CONSOLIDATED DIRECTORS' REPORT FOR 2017

This report has been prepared in line with the recommendations contained in the Guidelines for the preparation of directors' reports by listed companies, published by the Spanish National Securities Market Commission (CNMV) in July 2013.

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GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisation structure

The Group is organised into the following business units:

- Banking Business Spain includes the following business units for customers:

  - Commercial Banking: this is the largest single business line in the Group; it focuses on offering financial products and services to large and medium-sized enterprises, SMEs, retailers and sole proprietors, individuals and professional groups, consumer finance and Bancassurance.

    Sabadell is the reference brand which operates in the majority of the Spanish market. It also operates under the following brands;

    - SabadellHerrero in Asturias and Leon.
    - SabadellGuipuzcoano in Basque Country, Navarre and La Rioja.
    - SabadellGallego in Galicia.
    - SabadellSolbank in the Canary Islands, Balearic Islands, and coastal regions in the South and the Levante region.
    - ActivoBank focuses its activity on customers who operate exclusively over the internet and/or by phone.

  - Corporate Banking; this unit offers products and services to large enterprises and financial institutions, both national and international. Its activities encompass corporate banking, structured finance, and trade finance & IFI.

  - Markets and Private Banking: this unit offers savings and investment management services to Banco Sabadell customers, including the analysis of investment options, market trading, active asset management and custody services. It comprises the following businesses, which are managed on an integrated basis: SabadellUrquijo Private Banking, the investment, products and analysis unit, Treasury and Capital Markets, and Securities Trading and Custody.

  - Asset Transformation manages the bank's real estate balance sheet with an overall perspective of the entire transformation process, providing services to the real estate portfolio of the Group and of third parties, with a business vocation and added value.

  - Banking Business United Kingdom: The TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

  - Other Geographies: this heading mostly comprises Mexico, overseas branches and representative offices that offer all types of banking and financial services related to Corporate Banking, Private Banking and Commercial (Retail and Business) Banking. This activity is mainly carried out in Mexico through Sabadell Capital Sofom e Institución de Banca Múltiple, in the United States through Banco Sabadell Miami Branch and Sabadell Securities, and in EMEA in Banco Sabadell London, Banco Sabadell France, Banco Sabadell Casablanca and Banco Sabadell Andorra.

Banco Sabadell is the parent company of a group of companies which at 31 December 2017 numbered a total of 165, of which 141 are considered part of the group and 24 are associates (at 31 December 2016, they numbered 159, of which 127 were considered Group companies and 32 were associates).

The Board of Directors is the highest decision-making body of the company and its consolidated group, as it is responsible under the law and the Articles of Association for managing and representing the bank. The Board of Directors is essentially set up as an oversight and control instrument, delegating the management of ordinary business to the executive bodies and the management team.

The Board of Directors is governed by clear-cut and transparent governance regulations, specifically the Articles of Association and the Regulations of the Board of Directors in accordance with corporate governance standards.

Its responsibilities include:

b) appointing and, if appropriate, discharging directors in the various subsidiaries;

c) identifying the company's main risks and implementing and monitoring the appropriate internal control and reporting systems;

d) setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;

e) setting policies on the treasury portfolio in accordance with any guidelines laid down at the Annual General Meeting;

f) approving the Annual Report on Corporate Governance;

g) authorising transactions between the company and its directors and significant shareholders that may pose a conflict of interest; and

h) generally deciding on business and financial transactions that are of particular importance for the company.

The composition of the Board of Directors at 31 December 2017 is as follows:

Composition of the Board

	Position
José Oliu Creus	Chairman
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	CEO for Banco Sabadell
Anthony Frank Elliott Ball	Director
Aurora Catá Sala	Director
Pedro Fontana García	Director
María Teresa Garcia-Milá Lloveras	Director
George Donald Johnston	Director
José Manuel Lara García	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
José Luis Negro Rodríguez	Director-General Manager
Manuel Valls Morató	Director
David Vegara Figueras	Director
Miquel Roca i Junyent	Non-voting Secretary
María José García Beato	Non-voting Deputy Secretary

The Board of Directors has implemented a series of clear-cut and transparent rules and regulations on corporate governance, which are in line with Spanish regulations on corporate governance. The majority of the Board members (12 of 15) are non-executive directors, including 10 independent directors.

At present, there are five Delegated Committees in operation to which the Board of Directors delegates functions by making use of the powers conferred to it in the Articles of Association; meetings of the committees are also attended by members of the General Management.

These Delegated Committees are:

- The Executive Committee
- The Audit and Control Committee
- The Appointments Committee
- The Remuneration Committee
- The Risk Committee

The composition of these Delegated Committees at 31 December 2017 is shown in the table below:

Composition of Committees

Position	Executive	Audit Control	Appointments	Remuneration	Risk
Chairman	José Oliu Creus	Manuel Valls Morató	Aurora Catá Sala	Aurora Catá Sala	David Vegara Figueras
Member	José Javier Echenique Landiribar	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Maria Teresa Garcia-Milà Lloveras
Member	Jaime Guardiola Romojaro	Maria Teresa Garcia-Milà Lloveras	María Teresa Garcia-Milà Lloveras	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston
Member	José Manuel Martínez Martínez	José Manuel Lara García	-	George Donald Johnston	Manuel Valls Morató
Member	José Luis Negro Rodríguez	José Ramón Martínez Sufrategui	-	-	-
Non-voting Secretary	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2017	35	6	11	12	11

Executive Committee

The Executive Committee is responsible for coordinating the bank’s Executive Division, adopting to this end any resolutions and decisions within the scope of the powers conferred to it by the Board of Directors, for monitoring the bank’s ordinary activity. Any decisions adopted during Committee meetings are reported to the Board of Directors, without prejudice to any other functions assigned to the Executive Committee in the Articles of Association and the Regulations of the Board of Directors.

Audit and Control Committee

The Audit and Control Committee is responsible for functions established by Law, including:

a) reporting to the General Meeting on all issues raised by shareholders that are within its remit;

b) monitoring the effectiveness of the Company’s internal controls, any Internal Audit carried out and the risk management systems, including those for fiscal risks, in place, and discussing with account auditors or auditing firms any significant internal control weaknesses identified in the course of the audit;

c) overseeing the preparation and presentation of statutory financial information;

d) making recommendations to the Board of Directors, for submission at the Annual General Meeting, on the appointment of external account auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the renewal or non-renewal of their engagement; reviewing compliance with the auditing agreement and ensuring that the opinion on the annual accounts and the key findings of the auditor’s report are expressed in a clear and precise way;

e) advising on the annual accounts and the quarterly and half-yearly financial statements and any prospectuses required to be filed with the regulatory or supervisory authorities; monitoring regulatory compliance and ensuring that generally accepted accounting principles have been correctly applied, and reporting on any proposed amendments to those principles;

f) establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions or in the audit rules;

g) advising on any issues referred to the Committee by the Board of Directors that are within its remit;

h) any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

Pursuant to its Regulations, the Audit and Control Committee performs functions related to the process of financial reporting and internal control systems, functions related to account auditing, functions related to economic and financial information, functions related to internal audit services and functions related to compliance with regulatory provisions, legal requirements and good governance codes, specifically:

a) overseeing compliance with the law, internal regulations and regulatory provisions concerning Company activities;

b) assessing the sufficiency and compliance of the Regulations of the Annual General Meeting, the Regulations of the Board of Directors, the Company's Code of Conduct and, particularly, the Internal Code of Conduct for Trading on the Securities Market;

c) reviewing compliance with the company's rules on corporate governance and submitting recommendations for improvement to the Board as it sees fit; and

d) supervising the corporate governance report to be approved by the Board of Directors and included in the annual report.

Appointments Committee

The Appointments Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) make recommendations to the Board of Directors on the appointment of independent directors for their co-opted appointment or for their subjection to the decision reached at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

b) submit the proposals for the appointment of the remaining directors for their co-opted appointment or for their subjection to the decision reached at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

c) ensure compliance with the qualitative composition of the Board of Directors, in accordance with Article 53 of the Articles of Association;

d) evaluate the suitability, skills, knowledge and experience necessary for members of the Board of Directors;

e) submit the proposals for the appointment and discharge of officers and of the Designated Group;

f) report on the basic terms of the contracts with executive directors and officers;

g) examine and organise succession plans for the Chairman of the Board of Directors and of the bank's chief executive and, as appropriate, make proposals to the Board;

h) establish an objective for gender diversity in the Board of Directors and prepare ideas on how to reach this objective.

Remuneration Committee

The Remuneration Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Remuneration Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) propose to the Board of Directors the remuneration policy of the directors;

b) propose to the Board of Directors the remuneration policy of the General Managers and those performing Senior Management functions who report directly to the Board, Executive Committee members or CEOs, and the individual remuneration and other contractual terms of the Executive Directors, ensuring their compliance;

c) regularly review the remuneration policy;

d) report on the schemes for remuneration in the form of shares and/or options;

e) regularly review the general principles in matters of remuneration, and the remuneration schemes of all employees, weighing their alignment with these principles;

f) ensure that remuneration is transparent;

g) ensure that any potential conflicts of interest do not jeopardise the independence of external consultants;

h) verify the information on remuneration contained in the various corporate documents, including the Directors' Remuneration Report.

Risk Committee

The Risk Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Risk Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) supervising the implementation of the Risk Appetite Framework;

b) determining and making recommendations to the full Board on annual levels of investment in the real estate market, as well as criteria and volumes applicable to all different types of such investments;

c) reporting to the full Board on the performance of its functions, in accordance with this Article and any other applicable legal or statutory provisions;

d) making quarterly reports to the full Board on the levels of risks taken, investments carried out and on their evolution, as well as on any possible repercussions on the Group's income caused by interest rate fluctuations and their adjustment to their VAR approved by the Board;

e) monitoring and detecting any ruptures of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect;

f) reporting to the Remuneration Committee on whether the employees' Remuneration Schemes are consistent with the bank's risk, capital and liquidity levels.

1.2. Business model, main objectives achieved and actions implemented

The development of the Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile within the framework of ethical and professional codes and taking into account the interests of different stakeholders.

The bank's management model is focused on long-term customer retention, through on-going efforts designed to build customer loyalty by taking initiatives and being proactive in its relationship with customers. The bank has a comprehensive offering of products and services, a qualified work force, an IT platform that supports growth and a constant focus on the pursuit for quality.

Since the onset of the financial crisis, Spain's banking sector has been going through an unprecedented process of consolidation. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from capital markets are some of the factors that have driven Spanish entities to merge and thus expand their footprint, maximise efficiency and improve their balance sheets.

During the last decade, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to significantly expand its balance sheet. In 2013 Banco Sabadell was able to undertake further corporate actions on economically acceptable terms in a context of banking sector restructuring. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2015, Banco Sabadell is well positioned to grow organically and to benefit from the economic recovery in Spain and a future interest rate hike.

Acquisitions and organic growth in recent years have enabled Banco Sabadell to strengthen its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase its market share in other key areas. Based on the most recent information available, Banco Sabadell's market share in Spain stands at 7.9% in lending and 6.8% in deposits (November 2017). Furthermore, Banco Sabadell stands out in products such as trade credit, with a market share of 9.8% (November 2017), business loans with a market share of 11.0% (September 2017), mutual funds with a market share of 6.3% (November 2017), securities trading with a market share of 12.2% (December 2017) and POS turnover with a market share of 15.3% (September 2017).

Banco Sabadell maintains its distinction in terms of quality with respect to the sector, and holds first place in the ranking that measures customer experience (net promoter score) for large enterprises and SMEs.

In terms of international business, Banco Sabadell has always been exemplary. This has not changed in 2017 and Sabadell has continued being present in strategic areas and has helped companies in their international activity, reaching market shares of 32.1% and 14.5% in export and import documentary credit, respectively (December 2017). Over the last few years, Banco Sabadell has expanded its international footprint, and its main milestones have been: the acquisition of British bank TSB and the entry into the Mexican market, after obtaining a licence to operate in this country as a commercial bank. This year, it has sold Sabadell United Bank, its retail banking subsidiary in the US, for USD 1,025M, although it continues to perform its Corporate Banking and international Private Banking activities through its American branch in Florida. Despite this, as at December 2017, 31% of the Group's loans and credit was generated overseas (25% in the United Kingdom and 6% in the Americas and other geographies).

TSB has focused on the implementation of its current business plan on one hand, and migration and technological integration on the other. Going forward, the high market share of Banco Sabadell in the SMEs sector in Spain, together with its international experience, will be a sound added-value tool to support TSB in the provision of efficient and high-quality services for SMEs also in the United Kingdom.

In 2017, Banco Sabadell Group has strengthened its balance sheet position, maintaining its successful NPA reduction strategy, reducing them by €3,400 million, allowing it to achieve an NPL coverage ratio of 49.8%, not including provisions associated with mortgage floor clauses.

Banco Sabadell carries out its business in an ethical and responsible manner, guiding its commitment to society in a way that its activity has a positive impact on people and the environment. All of the people that form part of the organisation apply the principles and policies of corporate social responsibility, whilst also guaranteeing the quality and transparency in customer service.

In addition to complying with applicable rules, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee this ethical and responsible behaviour throughout the organisation, which address all of the Group's activity.

Within the Risk Appetite Framework, the control and monitoring of these matters is carried out through two committees. The Corporate Ethics Committee, which ensures the Group's compliance with all of the codes of conduct of the securities market and with the general code of conduct, the Internal Control Body, in which all of the Group's companies are represented and are liable parties, and which ensures compliance with anti-money laundering, counter-terrorist financing and the control of international sanctions.

The mission of the Compliance Division is to promote and endeavour to reach the highest degrees of compliance with the legislation in force and the professional ethics of the Group, minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved and that the appropriate preventive measures are adopted in the event that these are not already in place. It is also directly responsible for the implementation of a number of processes that are classified as high risk, including anti-money laundering, counter-terrorist financing, the control of international sanctions, the control of market abuse practices, the oversight of compliance with the Internal Code of Conduct and the control of the investor protection regulation (MiFID) and consumer protection regulations.

In addition to the foregoing, in 2016 the Corporate Social Responsibility Committee was set up, chaired by the General Secretary, which is responsible for promoting and coordinating the Group's CSR strategy, policies and projects geared towards Banco Sabadell's commitment to its customers, employees, environment and society. The bank is a member of a number of international initiatives and has obtained multiple certificates and qualifications.

2 – BUSINESS PERFORMANCE AND RESULTS

2.1. Economic and financial environment

2017 has been affected by the political and geopolitical environment and the steps taken by the major central banks towards monetary normalisation. The year began with a change in government in the US and subsequently the spotlight fell on Europe, with the beginning of Brexit negotiations and elections in France, the UK and Germany. The strengthening of the global economy and a somewhat higher rate of inflation than in recent years contributed towards the confirmation by central banks in the main developed economies of this intention to initiate or continue with a gradual reversal of the extremely accommodating policies adopted in recent years. In this scenario, financial markets have performed well throughout the year, amidst growing complacency.

Political events in the various regions have captured the attention of financial markets, although with isolated and limited impacts on the latter.

