Banco Sabadell

Annual Report 2018

137th Year

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Contents

Key figures in 2018

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Key figures

Group net profit

328.1€M

Payout 51%

CET1 fully-loaded

11.1%

CET1 fully-loaded pro-forma[4] 11.3%

The NPL ratio[7] fell to

4.2%

NPA coverage ratio[6]

52.1%

Non-performing assets/Total assets[2]

1.8%

TSB migrated to a modern technology platform (though with extraordinary costs), balance sheet normalised, and focus on organisation structure.

Net profit in the year

328.1€M

Net profit 2018

783.3€M

Net profit 2018 (excl. extraordinary impacts)

+9.6%

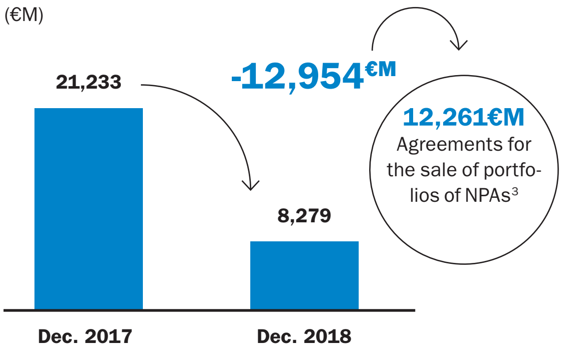
Net profit growth in 2018 (excl. extraordinary impacts)[5]

Extraordinary impacts in the year

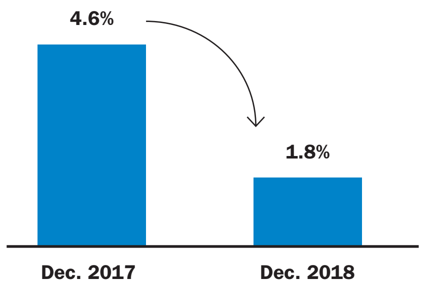
121.0€M Extraordinary costs due to TSB technology migration	339.0€M Extraordinary net impact of TSB technology migration	177.1€M Extraordinary charges for the institutional sales of NPAs

NPAs: situation normalised after portfolio sales.

Non-performing assets[1] (€M)



Non-performing assets/ Total assets[2] (%)



1 Non-performing assets: pro-forma following the agreements for institutional sales of non-performing assets; includes 100% of APS.
2 Non-performing assets/Total assets (%): pro-forma following the agreements for institutional sales of non-performing assets; includes 100% of APS.
3 Portfolio sale agreements: gross carrying amount of real estate and loan portfolios whose sale has been agreed.
4 CET1 fully-loaded pro-forma: includes RWA released due to institutional sales of non-performing assets announced in 2Q18, the capital gain on the sale of Solvia, and the impact of IFRS 16.
5 Net profit growth 2018 (excl. extraordinary effects): calculated in like-for-like terms assuming constant exchange rates and on a constant consolidation scope basis.
6 NPA coverage ratio (%): pro-forma following the agreements for institutional sales of non-performing assets; includes 100% of APS to reflect changes in the reporting methodology.
7 NPL ratio (%): pro-forma following the agreements for institutional sales of non-performing assets; includes contingent liabilities and 100% of APS.

Digital and commercial transformation

Digital customer numbers increased by 6% in 2018, to 4.7M customers

4.7M
(+6% YoY)
Group digital customers

3.4M
(+17% YoY)
Group mobile customers

69M
(+3% YoY) **Group monthly web+mobile traffic**

37,065
(+39% YoY) **Digital sales of consumer loans in Spain**

42%
(-17pp YoY) **Digital sales in the United Kingdom**

22%
(+2pp YoY) **Digital sales in Spain**

878k
(+17% YoY) **Customers under Active Management in Spain**

89%
(+1pp YoY) **Transactions via remote channels**

19M
(+33% YoY) **Impact of business intelligence**

Investment in innovation

INSTANT CREDIT · PAYTPV · CARDUMEN · antai · BIOMETRIC VOX · Undostres · Base10

Committed to the digital and commercial transformation to retain the lead in customer experience.

Transformation of the model of relations with our customers

Value customers
Specialisation

Companies transformation Plan

- Deployment of digital specialists
- New digital support services
- New capacities for Sabadell online Empresas
- Design planning visit 2019
- Design 360° advisory for large corporates

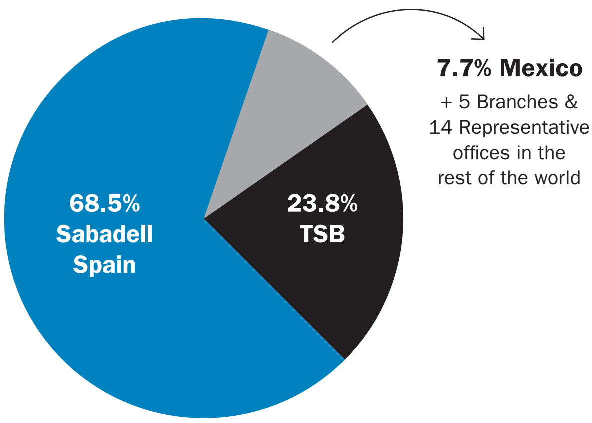
Mass markets
Industrialisation

New retail model

- Implementation in two regions
- Business intelligence
- Digital and self-service capabilities
- Simplification

Banco Sabadell Group

Spain	United Kingdom	Mexico
Sabadell	TSB	Banco Sabadell



Lending, by geography (%)

Chairman's message

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Josep Oliu Creus, Chairman

Dear shareholder,

In 2018, Banco Sabadell experienced solid growth in revenues, arranged a number of portfolio sales that significantly enhanced its capital position, and concluded the IT migration at TSB, incurring extraordinary costs as a result of incidents during the process.

The economic and financial context during the year gave rise to a number of regulatory and political uncertainties. A noteworthy development on the political front was the resurgence of protectionism, which poses a risk for world economic growth because of its impact on exports, among others. Political developments in general had a growing impact on the financial markets during the year, as the Fed continued with gradual interest rate increases. The financial markets responded with increasing volatility and global financial conditions became strained. The global economy maintained a relatively high rate of growth, supported by factors such as expansive fiscal policy in the United States and China.

In the euro area, the regulatory and political uncertainties were compounded by persisting negative interest rates in a context of low inflation and a still accommodative monetary policy, the main change in which, in the case of the ECB, was the conclusion of the asset purchase programme. As a result, investor perceptions of the European economy, and its banking industry in particular, were affected.

Doubts about Brexit were reflected in slower economic growth in the United Kingdom and also in investors' expectations and their confidence in the broader European economy. The UK labour market continued to perform well, with record low unemployment and dynamic wage performance.

The Spanish economy achieved robust growth, again outstripping the euro area despite expanding more slowly than in previous years. Economic activity was supported by low interest rates and the private sector's improved financial position. Unemployment continued to decline and the real estate market was very active. Spain logged a foreign surplus for the sixth consecutive year and the government deficit was less than 3.0% of GDP.

The banking industry was affected by a more complex and less predictable regulatory framework and, in Spain, by a number of court rulings that negatively impacted perceptions of the stability of the industry's legal framework. The banking system continued to progress in reducing delinquency, while the challenge of profitability persisted. The industry's resilience was demonstrated by the European Banking Authority (EBA) stress tests, in which all tested banks were found to have sufficient capital even in the adverse scenario.

Net profit amounted to €328.1 million in 2018 as a result of the extraordinary negative impact of the TSB technology migration and the provisions booked for the sale of portfolios of non-performing assets. Excluding those effects, net profit would have amounted to €783.3 million, a 9.6% year-on-year increase at constant exchange rates and on a constant consolidation scope basis.

Commercial performance was superb during the year, resulting in 6% growth in outstanding loans (excluding TSB) and a strong increase in banking business. At constant exchange rates and on a constant consolidation scope basis, net interest income increased by 1.1% excluding TSB, while fees and commissions increased by 9.6%, or 11.3% excluding TSB.

Excellent commercial performance was supported by good results in the SME and large corporate segments in Spain and strong growth in Mexico.

Banco Sabadell is committed to commercial and digital transformation and to maintaining its lead in banking for companies and in customer experience. Digital customer numbers increased by 6% in 2018 to 4.7 million and online sales of consumer loans in Spain rose by 39% with respect to the previous year.

Bulk and ordinary sales of non-performing assets in 2018 reduced their balance by €13.2 billion by year-end, altering the Group's risk profile. The ratio of non-performing assets to total assets was cut to 1.8%, with a coverage ratio of 52.1%, while the Group's NPL ratio was reduced to 4.2%; as a result, one of the goals of the 2020 master plan, namely normalisation of the balance sheet, was achieved earlier than expected, marking the end of the lengthy crisis that began in 2008.

The migration of TSB's IT platform was completed in 2018; this lengthy and costly technical process, which commenced in 2015, definitively severed TSB's ties to Lloyds and makes it possible for the bank to develop autonomously in the future, with the flexibility to launch and market new products.

TSB now has a cutting-edge digital platform, putting it in an optimal position for future business development in the United Kingdom. However, at the time of the switch-over there were a number of incidents caused by difficulties in accessing digital and telephone channels, which resulted in additional costs due to the platform itself, to fraud and, above all, to regulated compensation for the customers who were affected. Having completed the necessary migration process, TSB commenced 2019 on a different footing, with the ability to pursue profitable growth, regain a dynamic commercial approach and advance in improving efficiency.

In spite of the additional requirements under IFRS 9 and the year's complexity, the Bank had a CET1 fully-loaded ratio of 11.1% at 2018 year-end (11.3% pro-forma), well above the minimum regulatory capital requirements and sufficient to enable the Board to propose that the General Meeting of Shareholders approve a gross dividend of €0.03 in cash per share out of 2018 income, i.e. a 51% payout.

The year 2018 laid solid foundations from which to move forward. The Bank overcame two major challenges: restoring the balance sheet by shedding real estate, which enhanced its capital position while cutting its cost of risk, and completing the IT migration at TSB. The Bank also modified its organisation structure to strengthen risk control.

The year 2019 marks a new beginning for Banco Sabadell, as it advances towards a substantial improvement in profitability and capacity to generate shareholder value in the coming years. In this endeavour, it is supported by an organisation, resources and a highly committed workforce which, with rigour, hard work and tenacity, will overcome the challenges that the future will bring.

Josep Oliu
Chairman

Banco Sabadell Group

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Banking since 1881.

Founded 137 years ago, Banco Sabadell is a member of the IBEX 35 index and an international banking group with a network of 2,457 branches and about 12 million customers. Banco Sabadell is one of Spain's leading banks and occupies a pre-eminent position in personal and business banking.

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

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

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

Banco Sabadell's strategic aims have traditionally been set out in three-year business plans.

In 2018, Banco Sabadell presented a new Business Plan in which it laid the strategic groundwork for the next economic cycle. The plan's ambitions are coherent with the values and objectives that have characterised the Bank since its foundation.

The Business Plan announced in February 2018 pursues profitability, sustainability and value creation.

Profitability means continuing to expand in the main markets where Banco Sabadell operates, improving efficiency and accelerating balance sheet normalisation.

Sustainability means continuing to develop the technological capabilities that are required to offer a value proposition, as well as attracting versatile talent to undertake the commercial and digital transformation of the institution and adapt it to the current changing environment.

Ultimately, the Banco Sabadell Business Plan is rooted in value creation for all its stakeholders, while offering a wide range of products and quality of service to its customers.

All this while maintaining Banco Sabadell's commitment to a society and the environment in all the territories where it operates, through ethical and responsible development of its business.

The year 2018 was characterised by two major events. Firstly, the Bank culminated the process of removing real estate assets from its balance sheet. It Bank announced an agreement to sell practically all of its real estate exposure for €9,100 million gross, and other agreements to sell €3,161 million gross of non-performing loans. With this reduction, non-performing assets represent just 1.8% of the balance sheet (considering 100% of the exposure to the non-performing assets covered by the APS). Secondly, it completed TSB's systems migration. There were a number of incidents affecting customers when the new platform went live, and extraordinary expenses were incurred to resolve them; nevertheless, the new platform provides TSB with vital operational independence, which will lend it greater agility and efficiency and will enable it to expand into new lines of business. Both milestones were very significant because of their strategic implications and their contribution to enhancing the Bank's profitability in the future, although they had an impact on the bottom line in the short term.

The Group achieved excellent commercial performance in 2018, having expanded loans and advances and increased ordinary banking revenues by 2.9% in the year. At the same time, Banco Sabadell has a solid capital position, with a pro-forma fully-loaded CET1 ratio of 11.3% at year-end. The Bank also continued to advance steadily in the process of digital and commercial transformation by virtue of its strong commitment to the new demands of the digital era, which include process digitalisation and the evolution of the organisation's culture. As a result, the Bank is in the process of seizing the opportunities offered by new technological capacities.

To conclude, 2018 was a key year for the future of Banco Sabadell since, in addition to culminating the disposal of real estate assets and completing the TSB migration, it achieved excellent commercial performance and continued to advance with digitalisation in order to offer its customers better products and services.

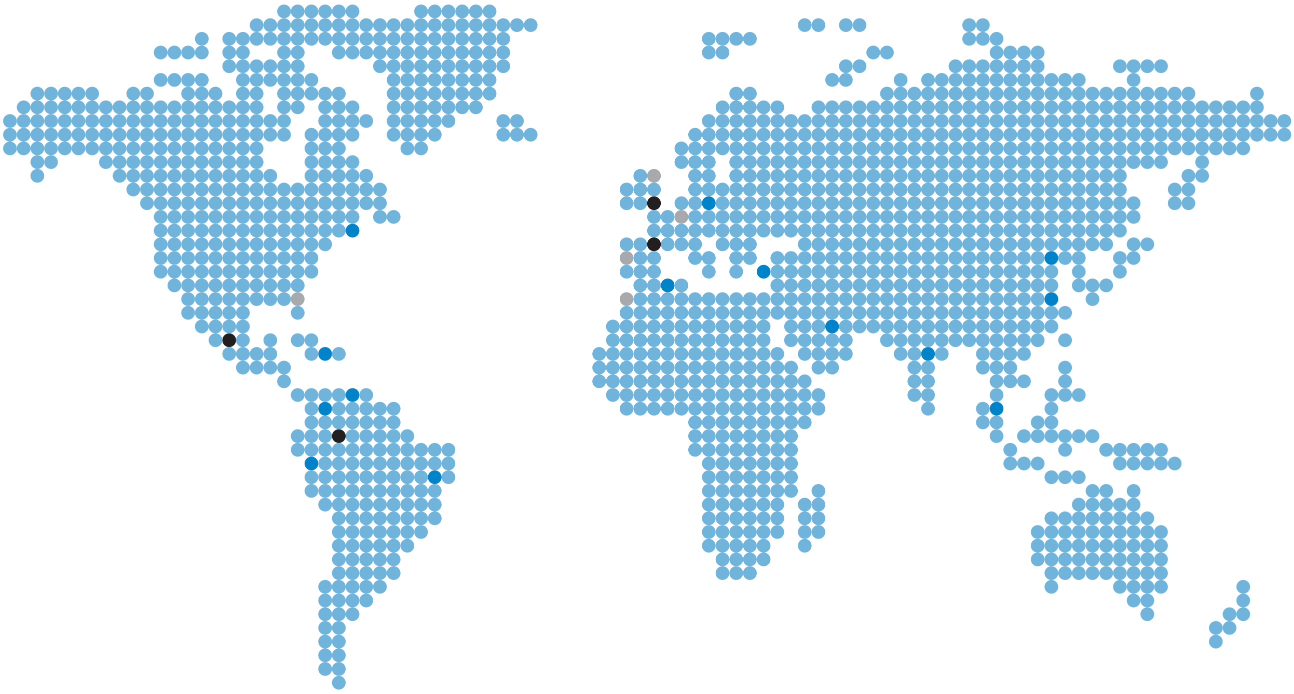
In 2018, Banco Sabadell concluded the normalisation of its balance sheet and the TSB systems migration.

G1 Banco Sabadell landmark developments

1881	A group of 127 businesspeople and merchants in Sabadell founded the Bank, with the goal of financing local industry.
1965	Expansion into nearby towns.
1996	Acquisition of NatWest Spain Group and Banco de Asturias.
2001	Banco Sabadell is floated. Acquisition of Banco Herrero.
2003	Successful bid for Banco Atlántico.
2004	Capital increase and entry in the IBEX-35. Banco Atlántico integrated in technological and operating terms.
2006	Acquisition of Banco Urquijo.
2007	Acquisition of TransAtlantic Bank (Miami).
2008	Acquisition of BBVA's private banking business in Miami (USA). Sale of 50% of the insurance business.
2009	Acquisition of Mellon United National Bank.
2010	Takeover bid for 100% of Banco Guipuzcoano.
2011	Acquisition of the assets and liabilities of Lydian Private Bank (Miami) and announcement of the adjudication of Banco CAM.
2012	Acquisition of Banco CAM.
2013	Acquisition of the Caixa Penedès network, Banco Gallego and the Spanish business of Lloyds Banking Group.
2014	Started operations in Mexico
2015	TSB acquisition. Bank licence in Mexico.
2017	Sale of Sabadell United Bank (USA).

Banco Sabadell operates in 20 countries through branches, representative offices, subsidiaries and investees; 31% of its loan book is located outside Spain (G2).

G2 Banco Sabadell - foreign market presence



Subsidiaries and affiliates
Andorra
Bogota (Colombia)
Mexico City (Mexico)
London (United Kingdom)

Branches
Miami (USA)
Paris (France)
Casablanca (Morocco)
Lisbon (Portugal)
London (United Kingdom)

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

Corporate Governance

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Jaime Guardiola Romojaro,
Managing Director

Board of Directors

Chairman
Josep Oliu Creus (E)
Deputy Chairman
José Javier Echenique Landiribar (I)
Managing Director
Jaime Guardiola Romojaro (E)
Director – General Manager
José Luis Negro Rodríguez (E)
Director – Company Secretary
María José García Beato (E)
Director – Chief Risk Officer (CRO)
David Vegara Figueras (E)
Directors
Anthony Frank Elliott Ball (I)
Aurora Catá Sala (I)
Pedro Fontana García (I)
M. Teresa Garcia-Milà Lloveras (LI)
George Donald Johnston (I)
David Martínez Guzmán (P)
José Manuel Martínez Martínez (I)
José Ramón Martínez Sufrategui (I)
Manuel Valls Morató (I)
Secretary (not a director)
Miquel Roca i Junyent

Board sub-committees

Executive Committee
Josep Oliu Creus (C) (E)
José Javier Echenique Landiribar (I)
Jaime Guardiola Romojaro (E)
Pedro Fontana García (I)
José Manuel Martínez Martínez (I)
María José García Beato (SNM)

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

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

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

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

Composition on 21 February 2019
(E) Executive / (LI) Lead independent director / (I) Independent / (P) Proprietary / (C) Chairman / (SNM) Secretary (non-member) / (CRO) Chief Risk Officer

Chairman
Josep Oliu Creus
Managing Director
Jaime Guardiola Romojaro
Director – General Manager
José Luis Negro Rodríguez
Director – Company Secretary
María José García Beato
Director – Chief Risk Officer (CRO)
David Vegara Figueras

Senior Management

General Manager (CFO)
Tomás Varela Muiña
General Manager - Operations and Persons
Miguel Montes Güell
General Manager - Sabadell Spain
Carlos Ventura Santamans
Deputy General Manager - Corporate & Investment Banking
José Nieto de la Cierva
Deputy General Manager - Risk Management
Rafael García Nauffal
Deputy General Manager – Asset Transformation and Industrial and Real Estate Investees
Enric Rovira Masachs
Deputy General Manager - Business
Ramón de la Riva Reina
Deputy General Manager - Marketing & Business Transformation
Manuel Tresánchez Montaner
Deputy General Manager - Eastern Region
Jaime Matas Vallverdú

TSB

TSB Executive Chairman
Richard Meddings

Mexico

General Manager - Sabadell Mexico
Francesc Noguera Gili

Corporate Service Divisions

Corporate Service units

Company Secretariat
Legal
Gonzalo Barettino Coloma
Communication and Institutional Relations
Gabriel Martínez Rafael

Managing Director
Strategic Planning and Managing Director's Office
Fernando Herraiz Philip

CRO – Chief Risk Officer
Risk Control
Joaquín Pascual Cañero
Compliance
Federico Rodríguez Castillo
Chief Economist
Sofía Rodríguez Rico

CFO – Chief Financial Officer
Global Finance and CFO Spain
Sergio Palavecino Tomé
Global Financial Control
Anna Bach Portero

COO – Chief Operating Officer
Human Resources
Conchita Álvarez Hernández
Corporate Services
Adrià Galian Valldeneu
CIO Sabadell
Rüdiger Schmidt
Technological Innovation
Alfonso Ayuso Calle

CCO – Chief Credit Officer
Corporate and Retail Risk
José Luís Sánchez Rius

Internal Audit
Núria Lázaro Rubio

Corporate Transactions
Joan M. Grumé Sierra

Business Areas

Sabadell Spain
Customer Solutions
Albert Figueras Moreno
Institutional Business
Blanca Montero Corominas
Sabadell Consumer Finance
Miquel Costa Sampere
Catalonia Region
Xavier Comerma Carbonell
Central Region
Eduardo Currás de Don Pablos
Eastern Region
Jaime Matas Vallverdú
Northwest Region
Pablo Junceda Moreno
Northern Region
Ignacio Navarro Cameo
Southern Region
Juan Krauel Alonso
Private Banking
Pedro Dañobeitia Canales
Asset Management
Cirus Andreu Cabot
Bancassurance
Silvia Ávila Rivero

Corporate & Investment Banking
Corporate Banking EMEA
Ana Ribalta Roig
Corporate America & Asia and SIB
Maurici Lladó Vila
Structured Finance
David Noguera Ballús
Trading, Custody and Research
Javier Benzo Perea
Treasury and Capital Markets
Guillermo Monroy Pérez

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

Composition on 21 February 2019

Board of Directors

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

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

The composition of the Board of Directors of Banco de Sabadell, S.A. is diverse and efficient. It is of the appropriate size to perform its functions effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and efficacy and in a participatory way. Its composition contains a broad variety of competencies and professional track records, origins and gender, with extensive experience in banking, finance, insurance, risk and auditing, in the regulatory and legal, academic, and resources fields, as well as human resources, consulting, business and the international arena.

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

In 2018, the Board of Directors enhanced gender diversity by appointing a female director, in the category of executive director (G3).

During the year, the functions of the Chairman and Managing Director were delimited, by attributing the functions relating to administering and managing the business to the Managing Director, who became chair of the Management Committee. The Chairman chairs the Board of Directors and the Delegated Committee, in addition to holding certain executive functions.

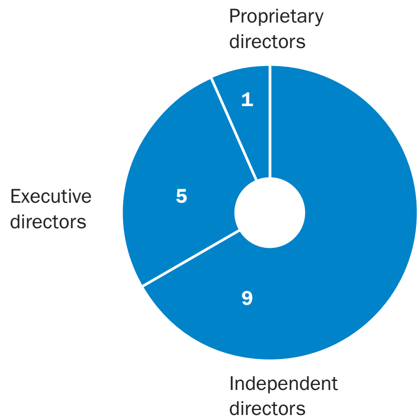
At 31 December 2018, the Board had 15 members: four executive directors and eleven non-executive directors (ten independent and one proprietary). During the year, Ms. María José García Beato was appointed as an executive director, and non-executive director Mr. José Manuel Lara García stepped down.

In February 2019, Mr. David Vegara changed his category from independent director to executive director as a result of his appointment as Chief Risk Officer reporting directly to the Risk Committee.

G3 Diversity of gender and profiles in the organisation

Board of Directors profiles
20% international
20% women
60% independent

Compliance with the highest standards of quality
Ongoing training
Continuous assessment of Board member fitness and suitability



Composition on 21 February 2019

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

Board sub-committees

There are currently five Committees in operation.

Executive Committee

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

Name	Position	Category
Josep Oliu Creus	Chairman	Executive
José Javier Echenique Landiribar	Director	Independent
Jaime Guardiola Romojaro	Director	Executive
Pedro Fontana García	Director	Independent
José Manuel Martínez Martínez	Director	Independent
María José García Beato	Secretary (not a member)	

Audit and Control Committee

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

Name	Position	Category
Manuel Valls Morató	Chairman	Independent
Pedro Fontana García	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
José Ramón Martínez Sufrategui	Director	Independent
Miquel Roca i Junyent	Secretary (not a member)	

Appointments Committee

The main functions of the Appointments Committee, which comprises four independent directors, are to ensure that the quality requirements for members of the Board of Directors are fulfilled, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. The Committee must also set a representation target for the gender that is less represented on the Board of Directors and draw up guidelines on how the target should be achieved; it advises on proposals for the appointment and removal of senior executives and persons in the under-represented group, as well as on the basic contractual conditions for executive directors and senior executives.

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Anthony Frank Elliott Ball	Director	Independent
Pedro Fontana García	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
Miquel Roca i Junyent	Secretary (not a member)	

Remuneration Committee

The main functions of the Remuneration Committee, which comprises four independent directors, are to make recommendations to the Board of Directors on policy for the remuneration of directors and general managers and on remuneration and other contractual conditions for executive directors, and to ensure compliance with existing policies. The Committee advises on the Annual Report on Director Remuneration, and reviews the general principles governing remuneration and the arrangements for the remuneration of all employees, ensuring that transparency is maintained.

Name	Position	Category
Aurora Catá Sala	Chair	Independent
Anthony Frank Elliott Ball	Director	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
George Donald Johnston	Director	Independent
María José García Beato	Secretary (not a member)	

Risk Committee

The Risk Committee comprises three independent directors. It is tasked with supervising and ensuring good practice in the acceptance, control and management of all risks assumed by the Bank and the Group, and to report to the full Board of Directors on the performance of its duties as required by law, the Articles of Association and the rules of procedure of the Board of Directors.

The Bank has published its Annual Report on Corporate Governance, which is attached to the financial statements for 2018, and its Report on Director Remuneration, available on the CNMV and Banco Sabadell websites.*

In 2018, the Board of Directors conducted a self-assessment of its performance and that of its Committees, finding them to be satisfactory.**

Name	Position	Category
George Donald Johnston	Chairman	Independent
M. Teresa Garcia-Milà Lloveras	Director	Independent
Manuel Valls Morató	Director	Independent
María José García Beato	Secretary (not a member)	

Composition on 21 February 2019

*** See the Annual Report on Corporate Governance and the Annual Report on Director Remuneration on the Bank's website.**
**** See the Committees' reports on their performance and activities in 2018 on the Bank's website.**

A year marked by excellent commercial performance.

On the right track to achieve the financial targets set for 2020, with a better risk profile.

Banco Sabadell achieved two major milestones in 2018 — normalisation of its balance sheet and conclusion of TSB's IT migration — which pave the way for a new cycle focused on enhancing profitability through business growth and improved efficiency.

During the year, Banco Sabadell completed the elimination of real estate assets from the balance sheet and reached an agreement to sell 80% of Solvia Servicios Inmobiliarios. Banco Sabadell announced an agreement to sell practically all of its real estate exposure and the company that manages it, which enabled it to normalise its balance sheet earlier than expected while enhancing profitability in the future.

The Bank also completed TSB's systems migration, which will enable the UK bank to achieve operational autonomy and provides it one of the most advanced IT platforms in the UK banking industry, one that is fully adapted to the challenges of the digital age.

Banco Sabadell achieved an increase in banking revenues in Spain in 2018, driven by dynamic sales activity. However, at Group level, this performance was offset by €637.1 million of gross extraordinary costs related to TSB's systems migration and non-recurring provisions derived from the institutional sales of problematic assets announced during the year. As a result, Banco Sabadell reported €328.1 million in net profit in 2018. But for those extraordinary effects, net profit would have increased by 9.6% year-on-year at constant exchange rates and on a constant consolidation scope basis.

As a result of the sale of institutional portfolios, Banco Sabadell greatly improved its credit quality while also maintaining a strong capital position.

At 2018, its fully-loaded CET1 ratio was 11.1% (11.3% pro-forma). The Board of Directors has resolved to propose that the General Meeting of Shareholders approve a total dividend of €0.03 per share for the year, maintaining a total payout ratio of 51%.

Profitability

Banco Sabadell achieve strong growth in banking revenues in 2018, a 2.9% increase year-on-year on a constant consolidation scope basis, mainly as a result of performance in Spain and Mexico. Net interest income performed well as a result of dynamic commercial performance, while the customer spread was maintained in a context of a declining Euribor and intense competitive pressure.

Fees and commissions achieved a remarkable increase of 9.6% year-on-year at Group level and 11.3% excluding TSB, mainly due to strong service fees, which increased following the commercial strategy implemented to boost customer loyalty and the digitalisation of services.

The cost income ratio was impacted in 2018 by extraordinary technology costs related to the TSB migration. The Group's recurring cost base increased by 2.4% year-on-year on a constant consolidation scope basis.

Business activity

Lending expanded due to good performance in the SME and large corporate segments, and also in home mortgages, which expanded at a rate not seen in some years. As a result, Banco Sabadell's outstanding loans and advances expanded year-on-year by 3.2%, while the Spanish business achieved over 5% growth. Gross loans and advances increased by 0.5% year-on-year on a constant consolidation scope basis (G4).

In 2018, Banco Sabadell continued to improve its competitive position, gaining market share in the various products and segments, while maintaining its hallmark high quality of service and improving the customer experience, adapting it to emerging market needs. Banco Sabadell continues to lead in customer experience in the SME and large company segments and has climbed to third place in retail banking (G5 & G6).

G4 Strength in the banking business

Growth year-on-year ● Sabadell Group ● Sabadell excl. TSB

Strong growth in lending		Growth in banking business		Fees and commissions trending very positively	
Gross loans and advances	**Outstanding loans and advances**	**Net interest income**		**Fees and commissions**	
+0.5%	+3.2%	+0.7%	+1.1%	+9.6%	+11.3%
+1.8%	+6.0%				

G5 Product market share (%)

● Dec. 2018 ● Dec. 2017

	General		Companies			Individuals		
	Customer loans[1]	Customer funds[2]	Lending[3]	PoS turnover	Penetration in SMEs[4]	Loans and advances	Card turnover	Mutual funds
Dec. 2018	8.01%	6.96%	11.62%	16.50%	52.0%	5.49%	7.71%	6.19%
Dec. 2017	7.84%	6.87%	11.25%	14.83%	50.0%	5.47%	7.69%	6.25%

Sources: Bank of Spain, ICEA, Inverco and Servired.
1 Excludes repos and impact of APS NPL run-off.
2 Funds managed for other resident sectors: demand deposits and deposits with agreed maturity, mutual funds, savings insurance products, pension plans and retail bonds.
3 Excludes loans for real estate business and repos.
4 Companies with revenues between 0.9€M and 10€M.

G6 Service quality level

Service quality
Net promoter score (NPS)

Sabadell quality score vs. the sector

2018 ranking

Segment	NPS	Ranking	Segment	NPS	Ranking
Large corporates (turnover > 5 €M)	34%	1st	Personal Banking	28%	2nd
SMEs (turnover < 5 €M)	16%	1st	Retail Banking	6%	3rd

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

Growth in outstanding loans and advances to SMEs and large corporates.

Positive trend in lending and ordinary revenues, conclusion of the TSB migration, and reduction of non-performing assets.

Credit quality and capital adequacy

In 2018, Banco Sabadell significantly reduced on-balance sheet exposure to real estate. It shed €7,846 million of non-performing assets in 2018 (counting 20% of exposure to the NPAs covered by the APS). Much of this reduction was due to the agreement to sell almost all of its real estate exposure for a gross amount of €9,100 million and other agreements to sell an additional €3,161 million of doubtful loans.

Banco Sabadell also made great progress in improving its credit quality by selling portfolios of non-performing assets while also achieving a steady organic reduction in those assets, in line with previous years.

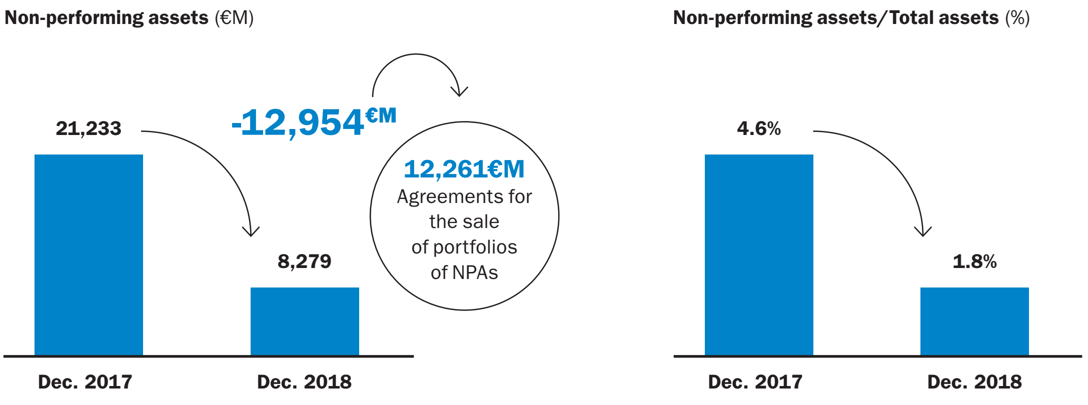
As a result, Banco Sabadell significantly improved its risk profile much earlier than expected, decreasing the ratio of net non-performing assets to total assets to 1.8% (G7) and a delinquency ratio to 4.2%, while at the same time contributing to a future improvement in profitability.

The sales of institutional portfolios were performed while maintaining the capital ratio well above regulatory requirements, with a fully-loaded CET1 capital ratio of 11.3% pro-forma the institutional sales of problematic assets, the sale de Solvia Servicios Inmobiliarios and the first-time application of IFRS 16.

As for the capital markets, in 2018 Banco Sabadell issued €750 million of senior preferred debt maturing in five years and three months. And in November, it issued €500 million in Tier 2 securities maturing in 10 years but callable after the fifth year.

NPAs: situation normalised after portfolio sales.

G7 Agreements for the sale of portfolios of NPAs



TSB technology migration

TSB completed its information technology migration in April 2018. There were a number of incidents when the new platform went live that affected customers and resulted in extraordinary costs being incurred. The extraordinary costs related to the migration amounted to €121.0 million, while the net extraordinary impacts caused by the migration amounted to €339.0 million in the year.

Those incidents had a direct impact on new mortgage production in the UK franchise. Outstanding loans and advances in the franchise were stable year-on-year. Meanwhile, customer funds declined by 4.7%, although current account balances increased by 3.2% in the year.

The new IT platform provides TSB with vital operational independence, will lend it greater agility and efficiency and will enable the franchise to expand into new lines of business, such as banking for companies.

In November 2018, TSB's Board appointed Debbie Crosbie as the new CEO of the UK subsidiary; she is scheduled to take office in the spring of 2019.

Commercial and digital transformation

Banco Sabadell emphasises customer experience to distinguish itself from the competition and has set itself the goal of being the leader in customer experience ratings in every market segment. To this end, in 2018 the Bank continued to make progress in its commercial and digital transformation in order to meet the new market needs with its best value proposition (G8 & G9).

In the area of commercial transformation, the Bank continued to roll out new distribution models that are consistent with its "There, wherever you are" slogan. These models provide customers with simplicity and convenience while helping to make production models more efficient. One example is the active management model, which now comprises 233 account managers, as well as the multi-location branches, branches with shared manager, etc. In this respect, because of its customer-centric approach in Data & Analytics, it has developed numerous initiatives based on knowledge about customers' needs in order to adapt the value proposition in such areas as consumer spending, savings, insurance and pricing.

Banco Sabadell is also keenly aware of the technology challenges that banks face in the digital era; for this reason, in 2018 the Bank continued to focus on advancing an efficient management model, deploying the necessary technological capabilities to adapt to customers' emerging needs.

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

In 2018, InnoCells continued to work with startups, while also making a number of strategic investments, including Antai, Cardumen Capital, Biometric Vox and the Base10 fund, as well as strategic acquisitions such as Instant Credit.

Banco Sabadell is a bank that has been transforming for 137 years and will continue to do so in pursuit of its essential value: excellence in customer service.

Committed to the digital and commercial transformation in order to retain the lead in customer experience.

G8 Digital and commercial transformation

Digital customer numbers increased by 6% in 2018, to 4.7M

4.7M
(+6% YoY)
Group digital customers

3.4M
(+17% YoY)
Group mobile customers

69M
(+3% YoY) **Group monthly web+mobile traffic**

37,065
(+39% YoY) **Digital sales of consumer loans in Spain**

42%
(-17pp YoY) **Digital sales in the United Kingdom**

22%
(+2pp YoY) **Digital sales in Spain**

878k
(+17% YoY) **Customers under Active Management in Spain**

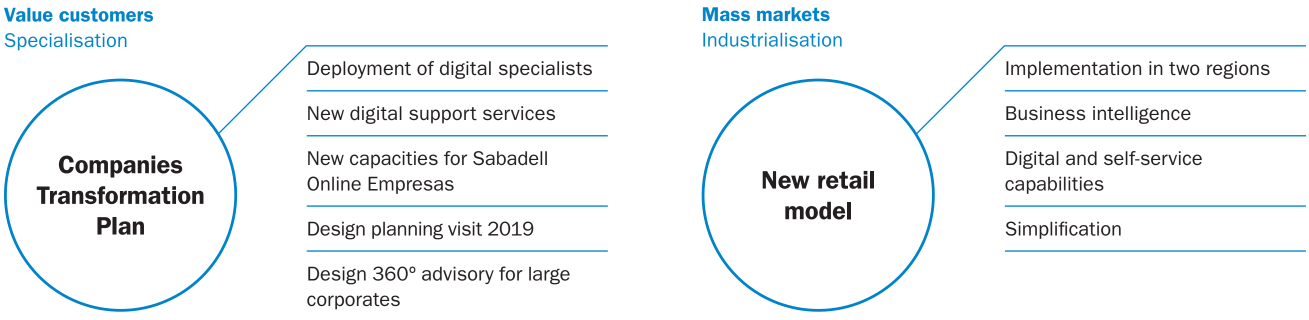
89%
(+1pp YoY) **Transactions via remote channels**

19M
(+33% YoY) **Impact of business intelligence**

Investment in innovation

INSTANT CREDIT · PAYTPV · CARDUMEN · antai · BIOMETRIC VOX · Undostres · Base10

G9 Transformation of the customer relationship model



Plan 2020

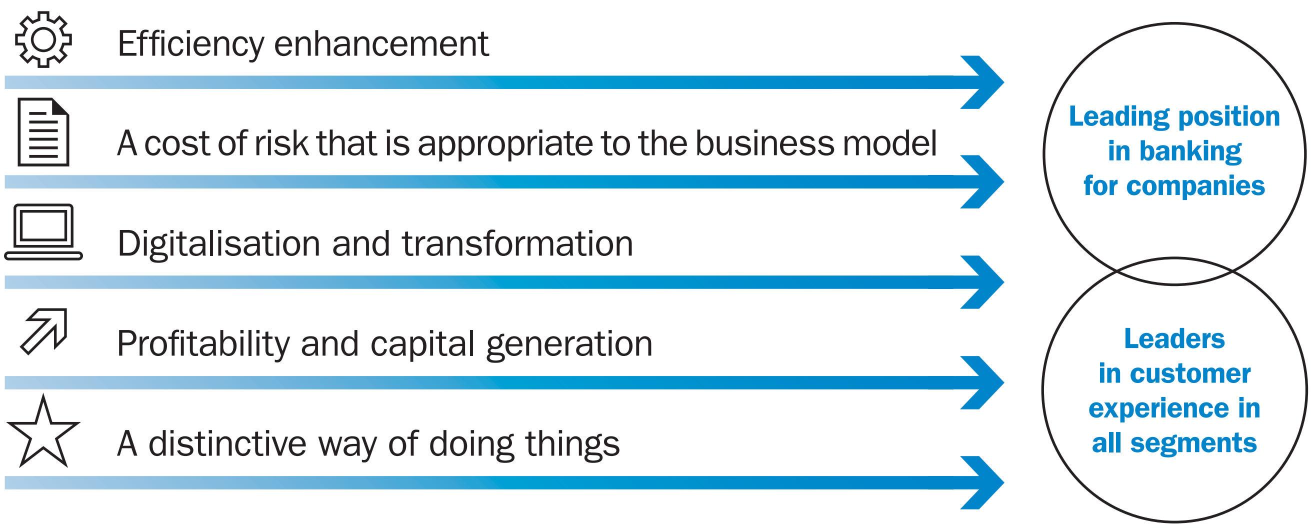
In 2018, Banco Sabadell presented its new Master Plan, which laid the foundations of the strategy for addressing the new economic cycle. The Business Plan, which was unveiled in February 2018, focused on profitability, sustainability and value creation (G10).

Profitability means continuing to expand in the main markets where Banco Sabadell operates, and improving efficiency. Sustainability means continuing to develop the technological capabilities that are required to offer a value proposition, as well as attracting versatile talent to undertake the commercial and digital transformation of the institution and adapt it to the current changing environment. Ultimately, the Banco Sabadell Business Plan pursues value creation for all its stakeholders, while offering a wide range of products and excellent quality of service to its customers and developing its human capital, attending to its employees' concerns and professional expectations, motivating them and recognising their achievements. All this while maintaining Banco Sabadell's commitment to society and the environment in all the territories where it operates, through ethical and responsible development of its business.

In order to achieve these objectives, Banco Sabadell will rely on its strong brand image and customer experience as differentiating elements, as well as its extensive technological capabilities, which will provide the

On track to achieve the financial objectives set for 2020.

G10 Objectives of the Master Plan 2018-2020

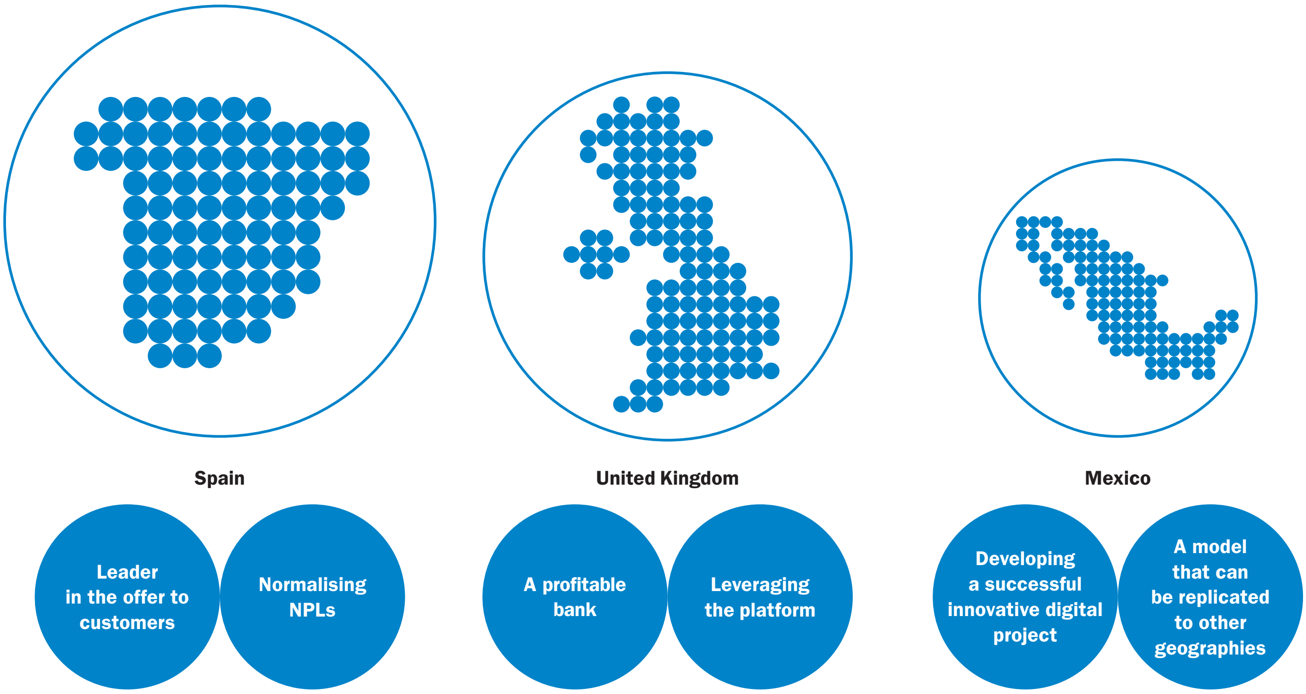


opportunity to evolve its value proposition. All this underpinned by a versatile organisation comprising trained, committed people.

