaufi, S.L.U.	Wind energy	Madrid	100.00	-	No	183	(2,936)	-	6,504	-	-	12/16
Parque Edificio Las Lomas De Lecrín, S.L.U.	Wind energy	Madrid	100.00	-	No	83	(1,038)	-	3,739	-	-	12/16
Parque Edificio Lecrín, S.L.U.	Wind energy	Granada	100.00	-	No	4,003	(8,920)	-	16,819	-	-	12/16
Parque Edificio Lomas De Manteca, S.L.U.	Wind energy	Madrid	100.00	-	No	163	(1,762)	-	7,803	-	-	12/16
Placements Immobiliers France, S.A.S.	Real estate	Paris	-	100.00	No	30,002	76,677	10	106,593	1,711	(65)	12/16
Puerto de Tamarit, AIE	Services	Santa Cruz de Tenerife	99.90	0.10	No	1	-	-	-	-	-	12/16
Rubi Gestión, S.L.U.	Other financial services	Barcelona	100.00	-	Si	3	-	1,915	78,136	-	1,915	12/16
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	Sao Paulo	99.99	0.01	No	905	(795)	-	136	-	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	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	879,962	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	3,199	67	892	12/16
Sabadell d'Andorra Inversions Sgolic, S.A.U.	Other regulated companies	Andorra	-	50.97	No	300	892	256	2,138	455	131	12/16
Sabadell Information Systems Limited	Provision of technology services	London	100.00	-	No	332	27	(185)	713	-	(185)	12/16
Subtotal								9,182	2,356,700	(754,971)	60,450	

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)				
Sabadell Patrimoni Immo­bi­li­ari, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	No	30,116	843,327	19,636	939,334	-	980,788	12/16
Sabadell Real Estate Acti­vos, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	100,060	283,564	(25,608)	500,622	-	360,179	12/16
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	15,807	(740,256)	(527,637)	2,147,442	-	4,838,543	12/16
Sabadell Real Estate Housing, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	2,073	(1,281)	1,806	14,282	-	37,617	12/16
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	-	No	551	2,259	488	551	-	3,680	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	3,074	-	2,553	12/16
Sabadell United Bank, N.A.	Credit institution	Miami	100.00	-	No	3,003	536,619	43,888	371,241	-	5,490,936	12/16
Sabadell Venture Capital, S.L.U.	Holding company	Barcelona	-	100.00	No	3	(2)	(149)	3	-	3,871	12/16
Servels d'Assessorament Bsa, S.A.U.	Other investees with their own business	Andorra	-	50.97	No	60	48	3	60	-	239	12/16
Snia Renovables, S.A.U. (4)	Other regulated companies	Barcelona	100.00	-	Yes	15,000	(13,834)	(536)	15,000	-	15,861	12/16
Solvia Gestora de Vivienda Social, S.L.U.	Real estate	Alicante	-	100.00	Yes	3	481	1,506	3	-	4,396	12/16
Solvia Pacific, S.A. De C.V.	Real estate	Mexico	-	100.00	No	28,947	(14,927)	(1,418)	29,164	-	13,020	12/16
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante	100.00	-	Yes	660	15,493	36,880	5,023	-	138,874	12/16
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	60,729	549	(6,882)	60,729	-	54,702	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)	5,266	-	2,388	12/16
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante	100.00	-	Yes	296,092	(106,921)	(219,514)	2,564,914	-	2,295,111	12/16
Tierras Vega Alta Del Segura, S.L.	Real estate	Sant Cugat del Vallès	-	100.00	Yes	4,550	(14,286)	(836)	16,823	-	15,588	12/16
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante	100.00	-	Yes	3,003	(354)	-	4,654	-	2,656	12/16
TSB Bank Plc	Credit institution	Edinburgh	-	100.00	No	92,796	1,723,948	166,944	1,856,372	-	50,246,247	12/16
TSB Banking Group Plc	Holding company	London	100.00	-	No	5,840	708,749	(122)	2,214,885	-	2,308,833	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	5,286	-	24,178	12/16
Urunea Gestión, S.L.	Other investees with their own business	San Sebastian	-	100.00	No	9	(2)	(3)	9	-	5	12/16
VeA Rental Homes SOCIMI, S.A	Independent lease of real estate assets	Sant Cugat del Vallès	100.00	-	No	5,000	(3)	-	5,001	-	5,001	12/16
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Sant Cugat del Vallès	-	97.20	Yes	12,000	(38,609)	(4,562)	11,664	-	17,176	12/16
Viacaria Inversiones, S.A.	Services	Madrid	-	100.00	No	7,250	(8,381)	2,023	402	-	10,429	12/16
Xarresa Golf, SA	Real estate development	Alicante	-	80.00	No	4,531	36,511	(11,447)	24,300	-	63,057	12/16
Total						63						