In the United Kingdom, the government officially requested its withdrawal from the European Union (EU) by triggering Article 50. Brexit negotiations began in June with positions that were quite far apart, despite the UK accepting the schedule set out by the EU. An agreement was reached to first address the terms of the withdrawal in order to then address, in a second stage, the shape that the new trade relationship between the UK and the EU will take. The UK Prime Minister moderated her stance with respect to the three priority aspects of the first stage of negotiations: the divorce bill, rights of expatriated citizens and the Irish border. This helped pave the way towards a preliminary withdrawal agreement, and opened the door to the second stage of negotiations. In domestic terms, T. May's leadership capabilities were called into question following the loss of her party's absolute majority in the snap elections held in June, the limited support within her own party and Cabinet, the resignation of three ministers due to a failure to respect codes of conduct and the increase in popularity of the leader of the Labour Party, J. Corbyn.

In the rest of Europe, elections in France and Germany particularly stood out. In France, the presidential elections were preceded by considerable political noise, in the face of corruption scandals involving one of the key candidates and the possibility of M. Le Pen, the candidate of the eurosceptic party the National Front, securing a victory. The liberal E. Macron, a pro-European, was eventually victorious. In Germany, A. Merkel's party was the most voted party in the general elections, although it failed to secure an absolute majority, which is making it difficult to form a government. In Spain, the political environment became more complex as a result of the sovereignty process in Catalonia. Lastly, in the regional elections held in December, Ciudadanos was the political party that received the most votes and seats, while the parliamentary majority of pro-independence parties was reaffirmed.

In the United States, D. Trump adopted a less aggressive and more pragmatic tone than in the run-up to his presidency. He did not formally accuse China of currency manipulation, nor did he withdraw from NAFTA. A number of the most controversial policies that he intended to implement have been stalled owing to a lack of consensus in his own party or of the judicial powers, whilst the main achievement has been the approval of the tax reform. At the same time, the internal rift in the Republican Party has been made evident, and it also suffered significant defeats in the elections held in certain states in November, reducing its already narrow majority in the Senate. Domestic political noise has been exacerbated by the investigation into the links between Russia and Trump's electoral campaign, which has led to the resignation of several ministers and advisors. In the geopolitical arena, the increase in tensions between the US and North Korea attracted media attention during the second half of the year, although its impact on financial markets was limited and concentrated in Asian assets.

As regards economic activity, growth has become more robust and in sync with the major developed economies throughout the year. In the euro area, the economy has registered high growth rates, with a greater balance between the various components than in previous years. In the US, activity has continued to be solid, and has proven resilient to the impacts of the summer hurricanes. The unemployment rate has thus been reduced to levels not seen since the early 2000s. In Japan, the economy has continued to perform well, supported by the positive economic situation in Asia. The exception to this environment has been the UK, which has experienced modest economic growth, hindered by uncertainty associated with Brexit negotiations.

Emerging economies have left behind the worst stage of the economic adjustment that they have experienced in the past few years. Growth in China has exceeded governmental objectives, and authorities have placed emphasis on regulatory efforts and the reduction of financial risks. Trump has not followed through with his threat of a trade war with China and has instead shown a level of rapprochement with the Asian country in exchange for its cooperation in the conflict with North Korea. In Brazil, the reformist momentum has supported the start of the country's economic recovery. In Mexico, GDP growth has been better than expected following the arrival of Trump, largely thanks to the positive performance of foreign trade. In the interim, US, Mexico and Canada have initiated discussions to renegotiate the free trade agreement between the three countries, and aim to reach an agreement by March 2018.

Inflation has been higher than in 2016 in the main developed economies, although it has remained below the objectives of the monetary policy, with the exception of the UK, in which it clearly surpassed these objectives. During the first months of the year there was an upturn in inflation in all economies, supported by the favourable base effect of oil prices, reaching maximums last seen in 2012-2013. Since then, performance has been varied. In the euro area, inflation slid downwards, whilst in the US it was hindered by a number of transitional factors. In the UK, inflation continued its sharp upturn, supported by the devaluation of the pound as a result of Brexit negotiations and May's political weakness.

Oil prices reached maximums last seen in mid-2015, supported by the extension of production cuts by the OPEC and other oil producing countries to the end of 2018. To this was added the slow-down in the growth of crude oil supplies from the US, robust demand data and geopolitical instability in the Middle East.

The Spanish economy has maintained significant dynamism, and has once again stood out in a positive light within the euro area with a growth of c.3.0% for the third consecutive year. With respect to the labour market, the unemployment rate has fallen to levels last seen at the end of 2008. In terms of foreign trade, current accounts will have ended the year with a surplus for the fifth consecutive year. The development of public accounts has so far been compatible with the compliance of the deficit target. The real estate market has confirmed its recovery, although the extent of this recovery is disparate across regions. Lastly, the domestic political environment led to a downward adjustment of growth forecasts for 2018 by the government.

Global financial markets have performed well in a context of growing complacency and have been hindered only occasionally by certain political and geopolitical episodes. Volatility levels have reached historic minima in the majority of assets. Financial conditions have continued to be lax despite hikes in the Fed funds rate. In this context, a number of international bodies have warned of an increase in risks, particularly outside of the non-banking financial sector.

Central banks in the main developed economies have been taking steps towards the normalisation of their monetary policies. The ECB initiated the change of approach of its monetary policy in June, by ruling out further cuts to the benchmark rate and showing fewer concerns regarding risks associated with activity. In October it changed its asset purchase programme. It thereby extended the duration of the programme until at least September 2018, although it will reduce its monthly purchase rate from €60bn to €30bn as of January 2018. The ECB insisted that it would make no changes to interest rates for a prolonged period of time, even beyond the end of the asset purchase programme. In the UK, Bank of England increased its reference rate to 0.50%, thereby undoing the cut implemented following the Brexit referendum. The central bank justified its decision by citing high inflation and a record low unemployment rate. In the US, the Fed hiked its Fed funds rate on three occasions, to 1.25%-1.50%, and showed its intention to implement a further three hikes in 2018. It also began to reduce its balance sheet in line with the details of the plan published months earlier. It was also revealed that Powell, currently a member of the Board of Governors of the Fed, will be the new Chairman, once Yellen withdraws from his position on the Board in February 2018. Lastly, Bank of Japan has been reducing its purchases of public debt although it has made no official statement regarding this change.

Yields of long-term government bonds in the main developed economies have remained at reduced levels with no definite trend. Throughout the year, political events, actions taken by central banks and inflation have been the main factors affecting asset performance. In the US, political noise, together with Trump's difficulties in implementing his electoral programme and the moderation and unexpected falls in inflation rates were the main catalysts. In the final quarter of the year, the approval of the tax reform bill led to an upturn in yields. Yields on German government bonds were influenced by political noise surrounding elections in France in the beginning of the year and by the ECB's management of the initial stages of the normalisation of its monetary policy.

Risk premiums in countries in the European periphery have continued to be supported by the ECB's accommodating policy and, in particular, by its asset purchase programme. Spreads in Spain and Italy experienced an upturn during the first half of the year, influenced by the political noise surrounding the French elections. Once elections had been held, the Italian spread was reduced, further supported by the upgrade in the credit rating of its public debt. The Spanish risk premium was subject to volatility as a result of its domestic political situation. Risk premiums in Portugal and Greece experienced a significant decline, supported by upgrades in the credit rating of their public debt, the favourable economic environment and, in the case of Greece, positive news regarding its bailout programme. This context has allowed the country to carry out its first issuance of long-term public debt since 2014. In the case of Portugal, Standard & Poor's and Fitch once again classed the country's public debt as investment grade.

In currency markets, the year has been characterised by the appreciation of the euro against the dollar and the pound. In its currency pair with the dollar, the euro reached maximum levels not seen since the end of 2014, after breaking the fluctuation range that had been maintained during the last two and a half years. The single currency was mainly supported by political noise in the US and the consolidation of the economic recovery of the euro area. The sterling pound has been devalued against the euro to minima last seen in 2011, hindered by the various political events related to Brexit and domestic politics. Bank of England's monetary policy has attempted to contain the weakness of the currency. Lastly, the yen showed significant volatility in its currency pair with the dollar. The Japanese currency was supported by the favourable economic situation in the country, political noise in the US and an increase in geopolitical tensions with North Korea in the summer.

Equity markets have recorded significant revaluations in the main developed economies, reaching historic maximums in some of these. In Italy and Spain, the positive performance of their banking sectors constituted a supporting factor. Political and geopolitical events have only momentarily hindered asset performance, in a context of growing complacency in financial markets.

Lastly, financial markets in emerging countries generally exhibited positive performance throughout the year. Risk premiums have benefited from: (i) the easing of concerns regarding the development of activity in China, (ii) the less aggressive stance adopted by Trump, (iii) the devaluation of the dollar, (iv) the outlook of a smooth normalisation of the monetary policy in developed countries and (v) oil prices that have reached the highest levels in over two years.

2.2. Key financial and non-financial indicators

The key figures for the bank, including financial and non-financial data of critical importance for the management of the bank, are set out below:

		2017	2016	Change (%) YoY
Income statement (in million euros)	(A)			
Net interest income		3,802.4	3,837.8	(0.9)
Gross income		5,737.3	5,470.7	4.9
Pre-provisions income		2,612.1	2,411.5	8.3
Profit attributed to the Group		801.5	710.4	12.8
Balance sheet (in million euros)	(B)			
Total assets		221,348	212,508	4.2
Gross performing loans		137,522	140,557	(2.2)
Gross lending to customers		147,325	150,095	(1.8)
On-balance sheet funds		159,095	160,948	(1.2)
Of which: on-balance sheet customer funds		*132,096*	*133,457*	*(1.0)*
Mutual funds		27,375	22,594	21.2
Pension funds and insurance products sold by the Group		13,951	14,360	(2.8)
Funds under management		204,420	201,554	1.4
Equity		13,222	13,083	1.1
Own funds		13,426	12,926	3.9
Profitability and efficiency (%)	(C)			
ROA		0.38%	0.35%	
RORWA		1.03%	0.83%	
ROE		6.10%	5.59%	
ROTE		7.27%	6.72%	
Cost-to-income		50.15%	48.68%	
Risk management	(D)			
Doubtful loans (in million euros)		7,925	9,746	
Total problematic assets (in million euros)		15,318	18,781	
Loan loss ratio (%)		5.14	6.14	
NPL coverage ratio (%) (excl. floor clauses)		45.7	47.3	
NPA coverage ratio (%) (excl. floor clauses)		49.8	47.4	
Capital management	(E)			
Risk-weighted assets (RWAs) (in million euros)		77,638	86,070	
Phase-in Common Equity Tier 1 (%)	(1)	13.4	12.0	
Phase-in Tier I (%)	(2)	14.3	12.0	
Phase-in Total Capital ratio (%)	(3)	16.1	13.8	
Phase-in leverage ratio (%)		4.97	4.74	
Liquidity management	(F)			
Loan to deposit ratio (%)		104.3	105.1	
Shareholders and shares (figures at year-end)	(G)			
Number of shareholders		235,130	260,948	
Average number of shares (in million)		5,570	5,452	
Share price (euro)		1.656	1.323	
Market capitalisation (in million euros)		9,224	7,213	
Net attributed earnings per share (EPS)(euro)		0.14	0.13	
Book value per share (euro)		2.41	2.37	
Price/book value		0.69	0.56	
PER (share price / EPS)		11.85	10.15	
Other data				
Branches		2,473	2,767	
Employees		25,845	25,945	

(A) This section sets out key components of the income statement for the last two years.

(B) The purpose of these key figures is to provide a general overview of year-on-year changes in the main items on the Group's consolidated balance sheet, focusing particularly on data related to lending and customer funds.

(C) These ratios have been included to give a meaningful indication of profitability and efficiency in the last two years.

(D) This section gives some key balances related to risk and risk management within the Group, as well as the most significant ratios related to risk.
(E) These ratios have been included to give a meaningful indication of capital adequacy in the last two years.
(F) This section has been included to give a meaningful indication of liquidity in the last two years.
(G) This section provides information related to the share price and other stock market ratios and indicators.

(1) Core capital / risk-weighted assets (RWA).
(2) Tier 1 capital / risk-weighted assets (RWA).
(3) Total capital / risk-weighted assets (RWA).

2.3. Financial review

Balance sheet and income statement

During 2017, the Group has reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros. It has also reached an agreement to sell shares representing 100% of the share capital of its subsidiary Sabadell United Bank, N.A. to the US bank Iberiabank Corporation and closed a deal for the sale of 100% of the share capital of HI Partners Holdco Value Added, S.A.U. by the subsidiary Hotel Investment Partners, S.L. The Mortgage Enhancement portfolio (a segmented portfolio of mortgage assets that was assigned to TSB to drive profits) was also returned to Lloyds in 2017, having achieved its purpose. The success of TSB's business model has enabled the agreement to be terminated one year ahead of schedule.

Banco Sabadell and its group ended 2017 with net attributed profit of €801.5 million (€711.2 million excluding TSB).

Positive performance of the ordinary business, control of recurring operating expenses, judicious management of customer spreads and the continuous reduction of problematic assets were the main factors behind Banco Sabadell's business performance in 2017.

Balance sheet

At the end of 2017, total assets for Banco Sabadell and its group amounted to €221,348 million (€173,203 million excluding TSB), compared with the 2016 year-end figures of €212,508 million (€168,787 million excluding TSB).

Million euro

	2017	2016	Change (%) year-on-year
Cash and cash balances at central banks and other demand deposits	26,363	11,688	125.5
Financial assets held for trading	1,573	3,484	(54.9)
Financial assets designated at fair value through profit or loss	40	35	13.5
Available-for-sale financial assets	13,181	18,718	(29.6)
Loans and receivables	149,551	150,384	(0.6)
Debt securities	574	919	(37.5)
Loans and advances	148,977	149,466	(0.3)
Investments held to maturity	11,172	4,598	143.0
Investments in joint ventures and associates	576	381	51.2
Tangible assets	3,827	4,476	(14.5)
Intangible assets	2,246	2,135	5.2
Other assets	12,821	16,608	(22.8)
Total assets	**221,348**	**212,508**	**4.2**
Financial liabilities held for trading	1,431	1,976	(27.6)
Financial liabilities designated at fair value through profit or loss	40	35	13.5
Financial liabilities measured at amortised cost	204,045	192,011	6.3
Deposits	177,326	162,909	8.8
Central banks	27,848	11,828	135.4
Credit institutions	14,171	16,667	(15.0)
Customers	135,307	134,415	0.7
Debt securities issued	23,788	26,534	(10.3)
Other financial liabilities	2,932	2,568	14.1
Provisions	318	306	3.7
Other liabilities	2,293	5,097	(55.0)
Total liabilities	**208,127**	**199,425**	**4.4**
Own funds	13,426	12,926	3.9
Accumulated other comprehensive income	(265)	107	--
Minority interests (non-controlling interests)	61	50	23.2
Net equity	**13,222**	**13,083**	**1.1**
Total equity and total liabilities	**221,348**	**212,508**	**4.2**
Guarantees given	8,727	8,529	2.3
Contingent commitments given	24,079	25,209	(4.5)
Total off balance sheet items	**32,806**	**33,738**	**(2.8)**

Gross performing loans amounted to €137,522 million at 2017 year-end (€102,119 million excluding TSB). Year-on-year, they decreased by -2.2% (-3.9% excluding TSB), and the reduction of doubtful loans was -18.7% (-18.8% excluding TSB). Secured mortgage loans form the largest single component of gross loans and receivables, amounting to €84,267 million at 31 December 2017, representing over 61% of total gross performing loans.