The goal of Banco Sabadell for the period 2018-2020 is to focus on maximising the value of its franchise in the three main markets in which it operates (Spain, the United Kingdom and Mexico), growing organically, and having a clear, differentiated strategy in each geography (G11).

Creating value in the three geographies where Banco Sabadell is present.

G11 The main markets in which Banco Sabadell operates



The Master Plan focuses on increasing profitability by optimising efficiency while maintaining commercial dynamics.

In this way, Banco Sabadell's ambitions in Spain focus on growing customer numbers, volumes, market shares and margins, while improving efficiency by containing the cost base. It will also focus particularly on areas with growth potential, such as the insurance business, the Madrid region, consumer loans, savings-investment products and funding for SMEs. This will be accompanied by measures to enhance the businesses' sustainability by transforming the distribution and digitalisation model to offer a broad range of distinctive products and services to each customer while retaining the lead in quality of service.

The beginning of a new era for TSB.

The objectives established for the business in the United Kingdom are based on expanding scale while improving business efficiency and increasing brand recognition. Additionally, in 2018 TSB initiated deployment of the necessary capacities to expand into new lines of business. The new IT platform will play a vital role in building an agile business model and will provide TSB with a strong competitive advantage, by contributing to its commercial transformation, greatly reducing time-to-market for new products and services, while enabling the bank to adapt more readily to customer needs (G12 & G13).

The strategy defined for the Mexican business is fundamentally focused on continuing to expand the product offering, maintaining quality of service for the Business Banking and Corporate Banking segment, while progressing in the development of banking for individuals, which is based on an innovative 100% digital model.

G12 Advantages of the new platform

- Operational independence
- Better time-to-market
- Efficiency enhancements
- Innovative new digital products

G13 The beginning of a new era for TSB

Objectives attained

Indemnities to customers are close to finalising	New cutting-edge, autonomous platform	Depoyment of product features

Priorities of the new plan

Efficiency enhancements	Full roll-out of the SME strategy in 2019

Share performance and share ownership

In 2018, market attention was focused on central banks' monetary policy decisions, legal and political risk, as well as growing trade tensions and their potential impact on the economy.

In the early months of the year, bank share prices were affected by a delay in the European Central Bank's rate increase calendar with respect to investor expectations, uncertainty about the Brexit negotiations, and tension in trade relations between the main global economies.

In the second half of the year, the Spanish banking industry was impacted by greater political uncertainty in Italy, the possibility of higher taxes on the banking sector, and uncertainty about stamp tax on mortgages (G14).

The announcement of the "Sabadell 2020" Strategic Plan, the migration to the new IT platform at TSB and the institutional sales of the portfolios of NPAs were milestones that had an idiosyncratic influence on share performance in 2018.

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

In parallel, at the end of 2018, more than 87% of the analysts covering Banco Sabadell had a buy or hold recommendation on the stock.

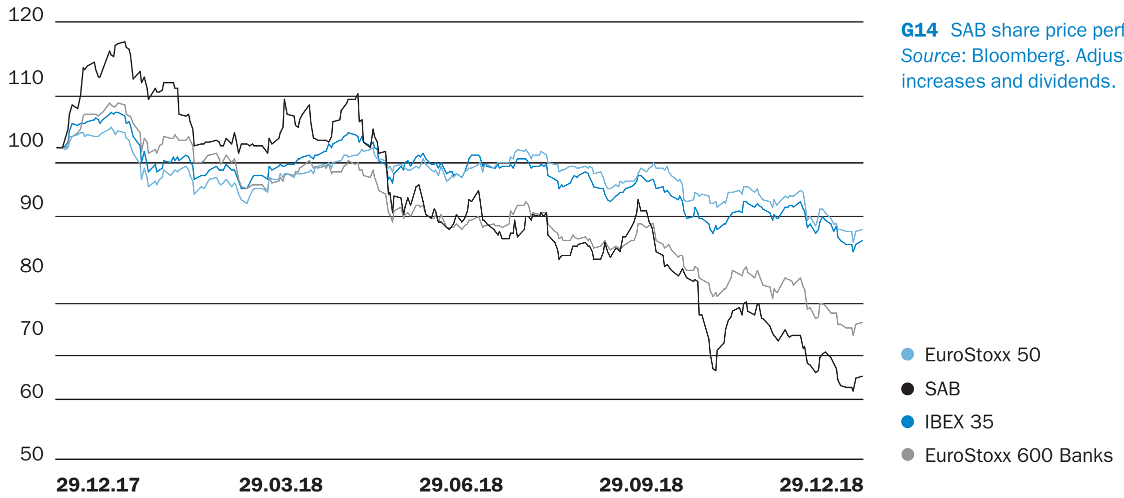
The percentage of Banco Sabadell's capital owned by institutional investors declined slightly, from 54.3% at 2017 year-end to 53.0% at 2018 year-end (G15, T1 & T2).

As part of the efforts made by the Bank in recent years to ensure a degree of transparency and communication appropriate to the increased scale of the Group, Banco Sabadell management continued to maintain a high level of interaction with institutional investors.

At the end of the year, Banco Sabadell's market capitalisation stood at €5,538 million, with a price-to-book ratio of 0.45.

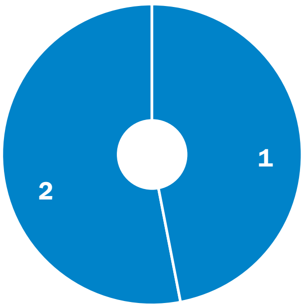
The Board of Directors will propose that the General Meeting of Shareholders approve the distribution of a gross dividend out of 2018 earnings in the amount of €0.03 per share in cash, i.e. maintaining a pay-out ratio of 51%.

Sabadell's share performance was affected by a volatile macroeconomic and political situation.



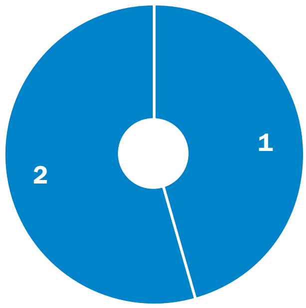
G14 SAB share price performance
Source: Bloomberg. Adjusted for capital increases and dividends.

Note: share price adjusted for dividends and capital increases.



G15
Ownership structure
31.12.2018 (%)

1	Retail investors	47.0
2	Institutional investors	53.0



Ownership structure
31.12.2017 (%)

1	Retail investors	45.7
2	Institutional investors	54.3

T1 Analysis of shareholdings at 31 December 2018

No. of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	190,297	578,124,117	10.27%
12,001 to 120,000	42,519	1,288,813,941	22.90%
120,001 to 240,000	1,605	260,418,978	4.63%
240,001 to 1,200,000	914	390,814,906	6.95%
1,200,001 to 15,000,000	151	414,351,420	7.36%
More than 15,000,000	37	2,694,441,339	47.88%
TOTAL	**235,523**	**5,626,964,701**	**100.00%**

T2 Analysis of shareholdings at 31 December 2018

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

T3 Earnings and book value per share 2015-2018

	Million	€M	€	€M	€
	No. of shares	**Attributed income**	**Attributed income per share**	**Own funds**	**Book value per share**
2015	5,616	710	0.126	12,926	2.30
2015 (*)	5,624	710	0.126	12,926	2.30
2016	5,627	802	0.142	13,426	2.39
2016 (**)	5,627	328	0.058	12,545	2.23
2017	5,627	802	0.142	13,426	2.39
2018	5,627	328	0.058	12,545	2.23

(*) Including dilutive effect of convertible bonds (33.01 million shares).
(**) Including dilutive effect of convertible bonds (7.52 million shares).

The customer

The objective of Banco Sabadell is to help people and companies to realise their plans, by anticipating their needs and providing the necessary support to make the best economic decisions.

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

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

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

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

A multi-channel strategy that combines the human touch with the best of the digital world will enable Banco Sabadell to build relationships based on trust that are designed to meet the real needs of each and every customer (G16).

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

Focus groups and in-depth customer surveys are carried out routinely so that customers can give us detailed accounts of how particular Bank processes have affected them, making it possible to gain insights into how the customer experience can be improved.

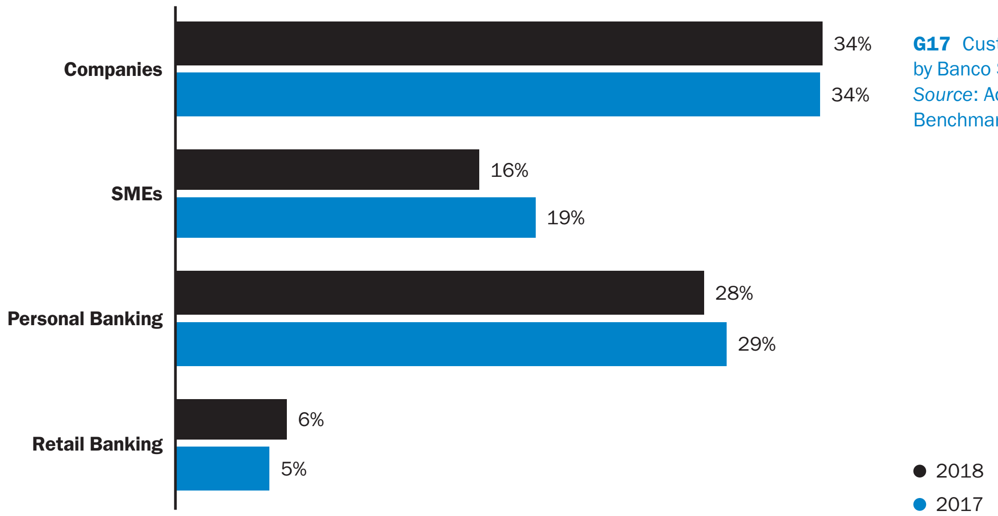
The results of these surveys reflect the Bank's focus on excellence in customer service quality (G17 & G18). Specifically, its current NPS scores reveal Banco Sabadell's position at the top of its peer group in the business customer segment, among the top three among individual retail customers, and in second place among personal banking customers.

Banco Sabadell seeks to protect the interests of its customers and has control mechanisms in place to review the products and services it offers. Before a product or service is launched, an assessment is made of its suitability and branches provide customers with product factsheets before any commitment is made. Where a complex financial product is to be marketed, the Bank conducts a test of its appropriateness and suitability as required by the Markets in Financial Instruments Directive (MiFID.)

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

In 2018, the Customer Care Service handled 35,445 complaints and claims, 46.3% less than in the previous year. The Customer Care Service also provides assistance and information to customers and users with regard to other issues. In 2018, it handled 2,848 requests for assistance and information, compared with 1,917 the previous year.*

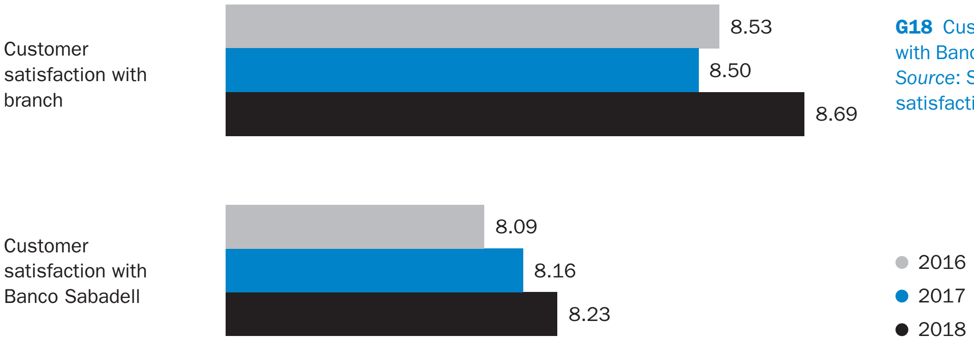
G16 Omnichannel strategy



G17 Customer NPS levels, by Banco Sabadell segment
Source: Accenture NPS Benchmark Report

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

*** For more details, see note 42 to the consolidated financial statements for 2018.**



G18 Customer satisfaction with Banco Sabadell
Source: STIGA customer satisfaction surveys

Note: The data reported are at December 2016, December 2017 and December 2018.

BS strengths

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

- **Organisation by businesses***
- **Multi-brand and multi-channel structure***
- **Leading-edge technology and innovation***
- **Service quality***
- **Focus on companies and personal banking**
- **A leading player on the international stage**
- **Strict management of capital and risk**
- **Defined, transparent corporate governance**

Organisation by business

The banking business is divided into the following business units:

Commercial Banking

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

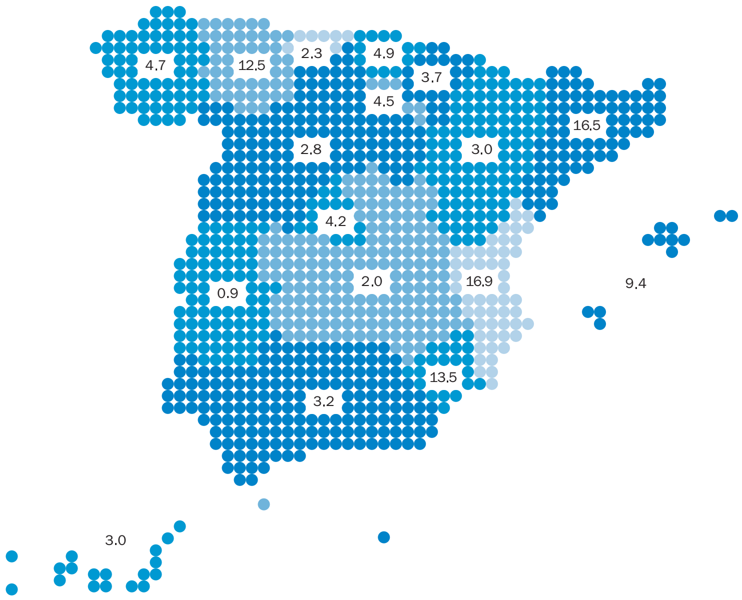
It offers products for both borrowers and savers (G19 & G20). Its products for borrowers include mortgage and other loans, credit facilities and working capital finance. For savers, the product range includes demand and term deposit accounts, mutual funds, endowment policies and pension plans.

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

G19 Market share by autonomous region

Banco Sabadell market share in Spain

7.9%



%, September 2018 figures.
Note: The figure shown for the Asturias region includes the province of León.

Markets and Private Banking

By effecting a transformation towards a relationship model with customers via multiple channels, based on both the personalised face-to-face service and the option of remote channels, customers are offered an end-to-end solution with a full range of products and services. We analyse the specific needs of customers that require specialised and customised services and attention, combining the value of Private Banking with the financial strength and product capabilities of a universal bank.

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

Other geographies

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

Asset Transformation

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

UK banking business (TSB)

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

Corporate & Investment Banking

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

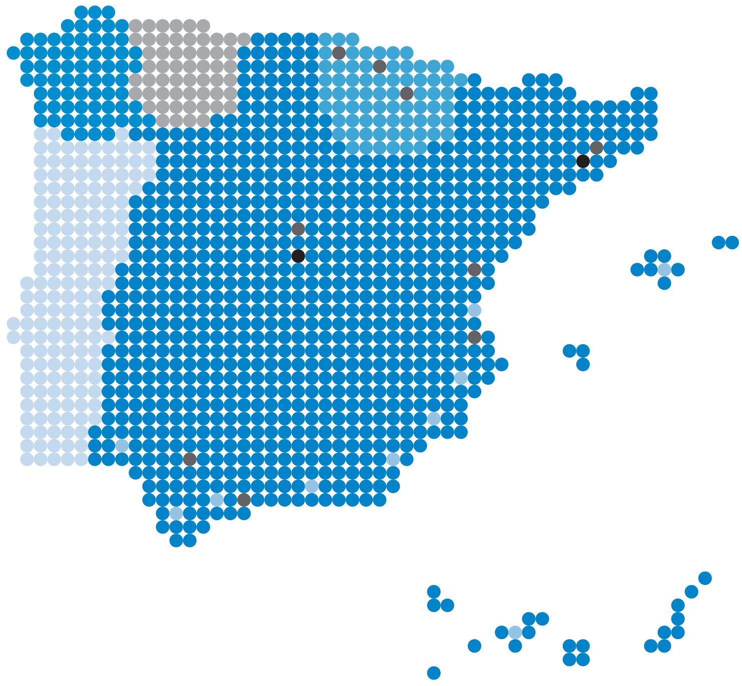
Multibrand strategy

The bank operates under the Sabadell brand, coupled with a distinctive local brand in some territories (T4).

Banco Sabadell is a leading player on the international stage. With a specialised offer and an effective value proposition, Banco Sabadell is present in strategic locations and works with organisations that promote foreign trade, supporting customers as they grow and expand internationally.

G20 Map of brands
by zone

- Sabadell
- SabadellHerrero
- SabadellGallego
- SabadellGuipuzcoano
- SabadellSolbank
- SabadellUrquijo
- ActivoBank



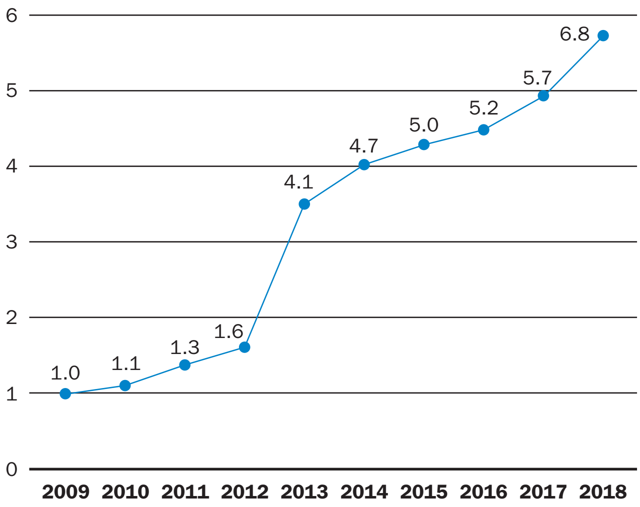
T4 Brands used by
Banco Sabadell in Spain

Sabadell	— Commercial banking, business banking — Coverage: all of Spain except for areas served by other brands
SabadellGuipuzcoano	— Commercial banking, business banking — Coverage: Basque Country, Navarra and La Rioja
SabadellHerrero	— Commercial banking, business banking — Coverage: Asturias and León
SabadellSolbank	— Commercial banking for European residents in Spain's tourist zones — Coverage: Mediterranean coastal areas and islands
SabadellUrquijo Banca privada	— Private banking. A merger of Sabadell Banca Privada with Banco Urquijo — Coverage: commercial banking and business banking throughout Spain
SabadellGallego	— Commercial banking, business banking — Coverage: Galicia
Activobank	— Commercial banking — Offices in Madrid and Barcelona

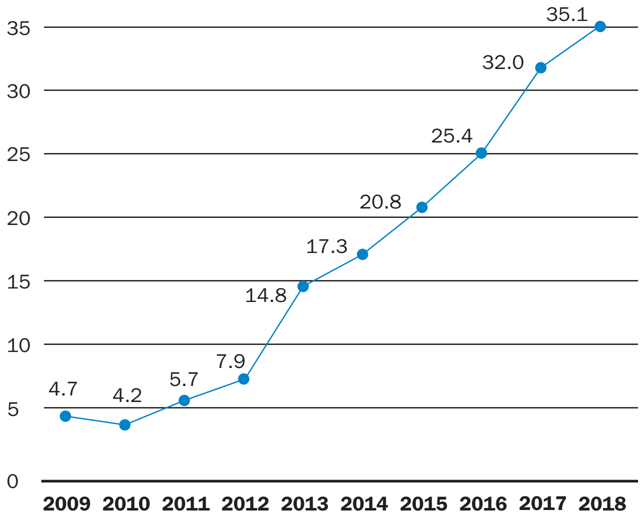
BS brand perception indicators

During 2018, the Bank continued its successful policy of raising awareness of its brand, key to increasing its capacity for growth in the retail market in Spain, where it aims to match the brand recognition achieved by its main competitors. In the last six years, "top-of-mind" awareness of the Sabadell brand has increased from 1.6% to 6.8% (up 325%) and total brand awareness from 7.9% to 35.1% (up 344%), putting the brand in fifth place among Spanish financial institutions according to data from the FRS Inmark annual survey, a key industry benchmark (G21 & G22).

G21 Top-of-mind brand awareness
Fuente: FRS Inmark



G22 Total brand awareness
Source: FRS Inmark



Advertising campaigns and actions to enhance the Bank's image in 2018

In 2018, the Bank maintained its characteristic style of advertising, which differentiates it from the competition and other advertisers.

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

Brands face an increasingly complex challenge: connecting with their audience in a meaningful way while distinguishing themselves from the competition.

To address this challenge, Banco Sabadell rolled out the "Futuros" communication campaign in 2018. The Bank went one step further in its communication strategy, moving from being an advertiser to providing content that is of use to customers, who are at the centre of its focus.

A new way to approach people with an ambitious, daring strategic approach. A commercial publishing line.

"Futuros" is based on the premise that the future is not yet written, that there is not just one future. There are as many futures as there are people. Options and decisions that often come together at specific junctures in life and specific financial needs.

Throughout the year, the strategy hinged on live debates on current issues of interest that affect people's day-to-day lives and their economy.

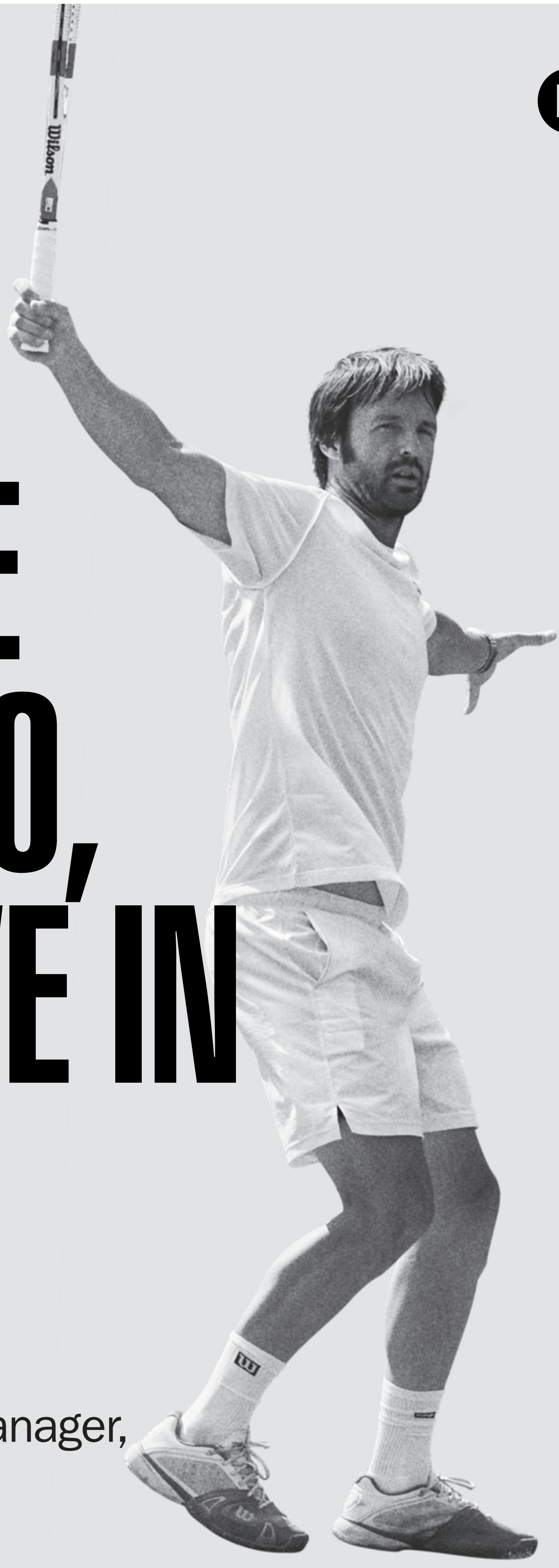
There were three live debates during the year, with high TV production values, involving celebrities such as actress Aitana Sánchez-Gijón and tennis player Rafa Nadal, as well as subject experts such as Gustavo de Elorza (an educator), Patrícia Soley-Beltran (a sociologist and anthropologist) and Miguel Pita (a geneticist and expert in molecular biology).

The first debate, on 3 May, talked about coexistence and family and the advantages of the Expansion Account, which epitomises the Bank's response and adaptability to help organise the household economy in a range of family formats.

The second debate, on 14 June, dealt with education and the Bank's value proposition focused on financing formulas to help meet the educational needs of the accountholder or their family.

The final debate of the year, on 20 September, dealt with the possibilities that the future offers and what they may depend on, emphasising the Bank's expertise in providing advice and support in building personal futures through regular saving, adapted to each person, situation and time.

RES :
R YOU'RE
No. 1620,
OPLE SAVE IN
ME WAY.



our own way too.
with your relationship manager,
30 euros a month.

Multi-channel strategy

The year 2018 was the first one in the 2020 Master Plan, one of whose objectives is to effectively transform the current business and turn a profit on capacities built in previous years and those that were launched during the year.

This transformation translates into an improvement in the customer experience, where Banco Sabadell has adapted to customers' new spending habits through the delivery of a quality service, as well as an improvement in productivity and efficiency thanks to the implementation of new relationship models that make Banco Sabadell different. Additionally, the move to simpler, more agile and industrialised processes guarantees the objective of maintaining long-term relationships at all times.

During 2018, the Bank enhanced customer service models adapted to the needs of each of the customer segments — companies, personal banking, business and retail — and achieved a record level of customer satisfaction by protecting the key moments in the relationship with the customer accompanied by greater proactivity and specialisation on the part of the Banco Sabadell teams. In this connection, it created the positions of business director and digital specialist for companies.

New propensity models were developed with which the Bank anticipates customers' needs, either through their relationship with the branch network or through the other channels that the Bank places at their disposal. The year ended with 80 events in production, resulting in over 19 million contacts with customers.

This commercial drive was accompanied by new digital capabilities that enable customers to interact with the Bank in a simpler way; the results included a 39% increase in consumer loan production and a 25% increase in transactions via non-branch channels.

Simplification and improvement of operational processes was another theme of this year, addressing those that are most critical for customers, such as mortgage lending, and onboarding new customers and accounts. A new complaints handling tool was rolled out that provides ongoing detailed information and diagnostics of customer perceptions in their interactions with the Bank.

Branch network

Table T5 presents details of the domestic branch network. Including the 592 overseas branches, the Group had 2,457 branches at the end of 2018.

T5 Distribution of branches by region

Region	Branches	Region	Branches
Andalusia	130	Valencia	326
Aragón	31	Extremadura	6
Asturias	109	Galicia	109
Balearic Islands	56	La Rioja	8
Canary Islands	31	Madrid	183
Cantabria	5	Murcia	126
Castilla-la Mancha	23	Navarra	15
Castilla y León	59	Basque Country	92
Catalonia	556	Ceuta and Melilla	2

ATM network

At the end of 2018, the Group's network of self-service tills in Spain totalled 2,924 ATMs and 344 passbook updating machines. This figure is lower than at the end of 2017 (2,954 ATMs and 345 passbook updaters in December 2017).

The number of transactions declined slightly (by 0.7%) in 2018 to 112 million.

The split between transactions done using credit/debit cards and passbooks was 67.2%/32.8%. The most frequent transaction category was cash withdrawals (more than 62% of the total), followed by passbook updates, cash deposits and balance enquiries.

During 2018, efforts focused on further improving the availability of the ATM fleet and enhancing the customer experience, which obtained an average of score of 8.1.

A new feature in 2018 was the Sabadell Cash In card, which greatly speeds up the process of cash deposits for businesses. ATMs were also upgraded in readiness for the new European regulations on detecting and seizing fake bank notes.

BS Online

Despite all the figures on growth and use of mobile data, BS Online visit and usage figures did not decline with respect to 2017. Traffic and usage frequency numbers remain high, and transactional usage is particularly prevalent in the company segment.

The number of transactions performed via BS Online continues to grow: servicing transactions for corporate customers increased by 7% last year.

In 2018, the Bank focused specifically on improving and facilitating transactions and processes by customers in the corporate segment. Several projects were launched to reduce friction and increase the delivery of value to customers, including notably improvements in the login process, a search engine for finding transactions, and presentaion of the transactions used most frequently by the user.

At the same time, the most heavily used online transactions, such as transfers, file generation and confirming and guarantees, were optimised.

Growth in servicing transactions

+7%

Sabadell Móvil

The number of users of Sabadell Móvil (BSM) continued to rise, from 2 million to 2.4 million in 2018. The app is the sole digital relationship channel with the Bank for almost 40% of digital customers (G23).

In addition to statistics for downloads and preferences, the frequency of use has increased and averages 22 times per week.

The channel's usage and servicing statistics continue to rise, particularly in recurring operations and consumer finance transactions.

The app's feature set was expanded in 2018 in order to make it more useful to customers. Customers were quick to adopt the new immediate transfer service. In addition, based on analytics of usage data, the transfer process was optimised to enable transfers to be retrieved and allowing transfers to both private individuals and companies.

The process of applying for consumer finance and for accepting and drawing on pre-approved loans has been automated and optimised. As a result, the app is now involved in 80% of transactions in these categories.

Continuing with the goal of enabling customers to pay credit and debit card debt in instalments, the instalment option is now integrated directly into the receipt that the app displays after each purchase, which increases awareness and use of this service.

As part of the project to improve customer experience and the app's ergonomics, the home screen and overall statement screen were redesigned in September. Without impairing the convenience of viewing all the user's balances in a single screen, this reduced the number of clicks required to enter subsections and put the most frequent transactions in the top tier, making them easier to use. It also laid the foundations for expanding the home screen's feature set and for aggregating information from the user's other banks.

The Instant Money service makes it possible to receive money without a card at any of the Bank's ATMs, which quadrupled the rate of monthly repeat use to 50%.

Sabadell Wallet

2018 marked a watershed in Banco Sabadell's digital transformation: by mid-year, digital customers accounted for over 50% of the total, and this percentage had climbed 2 percentage points to 52% by year-end based on visit figures and the use of online banking, particularly the mobile app. BSM and BS Wallet maintained double-digit growth figures, while the web channel continued to grow.

In 2018, the Sabadell Wallet app benefited from the launch of Apple Pay, which gained strong user traction and awareness.

The app continues to improve the enrolment process and usability, and is logging overall growth in the rates of adoption, use and repeat use by customers.

Combined with the use of payment services via mobile devices, the use of mobile-based money sending services (Bizum) has doubled to over 500,000 transactions.

Branch Direct

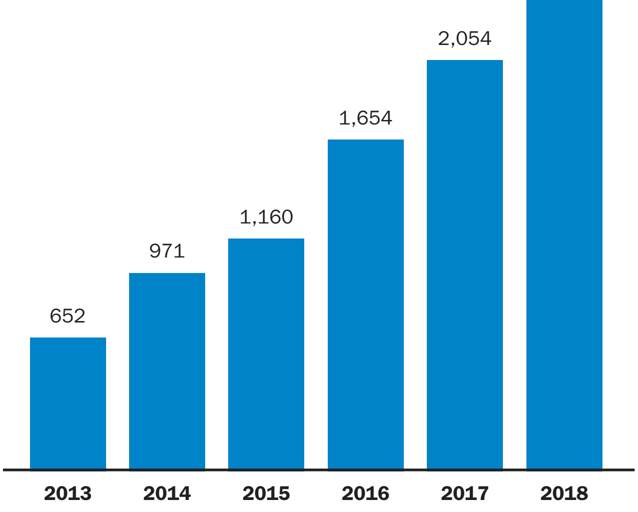
Contacts with Branch Direct increased by over 17% in 2018 with respect to 2017, to 4.5 million.
The contact channels that experienced fastest growth in 2018 were telephone, e-mail and social media. Telephone accounted for 70% of total contacts, ahead of e-mail, chat and social media. Figure G24 plots the growth of the various channels.

The SLA (Service Level Agreement) ratio for telephone enquiries exceeded 94.0%, followed by chat (92.1%) and e-mail (93.1%). There were more than 396,000 mentions on social media, and the number of interactions exceeded 184,000, with an SLA of 96.9%.

Growth in volume in 2018 was driven by:

— Implementation of Apple Pay, which is available for users of iOS mobile devices.
— The entry into force of the MiFID II Directive, which changed the rules of this market in order to promote transparency on the part of institutions selling this type of financial product and of financial advisory firms.

G23 Customers who are active users of Sabadell Móvil (thousand)



x 4 in 5 years

#active Sabadell Móvil users

— The new General Data Protection Regulation (GDPR), which requires that customers expressly consent to the commercial processing of their personal data, came into force.
— A proactive chat service was introduced for business customers.

Social media

Banco Sabadell has been participating in the conversation on the internet since 2010, through the most popular social media, with the goal of providing an excellent service, publicising its activities and exploring new spaces for dialogue.

Social media are among the main channels for engaging with our customers, both for managing transactional activity and for broadcasting institutional messages, marketing campaigns and general interest messages. Behind these channels, there is a great team of professionals who strive every day to handle queries from customers and potential customers as quickly as possible.

Their use is growing exponentially and the Bank sets a high priority on raising its social media profile. Based on demand and the need to serve all customers anywhere in the world, a 24x7 service was implemented in 2011.

At present, the Bank is mentioned in social media between 50,000 and 120,000 times per month.
Banco Sabadell has achieved an audience of over 500,000 users.

A key factor in this success is the constant creation of our own content. A large number of events, institutional, sponsored or with active participation, are broadcast via social media. Examples include presentations of earnings and the Shareholders' Meetings, the Barcelona Open Banc Sabadell Conde de Godó tennis tournament, conversations with Rafa Nadal, and the 4YFN Summit for start-ups at the Mobile World Congress.

Banco Sabadell monitors and listens actively on all social media. It analyses trends and audiences and draws up its presence and content strategy on that basis. The Bank has expanded its social media presence in the last two years, having greatly increased its Instagram follower count and created the @Innocells Twitter account for its digital business hub. Responding to growing demand for attention via digital channels, it has created an exclusive Twitter profile for queries from customers and potential customers (@Sabadell_Help).

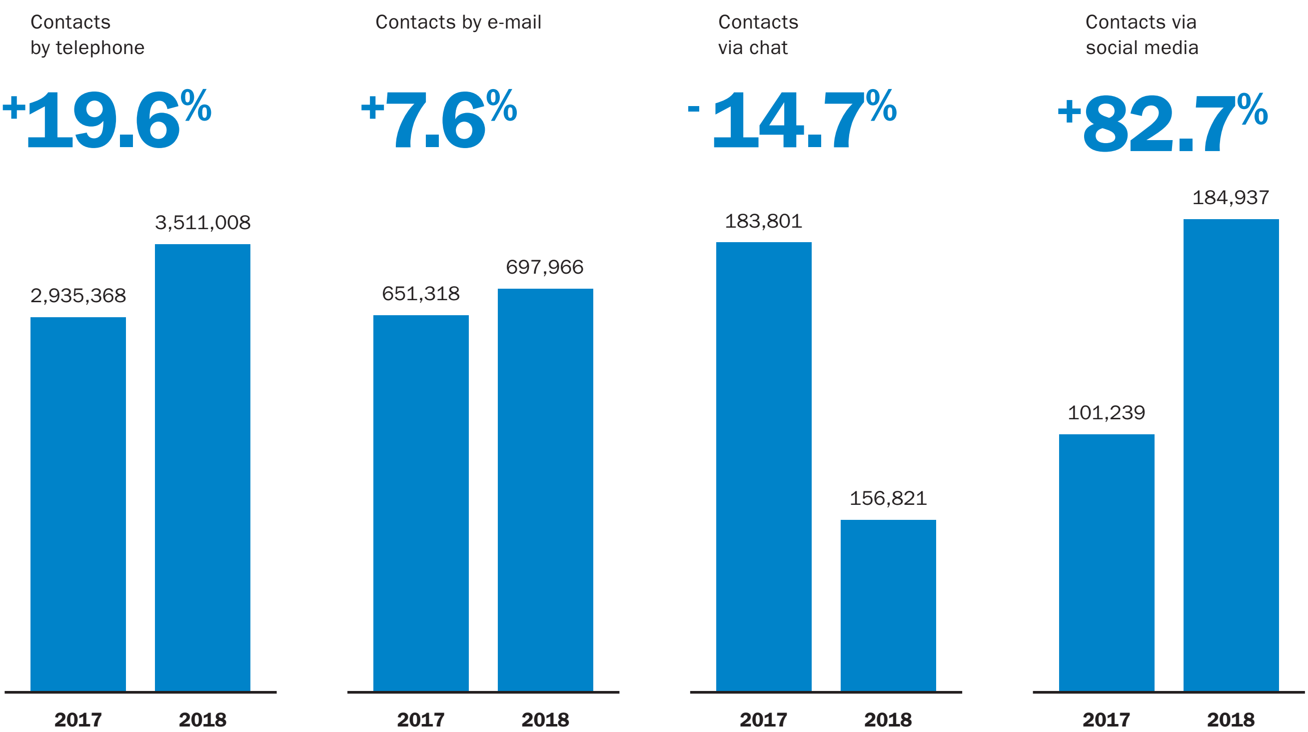
Digital know-how and business models (InnoCells)

InnoCells, Banco Sabadell's digital business hub and corporate venture arm

InnoCells is Banco Sabadell's digital business hub and corporate venture arm. It is the natural evolution of the Bank's continued commitment to digital and commercial transformation in order to offer the best service to its customers.

In InnoCells, Banco Sabadell combines the agility and innovation of the digital ecosystem with its own experience and track record: extensive knowledge of its customers, a solid brand based on service, and proximity to entrepreneurship, among others.

G24 Contacts by channel type



InnoCells gives the Group a competitive advantage and accelerates its transformation and the achievement of its strategic vision by drawing on an external ecosystem. The purpose of InnoCells is to expand the value chain by identifying new lines of business in order to anticipate customers' needs and address them through a complete offer with an end-to-end vision.

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

Digital strategy, know-how hub

InnoCells drives the Group's strategic reflection in digital matters, acting as a hub for know-how with a broad knowledge of the ecosystem based on analysis of new segments (digital generations), new business and relationship models and new knowledge (data), which translates into new value propositions (consumer perspective and data-first models).

The integration of the strategic function into InnoCells is key to ensuring alignment with the Group's needs and, in turn, it is sufficiently agile to anticipate the movements of the market, which is constantly evolving.

It is also a source of competitive advantages in the model, while ensuring the strategic centrality of the projects in coordination with the business building teams and strategic investments.

Business building, creating and promoting new businesses

InnoCells acts as a business builder, with a highly flexible model through the creation and promotion of digital businesses in areas of strategic interest for the Banco Sabadell Group.

To this end, InnoCells provides the entrepreneurial ecosystem with the Bank's strategic assets and capabilities to promote and accelerate the development of new initiatives.

Strategic investments

As a corporate venture arm, InnoCells makes strategic investments in digital and technological initiatives that provide new capabilities.

InnoCells directly acquires minority stakes in order to gain access to new capacities, talent, knowledge and technology that will ensure continuous change in the Group. It also performs acquisitions (digital M&A) in order to incorporate proven business models and core capabilities with a shorter time-to-market. InnoCells also invests directly in third-party funds as a means of strategic positioning and gaining access to deal flow.

InnoCells has consolidated an operational layer model that maximises the return on investments, their strategic fit and the relationship between the entrepreneurial ecosystem and the Group by establishing partnerships and sharing knowledge, among others.

For the time being, investments are focused on Europe, Israel, the United States and Mexico.

Portfolio

In September 2017, InnoCells co-led its first investment: Bud, a UK technology provider that offers financial institutions a platform to accelerate their digital transformation and evolve towards platform models (PSD2). In January 2019, InnoCells reaffirmed its commitment to Bud in a USD 20 million round.

In February 2018, InnoCells led an investment round in Spanish startup Biometric Vox, which offers authentication and advanced electronic signature solutions through voice biometrics.

In June, the corporate venture arm acquired Instant Credit, a Spanish startup that offers instant point-of-sale credit for in-store and e-commerce purchases. In July, it invested €7.5 million in Cardumen Capital, a Spanish-Israeli venture capital fund.

In September 2018, InnoCells bought into Antai Venture Builder with an investment of €5 million. In October, it acquried PAYTPV, an online payment platform, and in November it invested in Base10, a US tech fund. In December, it entered the Mexican market bith an investment in UnDosTres, a digital payment platform.

Quality of service

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

Consequently, the Bank makes use of existing standards and benchmarks to judge its own actions and satisfy itself that its way of doing business is the right one, and it sets itself new goals based on continual self-criticism.

The EQUOS RCB market benchmark, a survey conducted by independent consultancy Stiga over the last twelve years, shows the result of Banco Sabadell's efforts in this connection: it scored above the average for its peer group (+0.77) and the industry (+0.97) and it leads its peer group in terms of commercial action, the principal factor addressed by the survey (G25).

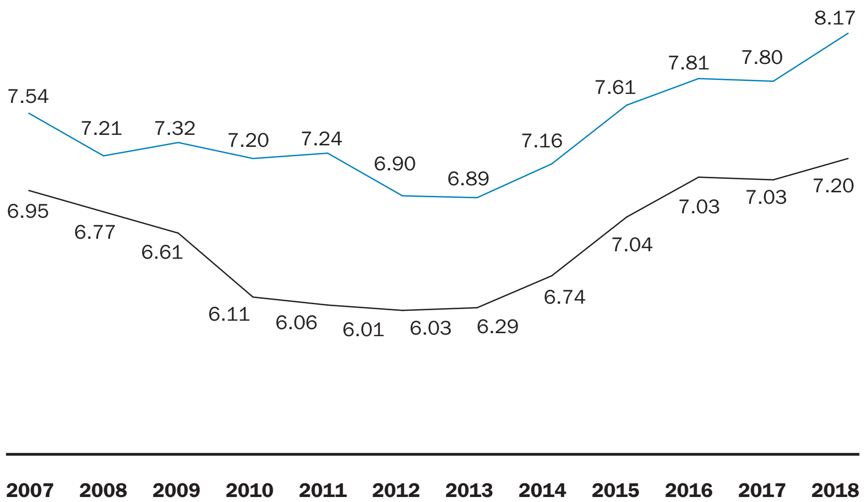
A key benchmark against which to measure and improve management practices is the European Foundation for Quality Management (EFQM) excellence model, against which the Bank is independently assessed every two years. The assessment carried out in November 2018 resulted in the Bank's EFQM Gold Seal (over 500 points) being renewed, with a score of over 700 points being awarded according to EFQM's very demanding standards. We maintain very high levels, as already noted in 2014 and 2016, and we are the only financial institution that has exceeded this score in the demanding EFQM model.