(1) Formerly BanSabadell Consulting, S.L.U.
(2) Formerly Bansabadell Inversió, S.A.U., S.G.I.I.C

(2) Formerly Bansabadell Inversion, S.A.U., S.G.I.I.C.
(3) Formerly Business Services For Information Systems, S.A.

(3) Formerly Business Services For Information Systems

(4) Formerly Sinia Renovables, S.C.R. De R.S., S.A.U.

(4) Formerly Sinia Renovables, S.C.R. De R.S.,
(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		Capital	Reserves	Company data (a)		Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss) sheet date
			Direct	Indirect			Profit/(loss)	(b)	(c)			
Aviación Regional Cantabria, A.I.E.	Services	Madrid	26.42	-	16,918	2,527	10,388	2,352	-	4,472	(1,118)	4,528
Aviones Alfabra CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,132	423	-	12,225	1,060	(269)	402
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,158	421	-	-	1,060	(269)	401
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,175	416	-	12,130	1,060	(270)	399
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	-	1	4,190	417	-	12,083	1,060	(270)	398
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)
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
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	-	43,858	328,318	104,548	-	9,396,948	27,106	125,723	53,577
Diana Capital, S.G.E.C.R., S.A.	Other regulated companies	Madrid	20.66	-	606	3,012	(29)	-	4,296	521	173	(167)
Ente Renovables, S.L.	SPE	Barcelona	-	62.11	7,050	(632)	(8)	-	-	4,379	(4,379)	-
Esus Energía Renovable, S.L.	Services	Vigo	-	45.00	50	(295)	(8)	-	-	23	(23)	-
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
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
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante	-	40.00	1,000	(9,514)	(525)	-	27,607	7,675	(2,012)	-
Grupo Luxiona, S.L.	Other investees	Canovelles	-	20.00	2,561	9,846	(1,552)	-	65,490	10,835	(10,835)	-
Guisain, S.L.	Real estate	Vizcaya	-	40.00	4,200	(139)	(15)	-	6,829	2,593	(246)	(1,284)
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Real estate development	Barcelona	-	30.00	127	262	181	-	-	117	-	-
Hydrophytic S.L.	Real estate	Vitoria	-	50.00	186	95	16	-	467	93	42	14
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
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra	14.64	-	12,188	12,997	(25,360)	-	971,313	1,785	-	-
Parque Eólico Los Ausines, S.L.	Alternative energy production	Ponferrada	-	50.00	4,465	(435)	(506)	-	47,218	2,282	-	(303)
Parque Tecnológico Fuente Álamo, S.A.	Services	Murcia	22.54	-	3,508	(1,076)	(118)	-	4,827	918	(385)	522
Planificació TGN2004, S.L. en liquidación	Real estate	Tarragona	-	25.00	3,309	(31,119)	24	-	7,488	827	(154)	-
Plaxic Estelar, S.L.	Real estate	Barcelona	-	45.01	3	(21,646)	(3)	-	31,998	2,738	(6,918)	-
Ribera Salud, S.A.	Services	Valencia	-	50.00	9,518	50,888	29,594	-	412,585	30,203	-	14,797
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxemburgo	45.89	-	-	-	-	-	43,800	16,400	3,052	-
Sbd Creixent, S.A.	Real estate	Sabadell	23.05	-	5,965	284	(55)	-	16,307	3,524	(1,134)	(804)
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 Vallés, S.I.C.A.V., S.A.	Other associates	Sabadell	47.87	-	4,818	4,408	109	422	-	4,926	1,981	12/16
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona	-	35.78	2,540	(743)	(10)	915	-	1,791	(190)	09/16
Tremón Marroc Mediterraneo Services Immobiliers, S.A.R.L.	Real state	Tanger	-	40.00	457	(405)	-	183	-	-	(49)	12/14
Visualmark Internacional, S.L.	Services	A Coruña	-	20.00	12	(5)	-	2	-	72	(2)	08/17
Total								230,781	17,159		89,437	72,763
Total											3,806,066	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			% Voting rights acquired	% Total voting rights	Type of shareholding	Method
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Rubí Gestión, S.L.U.	Subsidiary	1/31/2016	3.00	-	100.00%	100.00%	Direct	Full consolidation	
AURICA IIB, 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 - I 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 Jardín 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.