Excluding the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's mortgage enhancement portfolio, as at 2016 year-end performing loans amounted to €134,288 million, therefore 2017 represents a year-on-year increase of 2.4%

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
Loans and credit secured with mortgages	84,267	88,431	(4.7)	52,259	56,692	(7.8)
Loans and credit secured with other collateral	2,315	2,263	2.3	2,315	2,263	2.3
Trade credit	5,802	5,530	4.9	5,802	5,530	4.9
Finance leases	2,316	2,169	6.8	2,316	2,169	6.8
Loans on demand and miscellaneous	42,822	42,165	1.6	39,427	39,651	(0.6)
Gross performing loans	137,522	140,557	(2.2)	102,119	106,305	(3.9)
Doubtful assets (customers)	7,867	9,642	(18.4)	7,723	9,478	(18.5)
Accrual adjustments	(66)	(112)	(41.2)	(100)	(142)	(29.9)
Gross lending to customers excluding repos	145,323	150,087	(3.2)	109,742	115,640	(5.1)
Repos	2,001	8	--	2,001	8	--
Gross lending to customers	147,325	150,095	(1.8)	111,743	115,648	(3.4)
Allowances for loan losses and country risk	(3,727)	(4,921)	(24.3)	(3,646)	(4,835)	(24.6)
Loans and advances to customers	143,598	145,174	(1.1)	108,097	110,813	(2.5)

The evolution of doubtful assets has shown improvement throughout 2017. Quarter-on-quarter changes in these assets excl. TSB (NPLs plus real estate assets not covered by the Asset Protection Scheme) were as follows:

Million euro

	2017				2016			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Ordinary net inflows	(261)	(541)	(203)	(339)	(457)	(969)	(333)	(474)
Change in real estate assets	(67)	(51)	(154)	(1,370)	(41)	71	(158)	(73)
Ordinary net inflows + properties	**(328)**	**(592)**	**(357)**	**(1,709)**	**(498)**	**(898)**	**(491)**	**(547)**
Write-offs	178	61	152	66	213	70	144	101
QoQ ordinary change in balance of doubtful and real estate assets	**(506)**	**(653)**	**(509)**	**(1,775)**	**(711)**	**(968)**	**(635)**	**(648)**

The reduction in NPLs was reflected in a loan loss ratio of 5.14% at the end of 2017, compared with 6.14% at the end of 2016 – a fall of -100 basis points. The NPL coverage ratio at 31 December 2017 was 48.3%, compared with 51.6% one year earlier.

At the end of 2017, on-balance sheet customer funds amount to €132,096 million (€97,686 million excluding TSB), compared with €133,457 million at the end of 2016 (€99,123 million excluding TSB), representing a 1.0% decline (1.4% excluding TSB). Without considering the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB’s Mortgage Enhancement portfolio, at 2016 year-end on-balance sheet customer funds amounted to €129,562 million (€95,229 million excluding TSB), representing a year-on-year increase of 2.0% (2.6% excluding TSB).

Total off -balance sheet customer funds amounted to €45,325 million, an 11.6% increase year-on-year. Within this chapter, particularly worthy of note was the uninterrupted growth in assets in Collective Investment Undertakings (CIUs), which at 31 December 2017, stood at €27,375 million, a 21.2% increase compared to 2016 year-end, and asset management, which amounted to €3,999 million, representing a 9.5% increase compared to 2016 year-end.

Issued debt securities (borrowing operations and other marketable securities and subordinated liabilities) amounted to €23,788 million at 2017 year-end (€21,845 million excluding TSB), compared with €26,534 million (€22,618 million excluding TSB) at 31 December 2016.

Total funds under management at 31 December 2017 amounted to €204,420 million (€166,447 million excluding TSB), compared with €201,554 million at 31 December 2016 (€162,550 million excluding TSB), representing an increase during 2017 of 1.4% (an increase of 2.4% excluding TSB). Without considering the impacts of Sabadell United Bank, Mediterráneo Vida and the early call of TSB's Mortgage Enhancement portfolio, at 2016 year-end total funds under management amounted to €197,469 million (€158,465 million excluding TSB), representing a year-on-year increase of 3.5% (5.0% excluding TSB).

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
On-balance sheet customer funds (*)	**132,096**	**133,457**	**(1.0)**	**97,686**	**99,123**	**(1.4)**
Customer deposits	135,307	134,415	0.7	99,277	99,326	-
Current and savings accounts	98,020	92,011	6.5	68,039	62,624	8.6
Deposits with agreed maturity	32,425	40,154	(19.2)	27,996	35,207	(20.5)
Assets sold under repurchase agreements	4,750	2,072	129.2	3,119	1,303	139.4
Accrual adjustments and hedges using derivatives	113	178	(36.6)	123	192	(36.0)
Borrowing operations and other marketable securities	21,250	24,987	(15.0)	19,764	21,555	(8.3)
Subordinated liabilities (**)	2,537	1,546	64.1	2,081	1,063	95.7
On-balance sheet funds	**159,095**	**160,948**	**(1.2)**	**121,122**	**121,944**	**(0.7)**
Mutual funds	27,375	22,594	21.2	27,375	22,594	21.2
Equity investment funds	1,929	1,313	46.9	1,929	1,313	46.9
Mixed investment funds	6,490	4,253	52.6	6,490	4,253	52.6
Fixed income investment funds	4,488	4,773	(6.0)	4,488	4,773	(6.0)
Guaranteed investment funds	3,829	4,057	(5.6)	3,829	4,057	(5.6)
Real estate investment funds	125	88	42.0	125	88	42.0
Venture capital investment funds	38	21	77.7	38	21	77.7
Investment companies	2,192	2,065	6.1	2,192	2,065	6.1
UCITS schemes sold but not managed	8,283	6,022	37.5	8,283	6,022	37.5
Asset management	3,999	3,651	9.5	3,999	3,651	9.5
Pension funds	3,987	4,117	(3.2)	3,987	4,117	(3.2)
Individuals	2,476	2,621	(5.5)	2,476	2,621	(5.5)
Corporates	1,498	1,481	1.1	1,498	1,481	1.1
Associates	13	15	(13.0)	13	15	(13.0)
Insurance products sold	9,965	10,243	(2.7)	9,965	10,243	(2.7)
Off balance sheet funds	**45,325**	**40,606**	**11.6**	**45,325**	**40,606**	**11.6**
Funds under management	**204,420**	**201,554**	**1.4**	**166,447**	**162,550**	**2.4**

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: mandatory convertible bonds, non-convertible Banco Sabadell bonds, promissory notes and others.

(**) These are subordinated liabilities of debt securities.

Income statement

Million euro

	2017	2016	Change (%) year-on-year	Ex TSB 2017	Ex TSB 2016	Change (%) year-on-year
Interest and similar income	4,839.6	5,170.1	(6.4)	3,605.9	3,820.5	(5.6)
Interest and similar charges	(1,037.3)	(1,332.3)	(22.1)	(837.1)	(1,033.6)	(19.0)
Net interest income	**3,802.4**	**3,837.8**	**(0.9)**	**2,768.8**	**2,786.9**	**(0.6)**
Return on capital instruments	7.3	10.0	(27.7)	7.1	10.0	(29.7)
Share of profit/(loss) of companies accounted for by equity method	308.7	74.6	313.9	308.7	74.6	313.9
Net fees and commissions	1,223.4	1,148.6	6.5	1,127.8	1,022.8	10.3
Net trading income	614.1	609.7	0.7	504.5	556.2	(9.3)
Exchange differences (net)	8.4	16.9	(50.1)	8.4	16.9	(50.1)
Other operating income and expenses	(227.0)	(226.9)	0.1	(211.3)	(209.1)	1.1
Gross income	**5,737.3**	**5,470.7**	**4.9**	**4,514.0**	**4,258.3**	**6.0**
Staff expenses	(1,573.6)	(1,663.1)	(5.4)	(1,178.9)	(1,235.6)	(4.6)
Recurrents	(1,546.9)	(1,595.1)	(3.0)	(1,163.0)	(1,186.4)	(2.0)
Non-recurring	(26.6)	(68.0)	(60.8)	(15.8)	(49.3)	(67.9)
Other general administrative expenses	(1,149.4)	(1,000.3)	14.9	(614.8)	(581.0)	5.8
Recurrents	(1,116.7)	(981.2)	13.8	(614.8)	(581.0)	5.8
Non-recurring	(32.7)	(19.1)	71.5	-	-	–
Depreciation	(402.2)	(395.9)	1.6	(329.6)	(323.2)	2.0
Pre-provisions income	**2,612.1**	**2,411.5**	**8.3**	**2,390.8**	**2,118.4**	**12.9**
Insolvency provisions and other impairments	(1,225.2)	(550.7)	122.5	(1,136.4)	(522.5)	117.5
Other provisions and impairments	(971.1)	(876.5)	10.8	(971.1)	(876.5)	10.8
Capital gains on asset sales and other revenue	432.6	35.1	–	425.9	39.5	–
Negative goodwill	-	-	–	-	-	–
Profit/(loss) before tax	**848.3**	**1,019.4**	**(16.8)**	**709.1**	**758.9**	**(6.6)**
Corporate income tax	(43.1)	(303.6)	(85.8)	5.8	(222.4)	–
Consolidated profit/(loss) for the year	**805.2**	**715.9**	**12.5**	**714.9**	**536.5**	**33.2**
Profit/(loss) attributed to minority interests	3.7	5.4	(31.5)	3.7	5.4	(31.5)
Profit attributed to the Group	**801.5**	**710.4**	**12.8**	**711.2**	**531.1**	**33.9**
Memorandum item:						
Average total assets	214,356	206,265	3.9	168,418	163,326	3.1
Earnings per share (euro)	0.14	0.13		0.13	0.09	

Net interest income in 2017 amounted to €3,802.4 million, a -0.9% decrease compared to the net interest income obtained in the previous year. Excluding TSB, net interest income amounted to €2,768.8 million at 2017 year-end, a -0.6% decrease compared with the previous year. Considering a constant scope of consolidation, this item increased by 4.9% year-on-year (2.9% excluding TSB).

In cumulative average terms, the net interest margin as a percentage of average total assets stood at 1.77% (1.86% in 2016). The decrease in average returns on average total assets, despite the increase in the customer spread (due mainly to lower funding costs of customer deposits) was due to many factors, mainly the lower returns on fixed-income.

Thousand euro

	2017			2016			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit i	18,512,411	2,925	0.02	11,336,212	31,117	0.27	7,176,199	(28,192)	(33,404)	5,312	(100)
Lending to customers	136,937,930	4,102,112	3.00	138,202,184	4,361,287	3.16	(1,264,254)	(259,175)	(232,728)	(18,442)	(8,005)
Fixed-income portfolio	28,809,194	494,316	1.72	26,336,187	657,223	2.50	2,473,007	(162,907)	(187,182)	25,446	(1,171)
Subtotal	**184,259,535**	**4,599,353**	**2.50**	**175,874,583**	**5,049,627**	**2.87**	**8,384,952**	**(450,274)**	**(453,314)**	**12,316**	**(9,276)**
Equity portfolio	1,079,233	-	-	1,004,437	-	-	74,796	-	-	-	-
Tangible and intangible fixed as	4,268,271	-	-	4,030,891	-	-	237,380	-	-	-	-
Other assets	24,749,190	88,612	0.36	25,355,276	84,242	0.33	(606,086)	4,370	-	4,370	-
Total Lending	**214,356,229**	**4,687,965**	**2.19**	**206,265,187**	**5,133,869**	**2.49**	**8,091,042**	**(445,904)**	**(453,314)**	**16,686**	**(9,276)**
Credit institutions	28,553,497	(29,558)	(0.10)	18,046,159	(78,374)	(0.43)	10,507,338	48,816	44,696	33,947	(29,827)
Customer deposits	138,258,332	(266,315)	(0.19)	134,792,258	(525,031)	(0.39)	3,466,074	258,716	226,128	1,423	31,165
Capital markets	26,020,323	(386,885)	(1.49)	30,214,256	(585,759)	(1.94)	(4,193,933)	198,874	110,473	86,693	1,708
Subtotal	**192,832,152**	**(682,758)**	**(0.35)**	**183,052,673**	**(1,189,164)**	**(0.65)**	**9,779,479**	**506,406**	**381,297**	**122,063**	**3,046**
Other liabilities	8,438,119	(202,837)	(2.40)	10,280,237	(106,953)	(1.04)	(1,842,118)	(95,884)	-	(95,884)	-
Own funds	13,085,958	-	-	12,932,277	-	-	153,681	-	-	-	-
Total funds	**214,356,229**	**(885,595)**	**(0.41)**	**206,265,187**	**(1,296,117)**	**(0.63)**	**8,091,042**	**410,522**	**381,297**	**26,179**	**3,046**
Total ATAs	**214,356,229**	**3,802,370**	**1.77**	**206,265,187**	**3,837,752**	**1.86**	**8,091,042**	**(35,382)**	**(72,017)**	**42,865**	**(6,230)**

Financial income or costs deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions item under liabilities includes negative interest from balances of liability headings of credit institutions, the most significant of which is income from TLTRO II.

Dividends charged and earnings from companies consolidated under the equity method together amount to €315.9 million, compared with €84.6 million in 2016. This income mainly includes results from the insurance and pension business and net fees charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe during the third quarter of 2017.

Income from net fees and commissions amounted to €1,223.4 million (€1,127.8 million excluding TSB), increasing by 6.5% year-on-year (10.3% excluding TSB). This growth has come about in consequence of the positive performance of both service fees, which increased by increased by 11.5% (16.2% excluding TSB) and asset management fees, which increased by 8.6% with respect to the preceding year.

Net trading income amounted to €614.1 million (€504.5 million excluding TSB), including the early call of TSB's Mortgage Enhancement portfolio during the second quarter. During 2016, net trading income amounted to €609.7 million (€556.2 million excluding TSB), including €109.5 million in gains on the sale of 100% of Visa Europe shares.

Net earnings on exchange differences amounted to €8.4 million, compared with €16.9 million in 2016.

Other operating income and expenses amounted to €-227.0 million (€-211.3 million excluding TSB), compared with €-226.9 million (€-209.1 million excluding TSB) in 2016. Particularly worthy of note in this heading are contributions to the Deposit Guarantee Fund, which include TSB's contribution to the Financial Services Compensation Scheme, of €-98.3 million (€-94.9 million in the preceding year), capital contributions associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority of €-54.7 million (€-57.0 million during the previous year) and the contribution to the Tax on Deposits of Credit Institutions (IDEC) of €-28.1 million (€-27.6 million in the preceding year).

Operating expenses (staff and general) during 2017 amounted to €2,723.0 million (€1,793.6 million excluding TSB), of which €59.3 million are attributable to non-recurrent items (€15.8 million excluding TSB). During 2016, operating expenses amounted to €2,663.3 million (€1,816.7 million excluding TSB), and included €87.1 million in non-recurrent items (€49.3 million excluding TSB). This year-on-year increase corresponds to TSB's one-off technology expenses which were already forecast.

The cost-to-income ratio during 2017 stood at 50.15% (42.10% excluding TSB), compared with 48.68% (42.66% excluding TSB) in 2016. It should be noted that in 2017 this ratio excludes the impacts of the revenue from the early call of TSB's Mortgage Enhancement portfolio and the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

As a result of the foregoing, pre-provisions income at 2017 year-end amounted to €2,612.1 million (€2,390.8 million excluding TSB), compared with €2,411.5 million in 2016 (€2,118.4 million excluding TSB), representing an increase of 8.3% (12.9% excluding TSB), mainly due to the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Total provisions and impairments amounted to €-2,196.4 million (€-2,107.6 million excluding TSB), compared with €-1,427.1 million in 2016 (€-1,399.0 million excluding TSB). This increase in 2017 is due mainly to the extraordinary gains generated by recent corporate transactions that have been used to increase provisions.