Moreover, Banco Sabadell is still the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, providing further proof of its customer-centric philosophy and diligent approach to process management. Banco Sabadell's ISO 9001 certification was renewed in 2018.

The Bank's "Madrid Excelente" quality mark was also renewed in 2018 for another three years after successfully passing the evaluation.

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

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



G25 Service quality. Banco Sabadell vs. the rest of the industry

- Sabadell
- Sector

Source: EQUOS, STIGA, Estudio de calidad de redes bancarias.
2018 figures, reported with consolidated scope at the end of each year.

Certificaciones de calidad

MONITOR EMPRESARIAL DE REPUTACIÓN CORPORATIVA | IGUALDAD EN LA EMPRESA | MADRID EXCELENTE | ISO 14001 CERTIFICATION | ISO 9001 CERTIFICATION | EUROPEAN EXCELLENCE EFQM

Non-financial and diversity disclosures

Banco Sabadell does business in an ethical and responsible way and shows its commitment to society by ensuring that its actions have a positive impact on people and the environment. Each and every person in the organisation has a part to play in observing and applying the principles and policies that underlie corporate social responsibility, as well as in assuring quality and transparency in customer service.

In the area of regulatory compliance, in addition to observing the law, Banco Sabadell has put in place a set of policies, procedures and codes of conduct to provide a guarantee of ethical and responsible conduct at all levels of the organisation and in all Group operations. The Bank has the necessary instruments to measure the results of these policies and the main risks, and to establish corrective measures where necessary. Banco Sabadell has established a Corporate Ethics Committee to which Corporate Social Responsibility issues are reported, and a Corporate Responsibility Committee, which is horizontal to the organisation with participation by the various units with responsibility in these areas and coordinates all the organisation's actions.

Since 2003, Banco Sabadell has published a report on all those actions, policies and initiatives that, beyond its main mission as a provider of financial products and services, constitute the responsible development of the business, and its commitment to its stakeholders, the environment and society in all the territories where it operates.

In 2018, the Bank drew up a Non-Financial Disclosures Report in compliance with Act 11/2018, of 28 December, which amended articles 44 and 49 of the Commercial Code in matters of non-financial information and diversity. The full version of the Non-Financial Disclosures Report forms part of the Banco Sabadell Group 2018 consolidated directors' report, to which it is attached, and it is submitted to the General Meeting of Shareholders as a separate item.

Environmental matters

The Banco Sabadell Corporate Social Responsibility Policy, approved by the Board of Directors in 2003, and specifically, its Environmental Policy, approved by the Board of Directors in 2009, define the framework of the Bank's commitment to environmental sustainability and to combating climate change. The framework's key aims are to minimise the environmental impacts of processes, facilities and services inherent to the business, to manage business-related environmental threats and opportunities appropriately, and to promote a commitment to the environment by all persons with whom the Bank comes into contact.

Pollution

Banco Sabadell is a signatory to the Carbon Disclosure Project (CDP) and has adopted the commitment to combat climate change. In 2015, it set a new goal of reducing CO_2 emissions in Spain by 3% between 2015 and 2020. To achieve this, the bank implements energy efficiency measures at its facilities and in its services each year. These measures are particularly relevant with regard to procuring electricity from renewable sources, which resulted in a 99.85% decline in scope 2 emissions in Spain with respect to 2014.

Circular economy and waste abatement and management

In all group facilities in Spain, used paper is treated as confidential documentation for shredding and 100% is recycled through authorised waste managers. All Central Service buildings and offices have facilities for the separation and collection of packaging waste, organic waste and used batteries. Banco Sabadell works with Ricoh and the HP Planet Partners programme to manage the collection and reuse of toner cartridges and disposes of computer waste through authorised waste managers.

Sustainable resource use

Banco Sabadell has an environmental management system for its own infrastructure which is compliant with the ISO 14001 standard and has been used to certify six central service facilities in Spain.

To reduce energy consumption, the Bank undertakes continuous improvement initiatives to make its facilities and processes more eco-efficient.

In 2018, the Bank consumed 81,962 MWh of electricity in Spain (82,824 MWh in 2017), 99.96% of which was from renewable sources, purchased mainly from Nexus Renovables. CO_2 emissions due to electricity consumption (scope 2) have been reduced by 99.85% since 2015.

Banco Sabadell also works to minimise its consumption of resources (water and paper). In July 2018, it extended the obligation to use only recycled paper to all its branch network, with the result that it now accounts for 52% of all paper use (previously 9%).

Climate change

In 2018, a Climate Change Risk Task Force was established to prepare for implementation of TCFD (Task Force on Climate-related Financial Disclosures) standards.

The Bank has also adopted measures to drive the reduction of CO_2 emissions via its commercial offering of products. In the area of vehicle leasing, it has expanded the range of sustainable vehicles (with emissions equal to or less than 120g CO_2/km), which now account for 78% of the leased fleet, and ECO vehicles are available at all times.

Other environmental disclosures

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

In 2018, Banco Sabadell signed 20 deals incorporating the Equator Principles, 85% of which were related to renewable energy projects.

All branches have access to information to assist them in assessing any environmental risk associated with the industry or business of the company to be assessed.

Through subsidiary Sinia Renovables, Banco Sabadell is engaged in a new cycle of investment (2016-2019) with €150 million earmarked for assets of this type. The renewable energy generating capacity in which Sinia has invested is more than enough to cover the electricity needs of our branches and central services buildings.

Corporate and personnel matters

The Banco Sabadell Human Resources Policy aims to support the transformation of the organisation through a people-based 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 highly skilled workforce by developing their talent, managing their expectations and fully leveraging their capabilities.

Employment

At 31 December 2018, the Banco Sabadell Group had 26,181 employees, 56% of whom were women and 98% of whom had indefinite contracts.

G26 Banco Sabadell headcount

26,181

94.1% received training in the year

55.7% 44.3%

Promoting equal opportunities:
Equal-Opportunity Employer Seal.

Work organisation, health and safety

The Bank's employees enjoy a range of benefits including: shorter working day (paid or unpaid, or for breastfeeding); unpaid leave (for maternity or to care for a relative); leave in special circumstances (for studies, personal reasons, or international adoption); extended maternity/paternity leave; and flexitime arrangements. In 2018, new flexibility and work-life balance measures were introduced, including the possibility of purchasing additional days of vacation and the progressive implementation of telework.

Regarding health and safety, the Group adopts a preventive approach to continuous improvement of the work and health conditions of its employees. All Group personnel and new hires 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, ergonomics factsheets and equipment manuals related to the specific hazards in the Bank's activities.

Communication within the Group

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 "BS Idea" platform enables employees to make suggestions for improvement in any area of the organisation. 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 that get the most votes also receive a cash prize.

Banco Sabadell respects and guarantees employees' basic rights, including freedom of association and collective bargaining, as enshrined in Spanish law.

Training

In 2018, 94.1% of employees in Spain received training (649,316 hours in total), while 614,527 hours of training were given at TSB (United Kingdom).

Equality

Banco Sabadell guarantees equality and equal opportunities in all areas of action affecting the workforce: selection, training, promotion and professional development, remuneration, work-live balance, etc.

These principles are set out in the Equality Plan, the human resources policy and the Banco Sabadell Group code of conduct. The Bank has a solid track record in designing equality measures, with a special focus on empowering female talent as a means of enriching the company. To this end, gender-based statistics are analysed exhaustively and workshops are held with executives and managers to understand the situation of female talent in the Bank. As a result, a specific plan was designed to continue advancing in terms of diversity and equality. The current Equality Plan 2016-2020 seeks, among other objectives, to ensure at least a certain percentage of women are promoted to a given level by 2020; this target was achieved two years ahead of schedule. Along the same lines, the institution focuses on promoting female talent at executive level and monitoring the pool of female talent to ensure that future needs are covered.

With regard to the wage gap, Banco Sabadell pays the same compensation for the same functions, responsibilities and seniority regardless of gender, and does not discriminate when hiring or in pay reviews. Nevertheless, an objective analysis of the data for women and men, considering the executive, specialist and administrative staff categories without applying any other criteria, revealed a gap of 11.9%. That gap, which is attributable basically to the fact that female staff tend to have joined the Bank more recently, was reduced by 5.4 points in 2018. Other specific measures to address the wage gap included:

— An increase in the percentage of women in executive positions.
— 50% of promotions were women (26% at executive level), through a focus/follow-up approach by Performance Committees and ensuring that there was no bias in candidate shortlists.
— Application of equal pay rises for women and men, and an equal increase in the overall wage volume.
— Strict gender parity in the High Potential Programme for 2019, which is the source of future managerial talent.

As a result of these measures, the Bank was granted the Equal-Opportunity Employer Seal by the Spanish Government Ministry of the Presidency, Relations with Parliament and Equality. The Seal is granted to Spanish companies and other institutions that stand out in the development of policies for equal opportunity between women and men in the workplace, by implementing equality plans and measures. The Seals are granted each year in an open process in which any company or institution, public or private, may be presented on the basis of outstanding performance in applying gender equality measures within the organisation and in connection with working conditions, organisation models and other issues, such as services, products and advertising.

In 2017, Banco Sabadell exceeded the commitment it made in 2014 when it signed the Cooperation Agreement with the Spanish Ministry of Health, Social Services and Equality, setting a target of 18% for women in senior management roles by 2018.

The Bank also has a Policy for Selecting Candidates for Directorships that was approved by the Board in 2016 and promotes the goal of ensuring that the under-represented gender accounts for at least 30% of the Board by 2020.

Universal access for persons with disability

The Group promotes diversity of all kinds and is committed to the integration of all its workers through selection and professional development processes guided by the principle of non-discrimination.

At 2018 year-end, the Group had 188 employees with some form of disability (253 at 2017 year-end).

Human rights

Banco Sabadell has a Code of Conduct and an Ethics and Human Rights Policy that were approved by the Board of Directors in 2003. It has also implemented a Code of Conduct for suppliers, through which it extends its commitment to human rights throughout the supply chain.

The Group is also a signatory of a number of agreements pertaining to human rights at a national and international level, such as the United Nations Global Compact, whose first and second principles enshrine a commitment to human and labour rights, and the Ecuator Principles, a framework for assessing and managing social and environmental risks that contemplates respect for human rights and acting with due diligence to avoid, mitigate and manage adverse impacts.

In relation to the workforce, the Bank favours and maintains an environment in which all employees are treated with dignity and respect, fairly, without any discrimination based on gender, race, colour, age, social origin, religion, nationality, sexual orientation, political opinion, physical or mental disability, or union membership.

Regarding customers and society in general, the Bank works to offer products and services that contribute to producing a positive impact on people's lives through a responsible business approach: risk prevention by assessing the risk of human rights violations in project finance, social housing management and financial inclusion.

Fighting corruption and bribery

Banco Sabadell views ethics as a core corporate value and works actively to combat corruption. Since February 2005, Banco Sabadell has been a signatory to the Ten Principles of the United Nations Global Compact, thereby making an explicit commitment to fight corruption in all its forms.

As a financial institution, Banco Sabadell views the fight against money laundering and terrorist finance as a core value and has implemented measures, rules and procedures to this end in the Bank and its subsidiaries.

To ensure transparency, all donations to NGOs and not-for-profit organisations are analysed and assessed by the bank's Sponsorship Committee or the Board of Trustees of the Foundation on the basis of the principles established in the Bank's community support policy.

Banco Sabadell's Code of Conduct explicitly requires employees to reject gifts, rewards or personal favours offered by customers or suppliers that might constrain or condition their ability to make decisions.

Society

Commitment to sustainable development

Banco Sabadell contributes to sustainable development through the initiatives listed below:

Transparency, simplification and accessibility

The Bank has established mechanisms to ensure that all information provided to customers is transparent and that the products and services it offers are adapted to the customer's needs at all times.

Before a product or service is marketed, the product approval committee ensures that it fulfils the transparency standards.

The branch network provides information about products and services in the form of pre-contractual information sheets; an account manager also offers the necessary information to ensure that consumers and customers understand the characteristics of the product. When giving customers investment advice, account managers perform the necessary tests to ensure that the financial products are appropriate to the customer's needs by evaluating their knowledge and experience.

Sustainable finance

Banco Sabadell encourages responsible investing by offering customers a number of ethical investment products which also contribute to solidarity projects. They include Fondo de Inversión Sabadell Inversión Ética y Solidaria, F.I. (a mutual fund), Sabadell Urquijo Cooperación, S.I.C.A.V, S.A. (an investment company), BS Ético y Solidario, P.P. and Plan de Pensiones BanSabadell 21 F.P (two pension plans) and Fondo de Pensiones G.M. PENSIONES, F.P. (a pension fund for employees).

In the area of investment, both pension fund manager BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital firm, have adopted the Principles for Responsible Investment in the "investment manager" category.

Banco Sabadell also participated in the placement of green bonds issued by Iberdrola and Gas Natural and was the only placement agent for a sustainable bond issued by the Madrid Regional Government (€150 million) in 2018.

Assistance in cases of mortgage default

Through Sogeviso, a wholly-owned subsidiary, Banco Sabadell manages the problem of social housing with a view to adopting a responsible approach to situations of social exclusion among vulnerable mortgage customers. At 31 December 2018, Sogeviso was managing 10,178 social and affordable rentals for such vulnerable customers, 53% of whom had joined the Social Contract.

In 2018, it also consolidated the JOBS (job placement) programme, which had 2,688 participants at year-end. This programme has enabled 1,483 people to find work since it was created in 2016.

Financial education

Banco Sabadell continues to promote and takes part in a number of financial education initiatives aimed at meeting the needs of different segments of society in this respect.

— For children: through the "What's money for?" drawing competition for children, the Bank provides learning activities and materials in cooperation with educators in order to develop creativity and teach the importance of saving, the value of money, and solidarity.
— For young people: the Bank has been participating in the Catalan Schools Financial Education programme for young people aged 15-16 since its inception; the sixth edition included events in over 350 schools. In 2018, a total of 87 volunteers, including current and retired employees of the Bank, took part.

Also, in partnership with the Spanish Banking Association (AEB) and the Junior Achievement (JA) Foundation, the Bank took part in the "your finances, your future" programme in more than 100 schools all over Spain. A total of 32 volunteers (serving and retired employees) took part.

— For SMEs: For the last six years, Banco Sabadell, with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, has sponsored the "Export for Growth" programme to help small and medium-sized firms expand into foreign markets; the programme provides online tools and specialised information services and organises debates around the country, which have been attended by over 5,000 companies to date.
— Banco Sabadell is also party to an agreement with the AEB, the CNMV and the Bank of Spain to promote the National Financial Education Plan. The Plan, which was renewed in 2018, follows the recommendations of the European Commission and the OECD and is designed to improve public understanding of financial matters by providing people with basic skills and tools to manage their financial affairs in a well-informed, responsible way.

Corporate volunteer programme

Banco Sabadell encourages community and volunteer work by its employees by providing the necessary resources.

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

— Programmes to leverage the knowledge and experience of current and former employees to favour people at risk of social exclusion: Fundación Exit's "Coach" project, using mentoring of young people at risk to improve their employability, and the Transpirenaica Social Solidaria walk.
— Contributions to/participation in solidarity campaigns: Trailwalker, in which more than 40 teams and over 100 volunteers participated; blood donation drives, in which there were more than 230 contributions; and assistance with the Fundación Magone's Christmas gift campaign through the contribution of more than 470 gifts.
— Projects aimed at integration and improving employability: an alliance with Cáritas on the "Feina amb Cor" programme for unemployed people and people at risk of social exclusion. Of the 25 people who have passed through the Feina amb Cor integration programme since 2015, five are still employed at the Bank's branches in the province of Barcelona, six exceeded the 3,000 hours of work established in the programme, and 5 have found stable work, which is the programme's main objective.
— TSB has its TSB Local Charity Partner programme, under which each branch supports a local cause that is important to their community. It also helps local sports clubs across the UK to use the power of sport to make a positive difference for young people and their communities through a partnership with Sported, one of the UK's leading charities related to the sport.

Community outreach and sponsorship

Banco Sabadell's social action policy is underpinned by the Group's commitment to society and to value creation. Banco Sabadell operates in this area mainly through the Banco Sabadell Foundation and the Sponsorship Committee, and horizontally through its various divisions. In 2018, the Bank contributed €5 million to the Banco Sabadell Foundation.

The Banco Sabadell Foundation focuses on talent, science, culture and social entrepreneurship. Key initiatives by the Foundation include a Prize for Biomedical Research; a Prize for Science and Engineering (instituted in 2017) in cooperation with del BIST, Barcelona Institute of Science and Technology; and a Prize for Research in Economics, all of which aim to give recognition and support to the achievements of young Spanish researchers in those disciplines.

In 2018, the Ship2B Foundation, in cooperation with the Banco Sabadell Foundation, launched the second edition of the BValue programme, whose objective is to help professionalise, transform and improve the value proposition of non-profit entities in any field of activity. After a first stage, ten proposals were chosen to receive support for launching a crowdfunding campaign to publicise and validate their idea. The projects will be presented on a Demo Day, at which the Banco Sabadell Foundation will grant financial aid.

Consumers, outsourcing and suppliers

Banco Sabadell has established a Customer Care Service to handle complaints and claims.

The Group also has a Customer Ombudsman with the power to decide on complaints by customers and users of Banco Sabadell, in both the first and second instance, and to decide on issues referred by the Customer Care Service.

The challenge of competitiveness requires a climate of cooperation between Banco Sabadell and its suppliers, whom it views as strategic partners. As a result, the Bank has established protocols and rules to extend its commitment to socially responsible practices to the supply chain. Banco Sabadell involves its suppliers in the Group's environmental policy by incorporating social and environmental responsibility into its supply chain. Banco Sabadell's basic contract with suppliers includes specific clauses on respect for human rights and the ten principles of the United Nations Global Compact. Where appropriate, the contracts also contain clauses relating to the environment.

Corporate standards and institutional commitments

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

Non-financial principles and policies

— Code of Conduct: applies generally to all persons directly involved with the Group, whether as employees or as members of its governing bodies.
— The Internal Code of Conduct in connection with the Securities Market.
— The Suppliers' Code of Conduct.
— Corporate Social Responsibility Policy.
— Banco Sabadell Group policy on restrictions on financing and investment in activities associated with the arms industry.
— Policy on ethics and human rights.
— Policies related to stakeholders (shareholders and investors, customers, employees, the environment, suppliers and social action).
— Banco Sabadell Group Remuneration Policy
— Plan to foster effective equality between women and men at Banco Sabadell.
— Code of conduct governing the use of social media.
— Membership of Autocontrol, a self-regulatory body on business communication.
— Adoption of the Code of Good Banking Practice.
— Tax Strategy and Good Taxation Practices:
  — Tax Strategy.
  — Tax Responsibility and Good Taxation Practices.

Agreements and commitments

— Signatory of the United Nations Global Compact, in respect of human and labour rights, the environment and the fight against corruption.
— Signatory of the Equator Principles, which requires it to take account of environmental, social and governance (ESG) issues in financing major projects and in loans to large corporates.
— Integration of CSR policies into business practice in accordance with ISO 26000 guidelines.
— Signatory to the United Nations Principles for Responsible Investment, in the "investment manager" category.
— Renewed membership of an agreement between the Spanish Banking Association (AEB), the CNMV and the Bank of Spain to carry out a programme of activities as part of the National Financial Education Plan.
— Included in the FTSE4Good and FTSE4Good IBEX sustainable stock market indices.
— Awarded the European Foundation for Quality Management (EFQM) Gold Seal of Excellence.
— ISO 9001 certification for 100% of the Group's processes and activities in Spain.
— ISO 14001 certification for the six central services buildings.
— Signatory to the Carbon Disclosure Project (CDP) in connection with action against climate change.
— "Equal-Opportunity Employer Seal" granted by the Spanish Government Ministry of the Presidency, Relations with Parliament and Equality.

People

The Bank has a young highly-qualified and gender-diverse workforce. The human resources strategy is based on key principles which ensure that the goals are achieved (G26).

Three essential premises underpin the group's human resources management approach:
— Focus on talent development.
— Greater proximity to the business.
— Focus on employee satisfaction.

This triple focus is aimed at providing the talent that the Bank requires using the available capacities. It is built

on two fundamental elements in the institution's human resources mission:
— Ensure the workforce continues to be a distinctive feature.
— Make Banco Sabadell the best place for a career.

Human resources strategy and lines of action in 2018

The people management function is now global and fully aligned with the other corporate lines of action.

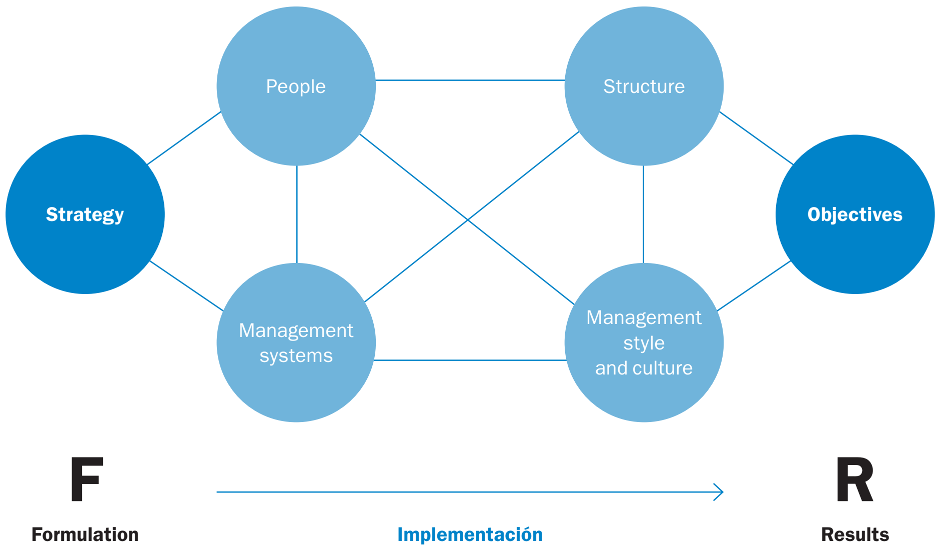
It operates in an effective, coordinated fashion in each of the lines of action required by the Master Plan 2018-2020, all pursuing the central goal of an attractive organisation that has people with the right skills. All the programmes are implemented under the triple focus:
— Forward-looking.
— Proximity to the business, focusing on:
  — Enhancing productivity.
  — Internal rotation.
  — Pro-active management.
  — Service quality.
— Improve employee satisfaction and evolve behaviour in line with the values.

In 2018, progress was made with a number of programmes, most of which had commenced in previous years, including notably:
— **Global Performance Management**
The cornerstone of a global, integrated standardised approach to talent management throughout the Group, whose main objective is to measure performance objectively, across the entire organisation, in order to enhance each individual's strengths and minimise the areas requiring improvement.
— **Employee Satisfaction Improvement Programme**
Which, based on coordinated efforts by all areas of the Bank, resulted in a significant improvement in the target ratios and reinforced the Group's appeal as an employer.
— **Mobility and Diversity Programme**
Which translates into a multitude of professional opportunities for internal talent, a special focus on female talent as a competitive advantage and on flexibility as an opportunity to improve productivity and the employee satisfaction.

In addition to these ongoing programmes, there are others that are meaningful for the institution's immediate future:
— Strategic personnel planning, in both quantitative and qualitative terms, with a special focus on the gap between the staff's current capabilities and future challenges.
— Expressing the brand through our employees, as a fundamental competitive advantage in the transition from a branch-based bank to a multi-channel, hyper-connected relationship platform.

Banco Sabadell believes in people and invests in their professional development and lifelong learning, providing the necessary mechanisms to enable employees to realise their full potential.

G27



Composition of Group employees

At the end of 2018, the Banco Sabadell Group had 26,181 employees, an increase of 336 compared with the previous year.

The average employee age was 43.22 years and the average length of service was 16.31 years. The gender split was 44.3% men and 55.7% women.

94.1% of the employees have participated in at least one Sabadell Campus activity.

Projects in the Human Resources area

Hiring and induction

The selective search for external talent continued in 2018, always seeking to acquire a diversity of skills when they cannot be found in-house.
In this framework, there were three major strategic issues in connection with attracting and retaining the new talent that the Bank needs going forward.

Firstly, the Group's employment website, *www.sabadellcareers.com*, which, with the Bank's LinkedIn page, makes up an appealing digital wall to attract talent.

Secondly, the Talent Incubation Programmes; specifically, in 2018 there was the *Data & Analytics Programme*, whose mission is to hire professionals with advanced knowledge to explore and interpret the information contained in data and extract the maximum value in order to personalise our products and services and make strategic business decisions. The first batch under this programme — 12 professionals — joined the Bank in November 2018.

Thirdly, the new onboarding process, which seeks to instil in these professionals a sense of loyalty to the mission and values of Banco Sabadell from day one.

Training and talent

SabadellCampus

Due to the contribution by these schools, the campus has logged over 123,080 learning sessions. 61% of learning took place via remote channels, which contributes to our professionals' work-life balance, while on-site training is reserved for high-impact material and personal and management skills.

Commercial School

Priority has been given to training aimed at increasing the impact of key positions in the creation of business value, especially business managers, SME account managers and business banking branch managers; over 25,036 training hours were logged.

MiFID. Trusted advisors

In line with MiFID and, more specifically, with the CNMV's Technical Guide 4/2017 for the assessment of the knowledge and competence of staff giving information and advice, there was an intense process of certification that far exceeded the established goals. A total of 2,157 employees were been certified, 54.4% more than the 1,400 projected for 2018. As a result, the bank had 4,061 certified staff at 2018 year-end.

Creation of the Digital School

More than 3,500 employees are developing their digital potential in the eight training programmes offered by the Digital School (Information Management, Networking, Digital Skills, Digital Vision, Digital Communication, Digital Identity, Continuous Learning, and Security).

Employees who complete the +Digital Programme will qualify to graduate, in June next year, from the EADA Advanced Digitalisation Course, which focuses on blockchain.

Expanding the team of internal trainers

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

The number of in-house trainers expanded considerably in 2018, in terms of both number (470) and impact, as they provided support in critical processes such as the MiFID Programme. These professionals provided more than 50,000 hours of training, an average of over 19 hours per trainer, sharing their knowledge with the rest of the workforce.

TSB conducted a training plan for the migration involving key groups associated with the process in order to prepare them and fully align capacities by the implementation date. This process is part of a broader focus on human factors, which also measures other elements related to occupational health during the entire process.

Professional development

Internal hires

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

— Partial in-sourcing of the Bank's selection team to retain employees' knowledge.
— The stages of the selection process that cause the greatest delays were reviewed and amended in cooperation with the personnel involved so as to shorten execution times and gain efficiency.

Flexibility and work-life balance

In 2018, new flexibility and work-life balance measures were introduced, including the possibility of purchasing additional days of vacation, the progressive implementation of telework, and the creation of the position of work-life balance manager.

Banco Sabadell also offers a broad range of measures aimed at improving work-life balance for its staff, by enabling them to purchase goods and services via the employee intranet, saving time and money as the products are delivered to the office.
Additionally, the corporate services buildings in Sant Cugat del Vallès and Madrid offer employees a range of time-saving services, such as a gym, dry cleaning, parapharmacy, travel agency and hair salon.

Talent management

The people management model is based on merit and the development of each person's innate talent.

The model is built around three axes: the annual performance review, manager support, and development initiatives based on each person's needs and potential.

All the Bank's professionals undergo an annual performance review. The review considers what has been achieved, and how it was achieved.

It contributes to a meritocracy, hence the importance of a meaningful review. This year we enhanced the objectivity of the process by incorporating the possibility of evaluations by former managers and functional managers.

Just as important as the annual performance review is the assessment of the employees' potential with a view to the following year, in order to adopt the best decisions regarding their professional development (internal mobility, promotion, development programmes), align aspirations with professional opportunities, and design the development agenda.

On that basis, Banco Sabadell provides employees with specific training tools and programmes under an approach in which they share responsibility for their career.

In particular, executives reaching the corporate director level benefit from an executive development programme to assist them with the career transition and prepare them for the changing business environment, focusing particularly on the challenges inherent to the new leadership role.

Banco Sabadell has also continued to develop the model with the aim of having the best information about our current talent and its potential in order to ensure appropriate decision-making, effective and efficient management and effective development of our executives and pre-executives.

In this way, we maintain the system of People Assessment committees within each Division (17 in total), to discuss the following issues:

— Current (and projected) evolution of the workforce (profile and costs) and management results (compensation, performance management, both high and low, and employee satisfaction).
— Update of the talent map (executive and pre-executive) and potential pool.
— Decisions on candidates for new management positions and proposed designation of high-potential employees.
— Proposals for initiatives in connection with the workforce.

Improved employee satisfaction

Applying the Great Place to Work approach to excellence, the Group continues to measure and act on its constituent areas in order to continue building trust internally. All areas of the Bank have made a commitment to this objective, and many initiatives to enhance employee satisfaction have been implemented.

Prizes and distinctions

Equal-Opportunity Employer Seal
This seal was granted by the Ministry of the Presidency, Relations with Parliament and Equality in recognition of policies in favour of equal professional opportunities for women and men, as published in Spain's Official State Gazette.

Banco Sabadell joined the DIE Network, comprised of 147 companies in Spain, which employ approximately 236,000 people, 42% of whom are women.

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

Economic, business and regulatory environment

Europe's banking system continued to reduce non-performing exposures in a context of persisting headwinds to profitability.

Brexit has been shrouded in considerable uncertainty.

The Spanish economy continued to post robust growth—outperforming the eurozone—albeit somewhat more moderate than in previous years.

Global economic environment

Political and geopolitical events were back centre-stage in 2018. They events had an increasing impact on financial markets over the course of the year, in a context in which the main central banks continued to reduce monetary stimuli.

Some of the main political events were the Brexit negotiations, the new Italian government's stance regarding European fiscal rules, President Trump's protectionist policies, and election outcomes in some emerging countries.

In the UK, the political scene was dominated by the complexities of Brexit, both negotiations with the EU and on the domestic front, given the divisions it has generated within the cabinet and in the main parties. The main obstacle in talks with the EU has been the quest for a solution to avoid a hard border in the island of Ireland. Eventually, Theresa May's government reached a deal with the EU that envisages a transition period until the end of 2020—extendible to the end of 2022—during which the new bilateral relationship would be negotiated. The House of Commons vote on the deal was postponed until early 2019.

In Italy, the 4 March election saw the traditional parties punished and resulted in a fragmented parliament. After several months of complex talks, which almost culminated in an institutional crisis, the Five Star Movement and League eventually agreed a coalition deal. The new government then unveiled a budget with government deficit targets in breach of European rules. This resulted in the European Commission rejecting a country's national budget for the first time. The discipline imposed by financial markets and the negative impact of the political turmoil on the country's economic performance ultimately persuaded the Italian government to adopt a more conciliatory tone with the European Commission and to reduce the deficit target for 2019.

In the United States, Trump took an increasingly aggressive tone in foreign policy. The US imposed trade tariffs on more than half of goods imported from China and has threatened to raise those tariffs and apply them to all Chinese imports. The technology sector was another bone of contention between the two countries. The trade truce between the US and the EU, agreed in May, averted protectionist measures. NAFTA member countries eventually agreed to renegotiate (and rename) the agreement on more favourable terms for the US.

As a result of its more assertive foreign policy tone, the US also: (i) called the EU a "strategic competitor", in contrast to decades of transatlantic cooperation; (ii) imposed sanctions on Iran, in defiance of the rest of major powers; and (iii) raised the tension with specific countries, such as Turkey and North Korea.

The November mid-term elections in the US saw the Democrats regain control of the House of Representatives, although Trump's Republican Party retained its Senate majority. The Democrats have expressed their intention to use their House majority to ramp up the legal pressure on Trump and limit some of his domestic policies.

In Latin America, elections in countries such as Mexico and Brazil shifted the political landscape. In Mexico, Andrés Manuel López Obrador's victory in the July presidential and parliamentary elections added uncertainty to the country's economic and institutional environment. In this connection, the use of popular suffrages outside the legal framework for major economic decision-making has undermined investor confidence. In Brazil, meanwhile, the victory of former military officer Jair Bolsonaro was seen as a clear rejection by voters of the violence and corruption that are rife in the country.

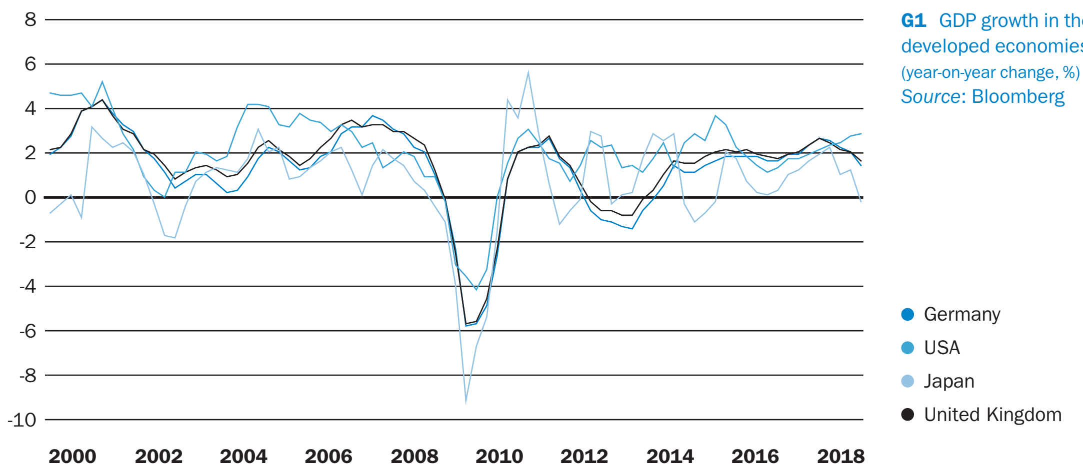
As for economic activity, global GDP growth stayed relatively high, underpinned by factors such as expansive fiscal policies in countries such as the US and China, and the still-accommodative monetary policy in regions such as the eurozone (G1).

Economic activity in the eurozone continued to grow, albeit at a somewhat slower pace than in 2017, which was an exceptionally good year. Growth trends were hampered by more sluggish external demand, against a backdrop of somewhat weakened international trade. Some one-off factors also had a negative impact, such as new emissions standards, which hit production in the autos industry. In the UK, the economy expanded at a moderate pace, constrained by the uncertainty surrounding Brexit. This uncertainty has taken a particular toll on investment and on sectors such as real estate. The United States economy was dynamic, buoyed by the expansive fiscal policies that have benefited consumer spending, in particular. In this context, unemployment has continued to fall and remains at record low levels. In Japan, the economy continued to experience moderate growth, underpinned by lax funding conditions and government spending.

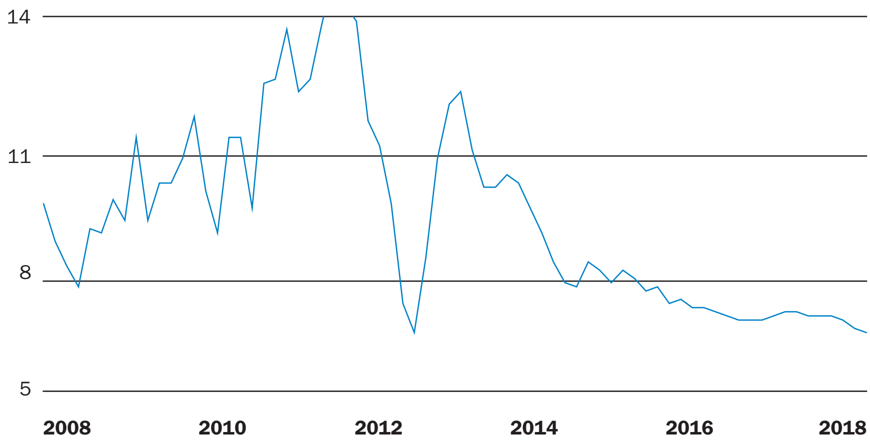
In the emerging economies, China's economic growth, while still high, eased somewhat, impacted by regulatory efforts in the financial sphere (G2). This effect was heightened by the repercussions of the trade war unleashed by the US. Nevertheless, measures aimed at economic expansion helped offset these negative effects. Elsewhere, the focus was on the most vulnerable economies, like Argentina and Turkey, whose financial markets slumped against a backdrop of tightening international funding standards. The Mexican economy continued to log relatively stable moderate growth, albeit hampered by the uncertainty surrounding the NAFTA negotiations and domestic politics.

In the eurozone, core inflation, which excludes energy and food, remained low and with no clear trend (G3). UK inflation eased as the effects of sterling's slump in the wake of the Brexit referendum dissipated, and by year-end it was near the monetary policy target. In the US, core inflation rose to near the Federal Reserve's target. Wage trends also improved and have practically normalised. Inflation remained contained in Japan.

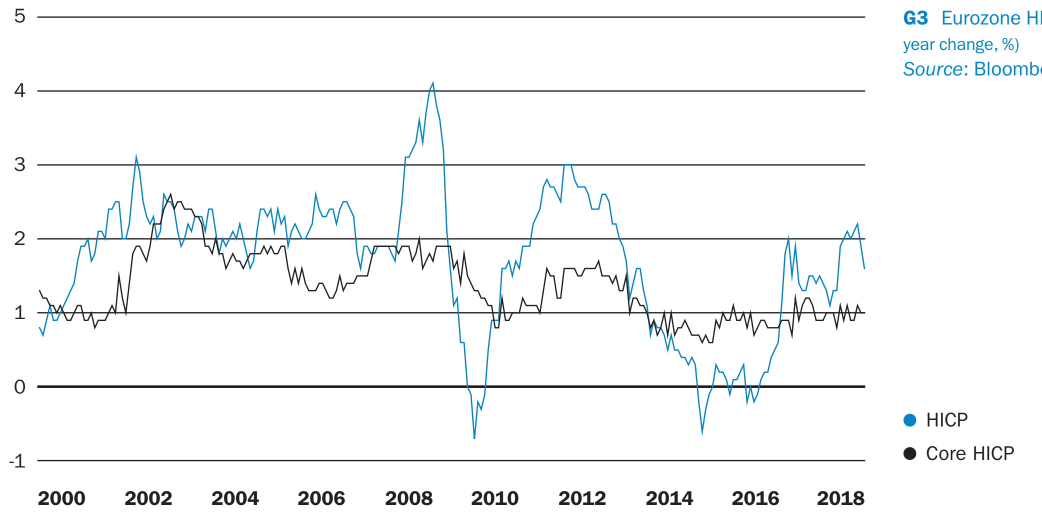
Crude oil prices reached their highest since 2014, hit by OPEC production cuts, bottlenecks in US production and the Trump Administration's announcement of renewed sanctions on Iranian oil exports. Oil prices subsequently eased amid financial tensions, temporary US authorisations to import oil from Iran, and the increase in production by Saudi Arabia, Russia and the United States (G4).



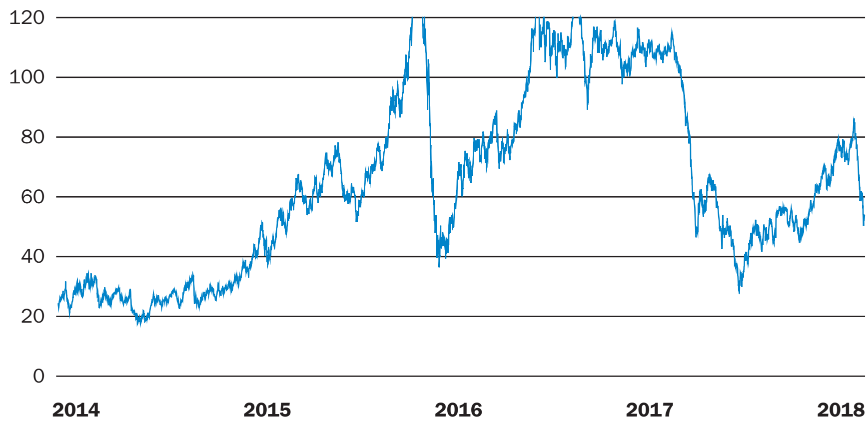
G1 GDP growth in the main developed economies
(year-on-year change, %)
Source: Bloomberg



G2 GDP growth in China
(year-on-year change, %)
Source: Bloomberg



G3 Eurozone HICP (year-on-year change, %)
Source: Bloomberg



G4 Brent price
(dollars/barrel)
Source: Bloomberg

Spanish economy

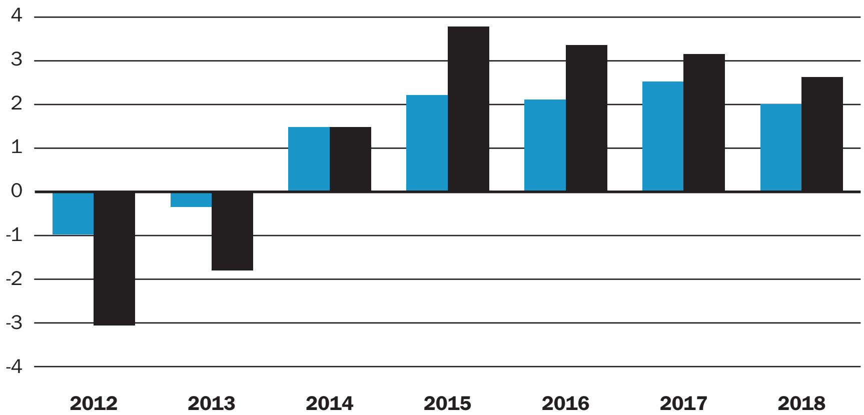
The Spanish economy continued to post robust growth—outperforming the eurozone again in 2018—albeit somewhat more moderate than in previous years (G5). The economy continued to be buoyed by low interest rates and a more robust financial situation in the private sector. On the labour market front, unemployment continued to fall, having reached the 2008 year-end low. On the external stage, tourism has lost some momentum as tourists have started to return to rival Mediterranean destinations. Because of this, combined with higher oil prices in the year as a whole, though Spain registered a current account surplus for the sixth consecutive year, it was lower than the previous year. In the real estate market, both house prices and sales transactions were dynamic. New loan production to both enterprises and households increased. Published data indicate that the budget deficit was below 3.0% of GDP. On the Spanish political scene, a successful no-confidence motion presented by the Socialist Party (PSOE) led to a change of government.

Monetary policy and financial markets

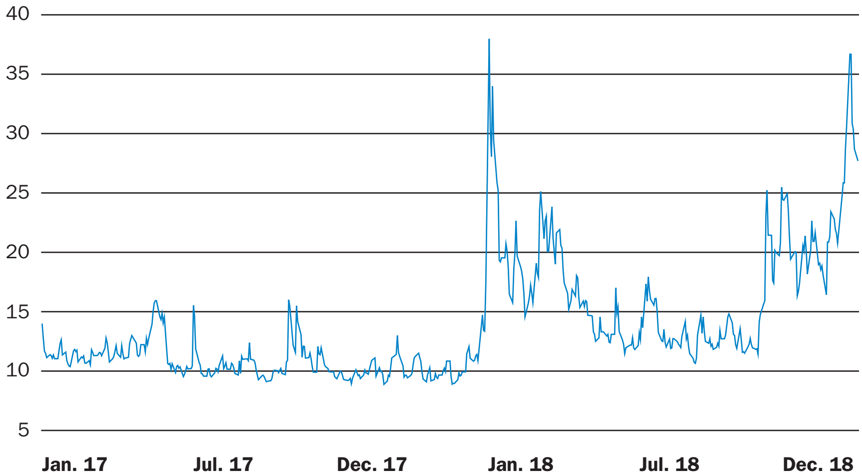
Global financial markets

Financial markets saw increasing volatility. Global risk assets logged losses almost across the board, although the sharpest declines came in those assets, such as corporate debt, that had benefited most from the search for yields. Accordingly, financial conditions became tighter, especially towards the end of the year, and market liquidity difficulties were compounded. All the main international bodies continued to warn of the mounting risks that the financial markets for financial stability (G6 & G7).