(*) 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%	100.00%	-	Indirect	Full consolidation	b
Parque Eólico Loma del Capón, S.L.U.	Subsidiary	2/29/2016	100.00%	100.00%	-	Indirect	Full consolidation	a
Energías Renovables Sierra Sesnández, S.L.	Associate	2/29/2016	40.00%	40.00%	-	Indirect	Equity method	a
Sistema Eléctrico de Conexión Valcaire, S.L.	Associate	2/29/2016	46.88%	46.88%	-	Indirect	Equity method	a
Parque Eólico Magaz, S.L.	Associate	2/29/2016	49.00%	49.00%	-	Indirect	Equity method	a
Torre Sureste, S.L.	Associate	2/29/2016	40.00%	40.00%	-	Indirect	Equity method	b
Fomento de la Coruña, S.A.U.	Subsidiary	3/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	a
Gate Solar, S.L.	Associate	3/31/2016	50.00%	50.00%	-	Direct	Equity method	d
Blue-Lor, S.L. (en liquidación)	Associate	3/31/2016	27.62%	27.62%	-	Indirect	Equity method	b
Dexia Sabadell, S.A.	Associate	4/30/2016	20.99%	20.99%	-	Direct	Equity method	a
Solvía Actividades y Servicios Inmobiliarios, S.A.U.	Subsidiary	5/31/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Mirador del Segura 21, S.L. en liquidación	Subsidiary	5/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Vistas del Parque 21, S.L. en liquidación	Subsidiary	5/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
CAM Capital, S.A.U. en liquidación	Subsidiary	5/31/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Cantabria Generación, S.L.U.	Subsidiary	6/30/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Sabadell Asia Trade Services, Ltd.	Subsidiary	6/30/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Proteo Banking Software, S.L.U.	Subsidiary	6/30/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Easo Bolsa, S.A.	Subsidiary	6/30/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Desarrollo Y Ejecución Urbanística Del Mediterráneo, S.L.	Subsidiary	7/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Gest Galinver, S.L.	Subsidiary	7/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Herrero Internacional Gestión, S.L.U.	Subsidiary	7/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Procom Residencial Rivas, S.A.U.	Subsidiary	7/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Simat Bandi, S.L.U.	Subsidiary	7/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Bajo Almazora Desarrollos Inmobiliarios, S.L. (en liquidación)	Associate	7/31/2016	39.14%	39.14%	-	Indirect	Equity method	b
Intermas Nets, S.A.	Associate	7/31/2016	20.00%	20.00%	-	Indirect	Equity method	a
Promociones E Inmuebles Blauverd Mediterráneo, S.L.U.	Subsidiary	8/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Aviones Carraixet CRJ-200 Ii A I E.	Associate	9/30/2016	25.00%	25.00%	-	Direct	Equity method	b
Aviones Portacoli CRJ-200 Iii A I E.	Associate	9/30/2016	25.00%	25.00%	-	Direct	Equity method	b
Aviones Turia CRJ-200 I, A I E.	Associate	9/30/2016	25.00%	25.00%	-	Direct	Equity method	b
Ballerton Servicios, S.L.U.	Subsidiary	11/30/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Edifica De Valdejalón, S.L.	Subsidiary	11/30/2016	50.97%	50.97%	-	Direct	Full consolidation	a
Épica Renovables, S.L.	Subsidiary	11/30/2016	51.00%	51.00%	-	Direct	Full consolidation	a
Mursiya Golf, S.L.	Associate	12/15/2016	49.70%	49.70%	-	Indirect	Equity method	a
Promociones Y Financiaciones Herrero, S.A.	Subsidiary	12/16/2016	100.00%	100.00%	-	Direct	Full consolidation	b
Delta Swing, S.A.U.	Subsidiary	12/31/2016	100.00%	100.00%	-	Indirect	Full consolidation	b
Otros					-			
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	FTPME 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
<i>Of which : Loans held on balance sheet</i>	<i>3,174,791</i>	<i>4,835,597</i>
Mortgage transfer certificates	7,860,991	3,963,115
<i>Of which : Loans held on balance sheet</i>	<i>7,734,256</i>	<i>3,768,861</i>
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	
<i>Of which: Not recognised on liabilities side of the balance sheet</i>	<i>7,913,800</i>	<i>9,556,900</i>	
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-authorized 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 public 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
<i>Of which: Not recognised on liabilities side of the balance sheet</i>	<i>900,000</i>	<i>900,000</i>
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:

Issuing entity	Date of issue	Amount		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate term		Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016	31/12/2017	31/12/2016			
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		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate ruling at 31/12/2017	Maturity date	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Outstanding balance of liabilities		Yield
			Number of securities	Amount	2017	2016	
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		Interest rate ruling at 31/12/2017	Maturity date/ cancellation	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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		Interest rate ruling at 31/12/2017	Maturity date/ cancellation	Issue currency	Target of offering
		31/12/2017	31/12/2016				
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:

2017								
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
				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	5,598,948	3,556,115	536,656	657,191	818,657	791,768	662,169	1,162,986
Refinancing, refinanced and restructured loans								

2016								
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
				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	300,688	328,487	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	7,599,200	5,944,077	106,074	1,349,978	1,539,868	1,450,836	820,973	888,496
Refinancing, refinanced and restructured loans								

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
<i>Of which: guarantees doubtful risks</i>	<i>2,040,788</i>	<i>2,621,019</i>
Value of other collateral	650,696	653,986
<i>Of which: guarantees doubtful risks</i>	<i>205,177</i>	<i>250,968</i>
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
<i>(+) Memorandum item: impact recognised in profit and loss account for the period</i>	<i>96,622</i>	<i>89,471</i>
(-) 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
<i>Of which: Finance for construction and real estate development</i>	<i>52,155</i>	<i>124,975</i>
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
<i>Of which: Finance for construction and real estate development</i>	<i>7</i>	<i>12</i>
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:

	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

	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 development	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:

	TOTAL	2017								
		AUTONOMOUS REGIONS								
		Andalusia	Aragón	Asturias	Ileairic 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

	TOTAL	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

	TOTAL	2016								
		AUTONOMOUS REGIONS								
		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 risk exposure by country (*)	Sovereign debt securities					Loans and advances to customers (**)	Derivatives		Total	Other exposures (***)	%
	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 risk exposure by country (*)	Sovereign debt securities					Loans and advances to customers (**)	Derivatives		Total	Otras exposiciones (***)	%
	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
<i>Of which: doubtful</i>	<i>1,363</i>	<i>-</i>	<i>579</i>	<i>-</i>	<i>641</i>

(*) 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
<i>Of which: doubtful</i>	<i>2,387</i>	<i>-</i>	<i>759</i>	<i>-</i>	<i>1,136</i>

(*) 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

Memorandum item	Gross carrying amount	
	2017	2016
Written-off assets (*)	208	136

€ million

Memorandum item	Amount	Amount
	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	891	116	380	245
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:

	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.

	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 ARTICLE 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.