Gains on asset sales amounted to €432.6 million (€35.1 million during the preceding year) and mainly included net gains on the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of the capital in HI Partners Holdco Value Added, S.A.U. by the subsidiary Hotel Investment Partners, S.L. (HIP). In 2016, they include mainly gross gains of €52 million on the sale of the stake held in Dexia Sabadell.

After deducting income tax and minority interests, net profit attributed to the Group amounted to €801.5 million at the end of 2017, a 12.8% increase compared with the previous year. Excluding TSB, net profit attributable to the Group amounted to €711.2 million at 2017 year-end, a 33.9% increase compared 2016 year-end.

2.4. Business review

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the segment reporting described in Note 39 to these consolidated annual accounts.

Banking business Spain

Net profit as at December 2017 amounted to €1,566.1 million, a year-on-year increase of 47.0% due to the 3.8% increase in core revenue and sales of businesses carried out during the year, although gross operating income also increased to €4,125.8 million, representing an 8.1% increase year-on-year.

Net interest income stood at €2,528.2 million, a 0.6% increase compared to 2016 year-end.

Net fees and commissions stood at €1,075.9 million, 12.1% higher than in the previous year due to the positive performance of service fees and asset management fees.

Net trading income and income from exchange differences amounted to €541.1 million.

Administrative expenses and depreciations amounted to €-1,755.6 million, a -1.5% decline compared to the same quarter in the previous year.

Provisions and impairments amounted to €-867.4 million due to extraordinary provisions allocated during the year.

Capital gains on the sale of assets and other income amounted to €383.7 million and included gains on the sale of Mediterráneo Vida and Sabadell United Bank.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**2,528**	**2,513**	**0.6**
Profit/(loss) for equity method and dividends	313	82	279.9
Net fees and commissions	1,076	960	12.1
Net trading income and exchange differences	541	600	(9.8)
Other operating income/expenses	(332)	(340)	(2.4)
Gross income	**4,126**	**3,815**	**8.1**
Administrative expenses and depreciations	(1,756)	(1,783)	(1.5)
Operating income	**2,370**	**2,032**	**16.6**
Provisions and impairments	(867)	(570)	52.2
Gains/(losses) on asset derecognition and others	384	40	864.5
Profit/(loss) before taxes	**1,887**	**1,502**	**25.6**
Income tax	(321)	(431)	(25.6)
Profit/(loss) after taxes	**1,566**	**1,071**	**46.2**
Profit/(loss) attributable to minority interests	-	5	(106.7)
Profit/(loss) attributable to the Group	**1,566**	**1,065**	**47.0**
ROE (earnings divided by average own funds)	17.8%	19.4%	
Cost-to-income (administrative expenses divided by gross income)	39.1%	43.4%	
Loan loss ratio (%)	5.7%	6.6%	
NPL coverage ratio (%)	45.6%	43.2%	

Loans and advances to customers (excluding ATAs) amounted to €93,394 million and grew by 1.5% year-on-year.

On-balance sheet customer funds increased by 3.0% year-on-year, with a significant growth of sight accounts. Off-balance sheet funds increased by 11.8%, with a strong growth in mutual funds.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**142,521**	**130,092**	**9.6**
Customer lending (net) excluding repos	93,394	92,059	1.5
Liabilities	**133,370**	**121,709**	**9.6**
On-balance sheet customer funds	92,558	89,835	3.0
Wholesale Funding Capital Markets	20,168	20,930	(3.6)
Allocated capital	**9,151**	**8,382**	**9.2**
Off-balance sheet customer funds	**44,265**	**39,603**	**11.8**
Other indicators			
Employees	15,775	16,001	(1.4)
Branches	1,880	2,119	(11.3)

Within banking business in Spain, note should be taken of the most significant business areas, about which information is given on the evolution of results and key figures.

Commercial Banking

The Group's largest business line is Commercial Banking, which focuses its activity on providing a range of financial products and services for large and medium-sized enterprises, SMEs and retailers, private customers (including private banking, personal banking and mass markets), non-residents and professional groups, with a degree of specialisation to allow tailored services to be offered to customers in line with their requirements, whether via experts throughout its multi-brand branch network or via other channels intended to support the customer relationship and give access to remote banking services.

Net profit as at December 2017 amounted to €886.0 million, representing a year-on-year growth of 8.3% considering the sales of Mediterráneo Vida and Exel Broker, the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the extraordinary increase in provisions and impairments. Gross income, which stood at €3,202.4 million, recorded an increase of 9.4%. Core revenue of €3,120.2 million increased by 2.2%, and by 4.0% considering a constant scope of consolidation (excluding Mediterráneo Vida and Exel Broker).

Net interest income stood at €2,278.9 million, remaining stable compared to 2016 year-end. Considering a constant scope of consolidation, this item increased by 1.7%.

Results calculated using the equity method and dividends include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Net fees and commissions stood at €841.3 million, 10.5% higher than in the previous year due to the positive performance of sight account and credit card fees.

Net trading income and income from exchange differences include the impacts of the sales of bad debt portfolios.

Administrative expenses and depreciations amounted to €-1,467.6 million, a -0.8% decline compared to the same period in the previous year.

Provisions and impairments amounted to €-631.5 million due to extraordinary provisions allocated during the year.

The gains and losses on derecognised assets and others heading includes the gains of Mediterráneo Vida and Exel Broker.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**2,279**	**2,292**	**(0.6)**
Profit/(loss) for equity method and dividends	304	52	484.6
Net fees and commissions	841	761	10.5
Net trading income and exchange differences	(37)	20	(285.0)
Other operating income/expenses	(185)	(198)	(6.6)
Gross income	**3,202**	**2,927**	**9.4**
Administrative expenses and depreciations	(1,468)	(1,480)	(0.8)
Operating income	**1,734**	**1,447**	**19.8**
Provisions and impairments	(632)	(317)	99.4
Gains/(losses) on asset derecognition and others	22	15	-
Profit/(loss) before taxes	**1,124**	**1,145**	**(1.8)**
Income tax	(238)	(327)	(27.2)
Profit/(loss) after taxes	**886**	**818**	**8.3**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**886**	**818**	**8.3**
ROE (earnings divided by average own funds)	21.3%	18.2%	
Cost-to-income (administrative expenses divided by gross income)	45.0%	49.6%	
Loan loss ratio (%)	6.4%	7.7%	
NPL coverage ratio (%)	40.5%	39.7%	

Net lending has increased by +0.5%, on--balance sheet funds have remained stable and off-balance sheet funds have increased by +7.7%, mainly due to the increase in Investment Funds.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**158,697**	**161,286**	**(1.6)**
Customer lending (net) excluding repos	75,121	74,760	0.5
Liabilities	**154,718**	**156,922**	**(1.4)**
On-balance sheet customer funds	79,475	79,543	(0.1)
Allocated capital	**3,979**	**4,365**	**(8.8)**
Off-balance sheet customer funds	**23,691**	**21,989**	**7.7**
Other indicators			
Employees	11,427	11,865	-
Branches	1,868	2,105	-

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large companies and financial institutions, both national (Spanish) and international. Its activities encompass corporate banking, structured finance, and trade finance & IFI.

Net profit as at December 2017 amounted to €139.5 million, representing a year-on-year increase of 7.7%, mainly due to the decline in provisions and impairments. Gross income of €302 million increased by 1.0%. Excluding the sales recognised under net trading income in 2016, this increase would be of 5.0%. Core revenue, which stood at €309.0 million, recorded an increase of 6.8%.

Net interest income, which stood at €192.3 million, increased year-on-year by 9.1%.

Net fees and commissions stood at €116.7 million, 3.5% higher than in the previous year due to higher fees and commissions on syndicated loans.

Net trading income and exchange differences declined by -81.3%, as extraordinary gains on sales of loan portfolios were recognised in 2016.

Administrative expenses and depreciations amounted to €-33.5 million, and remained stable with respect to the same period in the previous year.

Provisions and impairments amounted to €-68.6 million, representing a reduction of -13.7%.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**192**	**176**	**9.1**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	117	113	3.5
Net trading income and exchange differences	3	16	(81.3)
Other operating income/expenses	(10)	(6)	66.7
Gross income	**302**	**299**	**1.0**
Administrative expenses and depreciations	(33)	(33)	-
Operating income	**269**	**266**	**1.1**
Provisions and impairments	(69)	(80)	(13.7)
Gains/(losses) on asset derecognition and others	-	-	-
Profit/(loss) before taxes	**200**	**186**	**7.5**
Income tax	(60)	(56)	7.1
Profit/(loss) after taxes	**140**	**130**	**7.7**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**140**	**130**	**7.7**
ROE (earnings divided by average own funds)	16.2%	15.4%	
Cost-to-income (administrative expenses divided by gross income)	11.1%	11.1%	
Loan loss ratio (%)	4.1%	5.5%	
NPL coverage ratio (%)	94.0%	75.5%	

Net lending declined slightly by -0.9%, and on-balance sheet funds increased by 71% due to sight accounts and fixed-term deposits, while off-balance sheet funds increased by +15.4%, mainly due to employment pension schemes.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,879**	**13,255**	**19.8**
Customer lending (net) excluding repos	8,773	8,850	(0.9)
Liabilities	**15,069**	**12,377**	**21.8**
On-balance sheet customer funds	5,555	3,526	57.5
Allocated capital	**810**	**878**	**(7.7)**
Off-balance sheet customer funds	**623**	**540**	**15.4**
Other indicators			
Employees	140	150	-
Branches	2	2	-

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added-value with a view to achieving a high rate of return for the customer, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with high-quality management, while taking the customer relationship model towards a multichannel level.

Net profit as at December 2017 amounted to €96.0 million, representing a 14.3% increase year-on-year. Gross income, standing at €245.1 million, increased by 6.1% and core revenue, standing at €245.8 million, increased by 9.8%.

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

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

Administrative expenses and depreciations amounted to €-105.4 million, declining by -6.3%.

Provisions and impairments amounted to €-2.7 million.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**58**	**45**	**28.9**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	188	178	5.6
Net trading income and exchange differences	1	10	(90.0)
Other operating income/expenses	(2)	(2)	-
Gross income	**245**	**231**	**6.1**
Administrative expenses and depreciations	(105)	(112)	(6.3)
Operating income	**140**	**119**	**17.6**
Provisions and impairments	(3)	-	-
Gains/(losses) on asset derecognition and others	-	-	-
Profit/(loss) before taxes	**137**	**119**	**15.1**
Income tax	(41)	(35)	17.1
Profit/(loss) after taxes	**96**	**84**	**14.3**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**96**	**84**	**14.3**
ROE (earnings divided by average own funds)	38.2%	37.8%	
Cost-to-income (administrative expenses divided by gross income)	42.5%	47.8%	
Loan loss ratio (%)	0.5%	1.4%	
NPL coverage ratio (%)	71.0%	41.7%	

Net lending has increased by +17.4%, concentrated in private banking customers jointly managed by commercial banking and private banking (hereinafter, jointly managed customers), while on-balance sheet funds declined by -7.5% due to transfers to income from off-balance sheet funds, which increased by +22.4%, mainly due to the increase in Investment Funds.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**8,858**	**9,210**	**(3.8)**
Customer lending (net) excluding repos	2,175	1,853	17.4
Liabilities	**8,631**	**8,988**	**(4.0)**
On-balance sheet customer funds	6,367	6,880	(7.5)
Allocated capital	**227**	**222**	**2.3**
Off-balance sheet customer funds	**17,213**	**14,064**	**22.4**
Other indicators			
Employees	531	533	-
Branches	10	12	-

Banking business United Kingdom

Net profit in December 2017 amounted to €90.3 million, with a year-on-year decline of -49.8%, as in 2016 provisions and impairments were offset against the expected losses calculated in the preliminary PPA (Purchase Price Allocation) until the fourth quarter. However, core revenue increased by 6.5% considering a constant exchange rate and excluding the mortgage enhancement portfolio (constant scope of consolidation).

Net interest income declined by -1.6% due to exchange rate fluctuations and the early call of the mortgage enhancement portfolio. Considering a constant scope of consolidation, this growth stands at 10.4%

Net fees and commissions income fell by -24.0%, mainly due to the fees paid from aggregator accounts in service fees.

Net trading income includes the results of the early call of the mortgage enhancement portfolio. The sale of Visa Europe shares was recognised in 2016.

Gross income, standing at €1,223.3 million, increased by 0.9% and by 7.3% considering a constant scope of consolidation.

Administrative expenses and depreciations increased by 9.0% to €-1,002.0 million due to extraordinary technology expenses forecast in TSB.

Provisions and impairments amounted to €-88.8 million, more than in the previous year due to the PPA in 2016.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**1,034**	**1,051**	**(1.6)**
Profit/(loss) for equity method and dividends	-	-	-
Net fees and commissions	96	126	(24.0)
Net trading income and exchange differences	110	54	104.5
Other operating income/expenses	(16)	(18)	(11.6)
Gross income	**1,223**	**1,213**	**0.9**
Administrative expenses and depreciations	(1,002)	(919)	9.0
Operating income	**221**	**293**	**(24.6)**
Provisions and impairments	(89)	(28)	-
Gains/(losses) on asset derecognition and others	7	(4)	-
Profit/(loss) before taxes	**139**	**261**	**(46.7)**
Income tax	(49)	(81)	(39.9)
Profit/(loss) after taxes	**90**	**180**	**(49.8)**
Profit/(loss) attributable to minority interests	-	-	-
Profit/(loss) attributable to the Group	**90**	**180**	**(49.8)**
ROE (earnings divided by average own funds)	5.8%	8.0%	
Cost-to-income (administrative expenses divided by gross income)	79.5%	69.8%	
Loan loss ratio (%)	0.4%	0.5%	
NPL coverage ratio (%)	55.9%	52.7%	

Net lending to customers amounted to €35,501 million, a 3.3% increase year-on-year due to the strong growth of mortgages and despite the early call of the Mortgage Enhancement portfolio that took place in June. Considering a constant scope of consolidation, this item increased by 14.2% compared with the previous year.

On-balance sheet customer funds amounted to €34,410 million and increased by 0.2%. Considering a constant scope of consolidation, this growth stands at 3.9%

Million euro

	2017	2016	Change (%) year-on-year
Assets	**48,145**	**43,720**	**10.1**
Customer lending (net) excluding repos	35,501	34,361	3.3
Liabilities	**46,597**	**42,200**	**10.4**
On-balance sheet customer funds	34,410	34,334	0.2
Wholesale Funding Capital Markets	1,920	3,882	(50.5)
Allocated capital	**1,548**	**1,521**	**-**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	8,287	8,060	2.8
Branches	551	587	(6.1)

Other geographies

Other Geographies mostly comprises Mexico, overseas branches and representative offices that offer all types of banking and financial services of Corporate Banking, Private Banking and Commercial (Business and Retail) Banking.

Net profit as at December 2017 amounted to €88.6 million, a year-on-year decrease of -16.0% due to the sale of Sabadell United Bank. Without considering this sale, net profit increased by 25.4%.

Net interest income, which stood at €292.7 million, fell by -2.4%. Not considering the sale of Sabadell United Bank, net interest income grew by 21.8%, particularly driven by the growth in Mexico.

Net fees and commissions decreased by -22.4% due to lower fees on Securities and Investment Funds in Banco Sabadell Andorra and smaller corporate banking operations in Mexico.