Central banks continued to take steps to normalise their monetary policies. After tapering the monthly pace of asset purchases, the ECB ended its asset purchase programme at the end of the year, although it said it will continue to reinvest as assets mature over a prolonged period. The ECB also indicated that interest rates would



G5 GDP in Spain and the eurozone (year-on-year change, %)
Source: Bloomberg



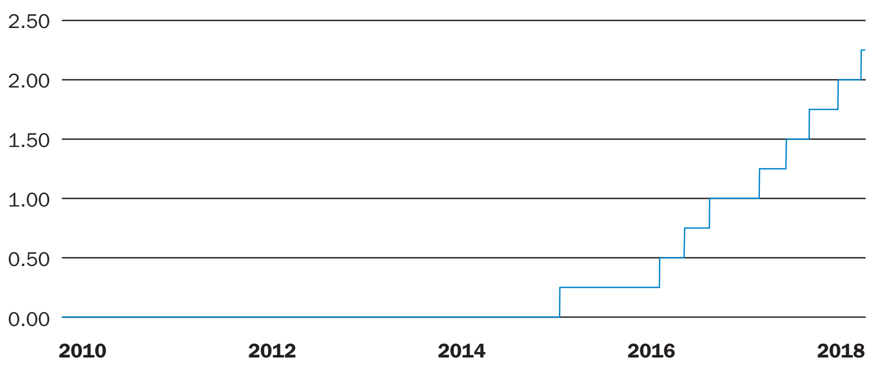
G6 Equity market volatility (VIX)
Source: Bloomberg

remain unchanged at least until the summer of 2019. The Bank of England raised its base rate to 0.75% at its August meeting, confirming the gradual, limited monetary normalisation that it had announced. Meanwhile, the Fed continued along its path of gradual interest rate increases, in a context of strong economic performance, inflation around the monetary policy target and a normalisation of the labour market. The benchmark interest rate ended the year at 2.25-2.50%, compared with 1.25-1.50% at the end of 2017 (G8). The Bank of Japan kept its base rate unchanged at -0.10%, and gradually reduced its government bond purchases, although not as part of an explicit policy move. In July, it introduced more flexibility in its government bond purchases, allowing a wider range (up to 0.20%) around its target yield for the Japanese government 10-year bond (0.00%).

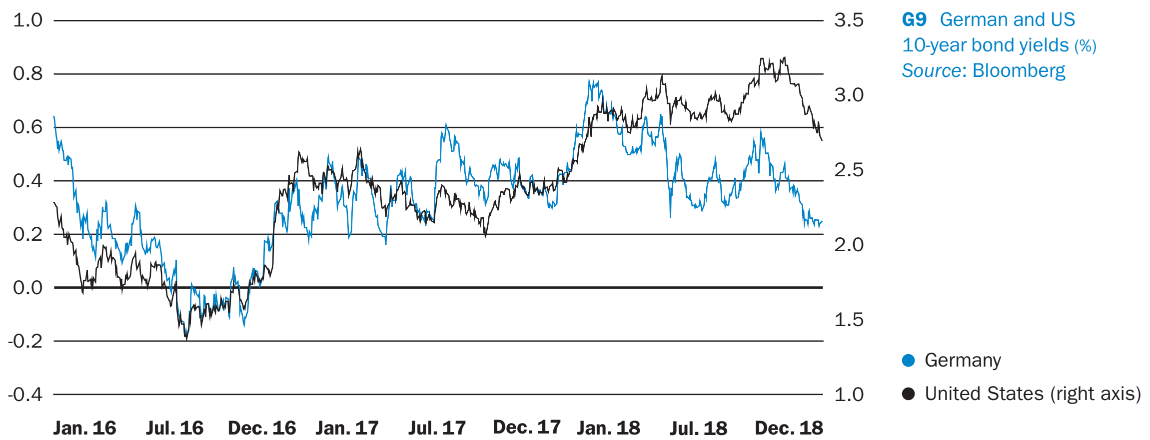
Long-term government debt yields logged uneven performance in the US and Germany (G9). US government debt yields ended the year above 2017 year-end levels. This was due to factors such factors as the interest hikes implemented by the Fed, the expansive fiscal policy, the robust economy and the buoyant labour market. Yields were pushed down towards the end of the year, hampered by the poor performance by risk assets and by falling oil prices. Yields on German government debt fell from 2017 year-end to very low levels. This performance was driven by the political situation in Italy and the status of the financial markets at the end of the year. As a result, the German/US 10-year bond yield spread reached its widest since the European Monetary Union was created.

Sovereign risk premiums in Spain and Portugal ended the year in line with the previous year. Rating upgrades

G7 Corporate debt in euro (spread against sovereign, bp)
Source: ICE



G8 Fed benchmark interest rate (low end of range, %)
Source: Bloomberg

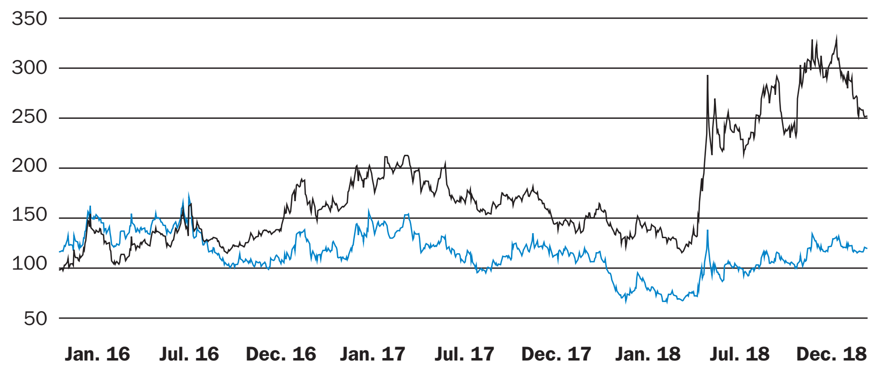


G9 German and US 10-year bond yields (%)
Source: Bloomberg

and the expansive cycle in the two economies exerted downside pressure on their risk premiums. Conversely, trade tensions and the considerable political uncertainty in Italy exerted upside pressure. In Italy, the political context triggered a significant increase in the risk premium, which hit its highest level since 2013, despite falling towards the end of the year after the Italian government made a commitment to greater fiscal discipline (G10).

With regard to currencies, the dollar appreciated against the euro, after slumping at the beginning of the year to levels not seen since late 2014. The dollar was underpinned by the widening interest rate spread, political rumblings in Italy, Brexit uncertainties and growing risk aversion amid the trade dispute (G11). Sterling, meanwhile, did not show a clear trend against the euro and stayed mainly in the 0.87-0.90 range. In addition to Brexit, sterling was sensitive to Bank of England rates expectations and domestic political wrangling (G12). The yen gained against the dollar in the year. Towards year-end, increasing volatility and instability in financial markets spelled some support for the Japanese currency.

Share performance was hampered, not just by tightening global lending standards, but also by the trade war, especially in those sectors most exposed to it, such as autos and technology. A number of international companies issued profit warnings as a result of the impact of the trade hostilities. In the eurozone, the political instability in Italy and the sharp increase in the country's risk premium



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

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

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

weighed heavily on the banking sector. Spain's IBEX 35 and Italy's MIB underperformed in this context, as did Germany's DAX, which was affected by the vital automobile industry (G13).

G13 S&P 500
Source: Bloomberg

Financial markets in emerging economies

Financial markets in emerging countries proved especially sensitive to episodes of risk aversion linked to Argentine and Turkey. In the case of Turkey, sharp depreciation by the lira and the sharp increase in the corporate risk premium in August actually impacted on financial assets in developed economies, though only temporarily. Other factors that burdened emerging markets were: (i) domestic political instability in some economies; (ii) a policy shift on the part of developed countries' central banks; and (iii) Trump-driven protectionism. In this context, the aggregate risk premium for emerging economies reached its highest level since early 2016. In the specific case of Mexico, the peso saw considerable volatility and downside pressure as a result of the political uncertainty. Consequently, and with inflation above the monetary policy target, the central bank continued to raise the official interest rate (G14).

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

Banking sector

Europe's banking system improved its capital strength in 2018, increasing profitability and reducing non-performing exposures. The fully-loaded CET1 ratio (referring to capital of the highest quality) averaged 14.5% in September 2018, up from 14.3% in September 2017. Banks' improved capital levels were evidenced in the results of the European Banking Authority (EBA) stress tests, in which all banks scrutinised exceeded the regulatory capital requirements even in the most adverse scenario. Moreover, the average NPL ratio at EU banks continued to decrease, reaching 3.4% in September 2018 (vs. 4.2% a year previously), the lowest level since the definition of non-performing loan was harmonised in 2014.

Profitability improved in a slightly more favourable context, but the authorities warn there are ongoing risks relating to the sustainability of business models. On average, ROE remained below the cost of capital, although it increased by 1.2 percentage points over 2018, to 7.2% in September. These improvements varied between regions and institutions. Moreover, a number of authorities indicate that political and geopolitical uncertainty could compound the risks of a sudden increase in risk premiums and volatility, which they see as the main vulnerability for the European banking sector.

On the domestic front, Spanish banks' profitability was buoyed by the reduction in asset impairment losses. Problem exposures have decreased by more than 60% from their 2013 high, with the NPL ratio at 6.4% in June 2018, down 7.5 percentage points from the peak. However, low interest rates continue to squeeze margins. As for capital, the Spanish banks averaged a CET1 ratio of 11.4% in June 2018, well above the minimum regulatory requirement.

Regulatory environment

Banking Union

Over the course of 2018, progress was made in completing Banking Union, with preparatory discussions for establishing the remaining pillar—the European Deposit Insurance Scheme (EDIS)—and proposals on setting up a common support mechanism for the Single Resolution Fund (SRF).

With regard to EDIS, during the year various European authorities came out in favour of greater risk sharing in the wake of the progress made in derisking the European banking system. In April, the ECB published a report in support of the European Commission's 2015 proposal for a fully-mutualised EDIS, which it sees as adequate in terms of the amount of funds it would need and the system of risk-based contributions by banks. Progress on this front has been confined to the creation of working groups by the authorities, which will continue to debate and prepare the workings of EDIS in the first half of 2019.

The European Stability Mechanism (ESM) would act as a backstop by means of a credit line to the SRF. Accordingly, in the event of a resolution, the ESM would inject the necessary funds to restore a bank's stability after: (i) the absorption of losses by a percentage of the bank's instruments; and (ii) an injection of funds by the SRF.

The December European Council meeting finalised details of the SRF support mechanism and agreed on its early implementation (before 2024), subject to there being sufficient progress in risk reduction by 2020. It also approved a proposal to broaden the ESM's role in financial assistance programmes and placed its supervisory remit (focused on risk analysis and access to financial markets) on the same level as that of the European Commission and the ECB (more focused on macroeconomic analysis and fiscal sustainability).

Going forward, the European Council has identified the following as priority areas for completing Banking Union: (i) measures to reduce risk (non-performing exposures and defaults); (ii) anti-money laundering measures; and (iii) a framework for liquidity in resolution. With regard to the final point, it is hoped an institutional agreement can be reached, although there is no set time frame; regarding anti-money laundering, the European Commission has proposed granting the EBA powers in that sphere and harmonising the existing national regulations.

Capital Markets Union

The European authorities have made little progress on the implementation of measures under the Capital Markets Union (CMU), which was initially expected to be complete by March 2019.

The main measures that are adopted were confined to the publication of the European Commission's action plans on sustainable finance and on FinTech. With regard to sustainable finance, the Commission aims to involve the financial sector in funding the necessary investments to comply with the Paris Agreement (more than 1.0% of EU GDP each year over the next decade), for which purpose it has undertaken to establish a regulatory framework and clear definitions on sustainability by the third quarter of 2019. As for FinTech, the European Commission hopes to make Europe a global centre for financial technology, and has therefore undertaken to set up regulatory sandboxes, increase cybersecurity and nurture new technologies. The plan also contains rules for boosting the growth of crowdfunding platforms in the Single Market.

The scant progress on the CMU in 2018 led eight EU countries (Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Sweden and the Netherlands) to call for the completion of several areas: (i) the review of standards applicable to investment banks and brokers; (ii) a drive to create a pan-European covered bonds market; and (iii) support for FinTech companies and sustainable finance.

The urgent need to advance towards CMU in 2018 is due to the proximity of the UK's withdrawal from the EU (the UK is the EU's main capital market) and the European Parliament elections in May 2019, which will hamstring legislative development.

Macroprudential framework

Countries have continued to wield macroprudential policies in 2018 to complement monetary policy in a context of tightening financial conditions. In the eurozone, which has a common monetary policy, macroprudential policy also offers countries greater wiggle room, enabling them to tackle the risks linked to the domestic financial cycle. Several economies have activated or announced plans to activate the anti-cyclical capital buffer and measures aimed at highly indebted sectors (enterprises in France and households in Portugal). All this is aimed at preventing and mitigating cyclical systemic risks that can be caused by excess growth in aggregate credit.

After several years developing the macroprudential framework for the banking sector, the authorities shifted the focus to the non-banking sector, in which they consider it is necessary to broaden the macroprudential instruments and adapt them to those agents' specific risks.

Meanwhile, in Spain the macroprudential framework was reinforced, with progress in establishing the Macroprudential Authority Financial Stability Council (AMCESFI), to comprise the Ministry of Economy and Business, the Bank of Spain and the CNMV, and with the entry into force of new macroprudential tools for sector-specific financial supervisors. In this way, Spain responded to the recommendations of various international bodies to create an independent macroprudential authority.

Regulatory and supervisory framework

In 2018, various new regulatory requirements entered into force, such as IFRS 9 and the investor protection directive (MiFID II/MiFIR). Furthermore, the Single Supervisory Mechanism (SSM), the EBA and the European Council presented proposals to reduce non-performing assets, in terms of both stock and flow.

There was also work in several regions to reform benchmark indices. In Europe, the Benchmarks Regulation (BMR), published in 2016 and in force since early 2018 (with a transition period until the end of 2019), meant undertaking a reform of Eonia and the Euribor curves and establishing backup indices for both cases. The European Money Markets Institute (EMMI), the agency responsible for devising and publishing Euribor, is developing a hybrid methodology to make Euribor valid under the BMR. Meanwhile, EMMI's inability to modify Eonia led the ECB to decide to publish an alternative index (ESTER). In parallel, it created a working group in partnership with the industry, which adopted ESTER to replace Eonia. At the same time, it began developing ESTER's term structures and preparing a seamless transition. The complexity of the process and the risks it entails led the industry to ask for an extension of the BMR transition period, a move that was supported by the European Commission and the European Parliament.

European financial institutions have continued to gear up for the regulatory requirements of the next few years, for example, issuing debt with loss-absorbing capacity (MREL) and analysing the maturities structure of their liabilities to adapt it to the net stable funding ratio (NSFR), which will likely come into force formally in 2021.

Meanwhile, the United States continued the process of financial deregulation announced by President Trump. The post-crisis easing of financial regulation focused on banks of up to average size and was aimed at reducing the frequency of stress tests, making capital computation models more flexible, and adopting more favourable liquidity requirements, among others.

Outlook for 2019

Looking into 2019, (geo)politics is expected to continue to have a considerable influence on the economy and financial markets, given the lower support from central banks.

The world can be expected to continue advancing towards a global order characterised by less multilateral co-operation. This transition, accompanied and strengthened by the digital revolution and new means of communication, will likely not be free of international conflicts (trade wars, currency wars, fiscal competition, etc.). It is fair to expect greater arbitrariness in economic policy, which will be less focused on efficiency.

In this context, governments are expected to focus on sustaining growth—applying expansive and pro-cyclical fiscal policies—over macroeconomic stability, which could increase vulnerabilities in the medium and long term. The growth environment and greater use of resources, along with protectionism, is a combination conducive to core inflation rising to somewhat higher levels than in recent years.

Turbulence can be expected to persist in financial markets as central banks continue their policy shift. This will contribute to even tighter lending standards than in previous years. The environment is especially complex for the assets that had benefited most from the search for yields.

Furthermore, it is to be hoped that the UK's withdrawal from the EU is orderly, that China and Europe manage to maintain healthy economic growth despite the trade war, that Italy maintains some fiscal discipline, and that the tightening of lending standards is orderly.

With regard to Spain, the economy can be expected to continue to perform relatively well, driven mainly by domestic demand. The UK economy will continue to be shaped by the consequences of Brexit, even if it leaves in an orderly manner. In Mexico, economic growth is expected to ease compared with 2018, due to the higher uncertainty regarding economic policy.

On banking regulation, the major post-crisis reforms are expected to continue their process of recalibration. The main priorities of legislators and supervisors from the various regions are expected to include proportionality in regulation, the financial impact of climate change, cybersecurity, transparency, consumer protection, anti-money laundering and competitiveness in domestic markets.

Financial information
Banco Sabadell Group

5

Key figures in 2018

		2017	2018	% 18/17
Balance sheet (€M)	**(A)**			
Total assets		221,348	222,322	0.4
Outstanding gross lending		137,522	139,366	1.3
Loans and advances to customers, gross		147,325	146,420	(0.6)
Funds on the balance sheet		159,095	161,678	1.6
Of which: On-balance sheet customer funds		*132,096*	*137,343*	*4.0*
Mutual funds		27,375	26,379	(3.6)
Pension funds and insurance brokerage		13,951	14,059	0.8
Funds under management		204,420	205,711	0.6
Equity		13,222	12,117	(8.4)
Shareholders' equity		13,426	12,545	(6.6)
Income statement (M€)	**(B)**			
Net interest income		3,802.4	3,675.2	(3.3)
Gross income		5,737.3	5,010.2	(12.7)
Pre-provisions income		2,612.1	1,736.8	(33.5)
Profit attributable to the Group		801.5	328.1	(59.1)
Ratios (%)	**(C)**			
ROA		0.38	0.15	
RoRWA		1.03	0.41	
ROE		6.10	2.60	
ROTE		7.27	3.18	
Cost:income		50.15	58.29	
Capital management	**(D)**			
Risk weighted assets (RWA) (€M)		77,505	80,279	
Common Equity Tier 1 (phased-in) (%)		13.4	12.0	
Tier I (phased-in) (%)		14.3	13.4	
Total capital ratio (phased-in) (%)		16.1	15.5	
Leverage ratio (phased-in) (%)		5.0	4.9	
Risk management	**(E)**			
Exposures classified as stage 3 (€ '000)		7,925	6,554	
Total NPAs (€M)		15,318	8,279	
NPL ratio (%)		5.14	4.22	
Coverage ratio for assets classified as stage 3 (%)		45.7	54.1	
NPA coverage ratio (%) (*)		49.8	52.1	
Liquidity management	**(F)**			
Loan-to-deposit ratio (%)		104.3	101.6	
Share data (period end)	**(G)**			
Number of shareholders		235,130	235,523	
Average number of shares (million)		5,570	5,565	
Share price (€)		1.656	1.001	
Market capitalisation (€M)		9,224	5,568	
Earnings per share (EPS) (€)		0.14	0.05	
Book value per share (€)		2.41	2.25	
Price/Book value		0.69	0.45	
Price/earnings ratio (P/E)		11.85	20.11	
Other information				
Branches		2,473	2,457	
Employees		25,845	26,181	

T1

(*) 2017 figures exclude interest-rate floor clauses.

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

See list, definition and purpose of the APMs used by the Banco Sabadell Group at:
www.grupbancsabadell.com/INFORMACION_ACCIONISTAS_E_INVERSORES/INFORMACION_FINANCIERA/MEDIDAS_ALTERNATIVAS_DEL_RENDIMIENTO

Two major milestones were attainedin 2018: TSB completed the IT migration and now has a sound technology platform; and the balance sheet was normalised following the announcement of the sale of institutional portfolios.

Group profit was impacted by the extraordinary migration and post-migration expenditure at TSB and the provisions for the sale of institutional portfolios.

Net interest income excl. TSB expanded due to strong growth in volume.

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

T2 Profit & loss account

€M

	2017	2018	Year-on-year change (%)	Excl. TSB 2017	Excl. TSB 2018	Year-on-year change (%)
Interest and related income	4,839.6	4,861.9	0.5	3,605.9	3,652.7	1.3
Interest and related charges	(1,037.3)	(1,186.8)	14.4	(837.1)	(977.3)	16.7
Net interest income	**3,802.4**	**3,675.2**	**(3.3)**	**2,768.8**	**2,675.5**	**(3.4)**
Dividend income	7.3	8.2	12.8	7.1	8.0	13.8
Equity-accounted profit	308.7	56.6	(81.7)	308.7	56.6	(81.7)
Fees and commissions (net)	1,223.4	1,335.3	9.1	1,127.8	1,250.1	10.8
Trading gains (losses) (net)	614.1	226.7	(63.1)	504.5	209.3	(58.5)
Exchange differences (net)	8.4	(1.3)	—	8.4	(1.6)	—
Other operating income/expense	(227.0)	(290.4)	27.9	(211.3)	(230.1)	8.9
Gross income	**5,737.3**	**5,010.2**	**(12.7)**	**4,514.0**	**3,967.7**	**(12.1)**
Personnel expenses	(1,573.6)	(1,590.6)	1.1	(1,178.9)	(1,208.3)	2.5
Recurring	(1,546.9)	(1,529.6)	(1.1)	(1,163.0)	(1,168.1)	0.4
Non-recurring	(26.6)	(61.0)	129.2	(15.8)	(40.2)	154.1
Other general expenses	(1,149.4)	(1,329.8)	15.7	(614.8)	(652.6)	6.1
Recurring	(1,116.7)	(1,099.3)	(1.6)	(614.8)	(652.6)	6.1
Non-recurring	(32.7)	(230.5)	—	—	—	—
Depreciation and amortisation	(402.2)	(353.1)	(12.2)	(329.6)	(264.5)	(19.7)
Pre-provisions income	**2,612.1**	**1,736.8**	**(33.5)**	**2,390.8**	**1,842.3**	**(22.9)**
Provisions for NPLs and other impairments	(1,225.2)	(916.8)	(25.2)	(1,136.4)	(685.8)	(39.7)
Other provisions and impairments	(971.1)	(403.6)	(58.4)	(971.1)	(403.6)	(58.4)
Capital gains on asset disposals	432.6	2.5	(99.4)	425.9	1.2	(99.7)
Negative goodwill	—	—	—	—	—	—
Profit/(loss) before tax	**848.3**	**418.9**	**(50.6)**	**709.1**	**754.1**	**6.3**
Income tax	(43.1)	(83.6)	94.2	5.8	(179.0)	—
Consolidated net profit	**805.2**	**335.2**	**(58.4)**	**714.9**	**575.2**	**(19.5)**
Minority interest	3.7	7.1	92.0	3.7	7.1	92.0
Profit attributable to the Group	**801.5**	**328.1**	**(59.1)**	**711.2**	**568.0**	**(20.1)**
Pro memoria:						
Average total assets	214,356	217,168	1.3	168,418	170,502	1.2
Earnings per share (€)	0.14	0.05	—	0.12	0.09	—

The average exchange rate applied for TSB's income statement is 0.8851. The accumulated exchange rate in December 2017 was 0.8759.

Net interest income

Net interest income amounted to €3,675.2 million in 2018, -3.3% lower than in 2017, since the 2017 figure included Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, Sabadell United Bank, N.A. and the Mortgage Enhancement portfolio, whereas the 2018 figure was affected by customer management action at TSB. Excluding TSB, net interest income amounted to €2,675.5 million in 2018, -3.4% less than in 2017 (T2 & T3). In constant consolidation scope terms and excluding customer management expenditure at TSB, net interest income increased by 1.5% year-on-year (1.1% excluding TSB).

The total margin on average total assets declined due to the narrower customer spread, which was attributable to customer management expenditure at TSB, lower returns on the fixed-income portfolio due to churn, and the higher liquidity position. As a result, the return on average total assets was 1.69% in 2018 (1.77% in 2017). (G1 & G2).

Net interest income on a constant consolidation scope basis excluding one-offs at TSB (YoY)

Banco Sabadell (excl. TSB)

+1.1%

Group

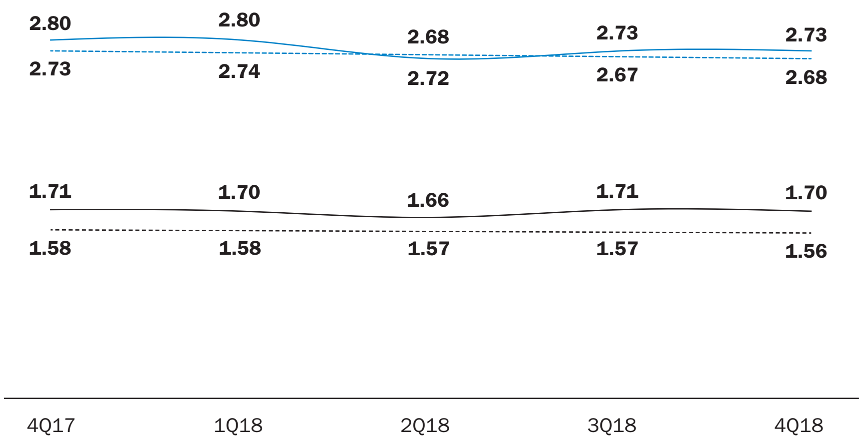
+1.5%

T3 Revenues and expenses

€M

	2017			2018			Change		Effect	
	Average balance	Results	Rate %	Average balance	Results	Rate %	Average balance	Results	Rate	Volume
Cash on hand and at central banks and credit institutions	18,512,411	2,925	0.02	28,583,832	23,299	0.08	10,071,421	20,374	22,012	(1,638)
Loans to customers	136,937,930	4,102,112	3.00	135,903,483	4,016,686	2.96	(1,034,447)	(85,426)	(70,169)	(15,257)
Fixed-income securities	28,809,194	494,316	1.72	25,950,163	352,466	1.36	(2,859,031)	(141,850)	(98,278)	(43,572)
Subtotal	**184,259,535**	**4,599,353**	**2.50**	**190,437,478**	**4,392,451**	**2.31**	**6,177,943**	**(206,902)**	**(146,435)**	**(60,467)**
Equity securities	1,079,233	—	—	933,848	—	—	(145,385)	—	—	—
Property, plant and equipment and intangible assets	4,268,271	—	—	4,084,833	—	—	(183,438)	—	—	—
Other assets	24,749,190	88,612	0.36	21,712,189	274,307	1.26	(3,037,001)	185,695	—	185,695
Total capital employed	**214,356,229**	**4,687,965**	**2.18**	**217,168,348**	**4,666,758**	**2.15**	**2,812,119**	**(21,207)**	**(146,435)**	**125,228**
Credit institutions	28,553,497	(29,558)	(0.10)	32,033,556	(35,690)	(0.11)	3,480,059	(6,132)	(39,265)	33,133
Customer deposits	138,258,332	(266,315)	(0.19)	141,060,307	(309,436)	(0.22)	2,801,975	(43,121)	(52,330)	9,209
Capital market	26,020,323	(386,885)	(1.49)	24,614,108	(323,015)	(1.31)	(1,406,215)	63,870	50,044	13,826
Subtotal	**192,832,152**	**(682,758)**	**(0.35)**	**197,707,971**	**(668,141)**	**(0.34)**	**4,875,819**	**14,617**	**(41,551)**	**56,168**
Other liabilities	8,438,119	(202,837)	(2.40)	7,134,507	(323,433)	(4.53)	(1,303,612)	(120,596)	—	(120,596)
Own funds	13,085,958	—	—	12,325,870	—	—	(760,088)	—	—	—
Total funds	**214,356,229**	**(885,595)**	**(0.41)**	**217,168,348**	**(991,574)**	**(0.46)**	**2,812,119**	**(105,979)**	**(41,551)**	**(64,428)**
Average total assets	**214,356,229**	**3,802,370**	**1.77**	**217,168,348**	**3,675,184**	**1.69**	**2,812,119**	**(127,186)**	**(187,986)**	**60,800**

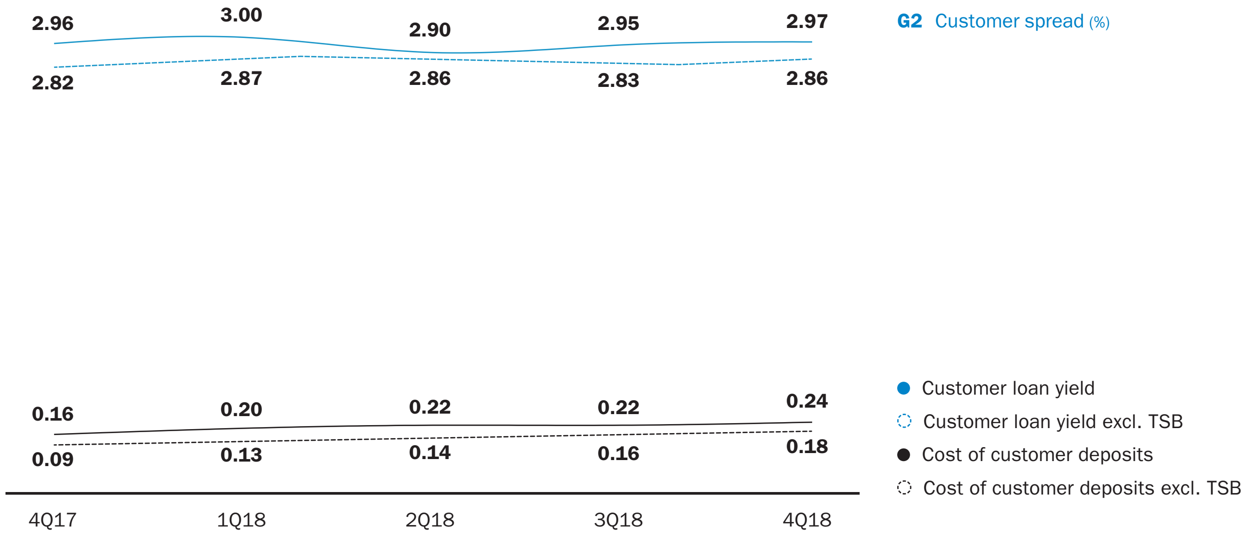
Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most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



G1 Net interest margin (%)

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

G2 Customer spread (%)



Gross income

Dividends received and equity-accounted profits amounted to €64.7 million in 2018, compared with €315.9 million in 2017, which included the net commission received by BanSabadell Vida for the reinsurance contract signed with Swiss Re Europe. Those revenues are due mainly to the insurance and pension fund business.

Net fees and commissions amounted to €1,335.3 million (€1,250.1 million excluding TSB), a year-on-year increase of 9.1% (10.8% excluding TSB) (T4). On a constant consolidation scope basis and excluding the impact of waiving overdraft fees at TSB, net fees and commissions increased by 10.1% year-on-year (11.3% excluding TSB). This was due to good performance by services fees and asset management fees.

Net fees and commissions on a constant consolidation scope basis excluding one-offs at TSB (YoY)

Banco Sabadell (excl. TSB)

+11.3%

Group

+10.1%

T4 Fees and commissions

€M

	2017	2018	% 18/17	Excl. TSB 2017	Excl. TSB 2018	% 18/17
Asset transactions	206.1	138.0	(33.1)	121.1	134.2	10.8
Guarantees	98.7	102.6	4.0	98.7	102.6	4.0
Commissions from risk transactions	**304.8**	**240.6**	**(21.1)**	**219.8**	**236.8**	**7.7**
Cards	205.7	224.9	9.3	174.4	193.9	11.2
Payment orders	54.0	61.6	14.1	54.0	56.2	4.1
Securities	60.4	61.1	1.1	60.4	61.1	1.1
Demand accounts	130.8	221.0	69.0	119.3	149.9	25.6
Rest	129.1	153.8	0.2	161.3	193.1	0.2
Commissions for services	**580.0**	**722.3**	**24.5**	**569.4**	**654.3**	**14.9**
Mutual funds	158.4	157.7	(0.4)	158.4	157.7	(0.4)
Pension funds and insurance brokerage	152.8	185.5	21.4	152.8	172.1	12.6
Asset management	27.4	29.2	6.6	27.4	29.2	6.6
Asset management fees and commissions	**338.6**	**372.4**	**10.0**	**338.6**	**359.0**	**6.0**
Total	**1,223.4**	**1,335.3**	**9.1**	**1,127.8**	**1,250.1**	**10.8**

The average exchange rate applied for TSB's income statement is 0.8851. The accumulated exchange rate in December 2017 was 0.8759.

Trading income and exchange differences totalled €225.4 million (€207.7 million euros excluding TSB). This item amounted to €622.5 million in 2017 (€512.9 million excluding TSB), and included the sale of fixed-income portfolios and the early call of TSB's Mortgage Enhancement.

Other operating revenues and expenses amounted to -€290.4 million (-€230.1 million excluding TSB), compared with -€227.0 million (-€211.3 million excluding TSB) in 2017. Notable components of this item include the -€106.3 million contribution to the Spanish Deposit Insurance Scheme (-€98.3 million in 2017), -€55.8 million in losses due to fraud at TSB, the -€49.7 million contribution to the Single Resolution Fund (-€50.6 million the previous year), -€45.0 million of the levy on conversion of deferred tax assets into debt claims against the Spanish tax authorities (-€54.7 million in 2017), and the -€30.7 million tax on deposits at credit institutions (IDEC) (-€28.1 million in 2017).

Pre-provisions income

Operating expenses (personnel and general) amounted to -€2,920.4 million in 2017 (-€1,860.9 million excluding TSB), of which -€291.5 million are non-recurring items (-€40.2 million excluding TSB). In 2017, operating expenses amounted to -€2,723.0 million (-€1,793.6 million excluding TSB), of which -€59.3 million were non-recurring items (-€15.8 million excluding TSB). The year-on-year increase is due mainly to the extraordinary migration and post-migration costs at TSB (G3 & T5).

The cost:income ratio was 58.3% (46.9% excluding TSB) in 2018, compared with 50.2% (42.1% excluding TSB) in 2017. The increase was due to extraordinary expenses incurred at TSB during the year.

As a result, pre-provisions income amounted to €1,736.8 million in 2018 (€1,842.3 million excluding TSB), compared with €2,612.1 million in 2017 (€2,390.8 million excluding TSB); that is a -33.5% decline (-22.9% excluding

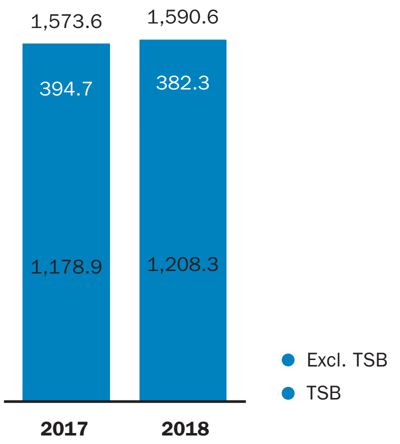
G3

Personnel expenses (YoY)

M€

Group **+1.1%**

Excl. TSB **+2.5%**

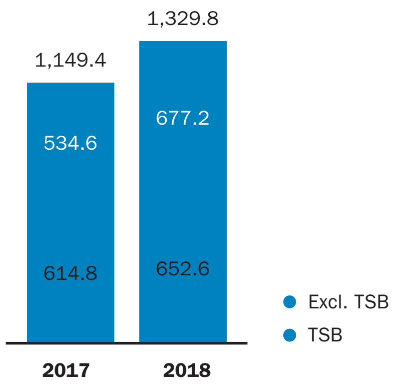


Other general administrative expenses (YoY)

M€

Group **+15.7%**

Excl. TSB **+6.1%**



The income statement for 2018 includes the extraordinary migration and post-migration impact at TSB, and the institutional sale of portfolios.

T5 Operating expenses

€M

	2017	2018	% 18/17	Excl. TSB 2017	Excl. TSB 2018	% 18/17
Recurring	(1,546.9)	(1,529.6)	(1.1)	(1,163.0)	(1,168.1)	0.4
Non-recurring	(26.6)	(61.0)	129.2	(15.8)	(40.2)	154.1
Personnel expenses	**(1,573.6)**	**(1,590.6)**	**1.1**	**(1,178.9)**	**(1,208.3)**	**2.5**
Technology and communications	(414.4)	(360.1)	(13.1)	(157.7)	(164.8)	4.5
Advertising	(106.4)	(107.0)	0.6	(39.2)	(51.2)	30.4
Property, fittings and office material	(210.0)	(216.6)	3.1	(132.1)	(136.8)	3.5
Taxes other than income tax	(106.9)	(114.9)	7.5	(106.6)	(114.9)	7.8
Other	(279.0)	(306.3)	9.8	(179.1)	(184.9)	3.2
Total recurring	**(1,116.7)**	**(1,099.3)**	**(1.6)**	**(614.8)**	**(652.6)**	**6.1**
Non-recurring	(32.7)	(230.5)	—	—	—	—
Other general administrative expenses	**(1,149.4)**	**(1,329.8)**	**15.7**	**(614.8)**	**(652.6)**	**6.1**
Total	**(2,723.0)**	**(2,920.4)**	**7.2**	**(1,793.6)**	**(1,860.9)**	**3.7**

The average exchange rate applied for TSB's income statement is 0.8851.

TSB), mainly due to extraordinary trading income and the receipt by BanSabadell Vida of the fee on the reinsurance agreement with Swiss Re Europe in 2017, and the extraordinary migration and post-migration impacts at TSB in 2018.

Provisions and impairments totalled -€1,320.4 million (-€1,089.4 million excluding TSB) in 2018, compared with -€2,196.4 million (-€2,107.6 million excluding TSB) in 2017. This year's figure included provisions for claims for indemnity by TSB customers, and the provision for the institutional sale of portfolios.

Capital gains on asset sales amounted to €2.5 million, contrasting with €432.6 million booked in 2017, which included mainly the net gain from the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of HI Partners Holdco Value Added, SAU by subsidiary Hotel Investment Partners, SL (HIP).

Cost:income ratio in 2018

Banco Sabadell (excl. TSB)

46.9%

Group

58.3%

Profit attributable to the Group

After deducting income tax and the part of profit corresponding to non-controlling interests, Group net profit amounted to €328.1 million in 2018, affected by the extraordinary migration and post-migration impacts at TSB and the extraordinary provisions for the Institute sale of portfolios. Excluding those impacts, net profit on a constant consolidation scope basis and at constant exchange rates increased by 9.6% year-on-year. Excluding TSB, the Group's attributable net profit amounted to €568.0 million in 2018. Excluding the extraordinary provisions for institutional sales of portfolios, profit increased by 2.0% year-on-year on a constant consolidation scope basis.

Attributable net profit in 2018

328.1 M€

Balance sheet

Outstanding lending increased due to good performance by the SME and large corporate segments in Spain, and to strong growth in Mexico.

The increase in customer funds on the balance sheet was driven by growth in demand accounts and in deposits with agreed maturity. The decline in off-balance sheet funds was attributable mainly to mutual funds because of poor performance by the financial markets.

NPAs declined to 1.8% of total assets, with a coverage ratio of 52.1%.

The proforma CET1 ratio is 12.2% phased-in and 11.3% fully-loaded.

€M

T6 Balance sheet

	2017	2018	% 18/17
Cash and cash balances at central banks and other demand deposits	26,363	23,494	(10.9)
Financial assets held for trading	1,573	2,045	30.0
Financial assets not intended for trading, which are obligatorily measured at fair value through profit or loss	40	141	257.5
Financial assets at fair value through profit or loss	—	—	—
Financial assets at fair value through other comprehensive income	13,181	13,247	0.5
Financial assets at amortised cost	160,724	164,416	2.3
Debt securities	11,747	13,132	11.8
Loans and advances	148,977	151,284	1.5
Investments in joint ventures and associates	576	575	(0.1)
Tangible assets	3,827	2,498	(34.7)
Intangible assets	2,246	2,461	9.6
Other assets	12,821	13,445	4.9
Total assets	**221,348**	**222,322**	**0.4**
Financial liabilities held for trading	1,431	1,738	21.5
Financial liabilities at fair value through profit or loss	40	—	(100.0)
Financial liabilities at amortised cost	204,045	206,077	1.0
Deposits	177,326	179,878	1.4
Central banks	27,848	28,799	3.4
Credit institutions	14,171	12,000	(15.3)
Customers	135,307	139,079	2.8
Debt securities issued	23,788	22,599	(5.0)
Other financial liabilities	2,932	3,601	22.8
Provisions	318	466	46.9
Other liabilities	2,293	1,924	(16.1)
Total liabilities	**208,127**	**210,205**	**1.0**
Shareholders' equity	13,426	12,545	(6.6)
Accumulated other comprehensive income	(265)	(491)	85.2
Non-controlling interests	61	64	3.9
Equity	**13,222**	**12,117**	**(8.4)**
Total equity and total liabilities	**221,348**	**222,322**	**0.4**
Financial guarantees provided	1,983	2,041	2.9
Loan commitments provided	20,906	22,646	8.3
Other commitments provided	9,917	8,233	(17.0)
Total memorandum accounts	**32,806**	**32,920**	**0.3**

The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.

Assets

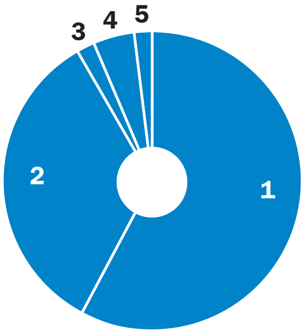
At the end of 2018, the total assets of Banco Sabadell and its Group amounted to €222,322 million (€176,14 million excluding TSB), compared with €221,348 million (€173,203 million excluding TSB) at the end of 2017.

T7 Loans and advances to customers

€M

	2017	2018	Change YoY (%)	Excl. TSB 2017	Excl. TSB 2018	Change YoY (%)
Mortgage loans & credit	84,267	80,872	(4.0)	52,259	49,833	(4.6)
Other secured loans & credit	2,315	2,767	19.5	2,315	2,766	19.5
Commercial loans	5,802	6,186	6.6	5,802	6,186	6.6
Leasing	2,316	2,565	10.7	2,316	2,565	10.7
Overdrafts and sundry accounts	42,822	46,976	9.7	39,427	44,383	12.6
Outstanding gross lending	**137,522**	**139,366**	**1.3**	**102,119**	**105,732**	**3.5**
Assets classified as stage 3	7,867	6,472	(17.7)	7,723	6,024	(22.0)
Accruals	(66)	(13)	(79.7)	(100)	(83)	(16.9)
Gross loans and advances to customers, excluding repos	**145,323**	**145,824**	**0.3**	**109,742**	**111,673**	**1.8**
Repos	2,001	596	(70.2)	2,001	596	(70.2)
Loans and advances to customers, gross	**147,325**	**146,420**	**(0.6)**	**111,743**	**112,269**	**0.5**
NPL and country-risk provisions	(3,727)	(3,433)	(7.9)	(3,646)	(3,211)	(11.9)
Loans and advances to customers	**143,598**	**142,987**	**(0.4)**	**108,097**	**109,058**	**0.9**

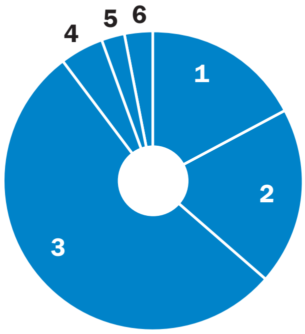
The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.