Gross income, which stood at €358.0 million, recorded a decrease of -9.1%. Not considering the sale of Sabadell United Bank, gross income grew by 9.9%.

Administrative expenses and depreciations declined by -0.4%. Excluding the sale of Sabadell United Bank, they increased by 22.3%, primarily due to expenses associated with expansion in Mexico.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**293**	**300**	**(2.4)**
Profit/(loss) for equity method and dividends	3	3	(2.0)
Net fees and commissions	50	64	(22.4)
Net trading income and exchange differences	9	23	(60.1)
Other operating income/expenses	3	3	-
Gross income	**358**	**394**	**(9.1)**
Administrative expenses and depreciations	(205)	(206)	(0.4)
Operating income	**153**	**188**	**(18.7)**
Provisions and impairments	(24)	(29)	(14.6)
Gains/(losses) on asset derecognition and others	1	-	-
Profit/(loss) before taxes	**130**	**160**	**(18.5)**
Income tax	(37)	(54)	(31.1)
Profit/(loss) after taxes	**93**	**106**	**(12.1)**
Profit/(loss) attributable to minority interests	4	-	-
Profit/(loss) attributable to the Group	**89**	**106**	**(16.0)**
ROE (earnings divided by average own funds)	8.8%	13.2%	
Cost-to-income (administrative expenses divided by gross income)	54.5%	49.1%	
Loan loss ratio (%)	0.9%	0.5%	
NPL coverage ratio (%)	113.0%	174.8%	

Net lending amounted to €8,836 million, a -26.9% decrease due to the sale of Sabadell United Bank. Not considering the sale of Sabadell United Bank, net lending grew by 9.2%, due to business in Mexico.

On-balance sheet customer funds amounted to €5,024 million and decreased by -44.9% due to the sale of Sabadell United Bank. Not considering the sale of Sabadell United Bank, on-balance sheet customer funds declined by -3.8%. Off-balance sheet customer funds amounted to €1,033 million, representing an increase of 4.5%.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,298**	**20,740**	**(26.2)**
Customer lending (net) excluding repos	8,836	12,083	(26.9)
Real estate exposure (net)	23	22	3.5
Liabilities	**14,431**	**19,629**	**(26.5)**
On-balance sheet customer funds	5,024	9,116	(44.9)
Allocated capital	**866**	**1,111**	**(22.0)**
Off-balance sheet customer funds	**1,033**	**988**	**4.5**
Other indicators			
Employees	765	1,059	(27.8)
Branches	42	61	(31.1)

Real Estate Asset Transformation

Real Estate Asset Transformation comprehensively manages abnormal risk and real estate exposure, and also sets out and implements the strategy of real estate investee companies, such as Solvia.

Net profit as at December 2017 amounted to €-943.4 million, affected by the extraordinary provisions of the previous quarter.

Net interest income amounted to €-52.1 million, a lower figure than in the previous year due to the reduction of the loan portfolio run-off.

Net trading income includes the impacts of the sales of bad debt portfolios.

Gross income amounted to €30.1 million, -38.4% less than in the previous year.

Administrative expenses and depreciations increased by 7.6% year-on-year to €-162.7 million due to the expansion of the servicer and the increase in the portfolio of hotels managed by Hotel Investment Partnership.

Provisions and impairments amounted to €-1,215.8 million due to extraordinary impairments carried out.

Gains on sales amounted to €-14.1 million and improved by 85.4% compared with the previous year. During the last two quarters of the year, gains of €8.5 million and €5.1 million respectively were recognised on sales of real estate assets.

Gains on the sale of assets during this quarter mainly included the sale of the subsidiary HI Partners Holdco Value Added, of Hotel Investment Partners.

Million euro

	2017	2016	Change (%) year-on-year
Net interest income	**(52)**	**(26)**	**98.8**
Profit/(loss) for equity method and dividends	(1)	(1)	(49.9)
Net fees and commissions	2	(1)	-
Net trading income and exchange differences	(37)	(50)	(25.7)
Other operating income/expenses	118	128	(7.6)
Gross income	**30**	**49**	**(38.4)**
Administrative expenses and depreciations	(163)	(151)	7.6
Operating income	**(133)**	**(102)**	**29.5**
Provisions and impairments	(1,216)	(801)	51.9
Sales Results	*(14)*	*(96)*	*(85.4)*
Gains/(losses) on asset derecognition and others	41	-	-
Profit/(loss) before taxes	**(1,307)**	**(903)**	**44.8**
Income tax	364	263	38.3
Profit/(loss) after taxes	**(943)**	**(640)**	**47.5**
Profit/(loss) attributable to minority interests	-	-	-
Total profit/(loss) of the reported segments	**(943)**	**(640)**	**47.5**
ROE (earnings divided by average own funds)	--	--	
Cost-to-income (administrative expenses divided by gross income)	--	--	
Loan loss ratio (%)	32.2%	31.7%	
NPL coverage ratio (%)	49.9%	54.2%	

The good management of real estate assets continues, net lending declined by -42.0% year-on-year and net real estate exposure declined by -28.5%.

Intra-group funding amounted to €12,627 million, -10.2% less than in the previous year.

Million euro

	2017	2016	Change (%) year-on-year
Assets	**15,384**	**17,956**	**(14.3)**
Customer lending (net) excluding repos	3,865	6,663	(42.0)
Real estate exposure (net)	3,372	4,716	(28.5)
Liabilities	**13,728**	**15,886**	**(13.6)**
On-balance sheet customer funds	104	172	(39.7)
Intra-group financing	12,627	14,057	(10.2)
Allocated capital	**1,656**	**2,069**	**(20.0)**
Off-balance sheet customer funds	**27**	**15**	**83.0**
Other indicators			
Employees	1,018	825	23.4
Branches	-	-	-

3 - THE ENVIRONMENT AND OTHER SOCIAL MATTERS

3.1 - The environment

Environmental policies, commitments and partnerships

Banco Sabadell as an environmental policy in place that embodies its commitment to the environment and the fight against climate change. This policy focuses on reducing the environmental impacts of the processes, facilities and services that are inherent to its activity, adequately managing the risks and opportunities relating to the business and also promoting the environmental commitment of persons with whom the bank has a relationship.

The bank is also a member of a number of global initiatives and commitments:

- A signatory of the United Nations Global Compact, thereby committing ourselves to adopting a preventive approach to environmental protection, promoting initiatives to foster environmental responsibility and supporting the development of technologies that do not harm the environment.
- A signatory of the Equator Principles: inclusion of Environmental, Social and Governance (ESG) in the funding of large-scale projects.
- A signatory of the Carbon Disclosure Project (CDP): as part of its commitment to actively combat climate change and publish an annual inventory of corporate emissions, verified by an external auditor in accordance with Standard ISAE 3000.
- A signatory of the United Nations Principles for Responsible Investment (PRI) in the “investment manager” category: inclusion of environmental, social and good governance criteria in investment policies and practices.
- It has been included into the index of sustainability index FTSE4Good Index Series, which has been designed to measure the performance of companies demonstrating strong environmental, social and governance (ESG) practices. One of the aspects it measures is the sustainable performance of investment products.
- It has 6 central service buildings that have been certified under the international standard for environmental management systems (EMS) ISO 14001. Our environmental management system has been adapted for the rest of the Group.
- It is a holder of the LEED NC (Leadership in Energy & Environmental Design for New Construction) certificate, with GOLD rating in sustainable construction obtained for its corporate headquarters in Sant Cugat del Vallés.
- Banco Sabadell is a partner in the European GreenBuilding Programme for the sustainable construction of the Group’s logistics centre and general archive in Polinyà.

- A collaborating partner of the Spanish Association of Renewable Energy Producers and a member of the Spanish Wind Energy Association.

Main areas of activity relating to the environment and their enforcement in combating climate change

Through various areas of the organisation, Banco Sabadell meets its aims and commitments on the environment, contributing to the fight against climate change. At an operational level, global Group operations are subject to the legal requirements on environmental protection and health and safety in the workplace. Banco Sabadell has not been the subject of any fines, sanctions or penalties due to failure to comply with environmental legislation and regulations during the year. Banco Sabadell has also received no complaints regarding environmental impacts.

The main results for each area of activity are given below.

Lines of business related to the environment

Banco Sabadell promotes the development of a sustainable energy model through the funding of projects and direct investment in renewable energy.

In terms of funding, the bank's portfolio includes a variety of projects, including projects for the generation of renewable energy (wind energy, photovoltaic energy, solar thermal energy, biomass), biofuel projects, which include advisory and mediation services, the funding of energy efficient facilities through renting products that allow a number of projects to be funded, from public lighting projects to biomass boilers and cogeneration installations.

Another line of business related to sustainability and growth is the renting of sustainable transport (vehicles issuing 120 gr CO_2/km or less).

As regards investment, Banco Sabadell makes direct investments in the equity capital of renewable energy generation projects. Most of this business is carried out through Sinia Renovables, a wholly-owned subsidiary. For the 2016-2019 period, Sinia Renovables has initiated an investment cycle of €150 million in capital for this type of assets, following the bank's internationalisation strategy and looking into investments in Spain, Mexico, United Kingdom and other countries in LATAM.

Equator Principles (structured finance and corporate loans)

Since 2011, Banco Sabadell has adopted the Equator Principles, a voluntary credit risk management framework, coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to the funding of structured finance and corporate loans projects.

Since then, the bank has continued to apply the Equator Principles in all of its new structured finance projects valued at an amount greater than, or equal to, USD 10 million and corporate loans from USD 100 million. Projects are classified based on their level of risk and environmental and social impact as A, B or C, following the standard implemented by the IFC. A social and environment assessment is carried out for all projects classified as category A and B, which is then reviewed by an independent expert. This assessment not only addresses the risks and impacts, but also considers measures for an appropriate minimisation, mitigation and offsetting of these risks and impacts.

Every year, Banco Sabadell publishes a list of each of its projects associated with the Equator Principles in its report, which can be consulted through the bank's website.

Own infrastructure: environmental management and ecoefficiency measures

Banco Sabadell regularly identifies significant aspects relating to its facilities and installations in order to minimise and mitigate potential environmental impacts. Every year, it works to improve the ecoefficiency of its facilities and to reduce the environmental impacts of the services it provides to customers, which is also in line with the fight against climate change. During the year, plans have continued to be implemented for waste treatment, consumables recycling and energy saving.

In relation to management systems and their respective scope of application, the bank has an environmental management system (SGA, for its acronym in Spanish) which has been in place since 2006 and follows the ISO 14001:2004 standard. 6 corporate centres have been certified under this standard, and the environmental management system has been adapted for use at all other Group work centres in Spain.

In terms of its infrastructure, the following areas of activity are described below.

Reduction of carbon footprint

- Inventory of CO2 emissions: In 2017, emissions have been reduced by 94.71%, mainly by purchasing and using electrical power generated from renewable sources.

Energy management

- Electrical power consumption: overall consumption of electrical power in Spain in 2017 declined by 8% (reaching 82,824 MWh in 2017). It should be noted that during this year, 99.96% of the bank's total electricity consumption came from renewable sources, as Banco Sabadell continues to contract renewable energy sources through Nexus Renovables, which provides, with a guarantee of 100% renewable sources, 99.93% of the bank's total electricity consumption. Some of the actions include the centralised lighting and air-conditioning system in specific areas of the corporate centres, the installation of motion sensor lighting systems and LED (Light Emitting Diode) lights and the installation of air-conditioning systems with energy recovery ventilation.

Management and reduction of other consumption

- Paper consumption: 24-hour service for customers through remote channels and digital platforms, the commercial use of digital tables that allow customers' signatures to be captured and the use of conventional paper certified as being manufactured without chlorine by the FSC (Forest Stewardship Council).

- Water consumption: water consumption in Spain is limited to sanitary uses and to some watering of gardens.

Waste management

The bank implements a number of initiatives to encourage paper recycling, systems for the selective collection and sorting of packaging waste, organic material and batteries, recycling of used toners and the management of technological waste through authorised waste managers.

In addition, computer equipment or furniture that is in good condition, acquired from offices or work centres during a closure or merger process, that is not required by the bank is donated to NGOs and local non-profit organisations.

With regard to waste water management, all our facilities and offices are connected to the public sewage network.

Pollution and its effects on health and safety

All of Banco Sabadell's activities are carried out in urban centres, and all waste generated by Banco Sabadell is managed by authorised waste managers.

Environmental awareness

In terms of environmental awareness and management, all Group employees have access to an online training course the completion of which is mandatory for staff at certified corporate centres. Through its internal platform, "Banco Sabadell Idea", employees have made contributions and put forward suggestions on how to improve various areas of the organisation, including environmental aspects and the fight against climate change. Some examples of ideas relating to sustainability include contributions to total or partial savings of paper and digitalisation (digital signature, contracts, virtual reports, etc.), energy savings (installation of solar panels in corporate centres, etc.) and the addition of more electric vehicles for employees (for renting, subsidised purchase, etc.) Use of the internal car pooling platform is encouraged.

It also encourages holding meetings through video-conference, the use of personal video-conferencing, pilot schemes for working from home and the use of virtual classrooms for areas such as learning and continuous training.

Value chain

Banco Sabadell also keeps all its suppliers informed of the Group's environmental policy and integrates environmental and social responsibility into its supply chain in a number of ways.

In the Group-level procurement process, tenders or offers from suppliers with ISO 9001, ISO 14001/EMAS and/or EFQM certifications are looked on favourably.

Banco Sabadell's basic contract with suppliers includes specific clauses on compliance with environmental criteria, human rights and the Ten Principles of the United Nations Global Compact, as well as acceptance of the Supplier Code of Conduct. In particular, environmental requirements are included in specifications for products and services that have significant environmental impacts.

3.2 - Other social matters

Social and environmental criteria in investment and funding

Since 2011, Banco Sabadell has adopted the Equator Principles, an international voluntary credit risk management framework, which aims to identify, assess and manage environmental and social risks relating to the funding of structured finance projects (see previous section).

The full branch network has support information available in order to assess the environmental risk related to the sector or activity of the analysed companies. This assessment is also included in the record of transactions and in decision-making processes.

In terms of lending, both the pension fund management company, BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital company with equity interests in Spanish companies with projects for growth in foreign trade, follow the Principles of Responsible Investment in the asset management category. These principles include social, environmental and good governance criteria in management policies and practices.

Banco Sabadell encourages responsible investment and also offers its customers savings and investment products that contribute to charity projects such as Fondo de Inversión Sabadell Inversión Ética y Solidaria, F.I., Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A., the pension scheme Plan de Pensiones BS Ético y Solidario, P.P. and the pension scheme Plan de Pensiones BanSabadell 21 F.P, as well as to its staff through Fondo de Pensiones G.M. PENSIONES, F.P.

Housing and financial inclusion

Banco Sabadell manages, through Sogeviso (Solvia Gestora de Vivienda Social), the social issue of housing in order to responsibly address situations of social exclusion faced by its most vulnerable mortgage borrowers.

During its second year, Sogeviso has continued to include a 'social contract' in all of its new rental agreements for social housing. This is a service through which a manager specialising in social matters can assist customers at risk of social exclusion. This service hinges on, on one hand, finding work (it puts vulnerable customers in contact with public services and offers them training, interview preparation and coaching on how to find work) and, on the other hand, the cooperation with general governments and third sector entities. Under this framework, social contracts already represent 48% of the bank's total rental agreements for social housing.

2017 has also seen the consolidation of the JoBS programme, which 2,464 people have benefited from since its launch in October 2016 until the end of the year, of whom 646 have since found employment. Through this programme, 3 agreements with companies from different sectors such as Manpower, Mullor and Fundació Formació i Treball have been signed.

Also during 2017, in order to limit the effects of over-indebtedness and facilitate the recovery of debts owed by debtors at risk of social exclusion, the bank has reiterated its commitment to the Code of Good Banking Practice, approving 198 mortgage loan restructuring operations. Furthermore, the bank has carried out 2,592 *datio-in-solutum* operations on a voluntary basis.

Since 2013, Banco Sabadell has been a member of the Convenio del Fondo Social de la Vivienda (FSV), an initiative implemented by the government of Spain to strengthen the protection of mortgage debtors. Sabadell has contributed to this initiative with 400 properties primarily aimed at customers who have lost their properties through payment in kind (*datio in solutum*) or repossessions since January 2008.

Furthermore, the bank has granted 101 properties to 48 non-profit institutions and foundations, intended to lend support to most disadvantaged social groups.

4 - HUMAN RESOURCES

Human Resources aims to support the transformation of the organisation through a people agenda that is an integral part of its day-to-day business operations and its growth. Its key objective is to maximise the value-creating potential of Banco Sabadell's workforce by developing their talent, managing their expectations and fully leveraging their capabilities.

During 2017, the structure of the Human Resources Division has undergone a significant transformation, with the objective of strengthening and focusing its activities on the management of human capital, in line with the new strategic plan:

- Planning and anticipation of the future needs of the bank in terms of personnel.
- Proactive management oriented towards improving human capital.
- Cultural evolution and improvement of employee satisfaction.

Key human resources data

Number of employees

	2017	2016
Average equivalent workforce	26,171	26,022
Spanish workforce at year-end	16,764	16,771
Workforce at year-end	25,845	25,945
Turnover rate (%) (*)	1.57%	0.92%
Absenteeism (%) (**)	2.71%	2.60%
Hours of training per employee (***)	32.98	32.68

The average equivalent workforce is calculated based on the average number of employees at the end of each month.
(*)Unwanted staff turnover: number of dismissals and voluntary extended leaves of absence divided by the average workforce x100.
(**)This figure is of the absenteeism (workdays missed / total workdays * 100).
(***)In Spanish workforce

Number of employees

	Men	Women	Total
National workforce	8,275	8,489	16,764
International workforce	3,192	5,889	9,081
By gender (%)	44.4%	55.6%	100.0%
Average age (*)	43.18	42.47	43.04
Average length of service	16.14	15.78	16.19

Data calculated based on Group workforce.
(*) Only people over 18 are hired.

Number of employees

	Men	Women	Total
Administrative staff	999	3,487	4,486
Technical staff	9,980	10,734	20,714
Management staff	488	157	645
Total	**11,467**	**14,378**	**25,845**

Data calculated based on Group workforce.

Human resources management – policies and principles

Human Resources policy and the Ethics and Human Rights policy are grounded in respect for human dignity, fair and competitive remuneration, transparency and truthfulness in reporting, and lasting cooperation, in accordance with the standards of the International Labour Organisation (ILO).

Recruitment policy

Banco Sabadell has a personnel selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and career path. The Group seeks to ensure optimal professional development for its employees by encouraging them to excel and rewarding hard work. This mutual commitment is set out in the Banco Sabadell Group Code of Conduct.

In 2017, work has been made on a number of actions and projects to strengthen and improve its procedures for attracting and recruiting talent to take on higher volumes of recruitment, new profiles and geographic dispersion. These are the factors that are making it necessary to redesign and update the procedures, skills, technologies and capabilities used to attract the best candidates and provide them with a professionally rewarding experience.

To this end, and to make the internal recruitment service more dynamic, offer opportunities for career development and to favour internal movements of employees within the Group, the following measures have been taken:

- Proactive management of employee mobility. Different initiatives and projects have been launched to accompany and internally relocate Banco Sabadell professionals through plans such as the Employability plan. Currently, 160 participants have subscribed to the Employability Plan.

- Communication and visibility of the internal employee selection process: participation in different workshops and sessions to present the process, and a website has been launched specifically for professional opportunities. In this way, the process has been explained in more detail to ensure awareness of the same and to increase participation.

During 2017, 432 vacancies have been filled, 280 were filled internally and 152 externally.

This year, action has been taken to consolidate the young talent programmes (Internship, Young Talent and Talent Graduate Programmes). Ensuring the integration, participation and training of employees from these groups at the bank, through systematic and continuous monitoring by their tutors and mentors.

142 young people have been recruited through these programmes.

Significant efforts have also been made to be present in the main forums to attract young talent and build closer, stronger relationships with universities and business schools considered to be crucial for Banco Sabadell. The bank has taken part in different activities including networking sessions, stands and presentations to students: AFI, BGSE, CUNEF, Deusto, ESADE, JOBarcelona, UEM, UPC, IDEC amongst others.

These actions have also led to an improvement in external reputation indicators, including the achievement, once again, of a place in the Mercopersonas Top 25 (ranked number 21), the Spanish corporate reputation monitor, which measures the appeal of institutions as employers.

Equality, work-life balance and integration

Banco Sabadell guarantees gender equality and equal opportunities in all areas of its activity affecting its staff: recruitment, training, promotions and career development, salaries, work-life balance, etc. These principles are set out in the Banco Sabadell Group Equality Plan, the Human Resources policy and code of conduct.

Gender equality

With the bank's firm commitment, and in line with the objective set forth in the Equality Plan, which was signed by representatives of employees in 2010 (renewed in June 2016), this year 170 women have been promoted, representing 37.8% of the target set for 2020 (450 promotions nationally).

Note should also be taken of the achievement made with respect to the "*Acuerdo de Colaboración con el Ministerio de Sanidad, Servicios Sociales e Igualdad*" (Cooperation Agreement with the Ministry of Health, Social Services and Equity), which was signed in 2014 and sets a target of having 18% of managerial positions held by women by 2018. This objective has been successfully achieved prior to the indicated date, with women holding 22.27% of all managerial positions in Spain.

The new equality plan, in the same way as its previous version, aims to prevent all forms of discrimination in the work-place between women and men in the company, and sets out new lines of action, with perfected systems to monitor performance and evaluate objectives across all areas of activity corresponding to Human Resources.

%	2017	2016
Promotions given to women	50.35%	53.77%
Managerial positions held by women	24.34%	23.88%

Data calculated based on Group workforce.

Diversity and integration

The Group promotes all types of employee diversity and encourages the integration of all of its partners in the workplace and non-discriminatory career development and recruitment processes.

The Group sets out actions relating to the suitability of positions in cases of functional diversity that require such actions, in line with the special sensitivity procedures of the occupational medicine service. The bank also assists employees with paperwork in their dealings with municipal, regional and national governments, thus helping to improve employees' well-being outside the strictly professional sphere. In compliance with Spain's General Disability Act, the bank pursues other measures such as buying services and supplies from special employment centres.

As at December 2017, the Group had 253 employees with some form of disability (263 at the end of 2016).

Functional diversity is not the only diversity that is managed in a unique way by the Group. Policies aimed at making the most of talent across generations have become particularly important during 2016, due to the evolution of the age pyramid in the Group.

A comprehensive study has been conducted of the generational situation of its workforce, identifying the complexity of experiences, skills, abilities and training in each generation represented by that workforce and devising proposals for improvement that take into account their main interests, needs, expectations and concerns.

Work-life balance

Employees have at their disposal a series of social benefits agreed with the Group and union representatives in agreements on measures aimed at achieving a healthy work/life balance. The full workforce has been notified of these benefits and they can be consulted on the internal employee intranet, therefore they are widely known to the staff, who have been applying for and enjoying these benefits for a long time.

Benefits include time off from work, paid or unpaid (e.g. to nurse an infant); unpaid leave (for maternity or to care for a relative); leave in special circumstances (for studies, personal reasons, inter-country adoption); extension of paternity leave; and flexitime arrangements.

The Group also offers a wide range of measures aimed at improving the work/life balance of its workforce, by offering an option to contract services and purchase items through the employee portal, which gives employees an opportunity to save both money and time, as they receive the items in their workplace, saving transportation expenses and avoiding having to run errands outside of their working hours. The service offering also makes it easier for central services staff to run their personal errands.

In 2017, new measures to promote flexibility and the improvement of work-life balance have also been implemented, which include the possibility of buying additional holiday days and the gradual deployment of teleworking, which are particularly noteworthy measures.

Remuneration policy

During 2017 the remuneration policy has been updated to adapt to the latest regulatory requirements in terms of remuneration, having established the following policies:

- Group Remuneration Policy
- Remuneration Policy Spain
- Code Staff Identification and Remuneration Policy
- Policy for the Remuneration of Senior Management

Banco Sabadell's compensation policy is based on the principles of internal fairness, external competitiveness, transparency, differentiation, flexibility, simplicity, confidentiality and communication, as prescribed by the Group's human resources policy.

The compensation policy is based on the degree of responsibility attaching to the position and on each employee's professional development. This determines Group practices with regard to increases in both fixed and variable remuneration. In total, 87.1% of the workforce in Spain had salaries which included variable remuneration as at December 2017 (88.47% at the end of 2016).

Other types of benefit are available to employees, including interest-free loans and grants to help with training or children's schooling.

In this regard, the launch, in October of the "My Benefits" (*Mis Beneficios*) portal is particularly noteworthy, in which all employees who have entered into an agreement with the Bank can view all of their benefits in a personalised manner, and they can also see if they are already enjoying their benefits or not.

Workplace hazards

The Group has a policy of constantly striving to improve employees' health and working conditions.

As required by law, the bank has a health and safety plan setting out policy measures in this area. Each year it publishes a report on health and safety initiatives undertaken by the company, which is available on the internal employee intranet and the corporate website.

An initial risk assessment is performed on each new workplace and also on workplaces that have undergone refurbishment or alterations. A follow-up assessment is performed at a later date to evaluate individual workstations and common areas, facilities and aspects such as temperature, lighting, etc.

All Group staff and new employees receive information on workplace hazard prevention and are required to take an online course in health and safety at work. The training is supplemented by publications, such as ergonomics factsheets and equipment manuals, related to hazards which are specific to the bank's activities.

Employee development

New learning model

In 2017, the Group has continued to promote the bank's learning model, which was launched in 2016 with the consolidation of Sabadell Campus and its multiple schools and spaces. The pillars of Banco Sabadell's training model play out in this project, and are based on innovation, personalised training, alignment with the business and efficiency.

During this year, the recognition and visibility of Sabadell Campus recognition has grown enormously, as employees accessed more than 137,000 online sessions.

	2017	2016
Employees who received training (%)	89%	98%
Investment in training per employee (euro)	591.2	371.8

Data for Spain.

Consolidation of the Digital Space

Sabadell Campus puts a space at the disposal of all its employees for them to develop their digital skills, with which it aims to help the digital transformation of all Banco Sabadell employees, and which is being very successful, with a high rate of participation.

Growth of the Business School

The Commercial School, which is fully focused towards offering training to overcome challenges in the branch network, has widened the scope of the contents and topics it offers. Over 11,000 employees have accessed this school.

Promotion of the Management School

The Management School is an area of Sabadell Campus which offers content oriented towards reaching professional and personal goals through the development of skills, and it is the area which is most frequently accessed by employees (more than 9,500 employees accessed it in 2017).

Furthermore, the School has continued to promote the CMP programme (Corporate Management Programme, PCM for its acronym in Spanish). This programme includes networking with management, and project support. Project winners are offered the opportunity to join the bank.

Opening of all classes at the Technical-Financial School

The Technical-Financial School aims to improve the financial culture of the entity, offers specialised training methods and places an attractive offering of content and learning methods at the disposal of all employees.

Language Space Offer

As part of the ongoing objective to improve the level of foreign languages spoken and written by employees within the entity, they have access to the Languages Space in Sabadell Campus. This is a space in which employees can find information about the language learning options offered by the bank in line with each specific professional profile and requirement.

Growth of the internal tutoring team

One of the main pillars of Banco Sabadell's new training model is the group of internal tutors. Tutors ciliate the management of knowledge and internal talent and they make it possible for training to be available in all regions when it is required. The internal tutor team is currently comprised of a group of almost 400 professionals, all of whom who have the necessary qualifications and are extremely professional.

<u>Leadership Management</u>

The Talent Division has consolidated the management model with the objective of obtaining the most up-to-date information on current talent, and their potential, to ensure appropriate decision making, effective and efficient management of the development of our directors and pre-directors.

In 2016 a common Performance Management model was implemented for all of the Bank's employees, through a simplified process, anchored to the current year and aligned with the business, incorporating mechanisms (calibration) to promote rigour and enhance differentiation. This model has served as a basis for the implementation, in 2017, of a new global performance model for all of the geographies (Global Performance Management):

Models and tools to measure current, as well as potential future performance, have been implemented. Through multi-source processes information has been gathered to categorise our professionals into different types of talent, the results have been presented in different committees for decision making purposes (multicontributed) for their assignment and development. All of this has contributed to the transformation of the culture of talent management at the bank.

A new onboarding programme has been launched for Corporate Managers and Top 300, with the objective of guiding them through the inherent challenges of a new leadership role, and to help them prepare for the changing environment of the business. 61 managers have participated in this Programme during 2017.

Communication, participation and the volunteer programme

Communication

Banco Sabadell has numerous channels of communication between the different levels of the organisation to enhance internal communication and involve employees in the bank's goals.

The "Banco Sabadell Idea" platform allows employees to propose improvements in any area of the organisation. The platform is also an excellent communication channel through which employees can make queries and share experiences on products and processes. The ideas with the most votes and those which add the greatest value to the bank are considered by the persons in charge of the processes concerned and by members of a Decision Committee, who together reach a decision on their implementation. The ideas with most votes also receive a cash prize.

Participation

Banco Sabadell respects and guarantees employees' basic rights, including freedom of association and collective bargaining, enshrined in Spanish law. These principles are set out in its code of conduct and human resources policy.

Union representatives represent the entire workforce, not just union members; accordingly, labour agreements apply to all employees at the level at which the negotiation was conducted (industry, group, company, etc.). All employees are given one month's notice of significant changes. Union elections are held every four years. Banco Sabadell's management meets periodically with the general secretaries of the various trade unions and the latter participate regularly in various committees (National Health and Safety Committee, Equal Opportunities Committee, Training Committee and the Pension Plan Oversight Committee). Workplaces with more than 50 workers have a works council. Workplaces with between 6 and 10 workers may elect a union representative.

During 2017 multiple actions have been developed as a result of employees responses to the work environment survey carried out in 2015. In this regard, a pulse survey was carried out for 4,570 employees during April 2017, the results of which showed clear signs of improvement in the majority of the model's pillars (Credibility, Impartiality, Respect and Pride) and a flat outlook for Comradeship.

In November, a global survey was carried out for all employees in Spain, and improvements have been observed in all of the pillars, with a particular emphasis on the items regarding the 4 areas of improvement proposed subsequent to the 2015 survey (communication by leaders, sense of unity, reconciliation and meritocracy). The Trust Index, a key indicator of the Great Place to Work model, has increased as 61% of the workforce believe that Banco Sabadell is an excellent place to work.

Volunteer programme

The SabadellLife Portal publicises social action and corporate volunteer initiatives. The successes achieved year after year has led to a substantial increase in the number of volunteers and in the activities organised in 2017, many of which were proposed by the employees themselves.