G4
Loans and advances to customers, by product type
31.12.2018 (%) (*)

1	Mortgage loans & credit	58.0
2	Overdrafts and sundry accounts	33.7
3	Other secured loans & credit	2.0
4	Commercial loans	4.4
5	Leasing	1.9

(*) Excluding NPLs and accrual adjustments



G5
Loans and advances to customers, by customer profile
31.12.2018 (%) (*)

1	Companies	17.3
2	SMEs	19.3
3	Individuals	53.4
4	Public Sector	4.7
5	Real estate developers	2.4
6	Other	2.9

(*) Excluding NPLs and accrual adjustments

Gross loans and advances amounted to €139,366 million at 2018 year-end (€105,732 million excluding TSB), a 1.3% increase year-on-year (3.5% excluding TSB). The largest component of gross loans and receivables was mortgage loans, which amounted to €80,872 million as of 31 December 2018 and accounted for 58% of total gross loans and advances (T7) (G4 & G5).

The ratio of non-performing loans continues to fall, having reached 4.2% (5.0% excluding TSB).

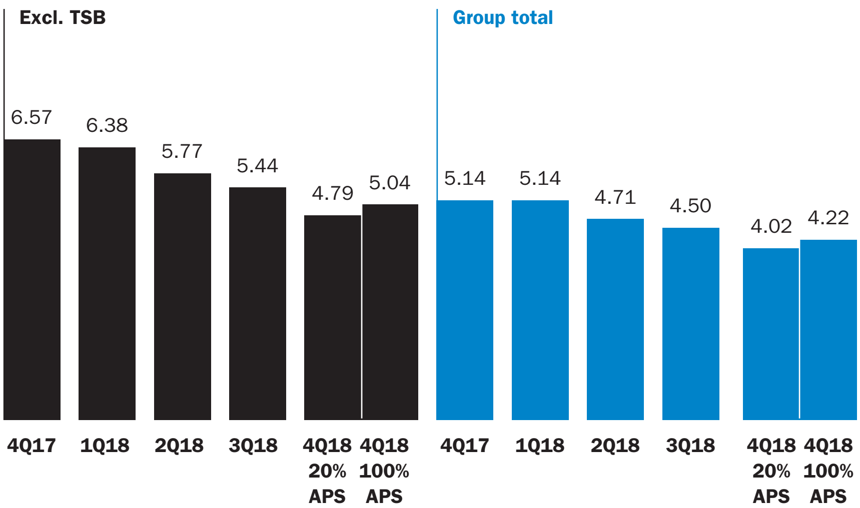
The Group's ratio of non-performing loans (G6 and T8) continues to decline due to the steady reduction in NPAs (NPLs and foreclosed properties). Additionally, the NPL coverage level is comfortable, standing at 54.1%, while coverage of foreclosed assets was 44.5% at 2018 year-end.

At the end of December 2018, the balance of the Banco Sabadell Group's exposures classified as stage 3 amounted to €6,554 million, having decreased by €1,689 million during the year.

The balance of foreclosed assets amounted to €1,726 million, having been reduced by €5,854 million in the year, including €5,800 million of institutional sales of portfolios, which were reclassified as non-current assets available for sale.

The balance of non-performing exposures at Group level stood at €8,279 million at 2018 year-end.

G6 NPL ratio (*) (%)



*Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

T8 Loan loss ratio, by segment

%

Excl. TSB	4Q17	1Q18	2Q18	3Q18	4Q18 20% APS	4Q18 100% APS
Real estate development and construction	21.37	19.80	17.66	16.16	12.81	15.68
Non-real-estate construction	6.87	7.17	6.42	5.58	5.63	5.68
Companies	3.33	3.53	3.12	2.60	2.32	2.32
SMEs and self-employed workers	8.09	7.88	7.40	7.05	6.26	6.48
Mortgage loans to individuals	6.88	6.50	6.04	5.89	5.52	5.82
NPL ratio	**6.57**	**6.38**	**5.77**	**5.44**	**4.79**	**5.04**

Includes contingent risks.

The quarter-on-quarter performance of these assets, excl. TSB, is shown in table T9.

T9 NPL and real estate exposure excl. TSB

€M

	2017				2018			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Assets classified as NPAs in the year	636	526	513	617	481	330	385	354
Recoveries (1)	(897)	(1,067)	(706)	(956)	(539)	(573)	(600)	(1,053)
Removed from consolidation scope (2)	—	—	(10)	—	—	—	—	—
Ordinary net increase in NPAs	**(261)**	**(541)**	**(203)**	**(339)**	**(58)**	**(243)**	**(215)**	**(699)**
Assets classified as NPAs in the year	312	304	148	254	294	176	129	209
Sold or otherwise derecognised (1) (3)	(379)	(355)	(302)	(1,624)	(271)	(419)	(264)	(5,706)
Change in real estate	**(67)**	**(51)**	**(154)**	**(1,370)**	**23**	**(244)**	**(135)**	**(5,497)**
Net increase in NPAs	**(328)**	**(592)**	**(357)**	**(1,709)**	**(35)**	**(487)**	**(350)**	**(6,196)**
Defaults	(178)	(61)	(152)	(66)	(216)	(268)	(187)	(106)
Quarterly change in NPLs and real estate	**(506)**	**(653)**	**(509)**	**(1,775)**	**(251)**	**(755)**	**(538)**	**(6,302)**

Net variations, including as a non-performing exposure the 20% of exposure retained since it was not transferred to the FGD.
(1) In 4Q18, €5,800 million of institutional portfolios were reclassified as non-current assets available for sale (€279 million of non-performing loans and €5,521 million of foreclosed assets).
(2) Removal of Sabadell United Bank (SUB) from the consolidation scope.
(3) In 4Q17, a new business line (Solvia Desarrollos Inmobiliarios) was created to focus on real estate development, with €1,252 million in assets under management.

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

T10 Group coverage ratios

€M

	2017				2018				
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q 20% APS	4Q 100% APS
Exposures classified as stage 3	9,307	8,703	8,345	7,925	7,898	7,386	7,036	6,236	6,554
Provisions	4,548	4,100	4,069	3,625	4,467	4,209	4,036	3,419	3,544
Stage 3 coverage ratio	**53.1**	**51.0**	**51.4**	**48.3**	**56.6**	**57.0**	**57.4**	**54.8**	**54.1**
Real estate assets	8,968	8,917	8,763	7,393	7,416	7,171	7,036	1,539	1,726
Provisions	4,299	4,264	4,746	3,998	3,979	3,991	3,932	691	767
Real estate coverage ratio (%)	**47.9**	**47.8**	**54.2**	**54.1**	**53.7**	**55.7**	**55.9**	**44.9**	**44.5**
Total NPAs	18,275	17,619	17,108	15,318	15,314	14,557	14,072	7,775	8,279
Provisions	8,847	8,364	8,814	7,623	8,446	8,200	7,968	4,111	4,311
NPA coverage ratio (%)	**50.6**	**49.4**	**52.8**	**51.1**	**55.2**	**56.3**	**56.6**	**52.9**	**52.1**

NOTE: Includes contingent exposures. In 4Q18, institutional portfolios were reclassified as non-current assets available for sale; accordingly, those assets are excluded from the data.

Non-performing assets coverage ratio

+52.1%

On-balance sheet customer funds

+4.0%

Off-balance sheet customer funds

−2.8%

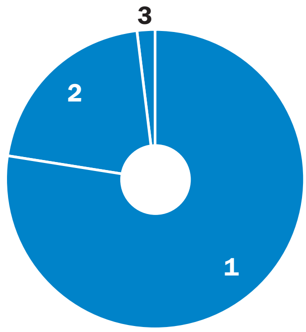
Liabilities

At the end of 2018, customer funds on the balance sheet amounted to €137,343 million (€104,859 million excluding TSB), compared with €132,096 million at the end of 2017 (€97,686 million excluding TSB), i.e. an increase of 4.0% (7.3% excluding TSB).

Off-balance sheet customer funds amounted to €44,034 million, a decline of -2.8% year-on-year. In particular, funds in collective investment institutions (CII) declined by -3.6% year-on-year to €26,379 million at 31 December 2018, mainly as a result of financial market performance, but this trend was offset by growth in brokered insurance, which rose 5.0% year-on-year to €10,465 million (T11 & G7).

The balance of demand accounts amounted to €107,665 million (€77,736 million euros excluding TSB), a 9.8% increase year-on-year (14.3% excluding TSB) (G8).

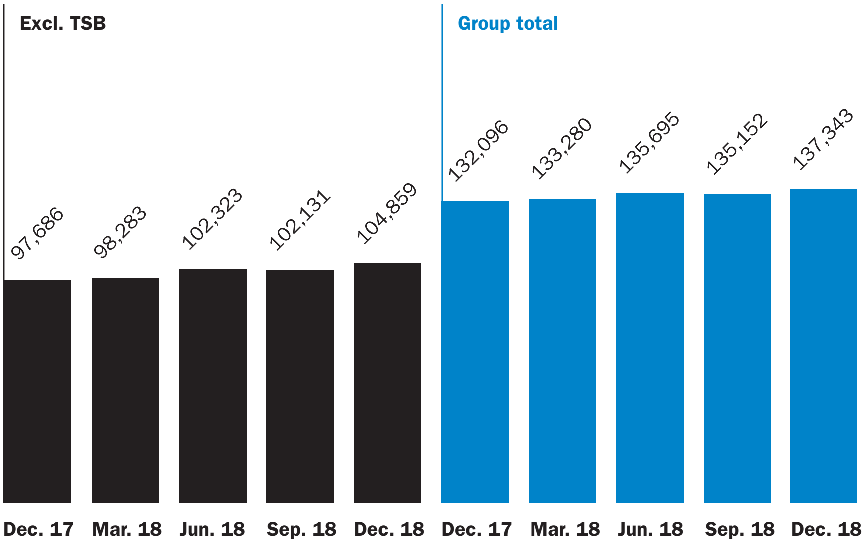
Outstanding debt securities (bonds and other negotiable securities and subordinated liabilities) amounted to €22,599 million at the end of 2018 (€20,889 million excluding TSB), compared with €23,788 million as of 31 December 2017 (€21,845 million excluding TSB).



G8
Customer deposits
31,12,2018 (en %)

1	Demand accounts	77.5
2	Deposits with agreed maturity	20.7
3	Repos	1.8

(*) Excluding accrual adjustments and hedging derivatives.



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

T11 Customer funds

€M

	2017	2018	Year-on-year change (%)	Excl. TSB 2017	Excl. TSB 2018	Year-on-year change (%)
On-balance sheet customer funds (*)	**132,096**	**137,343**	**4.0**	**97,686**	**104,859**	**7.3**
Customer deposits	135,307	139,079	2.8	99,277	105,353	6.1
Current and savings accounts	98,020	107,665	9.8	68,039	77,736	14.3
Deposits with agreed maturity	32,425	28,709	(11.5)	27,996	26,154	(6.6)
Repos	4,750	2,533	(46.7)	3,119	1,321	(57.7)
Accrual adjustments and hedging derivatives	113	172	52.3	123	142	15.7
Bonds and other tradable securities	21,250	19,568	(7.9)	19,764	18,313	(7.3)
Subordinated liabilities (**)	2,537	3,031	19.4	2,081	2,586	24.3
Funds on the balance sheet	**159,095**	**161,678**	**1.6**	**121,122**	**126,251**	**4.2**
Mutual funds	27,375	26,379	(3.6)	27,375	26,379	(3.6)
Equity funds	1,929	1,681	(12.9)	1,929	1,681	(12.9)
Balanced funds	6,490	6,469	(0.3)	6,490	6,469	(0.3)
Fixed-income funds	4,488	4,027	(10.3)	4,488	4,027	(10.3)
Guaranteed return funds	3,829	4,074	6.4	3,829	4,074	6.4
Real estate funds	125	115	(8.3)	125	115	(8.3)
Venture capital funds	38	46	21.1	38	46	21.1
Investment companies	2,192	1,886	(13.9)	2,192	1,886	(13.9)
UCITS sold but not managed	8,283	8,081	(2.4)	8,283	8,081	(2.4)
Asset management	3,999	3,595	(10.1)	3,999	3,595	(10.1)
Pension funds	3,987	3,594	(9.8)	3,987	3,594	(9.8)
Personal schemes	2,476	2,168	(12.4)	2,476	2,168	(12.4)
Companies	1,498	1,416	(5.5)	1,498	1,416	(5.5)
Collective schemes	13	11	(14.6)	13	11	(14.6)
Third-party insurance products	9,965	10,465	5.0	9,965	10,465	5.0
Off-balance sheet funds	**45,325**	**44,034**	**(2.8)**	**45,325**	**44,034**	**(2.8)**
Funds under management	**204,420**	**205,711**	**0.6**	**166,447**	**170,285**	**2.3**

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: mandatory convertible bonds, non-convertible bonds of Banco Sabadell, commercial paper, etc.
(**) Subordinated liabilities in connection with debt securities.
The EUR/GBP exchange rate used for the balance sheet is 0.8945 as of 31 December 2018.

Equity

At 2018 year-end, the Group's shareholders' equity amounted to €12,117 million (T12).

T12 Equity

€M

	2017	2018	% 18/17
Shareholders' equity	13,426	12,545	(6.6)
Capital	703	703	—
Reserves	12,107	11,732	(3.1)
Other equity	32	35	9.2
Less: own shares	(106)	(143)	34.9
Profit attributable to the Group	801	328	(59.1)
Less: dividendos y retribuciones	(112)	(111)	(0.8)
Otro resultado global acumulado	(265)	(491)	85.2
Non-controlling interests	61	64	3.9
Equity	**13,222**	**12,117**	**(8.4)**

The adjusted loan-to-deposit ratio was 101.6% as of 31 December 2018, with a balanced retail funding structure.

The Liquidity Coverage Ratio (LCR) at 31 December 2018 was 168% excluding TSB and 298% at TSB.

The funding policy focuses on maintaining a balanced funding structure based mainly on customer deposits (principally demand accounts and deposits with agreed maturity, collected through the branch network), supplemented by financing through the interbank and capital markets, where the institution has several short and long-term funding programmes to achieve an appropriate level of diversification by product type, term and investor.

The institution also maintains a diversified portfolio of liquid assets, most of which are eligible as collateral for Eurosystem credit transactions.

Customer funds on the balance sheet amounted to €137,343 million, a 4.0% increase with respect to 2017 year-end (€132,096 million). As a result of prevailing low interest rates, balances continued to shift from deposits with agreed maturity to demand accounts during 2018. At 31 December 2018, the balance of demand accounts had increased by 9.8% to €107,665 million, whereas deposits with agreed maturity had declined by 11.5%.

During 2018, the funding gap continued to widen, as it had in previous years, which enabled the institution to continue its policy of partially refinancing maturities in the capital markets and, at the same time, to maintain the downward trend in the loan-to-deposit (LtD) ratio (from 147% at 2010 year-end to 101.6% at 2018 year-end). To calculate the loan-to-deposit (LtD) ratio, net customer loans (adjusted for subsidised funding) are taken as the numerator, and retail funding as the denominator (T13).

The institution took advantage of windows to issue into a market dominated in 2018 by volatility and widening spreads. €2,165 million in capital market funding matured in 2018. In contrast, Banco Sabadell made use of shelf registrations to issue €390 million of 8-year mortgage covered bonds, which were subscribed for in full by the European Investment Bank (EIB); six issues of senior preferred debt totalling €23 million and maturing between five and seven years; and two issues of structured bonds, also totalling €23 million. Additionally, on 7 September 2018, Banco Sabadell issued €750 million of senior debt under its EMTN Programme, maturing in 5 years and 6 months, and on 12 December it issued €500 million of Tier 2 subordinated debt maturing in 10 years, callable in the fifth year (G9 & G10).

In March 2017, Banco Sabadell participated in the ECB's last four-year targeted longer-term refinancing operation (TLTRO II), borrowing €10,500 million, in addition to the €10,000 million borrowed under the TLTRO in June 2016.

In 2016, the Bank of England also launched a package of measures to support economic growth, including the Term Funding Scheme (TFS), a programme to incentivise lending that was launched in August 2016, under which

€M

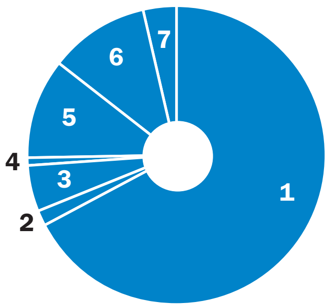
T13 Loan-to-deposit ratio

	Excl. TSB 2017	Excl. TSB 2018	Group total 2017	Group total 2018
Gross loans and advances to customers, excluding repos	109,742	111,673	145,323	145,824
NPL and country-risk provisions	(3,646)	(3,211)	(3,727)	(3,433)
Loan brokerage	(3,110)	(2,426)	(3,835)	(2,808)
Adjusted net loans and advances	**102,986**	**106,036**	**137,761**	**139,583**
On-balance sheet customer funds	97,686	104,859	132,096	137,343
Loan-to-deposit ratio (%)	**105.4**	**101.1**	**104.3**	**101.6**

The EUR/GBP exchange rate applied to the balance sheet is 0.8945 as of 31 December 2018 and 0.8872 as of 31 December 2017.

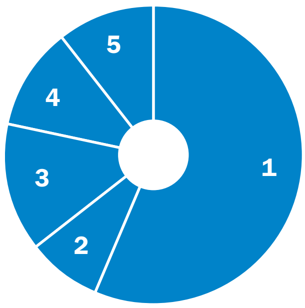
UK banks could borrow for a four-year term against eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB participated in the TFS throughout 2017, having drawn €6,283 million by 2017 year-end, and it drew an additional €950 million in February 2018. As a result, it had drawn a total of €7,233 million against the TFS by 2018 year-end.

The institution maintained a liquidity buffer in the form of liquid assets to meet any liquidity needs. The Liquidity Coverage Ratio (LCR) came into force on 1 October 2015 and was phased in until 2018; the regulatory minimum requirement of 100% is now applicable. The Group's LCR remained well above 100% on a stable basis throughout the year; at year-end, it stood at 168% excluding TSB, and at 298% at TSB. The Net Stable Funding Ratio (NSFR) is still in the final definition phase, even though it was scheduled to be implemented in January 2018. Nevertheless, the institution's ratio exceeds 100%.



G9
Funding structure
31.12.2018 (%)

1	Deposits	67.3
2	Retail issues	1.6
3	Repos	5.1
4	ICO funding	0.8
5	Wholesale market	10.8
6	ECB	10.8
7	Bank of England	3.6



G10
Breakdown of institutional issues
31.12.2018 (%)

1	Mortgage covered bonds	56.4
2	Senior debt	8.3
3	Subordinated and AT1	13.9
4	ECP + institutional commercial paper	10.9
5	Asset-backed securities	10.5

Credit ratings

In 2018, the three rating agencies that assess Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. Table 14 details the current ratings and the last date on which they were affirmed.

On 6 April 2018, S&P Global Ratings upgraded Banco Sabadell's long-term credit rating to BBB (from BBB-) and its short-term rating to A-2 (from A-3). The outlook is stable. This upgrade was based on Banco Sabadell's improved credit quality in the context of lower industry risk in the Spanish banking system, fundamentally due to deleveraging, and on higher investor confidence.

On 19 September 2018, S&P Global Ratings affirmed Banco Sabadell's BBB long-term rating, its A-2 short-term rating, and the stable outlook.

On 19 September 2018, Moody's Investor Service (Moody's) confirmed the Baa2 long-term deposit rating and the Baa3 senior debt rating, as well as the P-2 short-term deposit rating and the P-3 senior debt rating of Banco Sabadell, and changed the outlook to stable, from positive.

On 16 July 2018, DBRS Rating Limited improved the outlook on Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in outlook and the affirmation of the rating reflect the vision that Banco Sabadell is soundly capitalised and that asset quality continues to improve, as does the profitability of the core business in Spain.

During 2018, Banco Sabadell had contacts with the three agencies to discuss such issues as the Bank's strategy, TSB's performance, earnings, capital, liquidity, risks and credit quality, and management of non-performing assets.

T14 Credit ratings

Agency	Last review	Long term	Short term	Outlook
DBRS	16.07.2018	BBB (high)	R-1 (low)	Positive
S&P Global Ratings	19.09.2018	BBB	A-2	Stable
Moody's (*)	19.09.2018	Baa3 / Baa2	P-3 / P-2	Stable/Stable

(*) Senior debt and deposits, respectively.

The Group maintains a solid capital profile after implementing IFRS 9

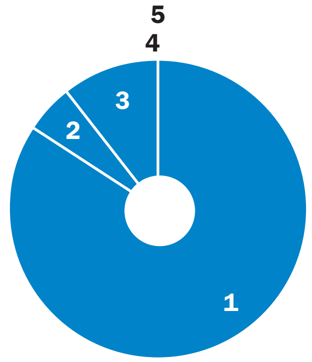
Capital management

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

As for capital management, it is general Group policy to adapt capital availability to overall risks incurred.

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

The capital map by risk type at 2018 year-end is shown in figure G11.



G11 Capital map by risk type 31.12.2018 (%)

1	Credit risk	81.0
2	Structural risk	5.0
3	Operational risk	10.0
4	Market risk	1.0
5	Other	3.0

The Group back-tests its IRB models regularly: at least once per year. Those tests are reviewed independently by the internal validation unit and reported to the established internal governance bodies, namely the Technical Risks Committee and the Risk Committee (a sub-committee of the Board of Directors). Additionally, the annual Pillar III disclosures present the results of back-tests that are germane to the risk parameters and their main conclusions based on the EBA's disclosure guidelines.

Also, based on the risk metrics provided by these new methodologies, the group has a comprehensive risk measurement model under an internal measurement unit in terms of assigned capital.

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

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

An overall quantitative assessment then determines capital needs based on internal parameters using models employed by the Group (e.g. borrower credit rating or scoring systems), as well as other internal estimates suited to each type of risk. The assessments of each risk type are subsequently combined and an amount of allocated capital is determined. Furthermore, business and financial plans and stress tests are taken into account in order to ascertain whether business trends and possible adverse scenarios may endanger the institution's capital when compared with available equity.

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

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

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

Qualifying capital and capital ratios

Regulatory framework

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

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

This regulatory framework is comprised of the following legal documents:

— Directive 2013/36/EU of the European Parliament and of the Council of 26 June, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (generally referred to as CRD-IV).
— Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (generally referred to as CRR).

The CRD-IV directive has been transposed into Spanish law by means of:

— RD-Act 14/2013, of 29 noviembre, on urgent measures to adapt Spanish law to European legislation in connection with the supervision and solvency of financial institutions.
— Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.
— Royal Decree 84/2015, of 13 February, implementing Act 10/2014 of June 26, on the regulation, supervision and solvency of credit institutions, which completes the regulatory implementation of that Act while also consolidating all the secondary legislation on the regulation and supervision of credit institutions into a single text.
— Bank of Spain Circular 2/2016, of 2 February, whose main objective is to complete, with respect to credit institutions, the transposition of Directive 2013/36/EU (supervision of credit institutions) into Spanish law.

The CRR, which is directly applicable to Member States and, therefore, to Spanish credit institutions, gives the competent national authorities certain regulatory options.

In this regard, by virtue of the authorisation granted by Royal Decree-Act 14/2013, the Bank of Spain released Circulars 2/2014 and 3/2014, of 31 January and 30 July, respectively, and recently Circular 2/2016, through which it uses and elaborates upon those regulatory options.

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

As a result of the SREP process, during 2018 the Banco Sabadell Group was required at all times to have a Common Equity Tier I ratio (CET1 phased-in) of at least 8.3125% and a phased-in total capital ratio of at least 11.8125%. Those ratios include the minimum required under Pillar 1 (4.50%) and Pillar 2 (1.75%), the capital conservation buffer (1.875%) and the requirement deriving from the bank being classified as systemic (0.1875%).

The Group must also comply with the requirements derived from calculating its specific countercyclical capital buffer, which, when calculated on a quarterly basis in 2018, varied from 0% during the first quarter of the year to 0.14% in December.

This requirement establishes the minimum level of CET1 below which the Banco Sabadell Group would be forced to curtail the distribution of dividends, variable remuneration, and payments related to Additional Tier 1 capital instruments. This level, referred to as the Maximum Distributable Amount (MDA), was set at 8.3125% in 2018 (to which the aforementioned countercyclical buffer must be added).

The Banco Sabadell Group exceeded the required minima throughout 2018 and, consequently, experienced no limitations as to distributions.

On 8 February 2019, the Banco Sabadell Group was notified of the result of the 2018 SREP process, which established the minimum requirements for the Group for 2019.Following the review, the Banco Sabadell Group is required to maintain at all times in 2019 a Common Equity Tier 1 (CET1 phase-in) ratio of at least 9.64% and a total capital ratio (phase-in) of at least 13.14%. Those ratios include the minimum required under Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%), the requirement deriving from the bank being classified as systemic (0.25%) and the countercyclical buffer (0.14%). Under these requirements, the MDA is 9.64%.

Additionally, the Group must comply with the requirement derived from the calculation of the countercyclical capital buffer that is specific to it, which was 0.14% as of 2018 year-end.

In aggregate, this is the level of consolidated CET1 below which the Group would be required to calculate the Maximum Distributable Amount (MDA), which would constitute a limit on the payment of dividends, variable remuneration, and coupons to holders of additional Tier 1 capital instruments.

At 31 December 2018, the Group had a phased-in CET1 capital ratio of 12% and, accordingly, did not incur any of the limitations referred to above in connection with capital requirements.

In 2018, the Banco Sabadell Group participated in the stress test carried out by the European Banking Authority (EBA) in cooperation with the Bank of Spain, the European Central Bank (ECB) and the European Systemic Risk Board (ESRB).

— In the baseline scenario, the Banco Sabadell Group was found to have significant capacity for organic capital generation: +86 basis points in the three-year period 2018-2021.
— In the adverse scenario, the Group would have a CET1 ratio of 8.40% (phase-in) or 7.58% (fully-loaded) in 2020. This adverse scenario was established by the ECB and the ESRB with a time horizon of 2020, applying the projections to an assumed static balance sheet as of December 2017 and, therefore, without considering the actions and business strategies taken by the Group after that date. Of the total 446 basis point reduction in the Group's CET1 fully-loaded ratio in the adverse scenario:
    (i) 180 basis points (40% of the total) are related to the United Kingdom where, in particular, the adverse macroeconomic scenario defined for the stress test was particularly severe in comparison with other geographies.

(ii) This impact includes the effect of maintaining constant throughout the test period, 2018-2020, the amount of an increase established by contract between TSB and Lloyds in the cost of IT services paid by TSB to Lloyds, which was applicable only from January 2017 until the migration was completed in April 2018. In the stress test, that amount remained constant during the three years, in accordance with the test methodology, although it was actually applicable only for four months of the period. That represented a 45 basis point reduction in the CET1 fully-loaded ratio.

(iii) Similarly, the costs of Sabadell United Bank incurred in 2017 before the sale of the subsidiary in July of that year were factored into the projections for three-year test period (2018-2020), while neither that subsidiary's revenues or balance sheet were included. That represented a 15 basis point reduction in the CET1 fully-loaded ratio.

Those two factors had a combined anomalous negative impact of 60 basis points on the CET1 fully-loaded ratio.

The test results revealed the Group's resilience and its ability to weather the adverse scenario.

Directive 2014/59/EU of the European Parliament and of the Council, establishing a framework for the recovery and resolution of credit institutions and investment firms, was published on 15 May 2014, and Regulation (EU) No 806/2014 of the European Parliament and of the Council (BRRD), which established the Single Resolution Mechanism, whose goal is to ensure the orderly resolution of failed banks while minimising the cost for taxpayers and the real economy, was published on 15 July 2014.

In order to achieve those objectives, the BRRD provides a number of instruments for use by the competent resolution authority, including internal recapitalisation (or bail-in). To this end, the BRRD introduced a Minimum Requirement for own funds and Eligible Liabilities (MREL) that institutions must comply with at all times in order to ensure they have sufficient loss-absorption capacity so that effective implementation of the resolution tools is guaranteed.

In the context of bank restructuring and resolution, Banco Sabadell is subject to the Single Resolution Board (SRB) as the resolution authority and to the competent Spanish authorities:

— The Bank of Spain, which acts as the resolution avoidance authority.
— Fondo de Reestructuración Ordenada Bancaria (FROB), which is Spain's executive resolution authority.

In May 2018, Banco Sabadell was notified by the Bank of Spain of the decision adopted by the Single Resolution Board (SRB) regarding the minimum requirements for own funds and eligible liabilities (MREL) that apply to it. That decision established a minimum MREL requirement at consolidated level of 22.7% of risk-weighted assets calculated as of 31 December 2016 and a transition period for compliance that expires on January 1, 2020. The decision was based on current legislation, will be updated each year, and may be amended subsequently by the resolution authority. The *MREL* decision is aligned with Banco Sabadell's forecasts and is factored into the funding plan contained in the 2020 strategic plan.

The pro-forma fully-loaded CET1 ratio is now 11.3%, while the pro-forma phased-in CET1 ratio is 12.2%.

As of 31 December 2018, the group's qualifying capital amounted to €12,434 million, i.e. a surplus of €6,012 million, as shown in table T15.

Common Equity Tier 1 (CET1) accounts for 77.4% of qualifying capital. The deductions consist mainly of goodwill and intangibles.

Under Basel III, Tier I comprises CET1 plus mainly Additional Tier 1 funds (9.3% of capital), i.e. equity holdings.

Tier 2 funds, accounting for 13.3% of the BIS ratio, consist basically of subordinated debt.

In its strategic business plan, the Group envisages continuing to manage capital so as to maintain the ample capital position that it has held to date, as evidenced in the results of the Supervisory Review and Evaluation Process (SREP).

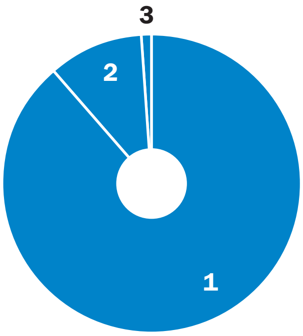
Risk-weighted assets (RWA) are broken down by risk type as shown in figure G12; the largest single component is credit risk.

The breakdown of risk-weighted assets within the largest single category (credit risk), by geography and sector, is shown in figures G13 and G14.

Figures G15 and G16 show the breakdown of regulatory exposure (EAD) and risk-weighted assets (RWA) by segment.

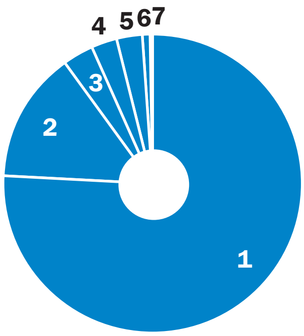
In addition to the capital ratios, the leverage ratio seeks to enhance capital requirements with a supplementary metric unrelated to the level of risk. It is defined as the ratio between Tier 1 qualifying capital and exposure calculated as established for that ratio in Delegated Regulation (EU) 62/2015. Table T16 shows the leverage ratio as of 31 December 2017 and 2018 and 2017, evidencing that the institution amply exceeds the minimum required by the supervisor.

Calculation and disclosure requirements are set out in part seven of the CRR, while the ratio disclosure is covered in article 451 in part eight. No minimum requirements are established, although the European Commission's proposal dated 23 November 2016 to amend the CRR sets a mandatory minimum of 3%. This is currently reported to the supervisor every quarter.



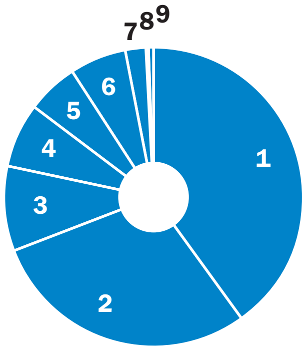
G12
Capital requirements, by exposure type
31.12.2018 (%)

1	Credit risk	88.7
2	Operational risk	10.4
3	Market risk	0.9



G13
Capital requirements, by region
31.12.2018 (%)

1	Spain	75.9
2	UK	14.2
3	Rest of EU	3.3
4	Latin America	2.8
5	North America	2.7
6	Rest of the world	1.0
7	Rest of OECD	0.1



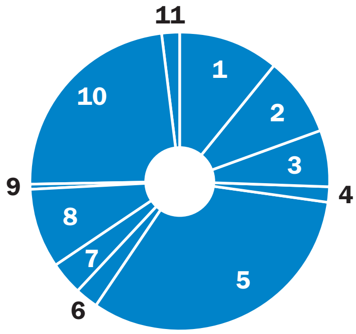
G14
Exposure, by segment
31.12.2018 (%)

1	Finance, commerce and other services	40.2
2	Individuals	29.2
3	Transport, distribution and hospitality	9.0
4	Real estate	7.1
5	Manufacturing industries	5.6
6	Energy production and distribution	6.1
7	Construction	2.0
8	Agriculture, livestock and fishing	0.5
9	Extractive industries	0.3

T15 Composition of the capital ratios

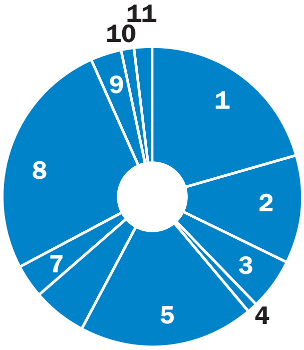
€M

	2017	2018	% 18/17
Capital	703.4	703.4	—
Reserves	12,106.6	11,732.2	(3.1)
Convertible bonds	—	—	—
Non-controlling interests	16.6	11.4	(31.3)
Deductions	(2,411.9)	(2,828.3)	17.3
CET1 capital	**10,414.7**	**9,618.7**	**(7.6)**
CET1 (%)	13.4	12.0	—
Preference shares, convertible bonds and deductions	696.1	1,152.6	—
AT1 capital	**696.1**	**1,152.6**	**—**
AT1 (%)	0.9	1.4	—
Primary capital	**11,110.8**	**10,771.3**	**(3.1)**
Tier I (%)	14.3	13.4	—
Secondary capital	**1,348.0**	**1,662.6**	**23.3**
Tier II (%)	1.7	2.1	—
Total capital	**12,458.8**	**12,433.9**	**(0.2)**
Minimum capital requirement	6,200.4	6,422.3	3.6
Capital surplus	**6,258.4**	**6,011.6**	**(3.9)**
Total capital ratio (%)	**16.1**	**15.5**	**(3.8)**
Risk weighted assets (RWA)	**77,505.0**	**80,278.8**	**3.6**



G15
EAD by segment
31.12.2018 (%)

1	Companies	11.1
2	Corporate SME	8.4
3	Retail SME	6.3
4	Retailers and sole proprietors	1.5
5	Mortgage loans	32.4
6	Loans	2.4
7	Other retail	3.7
8	Other	8.6
9	Equities	0.4
10	Public sector	23.3
11	Financial institutions	1.9



G16
RWA by segment
31.12.2018 (%)

1	Companies	20.6
2	Corporate SME	11.8
3	Retail SME	5.5
4	Retailers and sole proprietors	1.2
5	Mortgage loans	18.9
6	Loans	5.7
7	Other retail	3.6
8	Other	26.3
9	Equities	3.1
10	Public sector	1.4
11	Financial institutions	1.9

T16 Leverage ratio

€M

	2017	2018
Tier 1 capital	11,110.8	10,771.3
Exposure	223,445.0	221,104.3
Leverage ratio	**4.97** %	**4.87** %

Capital-raising

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

In 2017, there were two issues of AT1 perpetual contingently convertible securities in the amount of €750 million and €400 million, which helped to optimise Banco Sabadell's capital structure. In December 2018, €500 million of subordinated debt (Tier 2) were issued.

The changes in the period 2017-2018, which resulted in eligible CET1 amounting to €9,619 million, reflect basically two effects: the conclusion of the transition period for the deduction of intangibles and goodwill, which are now deducted in full from CET1, whereas in 2017 20% was deducted from AT1; and the implementation of IFRS 9 although, since the Group decided to apply the transitional arrangements provided in Regulation (EU) 2017/2395, the effect was split into a number of items, affecting not only capital but also capital requirements. Additionally, there was the impact of adjusting the portfolio to fair value, the impairment of the holding in SAREB, and the impact of institutional sales of NPAs (extraordinary provisions booked in the consolidated income statement).

Risk weighted assets (RWA) amounted to €80,279 million, a 7.7% increase year-on-year, reflecting the change in asset quality and organic business growth.

All of these capital-related events, which impacted both available capital and risk-weighted assets, enabled Banco Sabadell to reach a phased-in common equity tier 1 (CET1) ratio of 12% in December 2018, and a total capital ratio of 15.5%, amply exceeding the standards required by the regulatory framework.

T17

€M

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

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

Businesses

6

The Group is organised into the businesses below, and has six territorial departments with comprehensive and integrated responsibility.

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

Commercial Banking

Anticipate and engage.

Highlights

- Improvement in fee and commission revenues.
- Increase in the preferred customer base.
- Substantial increase in insurance business, especially in combined insurance products.
- Greater production of home and consumer loans and a sharp increase in business investment.

Earnings before taxes

1,192.0 €M

Fees and commissions (net)

+11.3%

Business overview

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

Commercial Banking

Company Banking Network
- Tourism
- Agriculture
- Employer Providential Schemes

Commercial Network
- Corporate
  - SMEs
  - Businesses
  - Franchising
- Individuals
  - Retail Banking
  - Personal Banking
  - Expatriates
- Sabadell Colaboradores

Institutional Businesses
- Public Institutions
  - Public Administrations
  - Public Sector
  - Company Agreements
  - Groups and Associate Banking
- Religious Institutions
- Financial Institutions and Insurers

Commercial Products
- Medium- /long-term finance
- International trade
- Savings and Investment
- Financial services

Commercial brands
- SabadellHerrero
- SabadellGallego
- SabadellGuipuzcoano
- ActivoBank

Bancassurance

BStartup

Sabadell Consumer Finance

Management priorities in 2018

2018 was the first year of the 2020 Master Plan, with a special focus on increasing customer loyalty, digitalisation and new insurance production. Transforming the business, strengthening the brand and consolidating leadership in customer experience are the main axes on which the business management goals are based.

Notable among the results so far is the improvement in net fees and commissions (11.3%), as a result of an ambitious profit plan. The insurance business expanded notably, especially in combined insurance, as did lending: consumer loans (12.8%), home loans (11.8%) and corporate loans (7.1%).

In 2018, the Institutional Businesses division was created to group relations with all types of public and private institutions.

Key business data

Net profit amounted to €866 million in December 2018, a 4.0% year-on-year decrease. Excluding the sales of Mediterráneo Vida and Exel Broker and the fee collected by BS Vida for the reinsurance contract signed with Swiss Re Europe in 2017, there would have been an increase of 34.7% (T1).

Gross income decreased by 5.3% to €3,054 million; adjusting for the aforementioned effects, it increased by 3.1%.

Core revenue increased by 0.7% to €3,166 million, or by 1.8% on a constant consolidation scope basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income amounted to €2,227 million, down 3.1% on the same period of 2017. It decreased by 1.7% on a constant consolidation scope basis.

Net fees and commissions totalled €939 million, i.e. 11.3% higher than in the previous year, due to sound performance by commissions from services and asset management.

Income from financial transactions and exchange differences in 2017 were impacted by the sale of non-performing loan portfolios.

Administrative expenses and depreciation and amortisation charges totalled €1,473 million, in line with the same period of the previous year.

Provisions and impairments amounted to -€389 million and are lower than in the previous year due to the extraordinary provisions in that year.

Profit and loss on asset disposals and others in 2017 includes the capital gains from Mediterráneo Vida and Exel Broker.

T1 Key figures — Commercial Banking

€M

	2017	2018	% 18/17
Net interest income	**2,299**	**2,227**	**(3.1)**
Equity-accounted affiliates and dividends	304	44	(85.5)
Fees and commissions (net)	844	939	11.3
Net income from financial transactions, and exchange differences	(37)	6	(116.2)
Other operating income/expense	(185)	(162)	(12.4)
Gross income	**3,225**	**3,054**	**(5.3)**
Administrative expenses and depreciation and amortisation	(1,468)	(1,473)	0.3
Operating profit/(loss)	**1,757**	**1,581**	**(10.0)**
Provisions and impairments	(632)	(389)	(38.4)
Gain/(loss) on derecognition of assets, etc.	22	—	—
Profit/(loss) before tax	**1,147**	**1,192**	**3.9**
Income tax	(245)	(326)	33.1
Profit/(loss) after tax	**902**	**866**	**(4.0)**
Non-controlling interest	—	—	—
Net attributable profit	**902**	**866**	**(4.0)**
Ratios (%)			
ROE (profit / average shareholders' equity)	19.2%	17.1%	—
Cost: income (general administrative expenses / gross income)	45.0%	47.4%	—
NPL ratio (%)	6.4%	5.5%	—
Stage 3 exposure coverage ratio (%)	40.5%	48.4%	—
Assets	**162,618**	**170,249**	**4.7**
Loans and advances to customers (net), excluding repos	76,346	81,319	6.5
Liabilities	**157,994**	**165,355**	**4.7**
On-balance sheet customer funds	82,172	86,822	5.7
Assigned capital	**4,624**	**4,894**	**5.8**
Off-balance sheet customer funds	**23,797**	**24,223**	**1.8**
Other indicators			
Employees	11,427	11,336	—
Branches	1,868	1,852	—

Solid growth in outstanding loans driven by robust activity in Large Corporations and SMEs.

Banco Sabadell offers specialist services to major corporations via its network of 40 corporate banking branches distributed throughout Spain, leading the way in this segment through growth in outstanding loans and accompanying the increase in the corporations' economic activity.

This degree of specialisation has enabled Banco Sabadell to maintain its leadership in the Large Corporations segment for yet another year, as acknowledged by the net promoter survey score and embodied by Banco Sabadell's ongoing commitment to companies. This relationship model evolved over the course of the year towards a consultancy approach, as a feature differentiating the Bank from its competitors, in which the Bank's 360º knowledge of companies and its expertise in the large corporations segment underpin its ability to offer customers specifically tailored solutions in a proactive and forward-looking manner.

Once again this year, Banco Sabadell accompanied major corporations on their journeys of growth and consolidation, providing global credit lines enabling companies to plan their capital expenditure with the certainty that they will always have access to the credit they need. New funding production increased by 8.8% compared with the previous year.

The planning visit resulted in agreements for initial credit amounting to €6,703 million, of which 67% has been approved and €4,382 million formally arranged, boosting the lending share 1.6% and the CIRBE share by +23bp.

Banco Sabadell's positioning as a source of credit for companies is based on knowledge of customers and a rigorous application of its pricing policy. This has enabled it to reduce non-performing exposures.

Despite the negative interest rate situation, the Bank increased new deposits by 16.4%.

Tourism

During 2018, Banco Sabadell's Tourism Business Department in Spain expanded from 4 to 11 Territorial Managers, and became the first Business Department of a financial institution to receive the “Q” seal for Tourism Quality, consolidating its position as a standard-bearer in the sector that offers more expert, immediate and comprehensive advice.

The activity focuses mainly on offering specialist financial solutions to a diverse and fragmented group of customers, based on three main pillars: expert advice, a specialised product catalogue (means of payment services and products, specialist cards and bancassurance products) and fast response. The offering is aimed at the acquisition of hotels, international expansion of chains, refurbishment projects, corporate image renewal and energy efficiency.

Moreover, over the course of the year, the Tourism Business Department took part in various events like the ITH conferences (refurbishment and energy efficiency), the UNWTO Conference, the ITH Innovation Summit and FITUR (the flagship international trade fair in the tourism sector, in which Banco Sabadell took part for the third consecutive year). The Department also serves on two committes in the most important Chambers of Commerce: those of Spain and the OECD. Lastly, it has agreements with the main bodies in the sector (ITH, CEAV, FEEC, ANBAL, etc.)