Details of some of the most significant activities in 2017 are given below:

- Employee participation in three Oxfam Trailwalker events, representing the mobilisation of 384 participants and a total of €125,000 were raised to fund water supply projects in developing countries.

- EFEC 2017

- 5th Edition of the Financial Education in Catalonian Schools programme (*Educación Financiera en las Escuelas Cataluñ*a) programme, with the participation of a total of 179 volunteers, available in 321 schools throughout Catalonia.

- AEB "Your Finances, Your Future (*Tus Finanzas, tu futuro*) with the participation of 33 volunteers who have shared basic financial knowledge with students in their second and third years of compulsory secondary education (E.S.O for its acronymn in Spanish).

- Solidarity Attitude (*Actitud Solidaria*), as part of the agreement between Banco Sabadell and the startup Worldcoo, more than 7 fund raising activities have been carried out amongst employees, raising a total amount of 45 thousand euros, used for projects such as "Beating childhood cancer" (*Vencer el Cancer Infantil*), Emergency in Mexico (Emergencia en México) or "Mediterranean Mission" (*Misión Mediterráneo*), supporting NGOs.

- BValue Programme-Ship2B Foundation

  In collaboration with Ship2B Foundation and with the collaboration of Banco Sabadell Foundation, the BValue programme was launched, the objective of which is to help to professionalise and improve the value proposal of not-for-profit organisations in any area of activity.
  Thirty Banco Sabadell employees have collaborated as mentors, in 4 face-to-face workshops which have been held in Barcelona and Madrid.

- Feina amb Cor

  Accompaniment and care service led by Cáritas, which has the objective of incorporating persons who have been unemployed for long periods of time to re-join the labour market, these persons have family responsibilities and are aged older than 40. As part of this programme, 14 persons joined the branch network to carry out administrative and Customer Service tasks. 11 of these persons continue to carry out these functions. The remaining persons have found more stable employment.

5 – LIQUIDITY AND CAPITAL RESOURCES

5.1 Liquidity

The key aspects in the evolution of liquidity during the year at Group level have been as follows:

- The entity has continued to generate a liquidity gap in its commercial business, reducing total funding in wholesale markets.

- In 2017, the growing tendency of the generation of a customer funding gap observed in recent years has continued. The Loan to Deposit (LtD) ratio of the Group at the end of December 2017 stood at 104.3%.

The bank has continued to access capital markets as usual. €3,206 million in capital market funding matured in the year. Banco Sabadell has carried out public issuances under the Fixed-Income Scheme in force for a total of €3,044.6 million. Specifically, in March Banco Sabadell carried out one public issuance of ten-year covered bonds in April of €1 billion, which was extended by a further €100 million in October, one issuance of 8-year covered bonds of €500 million fully subscribed by the European Investment Bank (EIB); and 6 issuances of senior debt, each with a term of between two and five years, totalling €1,444.6 million. Also during the year, two issues of preferential contingent bonds convertible into ordinary shares have also been issued by the Bank (Additional Tier 1). On May 18, 2017, Banco Sabadell carried out its inaugural issue of Additional Tier 1 for €750M with a fixed rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second issue of Additional Tier 1 for the amount of 400 million euros at a fixed rate of 6.125%. Lastly, on 5 December 2017, Banco Sabadell carried out a senior debt issuance under its EMTN Programme amounting to €1,000 million with a term of 5 years and 3 months.

- In 2017, the Group has recovered its Investment Grade category with all of the credit rating agencies. On 27 June 2017 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB- from BB+ and its short-term rating to A-3 from B. The trend remains positive. With this rating upgrade, Banco Sabadell has once again attained the level of Investment Grade. S&P Global Ratings raised the rating as it considers that Banco Sabadell has continued to strengthen its solvency and that it continues to make progress in de-risking its balance sheet. Additionally, S&P Global Ratings raised its rating of Banco Sabadell's non-deferrable subordinated debt and preferred shares by two notches to BB and B, respectively.

- Banco Sabadell took part in the ECB's four-year liquidity auction (TLTRO2 or Targeted Long Term Refinancing Operations 2) carried out in March totalling €10,500 million, adding to the €10,000 million from the previous year under this scheme.

- The bank has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs, therefore the bank has continued to optimise its collateral base, with the issue of two new securitisation funds being particularly noteworthy.

- On 1 October 2015, the Liquidity Coverage Ratio (LCR) came into force, with a phase-in enforcement period up to 2018. The required ratio was 80% in 2017. All of the entity's Liquidity Management Units (UGLs, for their acronym in Spanish) comfortably surpassed this minimum. At Group level, the institution's LCR has consistently been substantially above 100% throughout the year. As regards the Net Stable Funding Ratio (NSFR), which is still in the research stage and pending its final definition, the bank has continued to maintain stable levels above 100%.

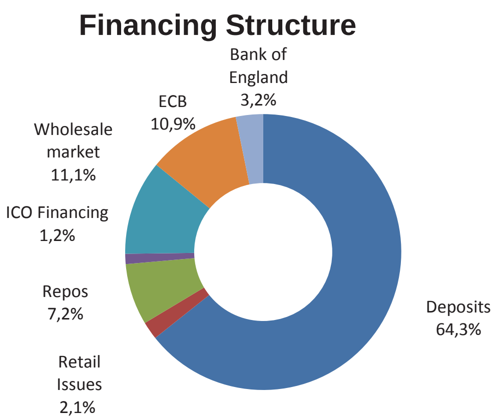
Key figures and basic liquidity ratios at year-end were:

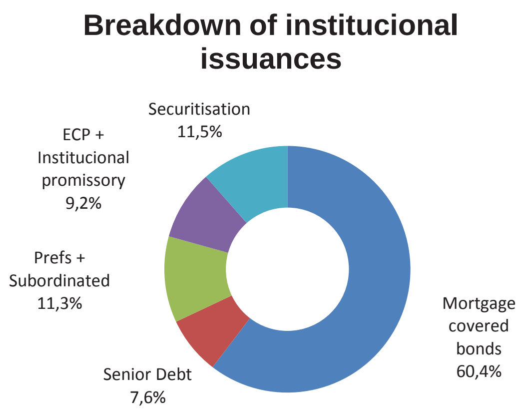
€ million

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

The EUR/GBP exchange rate used for the balance sheet is 0.8872 at 31.12.17 and 0.8562 at 31.12.16.

The Group's main sources of funding at the end of 2017 are shown in the following figures according to the type of instrument and counterparty:





For further information regarding the Group's liquidity management, strategy and evolution, see Note 4 on Risks, under the Liquidity Risk section in the notes to the annual accounts.

5.2. Capital resources

Note 5, "*Own funds and capital management*" of the consolidated report of the Group, contains a detailed report of its capital management (regulatory framework, detailed data and capital activity).

The main figures related to capital management are shown below:

% / € million

	2017	2016
CET1	13.4	12.0
Tier I	14.3	12.0
Tier II	1.8	1.8
BIS ratio	16.1	13.8
Capital base	12,524	11,852
Minimum capital requirement	6,211	6,886
Risk weighted assets	77,638	86,070

Note 5 of the annual report explains the main changes compared with the previous year in terms of regulation, evolution of risk weighted assets (RWAs) and the main components of own funds.

In recent years, Banco Sabadell has been actively managing its capital, which is a crucial aspect for the entity's growth. In recent years, the bank has increased its capital base through issues classed as tier one capital, as shown in the table below:

€ million

		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and buy-back of preference and subordinated stock)	411	+68 pb of core tier I
February 2012	Preference share swap for ordinary shares	785	+131 pb of core tier I
March 2012	Capital increase	903	+161 pb of core tier I
July 2012	Preference debt instruments and subordinated Banco CAM debt swap for shares	1,404	+186 pb of core tier I
September 2013	Accelerated bookbuilding and capital increase with rights	1,383	+178 pb of core tier I
October 2013	Issue of Mandatory Convertible Subordinated Debentures for B. Gallego hybrid swap	122	+17 pb of core tier I
April 2015	Capital increase with pre-emptive rights - TSB	1,607	+181 pb of core tier I

Note: The impact on capital (in basis points) is calculated using figures at the close of each year, these figures have changed significantly due to the increase in the Group's scope during these years.

6- RISKS

During 2017, Banco Sabadell Group has continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

For more details regarding the corporate risk culture, strategic risk framework and global organisation of the risks function, as well as the main financial and non-financial risks, see Note 4, Financial Risk Management in the consolidated annual accounts for 2017.

This year's main milestones in terms of the Group's risk management have been the improvement of the Group's risk profile, the strengthening of the risk management and control environment, as well as the improvement of the monitoring environment and the reduction of problematic assets, as explained in greater detail in Note 4 of the annual report.

7 – POST-BALANCE SHEET EVENTS

Since 31 December 2017, there have been no significant events worthy of mention.

8 – EXPECTED FUTURE DEVELOPMENTS

Banco Sabadell adopts strategic plans in which it sets out its objectives for subsequent years in line with the regulatory and macroeconomic environment.

Following the success of the strategic plan named Triple, which covered the three-year period from 2014 to 2016, Banco Sabadell started 2017 with an even more ambitious strategic plan, following a 1 + 3 structure. 2017 has represented a year of transition in which some of the objectives achieved include: strengthening core banking revenue (net interest income and net fees and commissions), building a new state-of-the-art IT platform for TSB that is ground-breaking in the sector, increasing the rate of reduction of problematic assets, reducing them by over €3,400 million and successfully closing various corporate sales (Sabadell United Bank, Hotel Investment Partners, etc.) which have helped to strengthen provisions and increase capital. Credit rating agencies have upgraded their rating of Banco Sabadell, with all three agencies allocating it the Investment Grade category.

After the transition year, a period begins with greater clarity in the macroeconomic environment and financial system. The strategic programmes established for completion by 2020 aim to increase profitability through the growth of the business, improved efficiency and the reduction of problematic assets. Brand development and customer experience will be key factors in achieving these objectives. Technological capabilities offer a chance to develop Banco Sabadell's value proposition and improve its efficiency and scalability. All of the foregoing is supported by the ability to attract and retain talent, which leads to a differential team of people.

Banco Sabadell will focus on consolidating its internationalisation process to increase the value of the franchises in the UK and Mexico.

The achievement of strategic objectives will allow profitability to continue to grow, with the bank maintaining a solid capital and liquidity position.

9 – RESEARCH, DEVELOPMENT AND INNOVATION

2017 has been characterised by the start of the TSB project, with a strong impact on the technological organisation, which has been restructured to take on the project with the utmost guaranties. Internationally, the bank has continued working on its project in Mexico to create a full-service bank for corporates and individuals. A Systems Plan has been conducted in parallel, as intensively as in the previous year.

In terms of Digital Transformation, the changes to the model towards Direct Management have been initiated, based on the remote and simplified processes and the creation of new self-service capacities. By doing so, the aim is to grant the manager more autonomy, offering them the tools they need to operate; and on the other hand, the customer has the autonomy to carry out operations through the app (Sabadell Móvil) and on the website (BSOnline). Sabadell Wallet has also been updated, incorporating new ways to send money mobile to mobile, to fulfil customers' daily needs, and cash withdrawals methods have been improved through use of the mobile app. Actions have been carried out for the development of a new platform to create a relationship function with customers (CRM), with a vision which is focused on the customer, allowing the customer to be offered personalised products/services based on their individual profile. The deployment of the tool is expected to be carried out during the first quarter of 2018. Progress has continued with the development of the new Customer Account Registration, simplifying and optimising the most frequent operations.
This application is available both in branches and on tablets for relationship managers who travel frequently (Proteo Mobile), allowing 100% of customer on-boarding to be carried out remotely, without the customer having to visit the branch, thanks to the incorporation of a biometric signature.

Actions have been taken to improve the conversion of Sales and Customer Experience through the creation of new events (commercial and operational) and in achieving the best Digital experience for customers for those functions which are impacted by the implementation of new regulatory requirements.

In terms of Markets, all new technological capacities which are required to comply with new regulatory requirements arising from the Securities Market Reform Stage II and MiFID II have been developed. Additionally, a new platform has been implemented for the generation of reporting which is completely integrated with Banco Sabadell management circuits and multichannel capacity.

As regards Insurance Systems, a multi-simulator has been implemented which uses minimum information about the customer in order to generate a proposition centred on five products: Auto, Home, Health, Life and Funeral insurance, offering a package deal with optimum conditions, which allows relationship managers to interact with the generated proposition while negotiating with the customer, which makes the management of this type of operation extremely dynamic. Additionally, a new incidence management platform has been implemented with the branches, which allows incidences to be linked to their respective resolutions.

10 – TREASURY SHARE SALES AND BUYBACKS

For information on treasury sales and buybacks see Note 23 to the Annual Accounts.

11 – OTHER RELEVANT INFORMATION

a) Shares and share price information

Some indicators of the bank's share performance are shown in the following table:

	2017	2016	Change (%) year-on-year
Shareholders and buybacks			
Number of shareholders	235,130	260,948	(9.9)
Average number of shares (in millions)	5,570	5,452	2.2
Average daily buybacks (millions of shares)	27	30	(9.2)
Share price (euro)			
Start date	1.323	1.635	-
Maximum	1.960	1.810	-
Minimum	1.295	1.065	-
End date	1.656	1.323	-
Market capitalisation (million euros)	9,224	7,213	-
Market ratios			
Earnings per share (EPS) (euro)	0.14	0.13	-
Book value per share (euro)	2.41	2.37	-
Price / book value	0.69	0.56	-
PER (share price / EPS)	11.85	10.15	-

The bank's share price fell by +25.17% in 2017, a more significant increase than the average of listed Spanish banks (+13.18%), while the IBEX-35 depreciated by +7.40%.

b) Dividend policy

The bank's shareholder remuneration policy, in accordance with the bank's Articles of Association, is submitted to shareholders for approval on a yearly basis at the Annual General Meeting.

In 2016, the bank compensated shareholders with €0.05 per share through 100% cash remuneration. This distribution was carried out through an interim dividend of €0.02 per share and a supplementary dividend of €0.03 per share. This amount represented returns on the quoted share price of 3.8%.

On 26 October 2017, the Board of Directors agreed to distribute an interim dividend of the 2017 results totalling €111,628 thousand (€0.02 per share (gross)), payable on 29 December 2017.

Furthermore, the Board of Directors will submit a proposal at the Annual General Meeting on the distribution of a €0.07 (gross) dividend per share for 2017.

Over the coming years, Banco Sabadell anticipates maintaining cash payments as remuneration to shareholders.

c) Managing the credit rating

In 2017 the three agencies that assessed the credit quality of Banco Sabadell were S&P Global Ratings, Moody's and DBRS. The current ratings, and the last dates on which they were affirmed, are as follows:

	Long-term	Short-term	Outlook	Last updated
DBRS	BBB (high)	R-1 (low)	Stable	21.12.2017
S&P Global Rating	BBB-	A-3	Positive	27.06.2017
Moody´s Investors Service (*)	Baa3 / Baa2	P-3 / P-2	Positive/Stable	23.11.2017

(*) Corresponds to senior debt and deposits, respectively.

On 27 June 2017 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB- from BB+ and its short-term rating to A-3 from B. The trend remains positive. With this rating upgrade, Banco Sabadell has once again attained the level of Investment Grade. S&P Global Ratings raised the rating as it considers that Banco Sabadell has continued to strengthen its solvency and that it continues to make progress in de-risking its balance sheet. Additionally, S&P Global Ratings raised its rating of Banco Sabadell's non-deferrable subordinated debt and preferred shares by two notches to BB and B, respectively.