The department logged more than €3,639 million in business volume, i.e. 14.5% more than in 2017, and managed transactions amounting to €1,347 million, a 26.5% year-on-year increase.

Agriculture

In the agriculture segment, which includes the farming, livestock, fishing and forestry sub-sectors, Banco Sabadell, which has more than 500 branches and more than 700 specialist managers, has completed the range of products tailored to customers' requirements and increased its customer base. The Bank's strong commitment to, and support for, this sector resulted in a business volume in excess of €4,380 million, an increase of 4.2% compared to 2017, and it earned the trust of 45,000 customers, a 6% increase on the previous year. In 2018, Banco Sabadell's Agriculture Segment took part in 13 agro-food sector fairs and sponsored 33 seminars throughout Spain.

Employer Providential Schemes

2018 marked a turning point for Providential Schemes, establishing action plans and customer acquisition plans with the Bank's various units, with products and services tailored to the needs of major corporations and developing solutions for SMEs. This business unit, with funds under management amounting to €850 million and 600 customers, focuses on providing solutions and managing the providencial systems in the corporate sphere throughout Spain through pension plans, collective insurance policies and EPSV. We highlight the award, received for the third consecutive year, for the Nestlé pensions plan as the best employer pension plan in Spain — an award granted by Economista.es — and Unilever's decision to choose Banco Sabadell to manage and administer its new providential scheme, including implementation of a new life cycle model. The new customer acquisitions and development of these life cycle models in the customer portfolio further strengthen Banco Sabadell's position as a standard-bearer in the management of these systems, which are set to grow sharply in the next few years. Furthermore, agreements were signed with social agents and customers to implement SRI/ESG criteria in investment strategies, and cooperation was ongoing with Spain's first cross-disciplinary university program for members of supervisory committees.

Banco Sabadell led the way again this year in customer experience in the SME segment, opening an even wider gap on its nearest rival.

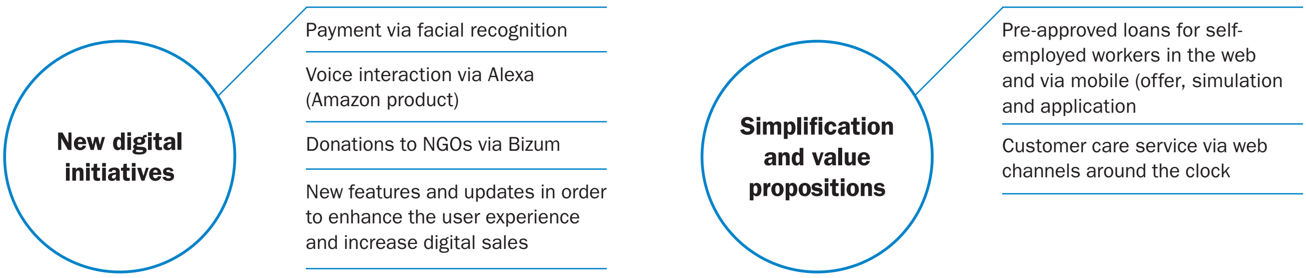
Commercial Network

For yet another year, Banco Sabadell maintained its leadership in the corporations business, as acknowledged by the net promoter score and embodied by Banco Sabadell's ongoing commitment to companies (G1).

The account manager is the pivotal element in the Bank's relationships with customers; to respond to their every need, Banco Sabadell provides its customers with access to a range of specialists — in international, structured financing, cash management, insurance, etc. — enabling the Bank to achieve excellence in customer service.

Against a backdrop of inexorable digital evolution, Banco Sabadell has commenced a transformation process to make customers' relations with the Bank even easier. Evidence of this is the creation of the new position of digital expert for enterprises, the developments in remote banking and the digital support service offered to new business customers.

G1 New digital initiatives



Corporate

SMEs

As ever, Banco Sabadell stands shoulder-to-shoulder with companies in their growth and consolidation processes. Unquestionably, funding is one of the main concerns for SMEs. In this business segment, the Bank's ambition is materialised through general financing lines, enabling companies to plan their annual investments knowing that they will have access to the necessary credit at all times. New funding production to SMEs by Banco Sabadell increased by 7.0% in 2018 compared with the previous year.

Banco Sabadell's positioning as a lender to companies has always been grounded in the principle of "knowing the customer" and rigorously applying the Group's risk policy at all times; as a result, the Bank has been able to lend more while reducing its loan loss ratios at the same time.

Businesses

In order to continue growing in customer acquisition and loyalty, and focusing commercial activity, Banco Sabadell maintained its Enterprise Plan in 2018. The Bank has configured a new professional position, that of Enterprise Director, in order to manage entrepreneurs, retail establishments and micro-enterprises on a personalised basis. A strong commercial range of products has been developed through the Cuenta Expansión Negocios Plus account, using the Proteo Mobile tool to perform the entire commercial process via a tablet computer at the customer's facilities. In addition, the specific offering for retailers includes the Kelvin Retail value-added for POS terminals.

In order to attract retailers, in 2018 the Bank continued the “Creemos” (We believe) campaigns in 29 towns and cities all over Spain. The aim of the campaign is to encourage people to visit shops in their town, spend some money and give a boost to business in the area, while encouraging account managers to make out-of-branch visits. In each local area the campaign was supported by press, radio and billboard advertisements, giving it widespread distribution and a resounding media impact.

Franchising

With regard to franchising, the Bank has considerable experience in facilitating the development of all kinds of business activities, tailoring solutions to each business model. To this end, it establishes cooperation agreements with franchisers, offering them a distinctive specialised service, as well as financial products and services that future franchisees will need to set up and develop their business. The Bank provides a single liaison person to process funding transactions for new franchisees and monitor the operations centrally, with swift responses and brand knowledge that make for uniform assessment criteria.

This has boosted volumes and the profit margin in a sector that continues to have high potential. In 2018, the number of franchisers totalled 1,500, an 8% increase on the previous year. Asset and liability volumes grew by 4% and 7%, respectively. Profit rose by 8.5% and the business logged excellent NPL ratios, below 1%.

Individuals

The Expansión range is growing and developing to ensure we remain our customers' main bank.

In 2018, the commitment is ongoing to establish long-term relationships with the goal of being a leader in customer experience; accordingly, the value propositions have evolved for each segment.

In 2018, the Bank set the goal of offering solutions for all kinds of households and, consequently, it launched the “Soluciones Cuenta Expansión” campaign, which has consolidated its position as the best such integrated offering in the market, the Expansión Range being the main lever for customer acquisition and loyalty, all accompanied by a specific relationship model for each segment.

The stringent regulations in savings and investment posed a challenge that was surmounted using a new advisory model through qualified managers who can provide proposals tailored to the customer's specific profile.

In 2018, the Individuals segment again managed to increase its customer base, by 2%, and the customer spread improved by 3.8% in Personal Banking and 6.2% in Retail compared with the previous year.

Retail Banking

In order to acquire households and secure their loyalty, Banco Sabadell launched "Soluciones Cuenta Expansión”, which is establishing a reputation as the best option for households' daily banking requirements, and also offering them integrated savings, financing and protection solutions adapted to their specific life stage.

Consequently, another 140,000 customers with Expansión accounts were added, bringing the total to 2 million loyal customers, a 2.4% increase in the customer base to over 3.5 million customers, accompanied by 6.2% year-on-year growth in the customer spread.

Personal Banking

Banco Sabadell distinguishes itself by its specialisation in the financial management of this segment, comprising 317,500 customers, with €25,324 million of assets and €3,669 million of liabilities.

To rise to the challenge of becoming the standard-bearer and a leader in customer experience, the Integrated Personal Banking Commitment was further developed, pivoting upon the figure of the qualified, specialised manager and the comprehensive interview, which provides a 360º picture of the customer's needs. All of this through channels adapted to their lifestyle, such as those offered by Gestión Activa Afluent, an active management solution for the most digital customers.

The consolidation of the Integrated Personal Banking Commitment, and the change in the savings and investment management model, to transition from marketing to advising through Sabadell Inversor, enable the Bank to offer a comprehensive investment proposal that is convenient for customers, adapted to their profile and accompanied by improved information quality through new account statements, enabling the customer to gain a more complete and transparent vision of their investments.

Expatriates

Foreign customers account for 18.6% of Banco Sabadell's customers and 24.9% of all mortgages, and the average loan principal is 24% higher than that of Spanish customers.

A network of 210 specialist branches (13% of the total), half of which come from the Solbank brand, offers high-quality customer service, resulting in the top branch satisfaction score as ranked by individual customers: 8.89. Customers, mainly British, German and French, appreciate that we are able to speak their language, that we provide a personalised service and that our range of products suits their needs.

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

Based on these needs and on the customer profile, the Bank developed the Card Transfer service, which won this year's Actualidad Económica award for one of the “Best Ideas of the Year”. Card Transfer is a fully online alternative to domestic and international transfers, enabling Spanish and foreign customers to send money immediately from their home bank to an account in euros at Banco Sabadell.

It is a priority for the Bank to continue to distinguish itself among international customers, and to do so it is implementing a specialisation project in the Foreign Banking segment, both internally and externally, to be the go-to bank for this community in its links with Spain.

Sabadell Colaboradores

Sabadell Colaboradores is a lever for acquiring customers and business for the Commercial and Private Banking networks via cooperation agreements with referrers. Referrers contribute business in exchange for a commission and for meeting the financial and services requirements of their customers, helping to fulfil the commercial plan without increasing fixed costs.

2018 ended with more than 49,255 new customers acquired through this channel, and the volumes exceeded €10,814 million, mainly mortgages. 6,145 new mortgages were acquired through the Sabadell Colaboradores channel, 22.9% of transactions in the commercial network.

Institutional Businesses

The Institutional Businesses unit was created in 2018 to enhance business related to public and private institutions and position Banco Sabadell as a key player in this segment.

In order to become the chief provider to public institutions, financial institutions, insurers and religious institutions, it is necessary to have a sophisticated, specialised offer of products and services.

The relationship with professional and business associations and both official and unofficial bodies gives the Bank access to professionals, self-employed workers, businesses and SMEs so as to be able to offer them the best range of products and services adapted to each group's specific needs.

This department plays a fundamental role by creating synergies and coordinating with numerous areas of the Bank to offer the best value proposition for each segment and facilitate processes between branches and their customers.

Public Institutions

Public Administrations

The economic performance of the government sector in 2018 was consistent with previous years, with certain Spanish regions being dependent upon the Regional Liquidity Fund (Fondo de Liquidez Autonómico — FLA) or the Central Government Financing Facility Fund (Fondo de Facilidad Financiera Estatal), which provide long-term funding to cover the deficit. Conversely, other regions with access to the market and that were not using the FLA maintained cost containment policies; as a result, demand for long-term financing remained lower than in previous years.

Market shares stood at 10.3% in lending and 8.1% in funding (data at 2018 year-end). With regard to lending, 80% is to customers with a high credit rating and maximum solvency, and the remaining 20% to customers with a satisfactory rating.

Public Sector

This unit manages accounts with public agencies and companies dependent on the Kingdom of Spain, the Autonomous Community of Madrid, the Government of Catalonia and dependent companies, the city councils of Madrid and Barcelona and large insurance companies and other social institutions.

The high level of liquidity in the system in 2018 resulted in downward pressure on asset pricing and strong competition between financial institutions.

Having a competitive comprehensive offer that includes global solutions to customers, with products from Capital Markets, Treasury, Structured Financing, International Business, which often need require complex customisation, enabled the Bank to greatly expand assets and liabilities.

Company Agreements

The Agreements department's mission is to manage agreements with agencies that enable the Bank to provide solutions to the financing needs of customers, basically companies.

This unit maintains the relationship with the agencies, manages any funding lines that are arranged and develops new opportunities to enhance the Bank's offer of funding for its customers.

Official agreements have been reached with supranational, national and regional agencies and with Mutual Guarantee Societies, which provide guarantees in transactions to fund companies and entrepreneurs with the greatest difficulties in accessing credit. In particular, this area has agreements signed with Spain's Official Credit Institute (ICO), the European Investment Bank (EIB) and the European Investment Fund (EIF).

Non-official agreements are used to manage arrangements with entities that support business interests, such as employers' associations and chambers of commerce. Banco Sabadell provides its financial expertise, products and services, supporting these entities on their mission.

Groups and Associate Banking

Banco Sabadell is a key player nationwide in managing arrangements with professional associations and groups. It distinguishes itself in this area by its close relationship with the associations, catering at all times for the specific needs of their members through a range of tailored products and services.

This unit's priority objective is to attract new customers among private individuals, shops, SMEs, self-employed workers and professional firms, and to increase the loyalty of those who already have an account with the Bank, based in all cases on an attractive offer tailored to each group.

In 2018, there were 3,308 partnership agreements with professional associations and occupational groupings, covering a total of more than 3,400,000 individual members, of whom 767,400 are already customers of the Bank. The business generated in this area amounted to more than €24,500 million.

Religious institutions

This department gained in strength in 2018. It rounded out its value proposition for this customer segment to include asset management, financing of investments and the provision of financial services adapted to their specific needs.

In line with innovation and digitalisation trends, the Bank launched Project Done, a pioneering Contactless POS terminal for donations which is suitable for churches, foundations and large companies, making it possible to make donations quickly and simply while reducing the use of cash. It was welcomed by users and received considerable media coverage.

The Bank maintained its relationship with congregations, dioceses and bishoprics by signing agreements with a range of religious institutions, enabling it to acquire numerous new customers.

Financial Institutions and Insurers

This department's team was expanded to complete its value proposition to this segment with treasury, capital markets, custody and depository products, research services and venture capital vehicles, consolidating the commercial relationship through products and services that meet customers' needs in the short and long term.

Against the backdrop of negative interest rates, current accounts and deposits expanded considerably in 2018.

Commercial Products

Medium- /long-term finance

With regard to medium- and long-term finance products, and since the real estate and mortgage market continued to see a positive trend, new home loan production increased by 18%. Customer demand is still predominantly for fixed-rate mortgages, which account for 60% of the total. Moreover, innovation continued with the transformation of the contracting process, as customers are now accompanied throughout the process of arranging their home loan by a mortgage specialist who fields all their queries and outlines all the procedures they must complete before signing the mortgage.

In consumer lending, the buoyant trend persisted in 2018, with a sizeable increase in loan applications by remote channels (loans arranged online increased by 32%, compared with a 20% increase in 2017), and this trend is expected to continue. The focus is on digital transformation to meet customers' demands for immediacy, as well as expediting analysis and enhancing customer experience.

The uptake of pre-approved loans continued to increase, from 47% in 2017 to 52% in 2018, and the "Línea Expansión" range continues to be promoted (a 100% online pre-approved loan without fees or commissions).

The Bank also promoted pre-approved loans for entrepreneurs and microenterprises by expediting and reducing paperwork in this approach to accepting risk with these customers. In line with the digital transformation, customers can now obtain information on their pre-approved limit through online channels.

International trade

In International Business, the Bank focused in 2018 on improving the services it offers customers, including enhancing the product/service by including immediate international transfers; this initiatives was welcomed by customers interested in being able to process their international transactions urgently and immediately online.

At the same time, explicit training was provided throughout the year in documentary credit to companies in all territories in order to showcase the latest developments in documentary transactions and resolve doubts by visiting companies.

In order to be able to support companies in their international expansion, personal interviews were arranged in all territories between customers and directors of the representative offices and branches abroad; this very successful initiative supplements the Sabadell Link service, through which companies can connect via videoconference with representatives abroad.

Along the same lines, the second cycle of training commenced for companies in the Sabadell International Business Programme, focused on helping companies to devise a plan to nurture their international business; all places were filled for the second year running. This year the initiative offered a new development: the course can be taken on-line or on-site.

In reference to the Export to Grow programme led by Banco Sabadell, a number of events were held in Spain to discuss the Middle East and North African markets, outlining the best way to approach these markets.

In terms of products, the Bank's share of the issuance of documentary letters of credit continued to exceed 30.3% in exports and 14.7% in imports.

It was a year of sharp growth in working capital funding, for import/export, international factoring and reverse factoring for customers, in line with the development of their foreign trade activities.

Savings and Investment

In 2018, the regulatory environment had a significant impact on savings and investment activity. MiFID II (Markets in Financial Instruments Directive), which is aimed at boosting safeguards for investors, especially retail investors, and the Insurance Distribution Directive (IDD), affecting savings insurance and protection products, signalled a paradigm shift in retail banking, requiring greater customer knowledge and transparency in information on products.

Banco Sabadell has implemented a new service model for savings and investment products that offers advice on all products for all customers with the aim of contributing greater value and enhancing investor protection. This new model is customer-centric, so the conversation with customers starts with their needs and goals. With this in mind, the Bank set up Sabadell Inversor, a new technological solution for providing advisory services and recommending the most suitable products in accordance with market opinion and with each customer's stated expectations.

The new regulation, coupled with other factors that shape the current environment, such as the extraordinarily low interest rates, has obliged financial institutions to devise a comprehensive and highly diversified range of products that fulfils customers' expectations and is adaptable to the market and to the customer's life cycle.

In this connection, a continuous range of products has been maintained, such as structured deposits, savings insurance and annuities, pension plans and mutual funds, to ensure there is an adequate range to adapt to customers' needs for each investment.

The catalogue of mutual funds focuses on profiled funds. During the year, the focus broadened to include equity funds, socially responsible funds and the InverSabadell range of funds, so as to have a broad range with good prospects of returns. A range of guaranteed mutual funds was also maintained in accordance with market opportunities.

Moreover, to meet the expectations of all customer segments, the initial minimum contribution in Profiled Mutual Funds and the Inversabadell range was reduced, and customers were helped to save steadiily via periodic contributions.

An annuity product with declining capital was launched, guaranteeing the customer a lifelong income, and their beneficiaries the amount of capital not consumed in the event of the policy-holder's death.

For pension plans, the percentages of investment in equities were reviewed throughout the Sabadell Planes Futuro range of life cycle pension plans to better suit the customer's profile. These plans tap into the expected higher returns on equities in the long term, and adapt to customers based on two variables: their planned retirement date and their risk profile.

Financial services

Payment

The EFTPOS business showed a substantial increase on the previous year. There was a 17.3% increase in turnover. The Bank maintained its market-leading position in handling payments, especially for online sales, with e-commerce turnover growing by 39.4%. Part of this growth is underpinned by the partnership agreements with payment processing fintechs, half of which provide services to shops and major retailers in other countries (cross-border business).

Means of payment business continued to expand, in line with the trend of recent years. The number of debit and credit cards in use totals 5.3 million, and credit card turnover rose by 13.8%. Banco Sabadell cards now support Apple Pay, Samsung Pay and SabadellWallet to fill out range of mobile payment options. The inclusion of new services such as immediate online transfers, the deposit card and payments with Bizum are all examples of the commitment to broadening and improving the retail range.

Working Capital and Cash Management

In 2018, Banco Sabadell remained the standard-bearer in managing receipts and payments as part of companies' working capital. In order to simplify customers' day-to-day business, e-banking tools for managing receipts and payments have been improved, to achieve enhanced usability and customer experience. Moreover, Banco Sabadell was one of the first entities to adhere to the new immediate payment system, a new form of transfers enabling customers to make payments in a matter of seconds.

With regard to financing, specialist working capital financing products such as factoring and confirming expanded during the year. These products, used to manage and finance companies' receipts and payments, have grown significantly in all segments, including SMEs and large corporations.

Factoring is now firmly established as a core product for financing receipts and hedging default risk, in both domestic and international operations. Assignments grew by 7.9% year-on-year. The Bank also pursues specialisation of this product range, focusing on specific sectors such as tourism.

Reverse factoring logged 12% growth, in both managed and advanced amounts. Product quality improved, focusing on the customer experience, such as digital support in all the new operations.

Cash Management Service

Banco Sabadell offers a cash management service with specific solutions adapted to the needs of the various customers, according to the operations and size of the retailer. It can be integrated into most of the management systems at retail establishments and the Bank's payment systems. Moreover, there is a cash collection service, so that any amounts stored in the machine are immediately deposited in the retailer's account and are collected when necessary by a security firm.

Digital Services

The process to transform companies is evolving the relationship model with customers, making it highly digital-oriented, so it is critical to incorporate specialists to enhance digital adoption among managers and customers. Consequently, in the second half of 2018, the new post of director of enterprise digitalisation was created. This new post is defined as a the go-to person for the entire Commercial and Company Banking Network for enhancing and promoting knowledge of the Bank's digital range among managers and customers.

The director of digitalisation's short-term role is to increase customers' digital transactionality through online training and support visits. In the medium term, the idea is that this position becomes firmly established as a horizontal opinion leader in recommending the digital service so that companies that have not yet made the digital leap or are having difficulties in doing so see Banco Sabadell as their closest ally.

Commercial brands

Banco Sabadell, the Group’s flagship brand, operates in most of Spain's regions except Asturias and León, an area served by the Group’s SabadellHerrero brand; the Basque Country, Navarra and La Rioja, where the Group is represented by its SabadellGuipuzcoano network; and Galicia, where it operates under the SabadellGallego brand. The SabadellSolbank brand caters primarily for resident expatriates from other European countries, through a network of specialist branches operating exclusively in the Canary Islands, the Balearic Islands and the southern and south-eastern coastal areas of mainland Spain.

The Bank's trading brands continued to show improved performance in terms of margins and customer (businesses and individuals), as well as in market share, attaining leading positions in a number of market segments.

All brands play an especially prominent role in their communities thanks to their social and cultural sponsorship programmes. Some landmark achievements by other Group brands in the course of 2018 are described below:

SabadellHerrero

SabadellHerrero saw out another year of growth at its 140 branches in Asturias and León. The business has expanded in parallel to the transformation of the service, leveraging the new digital capabilities to respond efficiently to customers' new demands. Similarly, growth and transformation are interconnected and mutually strengthening in a process that scales and renews the Bank on the basis of adaptation to new digital technologies and to customer demands.

In 2018, SabadellHerrero expanded its balance sheet by 1.6% to end the year with €11,214 million. New customer numbers also increased, with more than 15,000 additions during the year, including close to 12,000 individuals and more than 3,000 companies.

Especially important to understanding the depth of the transformation process in which the Bank is immersed is the number of digital customers, encompassing customers who relate to the Bank and contract its services through digital channels, because of the speed, convenience and suitability to their needs. Digital customers represented 40% of the total at SabadellHerrero at the end of 2018, a percentage that rises to 60% in the case of new customers.

Branches respond to this customer demand by digitalising internal processes — boosting the efficiency of the services rendered — and by building its own internal capacity to market the Bank's new digital offering.

Progress in business growth and the digital transformation are explained by two essential factors: a field-leading customer experience and people management.

In Asturias and León, the Bank sets itself apart from its closest rivals by providing a clearly differentiated customer experience. In the objective quality assessment conducted by consultancy firm STIGA, Spain's leading customer satisfaction surveyor, SabadellHerrero received a global score of 8.08 out of 10, the highest achieved by any institution involved in the survey.

Lastly, with regard to significant sponsorships, we highlight the agreement for the “Covadonga Centenarios 2018” centenary celebrations, organised by the Asturias regional government. The Bank devoted its annual exhibition at Feria Internacional de Muestras de Asturias to the Picos de Europa National Park, which in 2018 celebrated its centenary and which, together with the centenary of the Catholic Coronation of Our Lady of Covadonga and the thirteenth centenary of the founding of the Kingdom of Asturias, completed a very special year of commemorations.

SabadellGallego

In 2018, the SabadellGallego brand, resulting from the merger of Banco Sabadell's Galicia branch network with that of the former Banco Gallego in that region, celebrated its fifth anniversary. In 2013, Banco Sabadell made a significant quantitative and qualitative leap in Galicia when it took over Banco Gallego, creating a new brand, SabadellGallego, which has enabled it to build an especially close relationship with the region and to boost its financing activity to the region as a whole.

Over the last five years, SabadellGallego has doubled its lending to households and enterprises in Galicia, as well as the business volume. Today it has a competitive retail network that has increased penetration in the Galicia market.

At the end of 2018, 25% of enterprises in Galicia were SabadellGallego customers. Among large corporations, this figure rises to 74%, while 7% of individual Galicians are SabadellGallego customers, evidencing the considerable degree of acceptance of the Bank's commercial proposal.

2018 was another year of robust growth for SabadellGallego. This growth was also balanced, since both sides of the balance sheet saw similar progress: lending rose by 12.6% and customer funds by 10%.

The Bank's commercial offering won it more than 15,000 new customers, 11,000 of them individuals and around 4,000 companies.

This business growth was accompanied by a significant boost in transformation which, based on new digital technologies, enhances efficiency and responds to emerging needs in connection with the relationship with the Bank and convenience. 46% of customers now use digital channels to connect to the Bank in Galicia, and the figure exceeds 60% among new customers added in the year. This swift progress was due to both customer demand and the the branches' readiness to respond to that demand. More than 85% of branches in the SabadellGallego network have now been transformed and equipped with proven digital capabilities, clearly underpinning the strength of the ongoing transformation process.

The foundation for these robust results, in both growth and transformation, is SabadellGallego's commitment to providing a superior customer experience, distinguished from that offered by its peer group, delivered by people who are happy and motivated in their work. Both these aspects, customer experience and people and talent management, are key pillars and priorities for SabadellGallego.

SabadellGuipuzcoano

This year, satisfactory business results were achieved once again due to the intense commercial activity conducted by the retail branches and the network of branches specialising in enterprises in the territory where this brand operates. These results were very positive and were achieved through strict application of the commercial system; the commercial transformation targets outlined in the "ONficina challenge" were exceeded, outstripping the Bank's average, as 80% of the branches are now classified as "transformed".

Various aspects came into play in meeting this challenge, all of which are vital to compete successfully in view of the recent technological and methodological advances in the sector, which look set to intensify going forward. These aspects range from digital activation through satisfaction scores to reducing operating functions at branches, and they constitute a set of indicators which at SabadellGuipuzcoano were 118% fulfilled with respect to the targets set at the beginning of the year.

Moreover, the brand's branches once again achieved an excellent score of 8.31 in the Mystery Shopper quality control system, outperforming the general quality targets established by the Bank.

For several years now, SabadellGuipuzcoano has been implementing a specific territorial plan devised as part of the Bank's strategy of supplementing the general business lines by designing and rolling out region-specific plans. The current version of this programme, Plan Norte 2.0, expires in 2020, and it encompasses initiatives in various lines of action.

Once again this year, the Bank joined forces with all kinds of public and private entities, as embodied in 20 new agreements signed with professional groups and associations. Of particular note are agreements to improve funding for enterprises, and the involvement as a collaborating bank in the exciting new INNOVA innovation fund, led by the Bizkaia provincial government, aimed at channelling individuals' savings to business innovation projects.

Especially notable is the brand's presence and dynamism in boosting the startup and entrepreneurial ecosystem, as it took part in a number of meetings and congresses, some of which are flagship events in Spain, such as B-Venture in Bilbao.

As usual, specific management of the brand's presence and relevance in the territory is embodied in constant communication activities, sponsorships and institutional relations, areas in which the brand maintains very high standards of frequency and recognition.

The biggest event was once again sponsorship of Tour of the Basque Country cycling race, which in 2018 had stages in both the Basque Country and Navarra, thereby increasing support for the brand to include the latter region. The Bank also sponsored and collaborated in other sporting events, such as the Annual Gipuzkoa Sports Press Gala, where the best local sports personality of the year is chosen — this year the winner was internationally renowned handball player Kauldi Odriozola.

SabadellGuipuzcoano also continued to support and promote a number of awards and distinctions, such as the Gipuzkoa Business Awards (Premio a la Empresa Guipuzcoana) under the auspices of the Chamber of Commerce, the Aragonese Person of the Year, in partnership with newspaper Periódico de Aragón, and the Euskadi Avanza awards, which recognise novice entrepreneurs and notable entrepreneurial careers and single out the best company of the year.

Lastly, there has been increasing nurturing and support for cultural activities implemented through Sabadell Foundation.

ActivoBank

ActivoBank ended the year with 49,000 customers and continued to focus on its wealth management business with volumes totalling €505 million. Account balances were up 18% to €200 million, and off-balance sheet funds amounted to €192 million. Mutual fund assets totalled €107 million and pension fund assets totalled €33 million.

This business is in the midst of growth and transformation based on customer orientation.

BanSabadell Vida

Premiums and contributions in 2018

2,419.6€M

Casualty insurance premiums in 2018 (y/y change)

324.4€M (+15%)

Savings under management in 2018

8,407.2€M

Profit contributed to the Group in 2018

34.3€M

BanSabadell Pensiones

Funds under management in 2018

3,176.4€M

Of which personal and collective pension plans in 2018 (y/y change)

1,770.9€M

Workplace pension plans in 2018 (y/y change)

1,405.5€M

Profit contributed to the Group in 2018

0.6€M

BanSabadell Seguros Generales

Premiums in 2018 (y/y change)

264.0€M (+11%)

Profit contributed to the Group in 2018

5.8€M

BanSabadell Previsión, E.P.S.V.

Savings under management in 2018

283.4€M

BanSabadell Mediación

Fee and commission revenues in 2018

148.9€M

Premiums brokered in 2018

2,859.0€M

Profit contributed to the Group in 2018

4.3€M

As of 31 December 2018, Banco Sabadell's insurance and pensions business was structured as follows:

— BanSabadell Vida, BanSabadell Pensiones and BanSabadell Seguros Generales, operating as a joint venture with Zurich since 2008.

— BanSabadell Mediación is the Bank's insurance brokerage subsidiary. It operates as a tied agent for bancassurance products, distributing insurance through the branches.

— BanSabadell Previsión E.P.S.V. distributes pension/retirement plans within the Basque Country.

In 2018, Banco Sabadell continued to transform the insurance and pensions business, adapting to the new market challenges. These challenges are based on a more customer-oriented approach, offering customers extensive coverage through Sabadell Protección, a personalised loyalty programme, and digitalisation of business processes.

In 2018, Sabadell Vida's business volumes ranked it second in Spain in terms of total life insurance premiums and fifth in terms of insurance premiums and savings under management, according to the latest figures published at year-end. Net profit amounted to €68.6 million.

Furthermore, the volumes managed by BanSabadell Pensiones rank the Bank tenth in the entire system, according to data published at the end of the year. BanSabadell Pensiones logged a profit of €1.2 million in the year.

BanSabadell Seguros Generales increased total premiums by 11% year-on-year, mainly in home-owners policies and a new product for retailers.

BStartup has gained traction as a business and positioning priority for Banco Sabadell.

In its fifth year, BStartup, a programme created to support young innovative and technology companies, achieved its dual objective: on the one hand, to position the Bank as the institution that most supports young innovation and tech companies that contribute to the digital transformation, and, on the other hand, to boost the Bank's relationship with these young companies in the conviction that they will be the major corporations of the future.

Customers are approached through a proposal including:

— Specialised banking products and services for startups. The model and pace of development and funding at startups are unlike those of traditional companies. Accordingly, as well as the 50 BStartup branches throughout Spain and a specific risk circuit, with a view to making further progress in specialisation, in 2018 a new distribution model was devised for launch on 1 January 2019, providing cities with a high concentration of this kind of customer (for now, Barcelona, Madrid and Valencia) with seven BStartup SME offices whose portfolios will consist solely of startups. A number of products were also launched in 2018: the RC BStartup insurance policy (in partnership with AXA), Rent-Tech BStartup, the Marketing BStartup card and the Media4Equity VAT loan.

— Investment in equity. BStartup invests in startups with a philosophy focused on supporting entrepreneurs, without overlooking brand recognition and profitability. The BStartup10 investment vehicle focuses on Spanish tech and digital companies with considerable growth potential and scalable, innovative business models. Ten projects are chosen per year to receive investment of €100,000 each plus personalised support to help them become established in the marketplace and gain access to additional rounds of investment. In this regard, it serves as a nursery for future investments by Sabadell Venture Capital, which has already invested in seven BStartup10 companies in subsequent rounds.

  Moreover, this year BStartup commenced a strategy of investing in verticals, launching BStartup Health, a round of investment and support for health projects which was very well received in the sector. Three companies — all spin-offs from major hospitals and universities — were chosen from among 144 candidates. BStartup Health signed off on an investment in Admit Therapeutic, a spin-off of Hospital de Bellvitge with the mission of devising a tool for the early diagnosis of Alzheimer's Disease, a need not yet met in clinical practice. The other two companies chosen are still fine-tuning the final details to be able to sign the partners' agreement. One plans to manufacture a medical device to detect and monitor kidney diseases and the other is devising a solution (exo-skeleton) to enable people with spinal injuries to walk.

  At this time, BStartup is invested in 40 companies. Investment proposals are approved by an investment committee.

— Open innovation. BStartup is an innovation radar due to its privileged position, with a presence in all the business innovation forums in Spain, agreements with a number of companies that support the creation of new initiatives, and because it is fully integrated into the Spanish entrepreneurial ecosystem. With 14 new agreements added this year, there are now a total of 93 agreements with significant companies. Accordingly, it identifies and receives proposals that, from an open innovation standpoint, may help accelerate the Bank's pace of innovation. BStartup filters and refers potential opportunities to other divisions. In this connection, the Bank was acknowledged by the Startup Europe Partnership as one of Europe's Corporate Startup Stars of 2018 at an official ceremony attended by European Commission Vice-President Jyrki Katainen.

In 2018, BStartup organised and was actively involved in 190 entrepreneurial events in 20 cities throughout Spanish territory.

As a result, BStartup strengthened its media impact in 2018 (1,033 mentions in print and online press) and social media impact (9,858 Twitter followers), and it was among the trending topics in the Bank's social media most months, always with positive coverage.

With regard to direct business production, BStartup managed €556.8 million (€132.1 million in assets and €424.7 million in liabilities), a 67.4% increase on the previous year, and generated a profit of €12.4 million, (a 53.8% year-on-year increase), with a total of 2,895 customers.

Enhanced positioning through sustained growth.

Gross income in 2018	Change in gross income	Profit contributed to the group
68.6€M	+13.6%	13.9€M

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

The company continues to improve processes and to boost the commercial offering, ensuring a rapid response to customers' needs.

Activity continued to expand in 2018, triggering an increase in customer volume and new operations compared with the previous year, and boosting market share. There were sharp increases in spreads and profit margins.

Ongoing rigour with regard to prudence in granting loans, investing and improving smart (automated) decision-making models, coupled with efficacy in recoveries, enabled Consumer Finance to keep non-performing exposures at excellent levels. The loan loss ratio was 4.5%, while the loan loss coverage ratio was 100.4%

During the year the company stepped up promotion of the new inventory credit product, enhanced loyalty ties with car showrooms, and increased the number of credit cards by means of commercial agreements with well-known brands. The foundations were also laid for commercialisation via e-commerce and increasing the sale of additional products.

Overall, the company performed 245,390 new transactions through more than 10,000 points of sale distributed throughout Spanish territory, resulting in €831 million of new loan production in 2018, bringing the company's total outstanding exposure to above €1,330 million.

To support further business growth, the company continued to promote the use of digital systems and tools. These included more widespread use of digital signatures on loan agreements using mobile phones or tablets, bringing the proportion of digitally signed loans up to 71%. These improvements helped the company to keep its cost: income ratio to 31%.

Markets and Private Banking

Markets and Private Banking

Banco Sabadell continues to rank #5 among Spanish banks in terms of SICAV asset volume and number.

Highlights

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

Earnings before taxes

143.0€M

Business overview

Banco Sabadell designs and manages savings products and investment solutions for its customers, including analysis of options for investment and equities trading, active wealth management and custody services. It also ensures that its business processes remain consistent with its rigorous research to ensure the business's transformation in the new environment.

Markets and Private Banking creates and supplies value-added products and services to deliver good returns to customers, increase and diversify the customer base and ensure that investment processes remain consistent and are based on disciplined analysis and proven quality. There was a also move towards a multi-channel approach to customer relationship management. This division now comprises the following activities:

— SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialised service tailored to their particular requirements, combining the value of advisory services in Private Banking with the financial strength and product capabilities of a universal bank. The division's sales team can offer support and assistance from people with expertise in products, taxation and wealth management who are there to provide efficient, customised solutions to private banking clients.

— Asset Management and Research is a separate area aimed at managing collective investment and providing investment solutions for individual customers, companies and institutional investors. It is part of Sabadell Asset Management, the parent of a group of companies operating as managers of collective investment

Markets and Private Banking

SabadellUrquijo Banca Privada

Asset Management and Research

Treasury and Capital Markets

Securities Trading and Custodian Services

Savings and Investment Strategy

undertakings. Its mission is to establish a framework for the investment management business, which is conducted through collective investment management companies and third-party asset managers.
— Treasury and Capital Markets is the division in charge of providing customers with funding solutions, investment products and financial risk mitigation and hedging. These solutions are offered both through the branch network and by the division's team of specialists. Furthermore, Treasury manages the risks generated by customer positions in the market. Treasury also provides tactical support to the Finance Division, and is responsible for managing the Bank's liquidity and for management and compliance with its regulatory coefficients and ratios, managing interest and foreign exchange rate risk stemming from the Group's activities.
— The Securities Trading and Custodian Services Department performs the functions of broker for Banco Sabadell as a stock market member. These functions are to handle and execute sale and purchase orders directly via its trading desk, and, as product manager, it is responsible for the Group's equities. Moreover, it also provides investment guidance and recommendations in equities and credit markets, and creates and manages the offering of custodian and depository services.
— The purpose of the Savings and Investment Business Strategy Department is to produce Banco Sabadell's investment opinions and ensure that its range of savings and investment products is in line with its customers' opinions and requirements. It offers strategic solutions to adapt the bank to the changing environment so as, bearing in mind the latest channels and technological solutions, to design a value proposal that sets its products apart and brings about the necessary changes in the supply of and guidance about savings and investment products.

Management priorities in 2018

The Bank has a product and service design and approval process which ensures that the full range of offerings available to customers more than meets their requirements in terms of quality, returns and conformity to market needs. Constant reviews of the customer identification and "know your customer" procedures and practices ensure that products are offered and investments are recommended on the basis of customers' profiles and that all investor protection measures, as required by the various savings and investment product regulations, especially the Markets in Financial Instruments Directive (MiFID II) and its provisions as transposed into domestic law, are complied with.

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

2018 saw an increase in economic and political uncertainty, which, along with tight asset valuations, resulted in an increase in market volatility. In this context, customers were advised to prioritise strict control of risk in their investments, matching their risk profile and time scale.

The effort put into designing a range of products and services to meet the needs of each customer continued to strengthen and enhance the Bank's position as a broker providing access to new markets and its ability to offer customers new services, create new investment opportunities and raise the profile of the brand under which we operate in this business: SabadellUrquijo Banca Privada.

Consistent with these efforts, the Bank is fostering globalisation, focusing on internationalisation and adopting a shared business strategy, specifically in private banking, corporate banking and brokerage.

Key business data

T2 Key business data — Markets and Private Banking

€M

	2017	2018	% 18/17
Net interest income	**58**	**74**	**27.6**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	188	195	3.7
Net income from financial transactions, and exchange differences	1	4	300.0
Other operating income/expense	(2)	(16)	700.0
Gross income	**245**	**257**	**4.9**
Administrative expenses and depreciation and amortisation	(105)	(113)	7.6
Operating profit/(loss)	**140**	**144**	**2.9**
Provisions and impairments	(3)	(1)	—
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	**137**	**143**	**4.4**
Income tax	(41)	(45)	9.8
Profit/(loss) after tax	**96**	**98**	**2.1**
Non-controlling interest	—	—	—
Net attributable profit	**96**	**98**	**2.1**
Ratios (%)			
ROE (profit / average shareholders' equity)	31.6%	55.6%	—
Cost: income (general administrative expenses / gross income)	42.5%	43.5%	—
NPL ratio (%)	0.5%	0.1%	—
Stage 3 exposure coverage ratio (%)	71.0%	435.8%	—
Assets	**8,858**	**11,523**	**30.1**
Loans and advances to customers (net), excluding repos	2,175	2,859	31.4
Liabilities	**8,578**	**11,347**	**32.3**
On-balance sheet customer funds	6,367	8,293	30.2
Assigned capital	**280**	**176**	**(37.1)**
Off-balance sheet customer funds	**17,213**	**16,324**	**(5.2)**
Other indicators			
Employees	531	504	—
Branches	10	10	—

Through December 2018, some 4,500 discretionary portfolio management mandates were in place with an overall value of over €1,900 million. Assets held in mutual funds totalled €7,196 million, and the number of SICAVs under management at the close of 2018 was 172, with managed funds totalling €1,803 million, and a market share of 6.4%. The unit's business volume totalled €27,300 million as of December 2018 and it had more than 29,700 customers.

Net profit amounted to €98 million in December 2018, a 2.1% year-on-year increase. Gross income rose by 4.9% to €257 million, and core banking revenues increased by 9.3% to €269 million (T2).

Net interest income amounted to €74 million, up 27.6% year-on-year due to the sound results obtained. Net fees and commissions totalled €195 million, i.e. 3.7% higher than in the previous year, due to the higher commissions on mutual funds and securities.

Administrative expenses and depreciation and amortisation charges totalled €113 million, up 7.6%. Net loans rose by 31.4%, mainly in jointly supervised customers: customer funds on the balance sheet grew by 30.2%, and off-balance sheet funds decreased by 5.2%, due mainly to the increase in mutual funds.

The unit's business volume totalled €27,300 million and it has 29,700 customers.

Sales team

Bankers	Specialist branches	Customer service centres
170	10	21

SabadellUrquijo Banca Privada is Banco Sabadell's private banking division, aimed at providing comprehensive solutions to customers who need customised service and attention because of their specific needs. In a complex economic and financial context, it has been able to respond to the demands of the market and fulfil its commitment to its customers, unleashing all its experience to provide them with a broad range of products and services to match their risk profile in order to optimise the financial and fiscal return on their investments.

This business continues to hinge on customised service to customers, who are at the core of all day-to-day activities under the unit's two existing business models. In the model involving sharing customers with their local branch, full commercial support and specialist professional advice is provided to Banco Sabadell's branch network and customers. Customers are managed on a comprehensive basis at the 10 existing offices.

In order to be fully aligned with the Bank's territorial structure, the Regional Department of Aragón, Navarra and La Rioja was merged with the Northern Regional Department to create a structure more focused on business growth strategies and operating in closer coordination with the Bank.

MiFID II entered into force in January, making 2018 a year in which commercial activity was fully aligned with the new regulatory requirements. This signified another step forward in improving service quality, enhancing protection and attaining full transparency in information and prices to customers, for which purpose the IT systems were adapted and developed and a new commercial policy was defined, the main service being non-independent advice, including two models: recurring advice and recurring advice plus. The latter enables us to offer customers the same service as an independent consultant.

Along with the creation and monitoring of portfolios under advisory services, the focus was placed on discretionary portfolio management, providing almost all customers with access to one of the two.

A considerable effort was made over the course of the year in order to provide all customers with new reports concerning portfolios in accordance with current regulatory standards, via mobile devices and the Bank's website. This contributed very positively to improving customer experience, another of the main goals in the year. For this purpose, all customers are now offered the option of signing documents electronically. These two improvements contributed to this digital transformation, which brought a significant technological boost and helped drive the business by adapting it to a new, more digitalised environment.

Linked to both MiFID II requirements and the aim of improving advisory services to customers, a continuous training plan was implemented for employees in the Private Banking division, culminating in a certification examination held by EFPA.

The unit worked on designing and deploying the most appropriate products for customers' risk profiles, offering the best returns, for which purpose Banco Sabadell's product factories used all the means at their disposal. Mutual funds, discretionary portfolio management and structured products continue to dominate. Coinciding with the entry into force of MiFID II, the repricing model for discretionary management portfolios was converted to an explicit fee model.

Hedge funds and venture capital funds were added to the range, with designer funds and very specific, limited-liquidity niches making it possible to diversify and respond to the demands of sophisticated investors.

During the year, in a complex environment characterised by volatility in financial markets, SabadellUrquijo Banca Privada responded to its customers' demands and fulfilled its commitments to them by providing them with support, and reviewing and providing detailed explanations of their portfolios' performance.

At the start of the year, the Segments and EAFI Department was created, bringing together the commercial management of EAFI (Independent Financial Advisory Firms), Religious Institutions and Sports &

Entertainment under a single umbrella, in order to grow the various segments horizontally in coordination with the Bank's strategy to generate synergies.

In 2018 further progress was made on the process to refocus management of the commercial team which commenced in the previous year, affording greater importance to project-based management. The projects that were launched in 2017 continued to be developed and deployed in 2018, alongside new projects to provide our customers with a highly focused and innovative range of products and services.

Lastly, this year the focus was placed on various actions in the commercial sphere, by means of holding events that were very well received by customers and which strengthened the brand and enhanced the commercial relationship in order to improve the Private Banking customer experience.

Asset Management and Research

Profiled mutual funds under management at Sabadell Asset Management saw assets grow by 4%.

The Asset Management and Research business model is also distinguished by excellence in mutual fund management and in collective asset management, portfolio management and investment solutions, with the aim of maintaining their high levels of reliability, sustainability, consistency and optimum profitability, always with investors' best interests in mind.

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

It also introduces savers to investment solutions that offer access to the best opportunities to preserve or expand their savings in the long term through professional trust management and collective investment. The idea is to increase the use — not only among the more frequent and experienced investors, but also by smaller savers — of winning investment solutions in the current ultra-low interest rate environment by assuming an acceptable degree of risk and a certain maturity horizon that matches their goals and needs as to capital conservation or divestment in order to fund life goals.

In the year, subscriptions to Sabadell Asset Management mutual funds were predominated by "profiled" funds, whose volume of assets under management attained €5,251.6 million, continuing the trend of strong demand for these funds in previous years. These funds are managed in such a way as to maintain a constant level of risk even in adverse market movements. One of investors' favourites in this area is the Sabadell Prudente mutual fund, with 87,948 investors and assets totalling €4,428.0 million at 2018 year end.

A wider range of new variable return guaranteed funds was offered during the year, with new guarantees of returns being issued for five guaranteed funds amounting to €867.4 million at 31 December 2018. Guaranteed funds as a whole accounted for €4,019.0 million worth of assets at the close of the year. Assets in guaranteed funds represented 25.2% of the total assets in Spanish-domiciled mutual funds managed by Sabadell Asset Management, up from 23.0% the year before.

In 2018, Sabadell Asset Management carried out three mutual fund merger processes in which three mutual funds were absorbed into other funds with the same investment objectives, always in pursuit of investors' best interests. At the end of the year, there were 237 Spanish-domiciled funds managed by Sabadell Asset Management (64 mutual funds, a property investment vehicle and a variable capital investment firm—SICAV) and SabadellUrquijo Gestión (171 SICAVs), and there were 2 venture capital funds managed by Sabadell Asset Management.

Sabadell Asset Management mutual funds earned some outstanding accolades. In 2018, Fitch Ratings acknowledged the high quality of management of three Sabadell Asset Management fixed-income funds, one of its equity funds and one of its profiled funds. In total, two equity funds are assigned a Proficient qualitative rating, and five funds a Strong rating: three fixed-income funds, one equity fund and one profiled fund.

Sabadell Asset Management ended the year with €15,930.5 million in assets under management in Spanish-domiciled mutual funds (T3), 3.0% less than at 2017 year-end. With this volume of assets under management, Sabadell Asset Management accounts for more than 6% of Spanish-domiciled mutual funds. Sabadell Asset Management ranked fifth among Spanish-domiciled fund managers in terms of assets under management in 2018. There were 52,818 fewer unit-holders in the year, a 7.5% year-on-year reduction. The number of investors decreased by 1,585, i.e. -0.7% compared with the previous year.

Sabadell Asset Management makes the most of its experience and capabilities in portfolio management for Banco Sabadell customers. This is configured as a repertoire of investment solutions, either modelled or customised, i.e. a broad service response tailored to the needs of Banco Sabadell's existing and potential customers. A major success in the area of fund management was "BS Fondos Gran Selección", with 17,186 contracts and €1,696.2 million in assets under management in 2018.

Sabadell Asset Management also provides portfolio management and administration services for other institutional investors. Assets in this connection amounted to €4,312.5 million at the end of 2018.

T3 Spanish-domiciled mutual funds

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assets under management (€M)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,091.3	14,122.1	16,423.0	15,930.5
Market share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95	6.00	6.25	6.19
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	608,858	623,749	705,682	652,864

Treasury and Capital Markets

Providing customers with funding solutions, investment products and financial risk mitigation and hedging.

The volume traded in foreign exchange hedging products increased by 15% compared with the previous year.

Treasury and Capital Markets business performance in 2018 was shaped by a complex global political environment and a macroeconomic situation with very low interest rates in Europe. The ECB announced a future rate increase under certain macroeconomic conditions that could help boost turnover deriving from interest rate products.

Another notable factor is that 2018 was the first year under the new MiFID II regulatory framework, to which Treasury and Capital Markets adapted swiftly and efficiently by cooperating closely with other areas of the Bank.

This environment influenced currency markets by unleashing volatility which, along with the increase in the customer base using this product, and operators' proactive approach to tapping market opportunities, boosted trading volume by more than 15%. This volume was due especially to a notable increase in currency hedges and forward transactions.

Over the course of 2018, this investment was well received, enabling 20% more than expected to be distributed. In equity derivatives, expectations were also exceeded, and the actual figure was close to 30% higher than expected. The various product launches in the commercial network were also warmly received and beat expectations by more than 45%.

In 2018, Treasury and Markets improved its position in currency products due to two complementary action lines. Firstly, the range of currency products was revised and completed and, in parallel, the Sabadell Forex online trading platform was further developed. Moreover, product trading flow was improved and projects were launched to continue enhancing our capacity to stay one step ahead of our global customers' needs. Savings and investment products offered an appealing alternative to customers in this context of low rates.

The division also focused on exporting its successful model to other regions, taking advantage of the model's scalability and globality. During the year, a closer relationship was forged with other of the Bank's national and international areas, synergies were generated and new business opportunities created.

Securities Trading and Custodian Services

Banco Sabadell ended 2018 as the second-largest Spanish equity brokerage house by trading volume.

Market position in terms of trading volume in 2018

Share	Ranking
13.2%	2nd

2018 saw a decline in trading volume in the Spanish market, coinciding with the entry into force of mandatory regulatory changes under MiFID II.

The Bank was involved in market-making, own shares, roadshows and other customised activities for listed companies. There was also an increase in activity with issuers in 2018, continuing the trend seen in the previous year. In this connection, Banco Sabadell successfully participated in the placement of several significant holdings in listed companies as well as IPOs.

In financial research, we contribute our vision to the specialist and general press as a timely source of expert financial opinion for general distribution. Banco Sabadell's Research Department is known for its high standard, having earned a number of accolades and distinctions. In 2017 it was ranked fourth best analyst (stock picker and earnings estimator) in Iberia by Thomson Reuters – StarMine, and in 2016 it was ranked second best.

The Securities Trading and Custodian Services Department has adapted its structure to ensure strict compliance with the requirements of MiFID II, especially the regulations on incentives. The absence of conflicts of interest is guaranteed at every level and the invoicing model has been adjusted to differentiate between execution costs and financial research costs for investors.

In 2018, the Bank continued to step up its involvement as an agent bank in a range of transactions, most notably dividend payments, capital increases, bond issuance, promissory note programmes and shareholder register bookkeeping. At present, more than 80 issuers use Banco Sabadell's services, four times the figure at 2017 year-end, and that number is increasing steadily.

These services are increasingly important to the Bank and aim to position it as a leading service provider for issuers.

Focused on implementing Banco Sabadell's new value proposition in savings and investment.

The Bank's new savings and investment proposal:

— New Sabadell Investor platform.
— Universal advisory model.
— Adapted to the new regulation.

The entry into force of MiFID II was a pivotal element in defining this proposal, but the developments took into account the changing context for the banking business in general and for savings and investment products in particular. Factors such as structurally low interest rates, the new regulatory environment and digitalisation were also critical when defining the strategy.

This value proposal focuses firmly on customers: regardless of the segment to which they belong, they are offered advisory services, since this contributes the greatest protection and added value. Accordingly, Banco Sabadell offers advisory services to all customers for all products. To be able to provide this service, the Bank relies on existing elements such as the process for approving savings and investment products, a single investment opinion and the market information service to customers. Two additional elements were also needed. Firstly, a fully trained commercial network able to provide the advice, for which purpose an ambitious plan was launched to train staff in the network on MiFID II level 2. Secondly, a tool to help managers provide this service. The tool, Sabadell Inversor, is the port of entry into savings and investment and provides: (i) order, creating a uniform commercial system, (ii) simplification, shielding customers and managers from needless complexities, and (iii) regulatory compliance. In short, the entire project is focused on service excellence and customer experience.

The Savings and Investment Business Strategy Department has continued to support commercial activity in communicating market opinion. More than 175 sessions were held, including in-person meetings and conference calls, involving around 3,600 employees from all the territorial departments. Along these lines, the indispensable investment premises for adequate advisory services were strengthened, and market rationales were devised for the products marketed. Lastly, an Advisory Committee was created to oversee the list of savings and investment products recommended for each segment upon which Banco Sabadell bases its advice.

Among the initiatives to support commercial activity, and in application of the regulation establishing that all employees providing information or advice on MiFID products must have the necessary knowledge and experience to offer these services, a centralised team of supervisors was set up to prevent commercial activity from being adversely affected, by enabling employees without the necessary skills and knowledge and who cannot be directly supervised from their branches to continue working under their supervision. In 2018, more than 20,000 operations were supervised.

With regard to product activity, in 2018 approval was given to 484 proposals for new investment products as part of a product process involving 36 heads of functional areas. Among the more important products were families of guaranteed funds and structured deposits with recovery of the principal, which accounted for some 64% of projected product sales. This volume of activity did not affect the speed of approval, since 75% of products were approved in less than ten business days.

Through Sabadell Inversor, Banco Sabadell maintains its commitment to enhancing communications with regard to its investment approach: firstly, in 2018, a new reporting system was rolled out that will enable all customers to view their savings and investment positions at any time using any channel; secondly, through mass deliveries of personalised information via the new channels. In 2018, more than 90 messages were issued, of which 60 were sent to customers via e-mail, a total of more than 3 million e-mails. Sabadell Inversor received over 45,000 monthly visits in the last few months.

Also notable was the monitoring and research regarding the regulatory initiatives affecting the Bank's business development in both the markets and investor protection areas. In this connection, a specific monthly committee was set up involving the main business divisions in order to adapt existing approaches to the new regulatory requirements, identify new opportunities and establish business opinion. In 2018, significant efforts were made to represent the Bank in conferences organised by the Treasury, the National Securities Market Commission and the Spanish Banking Association in the sphere of markets or regarding investor protection.

The new platform will provide numerous benefits to TSB and its customers.

Highlights

- TSB achieved the goals announced in September and is gearing up for a new era.
- Improvements in customer acquisition processes and an increase in the number of managers.

Business overview

TSB has a multi-channel distribution model nationwide, comprising 550 branches in England, Wales and Scotland. At the end of the year, it had 5 million customers and 8,353 employees. The TSB franchise (TSB Banking Group PLC), conducts a high-street banking business in the UK which includes current and savings accounts, personal loans, mortgages and credit/debit cards.

Its business was previously divided in three segments:

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

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

Management priorities in 2018

TSB, a unique and credible proposition to swiftly increase competitiveness in the SME business.

In April 2018, TSB completed its phased migration to a new IT platform (G2). The new platform covers all customer systems and channels, as well as all back office systems, and is critical to TSB's long-term ability to deliver for customers.

When TSB was initially established, it used the platform of Lloyds Banking Group (LBG), one of its competitors, operating on legacy banking systems. This meant that making changes to TSB's products and services was slow, and the cost, timing, design and pace of executing changes were set by a competitor. In June 2015, the acquisition of TSB provided the opportunity to leverage Sabadell's experience with migrating the Bank to a new system, which would enable TSB to provide better products and services more suited to its customers' needs.

Whilst the migration of all customer records took place as planned, customers experienced problems in the initial period after migration in accessing their accounts online, with long wait times on the phone and slower transaction times in branches.

The immediate priority in the period following the migration was to resolve the service issues impacting customers, and move swiftly to identify and fix the causes of these issues. Internal analysis indicated that the design of the platform itself was sound, and that most of the issues were attributable to deployment onto the technical infrastructure. The underlying problems were linked mainly to three key areas: the initial configuration, the infrastructure capacity and some aspects of the code.

The TSB Board also commissioned an independent review, from Slaughter and May, a firm of UK lawyers, to understand why these problems occurred, and the FCA and PRA conducted their own joint investigation.

At the beginning of September, the TSB Board announced that Paul Pester was stepping down from his position as Chief Executive and leaving the Company. TSB set three immediate priorities and very significant progress has been, at a good pace.

— Incident resolution process: at 30 January 2019, circa 181,000 complaints from customers since migration have been resolved, i.e. around 90% of the 204,000 complaints, ensuring that no customer is left out of pocket. New complaints now being received are significantly lower in volume, closer to pre-migration levels, with the majority no longer connected to migration issues.
— Full functionality for customers: all critical and urgent IT incidents have been resolved and the most significant customer-facing issues have been dealt with. Although occasional IT issues and interruptions occur, the number of these incidents has been reduced significantly since the immediate post-migration period and IT services are now stable and in line with industry performance.

  Customers have started to see the benefits of the new IT system, with a single platform and faster processing times for some of our services. As a result, in December TSB received the largest number of mortgage applications of any week in its history.

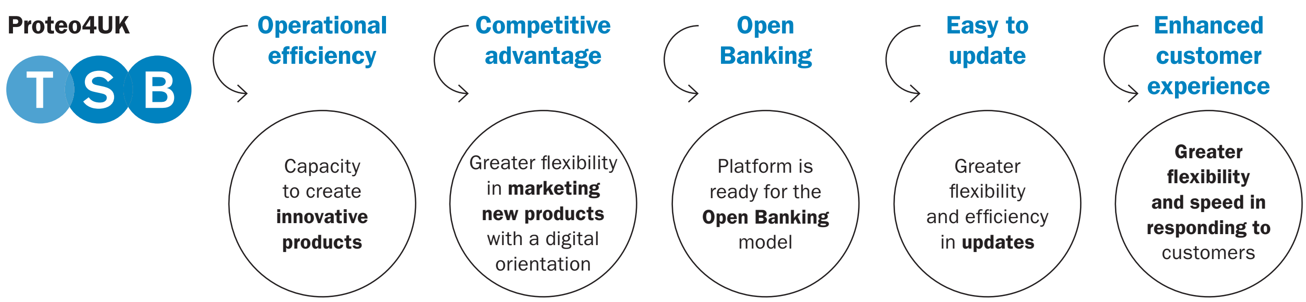
  Towards the end of 2018, customers also started to benefit from an increased number of products available through online channels for the first time since migration. Online current account sales have now returned to levels consistent with the most recent comparable pre-migration period and calls from customers needing help with their online applications are down 90% due to the significantly improved application process. Customers can also open a current account in branches in almost half the time compared with before migration.
— New CEO for TSB: in November, it was announced that Debbie Crosbie would join the TSB Board as CEO, subject to regulatory approval. Debbie joins from CYBG PLC, bringing over two decades of experience in retail and SME banking, and an open and engaging leadership style. Debbie brings a clear innovative mindset to TSB and shares the vision of making banking better for all UK customers. She will join TSB in the Spring.

TSB remains one of the most strongly capitalised banks in the UK and, with an ample liquidity reserve, is well positioned both to weather economic uncertainty and shocks but also to deploy its financial reserves in further growth. While TSB remains confident in the relative strength of the UK economy, it is mindful of the challenges ahead, as economic and market conditions remain uncertain for a range of reasons, including Brexit.

Whilst the migration to the new platform caused considerable frustration and difficulties, looking forward, TSB remains confident that the platform is now delivering real benefits to customers and, importantly, also enables TSB to support more local businesses right across the UK.

TSB ushers in a new era.

G2 Benefits of the new platform



Key business data

Net income in December 2018 amounted to -€240 million, due mainly to the -€460 million in additional migration and post-migration expenses (T4).

Net interest income totalled €1,000 million, down 3.3% year-on-year due to the commercial drives at TSB following the IT migration.

Net fees and commissions fell 10.9% in year-on-year terms due mainly to lower services fees and to customer management actions at TSB following the IT migration. Income from financial transactions includes the results of fixed-income sales.

Administrative expenses and depreciation and amortisation charges increased by 14.6% year-on-year to -€1,148 million, including -€195 million in non-recurrent migration and post-migration expenses.

Provisions and impairments came to -€231 million, including a provision of -€142.1 million for total estimated compensation to customers, including extraordinary expenses for handling complaints linked to migration.

Net loans and advances to customers (excl. repos) amounted to €33,929 million, down 4.4% year-on-year. A constant exchange rates, the reduction on the previous year would have been 2.7% .

Customer funds on the balance sheet fell by 5.6% y/y to €32,484 million (down 4.7% at constant exchange rates). In 2018, they fell mainly because the maturity of time deposits (FRISA), while demand deposits (PCA) increased.

Financial performance was significantly affected by the IT migration, with costs incurred in preparing for migration and charges and waived income associated with the post-migration service disruption, partially offset by a provisional recovery of losses from Sabis under the MSA and OSA contracts.

Net interest income declined, due mainly to the impact on overdraft interest of the post-migration service disruption and the absence of earnings in 2018 from the Mortgage Enhancement portfolio. The decrease in net interest income in 2018 broadly reflects competitive pressures and interest waivers.

In 2018, the cost of customer deposits remained stable and included interest costs on savings that held steady in year-on-year terms, along with an increase in interest costs on bank accounts, following the rise in rates applicable to Classic Plus account balances.

Other revenues increased significantly, driven by the recognition of revenues from LBG as a result of exiting the outsourced services agreement upon migration to the new IT platform.

Payments deriving from service disruptions during migration including compensation to customers and additional operating costs: customer rectification costs, reimbursements and associated expenses, additional funding costs, consultancy costs to support the TSB reparations programme and anti-fraud and operating expenses.

Impairments decreased, reflecting an improvement in UK unemployment, a revised outlook for house prices relative to 2017 and a downward revision to unsecured recovery valuations.

TSB's capital position remained strong, with a Common Equity Tier 1 (CET1) ratio of 19.5% and a leverage ratio of 4.4% on a fully-loaded basis.

T4 Key figures — UK business

€M

	2017	2018	% 18/17
Net interest income	**1,034**	**1,000**	**(3.3)**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	96	85	(10.9)
Net income from financial transactions, and exchange differences	110	18	(83.8)
Other operating income/expense	(16)	(60)	283.2
Gross income	**1,223**	**1,042**	**(14.8)**
Administrative expenses and depreciation and amortisation	(1,002)	(1,148)	14.6
Operating profit/(loss)	**221**	**(106)**	**(147.8)**
Provisions and impairments	(89)	(231)	—
Gain/(loss) on derecognition of assets, etc.	7	1	—
Profit/(loss) before tax	**139**	**(335)**	**(341.5)**
Income tax	(49)	95	(295.2)
Profit/(loss) after tax	**90**	**(240)**	**(366.5)**
Non-controlling interest	—	—	—
Net attributable profit	**90**	**(240)**	**(366.5)**
Ratios (%)			
ROE (profit / average shareholders' equity)	5.8%	—	—
Cost: income (general administrative expenses / gross income)	79.5%	101.6%	—
NPL ratio (%)	0.4%	1.3%	—
Stage 3 exposure coverage ratio (%)	55.9%	50.4%	—
Assets	**48,145**	**46,182**	**(4.1)**
Loans and advances to customers (net), excluding repos	35,501	33,929	(4.4)
Liabilities	**46,597**	**44,596**	**(4.3)**
On-balance sheet customer funds	34,410	32,484	(5.6)
Wholesale funding in the capital markets	1,920	1,688	(12.1)
Assigned capital	**1,548**	**1,586**	**—**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	8,287	8,353	0.8
Branches	551	550	(0.2)

The exchange rate applied for 2018 was GBP 0.8873 for the balance sheet and GBP 0.8945 (year average) for the income statement.
The exchange rate applied for 2017 was GBP 0.887 for the balance sheet and GBP 0.875 (year average) for the income statement.

Corporate & Investment Banking offers a global solution model fully aligned with its customers' needs.

Highlights

— Presence in Spain plus another 17 countries.

— Market Origination is a recently-created area encompassing debt capital markets, debt asset management and equity capital markets.

Earnings before taxes

120.0€M

Key figures in the Structured Financing business

Lending volume outside Spain

53%

Structured Financing fees earned in international markets

47.7%

Customer satisfaction score

8.81

Business overview

Corporate & Investment Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, through branches throughout Spain and another 17 countries. Its activities embrace Corporate Banking, Structured Finance, Global Financial Institutions and Market Origination.

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

Main business activities in Corporate & Investment Banking

Corporate Banking

Structured Finance

Global Financial Institutions

Market Origination

— Structured Finance consists of origination and structuring of corporate and acquisition finance and project finance deals. Banco Sabadell's structured finance team operates worldwide from offices in Madrid, Barcelona, Bilbao, Alicante, Oviedo, Paris, London, Lima, Bogota, Miami, New York, Mexico City, Monterrey, Guadalajara (Mexico) and Singapore, and has more than 20 years' experience.
— The Global Financial Institutions business model is built around two central pillars: commercial management of the international bank customer network (over 3,000 correspondent banks around the world) with which Banco Sabadell has cooperation agreements to provide Group customers with the best possible coverage worldwide, and providing optimal support to our corporate customers as they expand abroad, in coordination with the Group's network of branches, subsidiaries and investees in other countries.
— Market Origination is a recently-created area encompassing debt capital markets (DCM), debt asset management (DAM) and equity capital markets (ECM). The goal of DCM and DAM is to channel the liquidity of institutional investors to the bank's customers through the origination and structuring of short- and long-term non-bank financing vehicles, both publicly quoted and private placements. ECM's goal is to help find equity finance through disintermediation with investors in capital markets.

Management priorities in 2018

Cooperation and coordination between the Corporate Banking teams in the various regions and the specialist businesses will continue to be pivotal to unlock value and ensure success in achieving our goals and those of our customers.

2018 saw the business model boosted strongly, with the creation of a hierarchical structure (Corporate & Investment Banking) that encompasses the large corporations business—both Spanish and international—in a single division (Corporate Banking), along with specialist businesses (Structured Finance and Market Origination). As a result of the synergies at these units, there is broad coverage of markets, specialist capacity and products for our customers.

Specifically, in Corporate Banking, i) results measured as total revenues and return on capital will continue to be one of the main financial indicators, along with ii) customer experience, measured in terms of NPS (net promoter score). Although the RaRoC methodology was rolled out to the teams in 2017, it was only fully implemented in 2018, and it is now the basic criterion for monitoring the portfolio and new production.

In EMEA, our business model was replicated in the Portuguese market, through the opening of a new office in Lisbon. Moreover, the model of representative offices continues to mature, strengthening the Bank's services to large corporations.

The A&A region (including the US, LatAm and Asia) in 2018 developed its team structure in line with the rest of geographies, so as to achieve greater sector- and product-specific specialisation: specialist teams combining local knowledge with global vision and expertise.

Meanwhile, activity in Mexico focused on leadership and significant involvement in the financial sector. It already offers a wide range of banking products, while essential products are in the pipeline with a view to building long-term relations and establishing Sabadell as a go-to bank for Mexican corporations.

In 2018 Banco Sabadell maintained its policy of supporting customers and adapting to meet their emerging needs within Spain's macroeconomic context amid changing credit market conditions. The Bank is a leader in the Spanish middle market segment and is exporting its know-how to other regions. Corporate & Investment Banking ranks #4 among syndicated loan MLAs and #2 in project finance in the Spanish market (T5 & T6).

Fees and commissions in international markets where the unit operates accounted for 47.7% of its total revenues

T5 Syndicated loan MLA — Spanish market 2018

€M

Position	Mandated Lead Arranger	Amount	Number
1	Santander	9,228	85
2	Banco Bilbao Vizcaya Argentaria	4,510	41
3	CaixaBank	4,236	29
4	Banco Sabadell	1,623	17
5	Bankia	836	14
6	Crédit Agrícole CIB	2,610	13
7	BNP Paribas	1,971	10
8	Societé Générale CIB	2,042	9
9	ING	1,015	8
10	Citibank	1,362	6

€M

T6 Project finance MLA — Spanish market 2018

Position	Mandated Lead Arranger	Amount	Number
1	Santander	1,774	21
2	Banco Sabadell	588	12
3	Caixabank	969	10
4	Bankia	752	9
5	Banco Bilbao Vizcaya Argentaria	687	8
6	Crédit Agrícole CIB	722	7
7	Societé Générale (SocGen)	722	6
8	BNP Paribas	565	6
9	Bankinter	259	6
10	Natixis	1,296	5

in 2018, and Banco Sabadell acted as agent bank in various financing operations outside Spain. In 2018, a new team began operating from Singapore, catering for all South-East Asia.

Global Financial Institutions handled more than 390 bilateral trades in the international markets segment linked with bilateral business flows. Business with other financial institutions and multilateral bodies on the international stage was stepped up.

In 2018, Sabadell Corporate Finance worked, among others, on transactions linked to homes for the elderly, agro-industrial equipment, container terminals, shipbuilding, public health, renewable energy, metallurgy, food, motorways and underground car parks. Several projects involved cross-border transactions in countries like the US, France, Switzerland and Italy, which Sabadell Corporate Finance performs in cooperation with the Terra Alliance international network, of which it is a founding member.

Global Financial Institutions – market shares

LC share in 2018

30.29

Key business data

Net profit amounted to €84 million in 2018, a 32.3% year-on-year decrease. The gross margin of €240 million was down 14%. Net banking revenues decreased by 11.2% to €254 million (T7).

Net interest income fell 15.7% year-on-year to €145 million. Net fees and commissions amounted to €109 million, a 4.4% decline on the previous year.

Income from financial transactions and exchange differences decreased as a result of extraordinary sales of loan portfolios in 2018.

Administrative expenses and depreciation and amortisation charges totalled €41 million, up 24.2% on the previous year.

Provisions and impairments amounted to €79 million, an increase of 14.5%. Net lending declined by 7.5% (T8) and customer funds on the balance sheet rose by 15.7% as demand accounts and fixed deposits, while off-balance sheet funds decreased by 8.7%, mainly as a result of workplace pension plans.

T7 Key figures — Corporate & Investment Banking

€M

	2017	2018	% 18/17
Net interest income	**172**	**145**	**(15.7)**
Equity-accounted affiliates and dividends	—	—	—
Fees and commissions (net)	114	109	(4.4)
Net income from financial transactions, and exchange differences	3	(8)	(366.7)
Other operating income/expense	(10)	(6)	(40.0)
Gross income	**279**	**240**	**(14.0)**
Administrative expenses and depreciation and amortisation	(33)	(41)	24.2
Operating profit/(loss)	**246**	**199**	**(19.1)**
Provisions and impairments	(69)	(79)	14.5
Gain/(loss) on derecognition of assets, etc.	—	—	—
Profit/(loss) before tax	**177**	**120**	**(32.2)**
Income tax	(53)	(36)	(32.1)
Profit/(loss) after tax	**124**	**84**	**(32.3)**
Non-controlling interest	—	—	—
Net attributable profit	**124**	**84**	**(32.3)**
Ratios (%)			
ROE (profit / average shareholders' equity)	14.0%	10.9%	—
Cost: income (general administrative expenses / gross income)	12.0%	17.2%	—
NPL ratio (%)	4.7%	4.1%	—
Stage 3 exposure coverage ratio (%)	94.0%	91.2%	—
Assets	**11,958**	**11,020**	**(7.8)**
Loans and advances to customers (net), excluding repos	7,548	6,981	(7.5)
Liabilities	**11,239**	**10,289**	**(8.5)**
On-balance sheet customer funds	2,857	3,306	15.7
Assigned capital	**720**	**732**	**1.7**
Off-balance sheet customer funds	**517**	**472**	**(8.7)**
Other indicators			
Employees	140	155	—
Branches	2	2	—

T8 Lending volume, by geography

€M

Geography	Volume
UK	1,547
France	1,434
Morocco	59
Portugal	111
Spain	7,463
Asia	99
USA Corporate Banking	2,228
Mexico Corporate Banking	2,272
LatAm	665

Source: SCGI data, balance at December 2018.

Corporate Banking

Corporate Banking had an excellent year in 2018, against a backdrop of normal market operation and ample liquidity, especially in the Eurozone, in accordance with the monetary policy in place. This environment of surplus liquidity, coupled with the sound performance in issuance markets, exerted huge competitive pressure (falling prices, oversubscription of issues, early cancellation of bank loans, etc.), but this did not prevent the unit from meeting its financial targets.

Business volumes in 2018 performed strongly, with lending up 11%. This growth is even more laudable as much of it came from outside Spain (+22%). This responds to both Banco Sabadell's decision to diversify risks and revenue sources, and our support for our Spanish customers as they venture abroad. Overall, lending volume in Corporate Banking outside Spain now exceeds 50% of the total (53%). The pace of deposit growth in regions where we operate mainly in foreign currencies is also notable (33%), since this increases the Bank's self-financing capacity in foreign currency, boosting net interest income.

As for results, interest spreads in the unit as a whole increased by 5%, once again boosted by franchises abroad (most notably in France, Mexico, Asia, US and LatAm).

The standardised methodology used by the Corporate Banking teams in the 17 countries where the division operates, a commercial policy of cooperation for the benefit of our customers, and having not only specialised commercial teams but also an exclusive middle office for major corporate customers, enabled the Bank to maintain the highest service quality standards. This was evidenced by the various indicators of service quality, such as customer satisfaction surveys conducted by independent consultancy Stiga (score of 8.81 out of 10 in 2018).

Structured Finance

Structured Finance offers specialised solutions and advice to customers, providing global coverage with local teams.

From the financing standpoint, customers are offered structuring and the execution of transactions in corporate and acquisition finance, as well as project and asset finance, commercial real estate and global trade finance. This area has the capacity to syndicate and underwrite, and to purchase and sell stakes in syndicated loans in the secondary market.

Sabadell Corporate Finance is also intensely involved in advisory activities to companies and shareholders in sales, mergers and acquisitions, and providing advice on bringing in new shareholders; the Bank is a member of Terra Alliance (T9).

Market Origination

Over the course of 2018, major financing transactions were arranged by the Bank itself (senior and AT1 debt) and in corporate bond markets (Faurecia, Inmobiliaria Colonial, ACS Servicios, Grupo Antolín, Gestamp, Iberdrola, Grupo Ortiz, Naviera Elcano, Copasa and El Corte Inglés), and also in short-term fixed-income markets (FCC, Europac, Cobra, Hotusa, Nexus, Grupo Siro, Cie Automotive, Cellnex and Aedas), as well as issues by public institutions (Madrid Regional Government).

The team was strengthened with the aim of originating and structuring new products to channel liquidity from institutional investors to Spanish companies, while at the same time offering a new type of investment asset to the institutional market. Current initiatives include private placements in the form of loans, asset-backed securities, project bonds, etc.

T9 Structured Finance business

Activity	
Specialist Finance	**Advisory/Distribution**
Corporates and Acquisitions	Syndication
Project Finance	M&A
Asset Finance	Commercial Real Estate
Trade Finance	GFI

Highlights

— Consolidation of the Miami business, attaining a 10% increase in customer business volume and a 62% increase in net profit.

— Development of business finance.

— Launch of lending to individuals.

Earnings before taxes

107 €M

Business overview

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

As part of the internationalisation process that commenced under the previous strategic framework, the Bank decided to focus on Mexico, a country that represents a clear opportunity as an attractive market for the banking business and one in which Sabadell has been operating since 1991, first by opening a representative office and then through its interest in Banco del Bajío, held for 14 years (from 1998 to 2012).

The business was established in Mexico through an organic project with the creation of two financial vehicles, starting with a SOFOM (Mexican multi-purpose financial company), which commenced operations in 2014, followed by a bank. The banking licence was obtained in 2015 and the Bank commenced operations in early 2016.

Both vehicles operate using a customer-focused approach, with agile processes, digital channels and no branches. The roll-out of commercial capacities is based on the aforementioned two vehicles and the following business lines:

— Corporate Banking, with the focus on companies and major corporations: 3 branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
— Banking for Companies, which reproduces the Group's original business relationship model: launched in 2016 with 13 branches and in the growth phase over the next few years.
— Personal Banking, based on a disruptive digital model initially focused on capturing customer funds.

Moreover, Banco Sabadell has been operating in the US for 25 years via an international full branch managed from Miami and through Sabadell Securities, a securities brokerage and investment advisory firm which has been operating since 2008. These business units together manage the international corporate banking, private banking and commercial banking business in the US and Latin America.

To supplement its structure in Miami, in 2012 the Bank opened a representative office in New York, where a large part of Sabadell's structured financing and syndicated loans business is handled, and in 2015 it opened representative offices in Colombia and Peru, to grow the corporate banking and structured financing business in these two markets. In 2018, a business plan was designed and launched for the representative office in the Dominican Republic, in order to boost the business volume managed in that country. As part of this business plan, the offices were moved and the workforce increased so as to drive and cater for the projected growth.

In addition, Sabadell Miami Branch works with the representative offices in Colombia, Peru and Brazil to provide services to its customers.

Management priorities in 2018

This year Mexico experienced some socio-political and financial uncertainty as a result of i) the renegotiation of NAFTA with the US and Canada, and ii) the presidential election which resulted in a resounding victory for the Morena party, led by Andrés Manuel López Obrador, affording him not only the presidency but also a substantial majority in the country's Congress. Moreover, there was considerable turbulence in Mexican financial markets at the end of last year, with a significant depreciation of the peso against both the dollar and the euro. Against this backdrop, the performance of Mexican subsidiaries (Banco Sabadell, IBM S.A. and SabCapital Sofom S.A. de C.V.) was exceptional, amply beating expectations and exceeding the budget for the year.

In 2018, our Mexican subsidiaries continued in their efforts to fast-track their route to operational and financial self-sufficiency. In this regard, following initiatives were implemented over the course of the year:

— Ownership restructuring, whereby Banco Sabadell, IBM S.A. now owns 51% of SabCapital Sofom S.A. de C.V. following the acquisition of a 49.3% stake in that company from Banco de Sabadell, S.A. (Spain). As a result, Banco Sabadell's business in Mexico will now be consolidated, thereby offering a more solid financial picture with a view to having a positive impact on its ratings and the cost of funding from other financial institutions.
— The Hidalgo Project, consisting of migrating the IT platform from Spain to the Mexican subsidiaries. This was instrumented through the acquisition of this platform by Banco Sabadell IBM, S.A., accompanied by the recruitment and training of staff, culminating in the successful transfer of skills.
— The Allende Project, focused on developing the capacities to enable Mexican subsidiaries to be self-sufficient in funding terms, which consisted mainly of: i) the launch and rollout of the Personal Banking business, through an app, i.e. an approach to capturing customers with no need to deploy branches, a first in Mexico. Over the course of 2019, it will enable 100% digital customer onboarding, with interviews via videoconferencing, offering a more scalable and efficient model; ii) the creation of a corporate institutional capture team in the area of Corporate and Investment Banking (C&IB), which brought in deposits from local and state governments and major corporations; and iii) the development of a relationship-centric banking model tapping the solid position achieved in Corporate Banking and C&IB to drive growth in Personal Banking for executives and employees of customer companies.

With regard to commercial activity, Corporate Banking logged growth across the board and also broadened its range of products. Business customer numbers expanded by 140%. During the year, the offer of products to business customers was extended and a framework of action for funding the agri-food sector was defined.

Also in 2018, as part of the process of evolving the Group's business model, Corporate Banking was transformed into the Commercial Banking unit by merging all Personal Banking, including both companies and individuals, into a single structure with an integrated and consistent vision and the common objective of developing and deploying a multi-channel product offer supported by a commercial team based on our values: commitment, quality and proximity.

A financial planning exercise was conducted in 2018 in line with that of the Banco Sabadell Group to determine the main lines of strategic action for Banco Sabadell in Mexico to drive greater value creation by the Group's Mexican franchise, as summarised below:

— Enhancement of ROE by increasing revenues without capital consumption (through greater fees and commissions and the development of new business lines, such as trade finance, derivatives, currency trading, etc.).
— Promotion of financial self-sufficiency actions, through i) the incorporation of transactional services and products that increase customer loyalty, ii) improvement of our Personal Banking customer onboarding platform, and iii) optimisation of funding with development and commercial banking.
— Consolidation and fine-tuning of the digital banking model and focus on capturing savings.

Key business data

Net profit amounted to €91 million in 2018, a 2.3% year-on-year increase. Excluding the sale of Sabadell United Bank in 2017, net profit would have increased by 47.9%.

Net interest income amounted to €259 million, an 11.6% decrease year-on-year. Excluding Sabadell United Bank, growth was 26.1%, mainly due to Mexico and the branches in EMEA (Paris, London and Casablanca).

Net fees and commissions declined by 6.6% year-on-year, mainly due to the absence of the contribution from Sabadell United Bank. Excluding SUB, net fees and commissions increased by 3.3%.

The gross margin amounted to €328 million, down 8.4% year-on-year. Excluding Sabadell United Bank, the margin increased by 24.5% due to good performance in Mexico, Miami and the foreign branches in EMEA.

Administrative expenses and depreciation and amortisation charges fell by 4.9% year-on-year. Adjusting for the sale of Sabadell United Bank, this item increased by 21.4% due to higher expenses in Mexico.

Provisions and impairments increased year-on-year as a result of the provisions associated with higher lending in Mexico and Miami, and higher provisions mainly associated with one-off transactions.

The Mexican subsidiaries attained a 2.78% share of the business funding market in 2018, ranking #10 among Mexican financial institutions in this area.

€M

T10 Key figures — Other Regions

	2017	2018	% 18/17
Net interest income	**293**	**259**	**(11.6)**
Equity-accounted affiliates and dividends	3	3	(17.6)
Fees and commissions (net)	50	47	(6.6)
Net income from financial transactions, and exchange differences	9	10	8.7
Other operating income/expense	3	10	—
Gross income	**358**	**328**	**(8.4)**
Administrative expenses and depreciation and amortisation	(205)	(195)	(4.9)
Operating profit/(loss)	**153**	**133**	**(13.0)**
Provisions and impairments	(24)	(27)	9.4
Gain/(loss) on derecognition of assets, etc.	1	—	—
Profit/(loss) before tax	**130**	**107**	**(17.9)**
Income tax	(37)	(11)	(70.4)
Profit/(loss) after tax	**92**	**96**	**3.3**
Non-controlling interest	4	5	—
Net attributable profit	**88**	**91**	**2.3**
Ratios (%)			
ROE (profit / average shareholders' equity)	8.8%	9.0%	—
Cost: income (general administrative expenses / gross income)	54.5%	56.0%	—
NPL ratio (%)	0.9%	0.3%	—
Stage 3 exposure coverage ratio (%)	113.0%	292.9%	—
Assets	**15,298**	**17,822**	**16.5**
Loans and advances to customers (net), excluding repos	8,836	10,896	23.3
Real estate exposure (net)	23	—	(100.0)
Liabilities	**14,431**	**16,789**	**16.3**
On-balance sheet customer funds	5,024	6,328	26.0
Assigned capital	**866**	**1,033**	**19.2**
Off-balance sheet customer funds	**1,033**	**1,023**	**(1.0)**
Other indicators			
Employees	765	908	18.7
Branches	42	42	—

The average exchange rates in 2018 were USD 1.1450, MXN 22.4921 and MAD 10.953 for the income statement, and USD 1.1851, MXN 22.6901 and MAD 10.8752 for the balance sheet.
The average exchange rate in 2017 was USD 1.132, MXN 21.303 and MAD 11.597 for the income statement, and USD 1.199, MXN 23.661 and MAD 11.426 for the balance sheet.

Sabadell Miami Branch is the Bank's largest foreign branch, with over $12,000 million in business volume.

With its current structure, Sabadell Miami Branch is the largest foreign branch in Florida. It is one of the few financial institutions in the region with the capability and experience to provide a full range of banking and financial services, from highly complex and sophisticated products for large corporate clients, including project finance, through private banking (mostly international), to products and services for professionals and companies of any size.

Private Banking Miami is a business line that offers private banking products and services to Banco Sabadell customers located in Latin America, the Caribbean and the US. This business operates from Miami, where Sabadell has had a full international branch since 1993, and through Sabadell Securities, a brokerage house and investment firm.

The account managers at Sabadell Miami Branch provide a personalised service to clients and offer a catalogue of products that includes custody of securities, active investment advice, discretionary management and treasury services, as well as traditional commercial banking products such as accounts, multi-currency deposits and loans. The account managers are supported by professionals who specialise in developing products that address customers' need to preserve and expand their assets throughout the Americas, based on their profile and chosen investment strategy.

During 2018, the focus of the business was strengthened on the basis of the customer relationship with trusted account managers. These managers combine experience, bringing to bear the best the bank has to offer in order to design and implement solutions that meet customers' needs; constancy, to fulfil the bank's commitments; and empathy, to build relationships of trust with customers based on strong cultural affinity and confidentiality. These three pillars are the foundations of this unit's activities, with the customers' interests to the forefront.

Private Banking Miami offers a range of products and services, from traditional commercial banking products in multiple currencies to a sophisticated investment platform with options adapted to the customer's needs and risk profile. The investment platform varies mainly depending on the level of involvement of the Bank and is mainly comprised of three groups:

— Custody: the bank custodies securities and provides customers with information. The client makes the investment decisions, and the bank executes them.
— Active advisory: a team of investment banking specialists draws up lists of opportunities, and proposals for investment and for changes in the composition of the portfolio in order to maximise returns within agreed parameters. The client makes the final decisions with regard to their assets, and the bank executes them.
— Discretionary management: the client entrusts their assets to specialised professionals. The Bank defines, implements and controls the investment strategy based on the client's profile and objective.

In addition to the investment platform, Banca Privada Miami provides treasury services that include currency exchange, securities execution desk, derivatives (swaps) and options, as well as structured products.

Corporate Banking Miami, supported by the offices in New York, Peru and Colombia, manages structured financing products, syndicated loans and project finance for large corporations, having achieved a good level of penetration in the energy and tourism sectors, mainly in the United States, Latin America (except Mexico) and the Caribbean.

2018 was a transition year, involving a change in structure. The new structure seeks to increase specialisation in terms of both industry and product. The goal is to approach customers more effectively by focusing on the sectors where the Bank is most competitive and there is scope for organic growth and higher returns.

Project finance deals continue to gain in importance within the portfolio and it is planned to pursue the possibility of becoming one of the leading banks in the United States. There are projects of all kinds in the United States, particularly in sectors where the Bank already has a great deal of experience, such as renewable energies.

In addition, Sabadell's capability in the area of syndication enables it to participate in large deals and increase returns by maximising fees.