On 23 November 2017, Moody's Investors Service (Moody's) confirmed the long-term deposits rating of Banco Sabadell of Baa2 with a stable trend and the long-term senior debt rating of Baa3 with a stable trend. The agency has valued the improvement in credit risk despite the high volume of problematic assets, the improved loss-absorbing capacity during the year and the adequacy of liquidity, considering the political situation in Catalonia.

On 21 December 2017, DBRS confirmed its rating of Banco Sabadell, with the long-term rating remaining at BBB (high) and the short-term rating remaining at R-1 (low) with a stable trend. The agency highlighted the growth in core revenue, despite the continued pressure of low interest rates, the reduction of problematic assets, although their volumes are still high when compared to the European average and the solid financial position, supported by its customers in Spain and in the UK. It also valued the sound level of capital, supported by an improvement in the generation of internal capital and the recent issuance of capital instruments.

During 2017, Banco Sabadell has met with the three agencies. At these visits and teleconferences, the discussions have addressed subjects such as the bank's strategy, TSB's performance since its acquisition, results, capital, liquidity, risks, credit quality, and the management of problematic assets.

d) Branch network

At the end of 2017, Banco Sabadell was operating 2,473 branches (including 551 TSB branches), a net change of -294 branches compared with 31 December 2016 (258 fewer branches excluding TSB), that is mainly due to the optimisation of the branch network.

Of the total number of Banco Sabadell Group branches, 1,404 were operating under the Sabadell brand (including 30 business banking and 2 corporate banking branches); 109 were operating as Sabadell Gallego (including 3 business banking branches); 143 under Banco Herrero in Asturias and Leon (including 3 business banking branches); 112 were SabadellGuipuzcoano branches (including 5 business banking branches); 10 were SabadellUrquijo branches; 102 were Solbank branches; and there were 593 international branches, including 7 operated by BancSabadell d'Andorra, 551 by TSB and 15 by Mexico. The distribution of the Group's branches in Spain by autonomous community is as follows:

Autonomous Community	Branches	Autonomous Community	Branches
Andalusia	135	Valencia	326
Aragon	31	Extremadura	6
Asturias	112	Galicia	109
Balearic Islands	57	La Rioja	8
Canary Islands	31	Madrid	184
Cantabria	5	Murcia	126
Castilla-La Mancha	23	Navarre	15
Castilla y Leon	59	Basque Country	92
Catalonia	559	Ceuta and Melilla	2

The Group is present in the following countries:

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
Andorra			•
France	•		
Poland		•	
Turkey	•		•
United Kingdom		•	
Americas			
Brazil		•	
Colombia		•	•
Dominican Republic	•	•	
Mexico			•
Peru		•	
United States		•	
Venezuela		•	
Asia			
China		•	
United Arab Emirates		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

Corporate Governance

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared an Annual Report on Corporate Governance for the year 2017, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of this Directors' Report, included herein as a separate document, and which includes a section on the extent to which the bank is following recommendations on corporate governance that currently exist in Spain.

Information on Corporate Governance is available on the Group's corporate website (www.grupobancosabadell.com), and can be accessed directly from the "Corporate Governance and remuneration policy" link on this website's homepage.

Glossary of terms on performance indicators

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking sector (Alternative Performance Measures, or "APMs") as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other entities.

Following the ESMA guidelines on APMs (ESMA/2015/1415es of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, the definition, calculation and reconciliation.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

Performance measure		Definition and calculation	Reconciliation (in millions of euros)	2017	2016
ROA	(*)(**)	Consolidated profit/(loss) during the year / average total assets. Considers linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds except at the year-end reporting date. The total average assets are the weighted moving average of total assets during the last twelve calendar months.	Average total assets	214,356	206,265
			Consolidated profit/(loss) during the year	805	716
			ROA (%)	**0.38**	**0.35**
ROE	(*)(***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	Average own funds (excl. net profit attributable to the Group)	13,143	12,717
			Profit attributable to the Group	801	710
			ROE (%)	**6.10**	**5.59**
RORWA	(*)	Profit/(loss) attributable to the Group / risk-weighted assets (RWAs).	Risk-weighted assets (RWAs)	77,638	86,070
			Net profit attributable to the Group	801	710
			RORWA (%)	**1.03**	**0.83**
ROTE	(*)(***)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date. The denominator excludes goodwill.	Average own funds (excl. net profit attributable to the Group and intangible assets)	11,025	10,570
			Profit attributable to the Group	801	710
			ROTE (%)	**7.27**	**6.72**
Cost-to-income	(*)	Staff expenses and other general administrative expenses/gross income. To calculate this ratio, recurring net trading income based on the Group's best estimates has been considered, and it has excluded the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the income generated by the early call of TSB's Mortgage Enhancement portfolio. The denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds, except at the year-end reporting date.	Net interest income	3,802	3,838
			Return on capital instruments (dividends)	7	10
			Adjusted share of profit or loss of entities accounted for using the equity method	55	75
			Share of profit or loss of entities accounted for using the equity method	309	75
			VIF adjustment	(254)	-
			Net fees and commissions	1,223	1,149
			Recurring net trading income	560	610
			Net trading income	614	610
			Adjustment for non-recurring NTI (mortgage enhancement)	(54)	-
			Exchange differences (net)	8	17
			Other operating income and expenses	(227)	(227)
			Adjusted gross income	**5,430**	**5,471**
			Administrative expenses	(2,723)	(2,663)
			Cost-to-income ratio (%)	**50.15**	**48.68**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
Other operating income and expenses	Comprised of the following accounting items: other income and other operating expenses as well as income arising from assets and expenses arising from liabilities under insurance and reinsurance contracts.	Other operating income	338	287
		Other operating expenses	(546)	(467)
		Income arising from assets under insurance and reinsurance contracts	67	166
		Expenses arising from liabilities under insurance and reinsurance contracts	(86)	(213)
		Other operating income and expenses	**(227)**	**(227)**
Other provisions and impairments	Comprised of the following accounting items: Impairment or reversal of impairment of investments in joint ventures and associates, impairment or reversal of impairment on non-financial assets, investment property included in the heading of net gains or losses on derecognition of non-financial assets and equity interests and profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, excluding equity interests.	Impairment or reversal of impairment of investments in joint ventures and associates	(1)	(4)
		Impairment or reversal of impairment on non-financial assets	(799)	(558)
		Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(139)	(315)
		Gains on the sale of equity interests	(17)	-
		Profit/(loss) on sales of investment property	(15)	-
		Other provisions and impairments	**(971)**	**(876)**
Capital gains on asset sales and other revenue	Comprised of the following accounting items: gains or losses on derecognition of non financial assets and equity interests, net, excluding investment property and equity interests included in the heading of profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.	Gains or losses on derecognition of non financial assets and equity interests, net	401	35
		Gains on the sale of equity interests	17	-
		Profit/(loss) on sales of investment property	15	-
		Capital gains on asset sales and other revenue	**433**	**35**
Pre-provisions income	Comprised of the following accounting items: gross income plus administrative and depreciation expenses.	**Gross income**	**5,737**	**5,471**
		Administrative expenses	(2,723)	(2,663)
		Staff expenses	(1,574)	(1,663)
		Other general administrative expenses	(1,149)	(1,000)
		Depreciation expenses	(402)	(396)
		Pre-provisions income	**2,612**	**2,411**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016	2016 (*)
Customer spread	Difference between returns and expenses of customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer loans and credit. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Customer lending (net)			
		Average balance	136,938	138,202	
		Profit/(loss)	4,102	4,361	
		Interest rate (%)	3.00	3.16	
		Customer deposits			
		Average balance	138,258	134,792	
		Profit/(loss)	(266)	(525)	
		Interest rate (%)	(0.19)	(0.39)	
		Customer spread	**2.81**	**2.77**	
Other assets	Comprised of the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance and reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Derivatives - hedge accounting	374	535	
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	48	1	
		Tax assets	6,861	7,056	
		Other assets	2,976	4,437	
		Non-current assets and disposal groups classified as held for sale	2,562	4,579	
		Other assets	**12,821**	**16,608**	
Other liabilities	Comprised of the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Derivatives - hedge accounting	1,004	1,106	
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	(5)	64	
		Tax liabilities	532	779	
		Other liabilities	741	935	
		Liabilities included in disposal groups classified as held for sale.	21	2,213	
		Other liabilities	**2,293**	**5,097**	
Gross customer lending	Includes loans and advances to customers, excluding insolvency provisions and country risk reserves.	Loans and credit secured with mortgages	84,267	88,431	83,481
		Loans and credit secured with other collateral	2,315	2,263	2,263
		Trade credit	5,802	5,530	5,526
		Financial leasing	2,316	2,169	2,169
		On-demand loans and other	42,822	42,165	40,850
		Gross performing loans	**137,522**	**140,557**	**134,288**
		Non-performing assets (customers)	7,867	9,642	9,631
		Accrual adjustments	(66)	(112)	(120)
		Gross customer lending excl. repos	**145,323**	**150,087**	**143,799**
Gross performing loans	Includes gross lending to customers, excl. repos, accrual adjustments and non-performing assets.	Repos	2,001	8	8
		Gross customer lending	**147,325**	**150,095**	**143,807**
		Insolvency provisions and country risk reserves	(3,727)	(4,921)	(4,781)
		Loans and advances to customers	**143,598**	**145,174**	**139,026**

(*) Excluding SUB, Mediterráneo Vida and Mortgage Enhancement portfolio.

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016	2016 (*)
		Financial liabilities at amortised cost	**204,045**	**192,011**	**185,853**
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities placed by the branch network (Banco Sabadell non-convertible bonds, promissory notes and others).	Non-retail financial liabilities	(71,949)	(58,554)	(56,291)
		Deposits from central banks	(27,848)	(11,828)	(11,828)
		Deposits from credit institutions	(14,171)	(16,667)	(16,121)
		Institutional issuances	(26,999)	(27,491)	(25,786)
		Other financial liabilities	(2,932)	(2,568)	(2,555)
		On-balance sheet customer funds	**132,096**	**133,457**	**129,562**
Off-balance sheet customer funds	Includes investment funds, equity management, pension funds and insurance products sold by the Group.	Customer deposits	135,307	134,415	130,329
		Sight accounts	98,020	92,011	88,533
		Term deposits including deposits redeemable at notice and hybrid financial liabilities	32,425	40,154	39,737
		Repos	4,750	2,072	1,882
		Accrual adjustments and derivatives hedging	113	178	177
On-balance sheet funds	Includes accounting sub-headings of customer deposits, marketable debt securities, subordinated liabilities and liabilities under insurance and reinsurance contracts.	Borrowing operations and other marketable securities	21,250	24,987	24,987
		Subordinated liabilities (**)	2,537	1,546	1,546
		On-balance sheet funds	**159,095**	**160,948**	**156,863**
		Investment funds	27,375	22,594	22,594
		Equity management	3,999	3,651	3,651
		Pension funds	3,987	4,117	4,117
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	Insurance products sold by the Group	9,965	10,243	10,243
		Total off-balance sheet funds	**45,325**	**40,606**	**40,606**
		Funds under management	**204,420**	**201,554**	**197,469**
		Loans and advances:	**7,867**	**9,642**	
Non-performing loans	The sum of accounting headings of non-performing assets within loans and advances to customers together with non-performing guarantees given.	to customers	7,867	9,642	
		to central banks and credit institutions	-	-	
		Non-performing contingent liabilities	**58**	**104**	
		Non-performing loans	**7,925**	**9,746**	

(*) Excluding SUB, Mediterráneo Vida and Mortgage Enhancement portfolio.
(**) These are subordinated liabilities of debt securities.

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
NPL coverage ratio	Gives the percentage of non-performing loans covered by provisions. Its calculation gives the ratio of impairment allowances for loans and advances to customers (including contingent liability reserves) / total non-performing loans (including non-performing contingent liabilities).	Non-performing loans	7,925	9,746
		Provisions	3,625	4,614
		NPL coverage ratio	**45.7%**	**47.3%**
		Floor clause provisions	201	410
		Provisions including floor clauses	3,825	5,024
		NPL coverage ratio including floor clauses	**48.3%**	**51.5%**
Foreclosed available-for-sale real estate assets coverage ratio	This calculation gives the ratio between impairment allowances for foreclosed real estate assets/ total foreclosed real estate assets. The amount of foreclosed real estate assets includes properties classified in the portfolio of non-current assets and disposal groups classified as held for sale.	Real estate assets	7,393	9,035
		Provisions	3,998	4,297
		Foreclosed available-for-sale real estate assets coverage ratio	**54.1%**	**47.6%**
Non-performing assets	The sum of non-performing loans and foreclosed real estate assets.	Non-performing loans	7,925	9,746
		Real estate assets	7,393	9,035
		Non-performing assets	**15,318**	**18,781**
		Provisions for non-performing loans	3,625	4,614
		Provisions for real estate assets	3,998	4,297
		Provisions for non-performing assets	**7,623**	**8,911**
		NPA coverage ratio	**49.8%**	**47.4%**
		Provision for floor clauses	201	410
		Provisions including floor clauses	7,824	9,321
		NPA coverage ratio including floor clauses	**51.1%**	**49.6%**
NPL ratio	Expresses non-performing loans as a percentage of total customer lending. All calculation components correspond to headings or sub-headings on financial statements. Calculated as the ratio between non-performing loans, including contingent liabilities / total customer loans and contingent liabilities. Non-performing loans are described in this table. Contingent liabilities include guarantees given and contingent commitments given.	Non-performing loans	7,925	9,746
		Loans to customers and contingent liabilities	154,050	158,617
		NPL ratio	**5.14%**	**6.14%**
Loan to deposits ratio	Net loans and receivables divided by retail funding. Calculated by subtracting credit mediation from the numerator. Retail funding and customer funds, defined in this table, are used as the denominator.	Loans and advances to customers	143,598	145,174
		Repos	(2,001)	(8)
		Credit mediation	(3,835)	(4,900)
		Adjusted net lending	**137,761**	**140,266**
		On-balance sheet customer funds	**132,096**	**133,457**
		Loan to deposit ratio	**104.3%**	**105.1%**

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	2017	2016
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding at the reporting date.	Average number of shares (in millions)	5,570	5,452
		Share price	1.656	1.323
		Market capitalisation	**9,224**	**7,213**
Earnings per share (EPS)	This divides net profit attributed to the Group by the average number of shares outstanding at the reporting date. The numerator uses the linear annualisation of profits obtained to date adjusted by the Additional Tier I coupon amount, after tax, recognised in own funds and adjusted by the relative accrual of contributions to deposit guarantee fund and resolution fund except at the year-end reporting date.	Average number of shares (in millions)	5,570	5,452
		Profit attributable to the Group	801	710
		Adjustment for accrued AT1	(23)	-
		Adjusted profit attributed to the Group including accrued AT1	778	710
		Earnings per share	**0.14**	**0.13**
Book value per share	Calculated by dividing the book value by the average number of shares at the reporting date. Book value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	Average number of shares (in millions)	5,570	5,452
		Share price	1.656	1.323
		Adjusted own funds	13,449	12,926
		Own funds	13,426	12,926
		Adjustment for accrued AT1	23	-
Price/book value	Calculated by dividing the share price by the book value.	**Book value per share (€)**	**2.41**	**2.37**
		Earnings per share	0.14	0.13
		Price/book value	**0.69**	**0.56**
Price/earnings ratio	Calculated by dividing the share price by the earnings per share.	**Price/earnings ratio**	**11.85**	**10.15**