Sabadell Securities

Sabadell Securities USA, Inc. is a securities broker and investment advisory firm. Sabadell Securities complements and enhances Sabadell's consolidation strategy with a focus on US-resident customers. It provides investment and wealth management services, mainly to personal banking and private banking clients. Its business strategy is based on meeting customers' financial needs by providing advice on capital market investments.

Sabadell Securities is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). It uses the services of Pershing LLC, a Bank of New York Mellon subsidiary, for clearing, custodian and administrative services.

Asset Transformation

Asset Transformation

Banco Sabadell normalised its balance sheet in 2018 after announcing major sales of institutional portfolios.

Highlights

— Following the sharp reduction in recent years, the Group achieved its main objective of normalising its exposure to non-performing assets in 2018, and has now overcome the period of focusing on this asset class that resulted from the past economic crisis.

— The normalisation of non-performing assets was concentrated particularly in the area of real estate. The priority in 2018 was to make decisive progress in selling non-performing assets to specialised investors, resulting in a number of large transactions that achieved the ambitious targeted reduction in exposure. In 2018, non-performing assets were reduced by over €13,200 million (pro-forma), the largest single reduction since the crisis.

— The sharp reduction in NPAs in 2018 will lead to significant cost savings in future years, estimated at more than €150 million per year.

— In December 2018, it was agreed to sell 80% of real estate subsidiary Solvia, valued at €300 million, resulting in an estimated capital gain of €138 million. This transaction, which is expected to be completed in the first half of 2019, evidences the value created by the Group with this company, one of Spain's leading real estate solutions platforms.

Business overview

The Asset Transformation and Industrial and Real Estate Holdings Department horizontally manages non-performing loan and real estate exposures, as well as establishing and implementing the Group's real estate strategy, which encompasses its real estate subsidiaries, including Solvia and Solvia Desarrollos Inmobiliarios (SDIN).

With regard to non-performing loan and real estate exposures, the Department focuses on implementing the asset transformation strategy and on an integrated approach to the Group's real estate assets with a view to optimising recovery and maximising their value.

Management priorities in 2018

During 2018, Banco Sabadell moved decisively to reduce its non-performing real estate exposure, as a result of which it normalised the Group's real estate exposure during the year after carrying a sizeable volume of non-performing assets that arose from the economic crisis. A number of significant transactions were arranged to sell non-performing assets to specialised investors, completion of which is subject to certain conditions precedent that are expected to be fulfilled in 2019, enabling the Group to achieve the ambitious goal for 2018 of shedding non-performing exposures.

In connection with trends in non-performing loans and residual real estate exposure, the Group continues to deepen and optimise its transformation and management strategy for problem assets, guiding the actions of the Asset Transformation Business Unit, whose main goal is to improve the non-performing asset recovery and transformation processes with a view to maximising their value potential, either by managing them optimally or divesting them, whichever is the best option.

Nevertheless, despite normalising its non-performing exposures, the Bank maintains demanding targets for reducing non-performing exposure in the coming years. The strategy for managing and reducing non-performing assets (NPAs) is designed around three strategic priorities:

1. Constant reduction of NPAs until balances are normalised; major progress was made in this connection in 2018. This was and will continue to be the main goal of the Asset Transformation and Industrial and Real Estate Holdings Department, and it includes: (i) containing and normalising the classification of balances as non-performing, which is vital in order to ensure the future performance of the core business with a cost of risk that is aligned with the Group's risk profile and financial objectives; (ii) accelerating the reduction in the volume of NPAs by seeking solutions for non-performing debt that are adapted to each customer's circumstances and characteristics; and (iii) reducing exposure to foreclosed assets and eliminating the related losses.

   This strategic priority has two facets: an eminently organic approach in the form of ongoing management of existing balances, with a special focus on the oldest ones, seeing to shed the most problematic and least saleable assets, and to sell real estate via the normal channels; and an inorganic approach, involving the sale of portfolios, taking advantage of the liquidity available in the market from institutional investors interested in NPAs because of the Spanish economy's good prospects, the goal being to accelerate the reduction of the exposure to non-core assets in a determined, ambitious way so as to normalise their volumes and leave behind the legacy of the recent economic crisis.

2. Focus on managing non-performing exposures. Banco Sabadell was one of the first Spanish banks to create an NPA workout unit, in 2012: the Asset Transformation and Industrial and Real Estate Holdings Department. It was established to respond to five needs.
   — Globality, understood as segmented management of all problematic and potentially problematic exposures with an end-to-end vision of the process of transforming non-performing assets.
   — Specialisation and segmentation of responsibilities on the basis of processes and portfolios to underpin the management approach, so that each type of NPA is handled in the most appropriate manner and outcomes are optimised.
   — Maximisation of NPA recovery and monetisation, enhancing the efficiency of NPA management processes in terms of time and cost.
   — Multi-channels and transactional capacity. The Group has developed specific channels that afford it considerable transactional capacity to recover its exposure to NPAs.
   — Alignment of the entire organisation in managing and controlling NPAs under the principle of three lines of defence, ensuring the independence of the Asset Transformation and Industrial and Real Estate Holdings Department from the other areas involved in granting the non-performing exposures.

3. Maintenance of solid and sufficient levels of NPA coverage, supported by the capacity to generate future revenues with which to offset potential losses or impairment in this asset class, and robust capital levels with which to absorb any unexpected losses; together, these factors evidence the capacity and solvency of the Group's balance sheet.

These three strategic priorities are translated into six principles for managing NPAs, namely: (i) early action to address problems and avoid classification of assets as NPAs: reducing the volume of assets reclassified as non-performing and in default is vital to normalise these balances. Early action in managing delinquency maximises the recovery and monetisation of NPAs because it minimises the risk of deterioration in credit quality and preserves the quality of the collateral; (ii) segmented management of all non-performing and potentially non-performing exposures (potential delinquency); (iii) large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest, which is particularly important from a management perspective as the range of capacities, solutions and tools require specialised management of the oldest balances as opposed to the more recent defaults and foreclosures; (iv) business intelligence and continuous improvement of the processes. In recent years, the Bank has developed segmentation and prediction capabilities in the recovery process. Business intelligence is also applied to systematise, continuously improve and corporatise processes throughout the recovery cycle, in friendly procedures, judicial procedures and bankruptcies, to enhance recovery efficiency; (v) financial capacity, i.e. not just having sufficient book coverage of the expected loss but also having the capacity to generate future revenues with which to address impairments and robust capital levels with which to absorb any unexpected losses on NPAs; and (vi) a solid system of governance based on three lines of defence, in which, after the first line of defence, featuring the specialised independent workout unit (Asset Transformation and Industrial and Real Estate Holdings Department), and the business units that approved the exposures, there is a second independent line of oversight, comprising the Risk Control and Compliance Departments, followed by a third line of defence, namely Internal Audit, which reviews the adequacy and quality of the entire process.

To implement this strategy, the Asset Transformation and Industrial and Real Estate Holdings Department is structured into various units, each focusing on one stage of the process of recovery, administration, management and transformation of NPAs, having considerable experience and expert knowledge of all areas of the process. This organisation structure, which has evolved over the years to adapt and better respond to the needs and priorities as driven by the established goals, and has proven its suitability, as evidenced by the steady, continuous reduction of the Group's doubtful and non-performing exposures in the last few years, comprises the areas listed below at 2018 year-end, each of which focuses on specific aspects of the process.

The loan loss recovery and default management process involves the following areas:

— Delinquency Prevention and Management Department: its main mission is to implement policies and decisions on the transformation of non-performing exposures, encouraging a mutual approach wherever this is the most suitable way to resolve the specific case, and paying special attention to the social exclusion risks in some of these situations.
— Technical Recoveries Department: manages outsourced collection, bankruptcy and litigation, aimed at optimising the recovery of credit risk through external channels and/or litigation, when friendly negotiation is not sufficient or is not considered to be suitable.
— Corporate Loan Restructuring Department: specialises in dealing with issues surrounding the recovery of corporate, property and developer exposures and focuses on loan restructuring, recovery and loss minimisation within that borrower category.
— Sabadell Real Estate and Institutional Markets: in managing real estate exposure and properties accepted to discharge debts, this unit is in charge of horizontally managing and transforming the Group's real estate exposure with the clear goal of reducing doubtful exposure to non-performing real estate by optimising its value, improving the return on non-problematic real estate exposure, and ensuring the orderly growth of new investment, all focused on portfolio risks and returns. This department also manages the divestment of NPA portfolios through processes aimed at institutional and wholesale investors with perimeters chosen as a function of the needs and policies of the Sabadell Group; accordingly, it was instrumental in the sales of portfolios of NPAs that were among the major achievements of the year, resulting in the normalisation of NPA balances. Its functions also include the analysis, calibration and review of NPA management strategies and models to maximise the efficiency of the recovery processes.
— Business Intelligence, Control and APS Department: this horizontal unit is tasked with optimising and continuously improving the Group's recovery processes and overseeing the management of those processes. Its responsibilities include the development and exploitation of existing information on the Group's various NPAs to facilitate optimum financial decision-making in connection with the various transformation alternatives.

With regard to past-due debt recovery actions in 2018, it is especially important to note ongoing proactive and responsible management of delinquency on mortgages secured by customers' main residences, seeking solutions that avoid litigation and minimise evictions. Consequently, 2,279 dation in payment transactions amounting to €357 million were arranged. As a result of offering housing solutions to customers at risk of social exclusion due to mortgage litigation or dation in payment processes, the Bank has close to 7,300 low-rent homes, including those contributed to the Social Housing Fund, and more than 2,900 homes with affordable rent.

In 2018, €2,740 million of assets were transacted organically, resulting in a positive contribution to the bottom line. However, the deals that really had a distinctive impact in normalising the NPAs on the balance sheet were the sale of four portfolios of non-core assets, mostly real estate assets from non-performing debts, which resulted in an inorganic reduction of NPA exposure by over €10,000 million, whose impact on the bottom line was booked in full in 2018.

Although these transactions were signed during the year, they are subject to certain conditions precedent, mainly the obtainment of certain administrative permits, which are expected to be secured in 2019, consolidating the reduction of NPA exposure to the levels presented on a pro-forma basis in the following figure (G3). Completion of these deals not only culminates the reduction and normalisation of the Group's NPA exposure but also reduces the related costs, leading to savings estimated at over €150 million per year. The contractual closure of the first deal was achieved in December 2018.

The following figure (G3) presents the evolution of the Group's NPA exposure in recent years, detailing the exposure covered by the Asset Protection Scheme (APS), of which only 20% is displayed up to 2017, as 80% was covered by the scheme. The 2018 year-end situation is presented pro-forma, i.e. representing the exposure that would remain if all the significant portfolio sales signed in the year (and expected to be completed in 2019) had actually been completed in 2018. The balance of NPAs was reduced by over €13,200 million in 2018, of which over €10,000 million in organic transactions, which made it possible to normalise that balance. The remaining pro-forma exposure covered by the APS at 2018 year-end was marginal.

Key business data

Net income in 2018 improved substantially with respect to the previous year, as the loss attributed to the Group amounted to -€477.7 million, meaning that the loss contribution halved with respect to the previous year (T11), including a very significant improvement in provisions and impairments in the year.

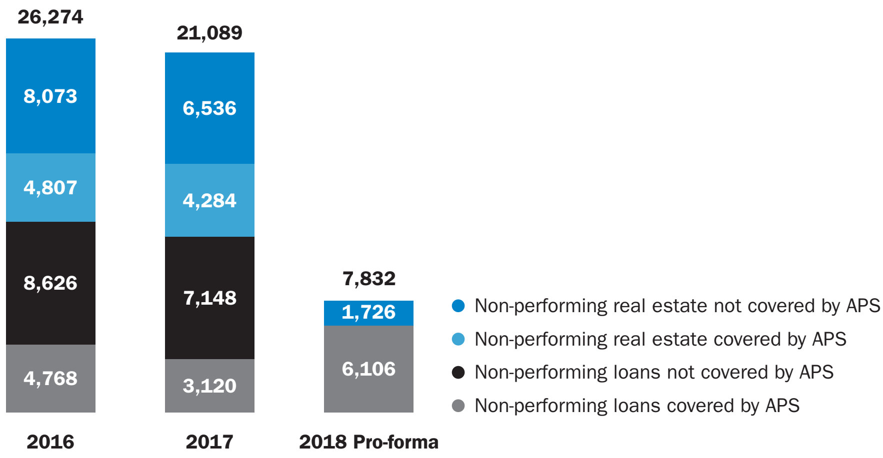
Net interest income in the Asset Transformation Business Unit was negative in the amount of €28.5 million, a notable improvement on the previous year, driven by higher interest recoveries on non-performing balances, the higher margin on performing assets, and lower interest costs.

The gross margin experienced a strong positive change, reaching €96.6 million, as a result of the improvement in net interest income, the positive contribution by trading transactions (which in 2017 included the negative impact of certain sales of portfolios of non-performing loans) and the progress by other products and operating expenses.

Administrative expenses and depreciation and amortisation declined by 14% year-on-year to -€139.8 million, reflecting cost containment and the first savings from the sale of real estate portfolios, which, though due to be formalised and completed in 2019, include agreements under which the buyer bears part of the associated expenses from the date of signature, which was in the third quarter of 2018.

This reduced the operating loss before provisions and impairments to €43.2 million. Provisions and impairments declined significantly year-on-year, to €520 million. This substantial improvement is explained by the extraordinary impairments booked in 2017, which did not recur in 2018, and, above all, by the improvement in credit quality, which resulted in lower impairments, since the figure for 2018 financial year also included -€178 million of marginal impairments to adjust the net value of the portfolios sold in the extraordinary transactions mentioned above to the sale price agreed with the buyers, an impact that will not recur in future years.

In addition to the good income statement performance by the Asset Transformation Business Unit, it also successfully managed its balance sheet, which was reduced significantly in pro-forma terms (considering the effect of the sale of large portfolios). Net loans and advances assigned to this unit declined by 65.5% year-on-year while real estate exposure was reduced by 71.6%.



G3 Non-performing exposures
Data for 100% of APS excl. TSB
(€M)

T11 Key figures — Asset Transformation

€M

	2017	2018	% 18/17
Net interest income	**(52)**	**(28)**	**(45.4)**
Equity-accounted affiliates and dividends	(1)	—	(100.0)
Fees and commissions (net)	2	1	(30.4)
Net income from financial transactions, and exchange differences	(37)	5	—
Other operating income/expense	118	119	0.7
Gross income	**30**	**97**	**220.9**
Administrative expenses and depreciation and amortisation	(163)	(140)	(14.1)
Operating profit/(loss)	**(133)**	**(43)**	**(67.5)**
Provisions and impairments	(1,216)	(520)	(57.2)
Gain/(loss) on disposals	*(14)*	*96*	—
Gain/(loss) on derecognition of assets, etc.	41	—	(100.0)
Profit/(loss) before tax	**(1,307)**	**(563)**	**(56.9)**
Income tax	364	85	(76.5)
Profit/(loss) after tax	**(943)**	**(478)**	**(49.4)**
Non-controlling interest	—	—	—
Net attributable profit	**(943)**	**(478)**	**(49.4)**
Ratios (%)			
ROE (profit / average shareholders' equity)	—	—	—
Cost: income (general administrative expenses / gross income)	—	—	—
NPL ratio (%)	32.2%	33.5%	—
Stage 3 exposure coverage ratio (%)	49.9%	83.4%	—
Assets	**15,384**	**11,907**	**(22.6)**
Loans and advances to customers (net), excluding repos	3,865	1,332	(65.5)
Real estate exposure (net)	3,372	959	(71.6)
Liabilities	**13,728**	**10,791**	**(21.4)**
On-balance sheet customer funds	104	235	126.8
Intercompany funding	12,627	10,315	(18.3)
Assigned capital	**1,656**	**1,116**	**(32.6)**
Off-balance sheet customer funds	**27**	**35**	**32.0**
Other indicators			
Employees	1,018	1,073	5.4
Branches	—	—	—

Solvia continued to perform dynamically and SDIN exceeded its targets in its first year of operation.

Solvia

Solvia, Banco Sabadell's real estate services provider, was very active in 2018. Solvia is one of the main real estate solution platforms, covering a broad range of services: from foreclosure, adaptation and administration to sale of real estate assets. It also provides doubtful loan management and settlement services for some customers.

In December 2018, it was agreed to sell 80% of Solvia to Lindorff Holding Spain, S.A.U., a company owned by the Intrum AB group, with a valuation of over €300 million. Upon completion of this transaction, scheduled for the first half of 2019, the Banco Sabadell Group will recognise an estimated capital gain of €138 million, evidencing the value that the Group has created with this company.

The company continued to develop its business by diversifying its customer portfolio. During the year, it added the portfolios of mutual funds as a result of providing appraisal services for those portfolios in competitive tender processes, and agreements were signed to market additional developments.

In 2018, the range of brokerage services (sale and rental) for individuals and companies continued to grow. Solvia continued to expand its team and, in particular, its own network of agents and consultants for companies, as well as expanding its footprint through the franchise network. At the end of 2018, it had 19 own offices and had signed contracts with 42 franchisees in the main Spanish cities.

The company continued to invest in its marketing capability, enabling it to remain in the lead in terms of brand recognition in 2018.

In 2018, Solvia property sales amounted to €1,439 million and the loan recovery activity which Solvia executes for Sareb remained very dynamic, generating €175 million in liquidity. Solvia marketed 78 real estate developments in the year for its clients, with sales exceeding €130 million.

SDIN

SDIN, a new subsidiary focused on real estate development and on providing services related to development for the Banco Sabadell Group, Sareb and others, was established in 2018; land and sites identified as having specific appreciation potential were transferred to SDIN for development.

In its first year of operation, SDIN established a presence in the most dynamic housing markets in Spain, including Barcelona, Madrid, Seville, Málaga, Valencia and Alicante. It currently has 134 developments under management, comprising 6,364 homes, of which 47 are under construction (2,229 homes) and 50 are at the permit phase (2,369 homes). The others are at the design phase. It also has a bank of zoned and semi-zoned land for 173 future developments. A total of 680 homes were delivered to buyers in 2018.

The new subsidiary has also established itself as a key driver of the developer servicing business and multiplies the scope for gaining volume in this business by signing agreements with new clients. The ReDeS project, a joint venture to acquire, manage and develop homes that currently has 15 developments comprising 873 homes, is a particularly important development.

BS Capital

BS Capital is the department that manages the Banco Sabadell Group's industrial holdings. It focuses on acquiring temporary holdings in companies, with the main goal of maximising the return on investment.

In 2018, it drove the investment cycle in the defined action frameworks for each of the business areas, including notably the closure of three deals for Aurica III FCR (Agrosol Export, Winche Redes Comerciales and Grupo Larrumba), a new investment in a wind energy project in Mexico, and investment in more than 12 digital or technological startups (venture capital and venture debt).

Sabadell Venture Capital is Banco Sabadell's venture capital arm; its main objective is to provide early-stage support (seed capital, series A) to Spanish tech/digital startups that have strong growth potential.

Sabadell Venture Capital operates in the following areas:

- Venture capital: it acquires minority stakes, investing from €200,000 to €2 million per company with the aim of being the startup's financial partner and helping it to grow rapidly in areas such as strategy, internalisation and staff.
- Venture debt: Banco Sabadell was the first bank in Spain to launch a venture debt product. This funding product is aimed at startups to supplement series A capital and avoid diluting the shareholders. Loans amount to between €200,000 and €2 million per company, maturing in an average of 3 years. The debt is remunerated in the form of:
  - Interest payments.
  - Equity.

The portfolio of investees expanded in 2018 to reach 21 equity investments and 8 venture debt deals by year-end.

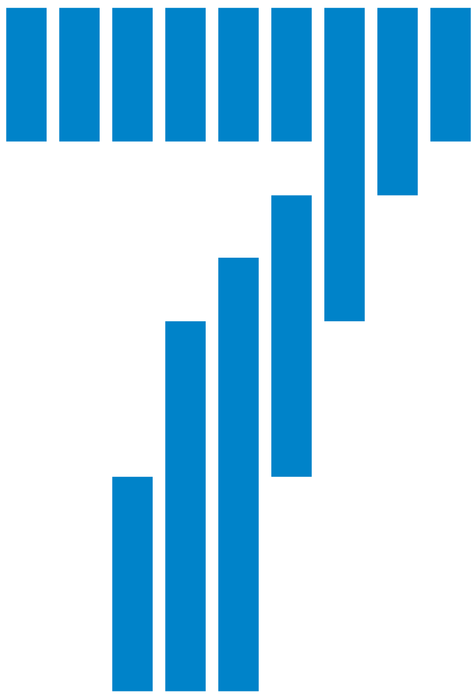
In its third year of operation, the Venture Capital department positioned itself as one of the leading investors in

Spain, and was recognized as one of the 10 most active corporate investors in Europe in 2018 according to the annual "The state of European Tech 2018" report published by Atomico, one of the world's leading venture capital funds.

Additionally, as part of Banco Sabadell's comprehensive strategy for the health sciences industry, it signed an investment agreement with Sabadell Asabys Health Innovation Investments, which specialises in drug discovery, medical devices and digital technology. It will focus on early-stage investment in biotech, medtech, digital health and innovative services in healthcare with the goal of reaching €60 million.

The department continued to actively manage its investments during the year, having divested PE Ausines, Saria Bioindustries International and Captio Tech; the latter, which focuses on managing personnel expenses using a mobile app, was acquired by its US rival Certify for €25 million, providing Sabadell Venture Capital with a sizeable return; it also advanced with divesting a number of venture capital funds. It also continued to work on formalising, managing and selling holdings acquired in debt restructuring and capitalisation processes. A noteworthy acquisition was Termosolar Borges.

Risk management



The improvement in the Group's fundamentals enabled it to maintain an investment grade rating from all the agencies that rate its debt.

Milestones in 2018

In 2018 the Banco Sabadell Group continued to strengthen its risk management framework and to make improvements in line with best practices in the financial sector.

The Banco Sabadell Group's risk appetite framework takes account of the Group's structure resulting from internationalisation in order to ensure consistency and effective implementation of the risk appetite statement (RAS) in all geographies (G1).

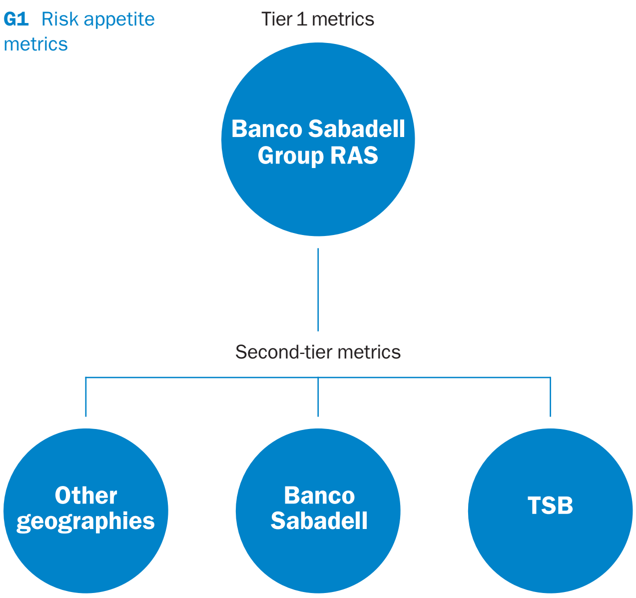
The RAS acts as a first tier in which to set overall limits and targets, while a second tier elaborates on the first-tier targets and limits applied to the various geographies.

The Risk Appetite Framework was strengthened through the development and deployment of risk management and control frameworks on the basis of portfolios, sectors and geographies.

During 2018, the Group's risk profile continued to be strengthened, along with the risk management and control environment, through the development of management and control frameworks for specific portfolios, sectors and geographies. This powerful tool makes it possible to deploy the Risk Appetite Framework and guide growth in lending while seeking to optimise the risk/return ratio over the long term.

Additionally, the Group's customer risk tracking environment has been updated. The early warning system has been integrated into management approaches through a new tracking environment under which different strategies can be applied depending on the segment (individuals, shops and self-employed workers, businesses and companies).

G1 Risk appetite metrics



Improvement of the Group's risk profile during the year

The Group's risk profile during 2018 improved mainly for three reasons:

Regarding international diversification, international credit risk (€45,225 million) represents 31.0% of the Group's total exposure, having multiplied six-fold since 2014. The increase in the Group's international diversification continues to be largely due to the acquisition of TSB, with an exposure of €34,151 million. The TSB portfolio is in a stable trend and has a remarkably low risk profile (over 90% consists of retail mortgages with an average LTV of 44%), while its composition is improving steadily, as the proportion of interest-only and buy-to-let loans is declining. Excluding the effect of the acquisition of TSB, the Group has expanded overseas by 65% since 2014 (even taking into account the sale of Sabadell United Bank in July 2017), with business growth rates in Mexico being particularly noteworthy.

As for concentration, real estate exposure has been reduced (to one-third of the exposure it represented in 2014) and retail exposure has increased following the acquisition of TSB in 2015. The Group's portfolio is well diversified in terms of sectors, with an upward trend in sectors with higher credit quality. Risk metrics relating to concentration of large exposures have also declined. In geographical terms, the portfolio is positioned in the most dynamic regions, both domestically and internationally.

As for the quality of the loan book, non-performing assets at Group level were reduced by €1,518 million in 2018, not including the impact of the institutional sales of loans announced in the second quarter of 2018. During 2018, the Group completed a number of transactions for the institutional sale of non-performing assets, having disposed of practically all of the problematic exposures on the Group's balance sheet. In parallel, the Group continues to reduce its volume of Stage 3 loans, in line with the trends of recent years. Since 2013, non-performing exposures have been reduced by 63.5%, with the balance falling by €11,401 million. As a result, the Group's NPL ratio fell from 5.14% to 4.22% in 2018.

The improvement in the Group's fundamentals, mainly in terms of risk, enabled it to maintain an investment grade rating from all the agencies that rate its debt. In particular, S&P upgraded its long-term credit rating to BBB, from BBB-, on 6 April 2018, and DBRS Rating Limited changed its outlook to positive (from stable) on 16 July 2018 while affirming its BBB (high) long-term rating.

Strengthening the risk management and control environment

Planning and control of stock and new production

The risk management and control environment continued to be strengthened in 2018 through the development and deployment of credit risk management and control frameworks for certain portfolios, sectors and geographies.

In each of these frameworks, the Group's appetite in the sector or portfolio in question, and the requirements to achieve it, are determined by establishing:

— Asset allocation, setting the growth targets in each key pillar (quality, type, etc.).
— General principles to guide the activity in each portfolio, sector or geography.
— Basic policies for accepting and monitoring loans and credit.
— Risk tracking and control metrics (relating to both stock and new production).

Asset Allocation / Sectoral Strategic Debate

The Sectoral Strategic Debate arises in the context of the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS), and is one of the key developments since 2014 in the Banco Sabadell Group's sectoral risk management and control model.

As a result of this initial development, the following steps were taken:

— Definition and calculation of key metrics to monitor and manage sectoral concentration risk, and subsequent inclusion as first-tier metrics in the RAS.
— Creation of the Sectoral Analysis Division, reporting to the Chief Economist.
— Generation of a 'correlated sectorisation model' by grouping sectors under a risk management approach so as to enhance the existing expert model.

In this context, a decision was made to create a mechanism to integrate all of the Group's current outlooks in relation to sectoral risk. This determined the need to promote a Sectoral Strategic Debate in order to establish the Group's sectoral asset allocation strategy, integrating to this end the various existing outlooks within the organisation in relation to the various sectors of the economy.

The project pursues the following objectives:

— Obtain the Group's sectoral strategic outlook.
— Detect growth opportunities as well as undesirable scenarios.
— Define mechanisms to achieve the agreed objectives.

Pricing system that guarantees alignment with credit risk

A pricing process in which prices are assigned on the basis of the cost, risk and allocated capital at transaction level, which is particularly important in the current very competitive pricing environment.

The Group uses Risk adjusted Return on Capital (RaRoC) as a key risk screening factor to ensure the existence of a framework that measures return on the basis of risks and that contributes a coherent vision of returns in the various portfolios.

Improved tracking environment

In 2018, the Group continued to strengthen its customer credit risk monitoring environment, by factoring in the sectoral strategic outlook and using it on a forward-looking basis in order to anticipate customer needs. The early warning system is incorporated into management procedures through a monitoring environment that allows different strategies to be implemented depending on the segment (individuals, shops and sole traders, businesses and companies).

The main input used in this monitoring environment is taken from the early warning models adapted to the various segments. This allows for:

— Improved efficiency by focusing monitoring activities on customers with signs of impairment.
— Early action in response to signs of impairment; renewal of the rating for customers that have experienced impairment depends on the Basic Management Team.
— Regular oversight of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.
— Feedback using the information from the Basic Management Team as a result of actions taken.

Improved management of the risk associated with NPAs

During 2018, in compliance with the requirements in the ECB's "Guidance to Banks on Non-Performing Loans", the Board of Directors approved the second version of its "Strategic Plan for Managing NPAs" as well as the corresponding update of the "Operational Plan for Managing NPAs". The key points of the Strategic Plan are as follows:

— Principles for managing those assets.
— A governance and management structure that facilitates achievement of those goals.
— Quantitative objectives, with different time horizons, to reduce Stage 3 and foreclosed assets.

In order to achieve these results, the Bank set itself three strategic priorities in relation to managing non-performing assets:

— Continuous reduction of non-performing assets until full de-risking has been achieved.
— Focus on managing NPAs through the specialised services of the Asset Transformation and Industrial and Real Estate Holdings Department, which was one of the first workout units in Spain.
— Maintenance of solid, adequate coverage of non-performing assets.

These three strategic priorities translate into six principles for managing non-performing assets, which are:

— Early action to manage delinquency and preventive action to avoid delinquency.
— Segmented management of all non-performing and potentially non-performing exposures (potential delinquency).
— Large-scale reduction of the non-performing loans and foreclosed assets that have been on the balance sheet the longest.
— Business intelligence and continuous process improvement.
— Funding capacity.
— A clear governance system based on three lines of defence.

The Strategic Plan for Managing NPAs and its objectives are fully integrated into the Bank's risk management and control mechanisms, given that:

— The 2020 Plan and the Budget are fully consistent with them.
— They are integrated into the risk appetite framework (RAF), where the risks relating to NPAs are considered significant and are therefore subject to specific policies and metrics.
— They are taken into account in risk assessment processes, capital planning, stress tests and in quantifying economic capital as part of the ICAAP.
— They are also incorporated into other tools used by the organisation (ILAAP, Recovery Plan, etc.).

Accordingly, the actions relating to NPAs in the Strategic Plan and the Operational Plan are implemented appropriately throughout the entire organisation.

Main risks in the Risk Appetite Framework

Introduction

Banco Sabadell Group has a Risk Appetite Framework in place which is intended to guarantee the control and proactive management of all of the Group's risks. This framework includes a risk appetite statement (RAS), which establishes the amount and diversity of risks that the Group seeks and tolerates in order to achieve its business goals while maintaining a balance between risk and returns.

The Banco Sabadell Group's Risk Appetite Framework takes into account the Group's international structure in order to ensure consistent and effective deployment of the Group's RAS in all geographies.

A first tier comprises the Group's RAS, setting overall objectives and limits, and a second tier provides details of the first-tier objectives and limits in the various geographies.

The RAS comprises quantitative metrics that allow risk management to be monitored objectively, as well as qualitative aspects that complement the quantitative aspects and set out the Group's position in relation to risks that cannot be easily quantified.

These quantitative metrics are divided into:

— Basic first-tier metrics: quantitative aspects that allow the accepted risks to be monitored objectively and enable them to be controlled and managed efficiently, both at Group level and in the various geographies.

— Second-tier metrics: quantitative aspects at portfolio level that allow the stock of existing loans as well as new production to be monitored and which enable accepted risks to be controlled and managed efficiently.

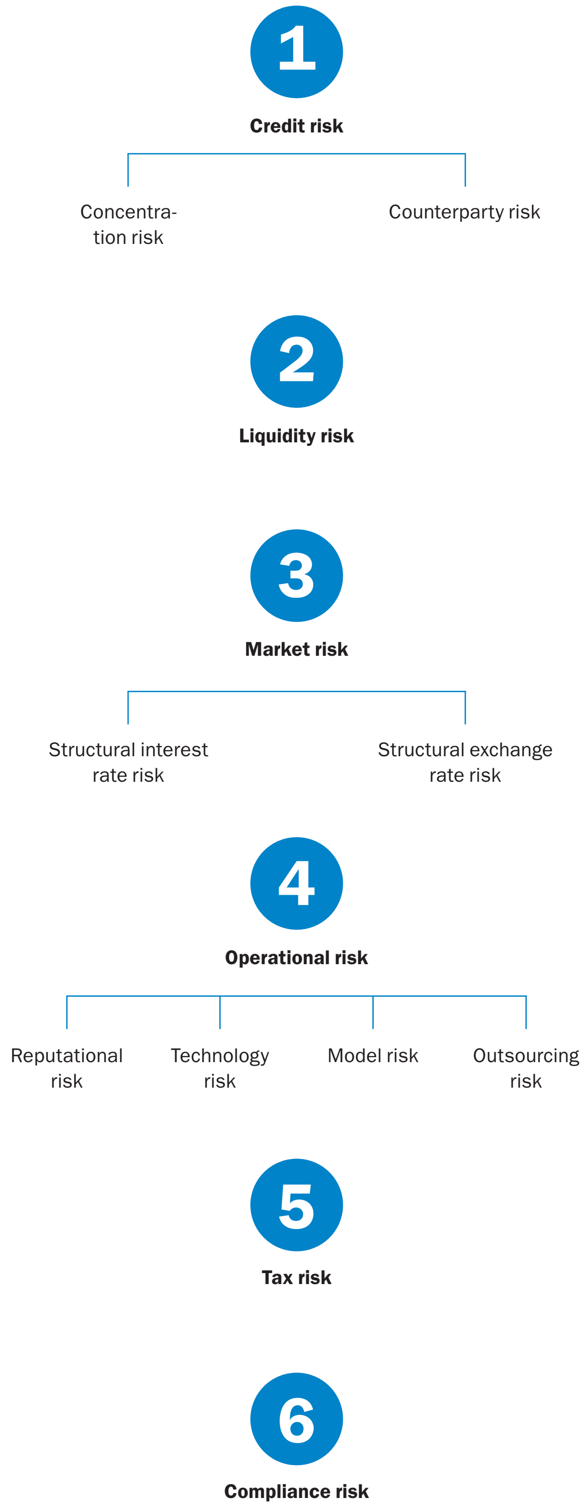
The risk management and control approach consists of a broad framework of advanced measurement principles, policies, procedures and methodologies integrated into an efficient decision-making structure under a governance framework for the risk function that conforms to Spanish and European law.

The Banco Sabadell Group's risk policies are a set of documents that are reviewed regularly, following the established governance, the Board of Directors having ultimate responsibility.

For each of the Group's significant risks, the policies describe the principles and critical management parameters, the main people and units involved and their duties (including the roles and responsibilities of the various departments and committees in relation to risks and their control systems), the associated procedures, and the monitoring and control mechanisms (G2).*

The main financial risks facing Banco Sabadell Group companies as a consequence of their activities associated with the use of financial instruments are credit risk, liquidity risk and market risk. The most important of these

G2 Main risks



for the Group's loan book is credit risk.**

The main non-financial risks faced by the Group are operational risk, technology risk, tax risk and compliance risk.

When managing risks, the Group considers the macroeconomic and regulatory environments.***

General principles of risk management

Corporate risk culture

Banco Sabadell's risk culture is one of its distinguishing features and is well established throughout the organisation as a result of continuous development over decades. Among the aspects that characterise this strong risk culture are:

— A high level of Board of Directors involvement in risk management and control procedures. The bank has had a Risk Committee since before 1994, and its main function is to oversee the management of all significant risks and align them with the risk profile defined by the Group.
— Banco Sabadell Group has had a Risk Appetite Framework in place since 2014. It includes the Risk Appetite Statement, which guarantees the control and proactive management of risks under a strengthened framework of corporate governance, which has been approved by the Board of Directors.
— The Basic Management Team as a fundamental part of risk acceptance and monitoring. Under this approach, which has been in existence for more than 20 years, the team consists of the relationship manager and the risk analyst. The process combines the viewpoints of both parties. All decisions must be discussed and resolved by agreement between them. This ensures that the Commercial and Risks units work together as a single team and guarantees their involvement in decision-making processes, contributing to the quality of discussions and the soundness of the conclusions, while improving the customer experience.
— Proactive management by consensus within the Basic Management Team regarding actions that need to be taken with respect to customers, in terms of both growth and prevention, by applying a forward-looking approach to managing the shared portfolio.
— Career paths that offer the opportunity to work as part of both the Commercial team and the Risks team, which allows staff to increase their cross-functional skills, contributes to their professional growth and allows them to increase their knowledge of customers by providing them with a single overarching vision.
— High degree of specialisation: specific management teams for each segment (real estate, corporate, businesses, SMEs, retail, banks and countries, etc.), allowing for a specialised management approach in each area.
— Advanced internal credit scoring models have been in place as a basic part of the decision-making process for over fifteen years (since 1999 for individuals and since 2000 for businesses). In accordance with best practices, the Group relies on these models to improve the general efficiency of the risk management process. Insofar as these models not only make it possible to sort borrowers in terms of risk but also serve as the basis for quantifying risk, they lend themselves to multiple uses in key management processes: fine-tuning delegations of powers, efficient risk tracking, overall risk management, risk-adjusted returns, and analysis of the Group's capital adequacy, among others.
— The delegation of powers to approve corporate risk transactions is based on the expected level of loss. As a general policy on empowerment, the Bank applies a system in which the various levels are delimited on the basis of expected loss, which considers the exposure to the risk of the customer's proposed credit transaction and the risk group, expected default rate and estimated loss given default.
— Rigorous credit risk monitoring, supported by an advanced system of early warnings for corporates and individuals, which is integrated into a tool with a comprehensive forward-looking vision of customers. Risk monitoring at customer and group level can be divided into three types: operational, systematic and comprehensive. One of the basic sources used for this monitoring is an early warning system for both businesses and individuals (implemented in 2008 and 2011, respectively) which allows credit risk to be identified in advance. These warnings are based on internal information such as the number of days non-performing, overdrafts on commercial discounting facilities, bank guarantees and international loans, as well as external information, such as customers classed as defaulters in the rest of the financial system and information available from credit bureaux.
— An advanced non-performing asset risk management model that strengthens the specialised forward-looking approach to risk management. A comprehensive management model which allows different options to be applied to situations in which default is most likely (early default management, forbearance, debt collection, etc.). This comprehensive system uses specific tools (simulators to identify the best solution in each case) and specialised managers in each segment who work exclusively on risk management.
— Risk-adjusted pricing. Commercial pricing policy is dynamic, adapting constantly to changing economic and

* For additional information, see Note 4 to the 2018 consolidated financial statements.
** See the capital map in the chapter "Banco Sabadell Group financial information".
*** For information on the macroeconomic and regulatory environment, see the chapter on "Economic, business and regulatory environment".

financial market conditions (liquidity premia, difficulty in accessing credit, interest rate volatility, etc.). The cost of funding and cost of risk (expected credit loss and cost of capital) are taken into account in order to avoid adverse selection caused by inadequate identification of the risk. Risk models play a vital role in determining prices and profitability targets.
— The risk management model is fully integrated into the Bank's technology platform, with the result that policies are applied immediately in everyday processes: the policies, procedures, methodologies and models that make up Banco Sabadell's risk management approach are built into the Bank's operating platform. This proved particularly important when integrating the Group's acquisitions.
— Stress testing as a management tool: For some years, Banco Sabadell has been using an internal tool to perform stress tests, supported by in-house teams with extensive experience in its development.

Risk Appetite Framework

The Risk Appetite Framework includes, among others, a risk appetite statement (RAS), defined as the quantity and diversity of risks that the Banco Sabadell group seeks and tolerates in order to achieve its business objectives while maintaining a balance between risk and returns.

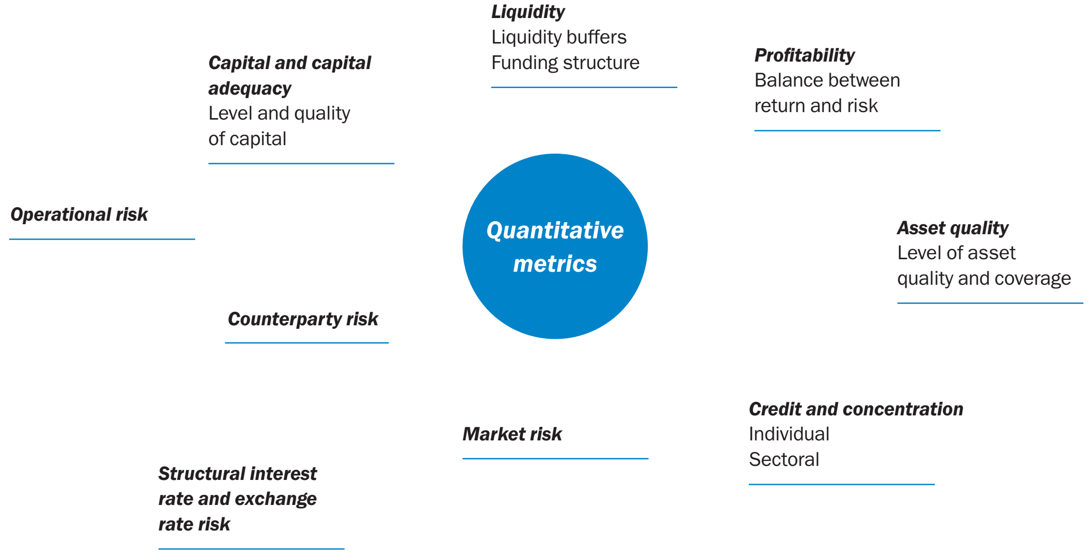
The RAS is composed of quantitative metrics (G3) which allow for objective monitoring of the achievement of objectives and of established limits, and qualitative elements that supplement these metrics and guide the Group's risk control and management policy.

Qualitative aspects

In addition to the quantitative metrics, the following main qualitative metrics guide the Group's risk control and management approach:
— The Group's general position with regard to risk aims to achieve a medium-to-low risk profile through the use of a prudent, balanced risk policy that will ensure profitable, sustainable business growth, and guarantee that it is aligned with the Group's strategic objectives in order to maximise value creation while ensuring an appropriate level of capital adequacy.
— The Board of Directors is committed to the risk management and control processes: approval of policies, limits, management model and procedures, and the measurement, monitoring and control methodology.
— The Group maintains a risk culture that is embedded throughout the institution and has various units that specialise in specific risks. The risk function conveys this culture by introducing policies, implementing and rolling out internal models, and adapting these to the risk management processes.
— Risk management policies and procedures are oriented to adapting the risk profile to the Risk Appetite Framework while maintaining and pursuing a balance between expected returns and risk.
— The Banco Sabadell Group risk management and control system is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are integrated into an efficient decision-making structure. The risk variable is factored into decisions in all areas and quantified using a common metric in terms of allocated capital.

Quantitative elements

G3 Risk appetite statement



— Risk management is underpinned by solid, ongoing procedures for checking that risks conform to pre-defined limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk assessment methodology.
— Capital and liquidity levels should be sufficient to enable the institution to cover the risks it has accepted, even in adverse economic situations.
— Risk concentration should not reach a level such as to significantly compromise shareholders' funds.
— Market trading risk is assumed in order to handle the flow of transactions arising from customer business and to seize market opportunities while maintaining a position that is commensurate with the Bank's market share, risk appetite, capacity and profile.
— The risk function is independent and has strong senior management involvement, ensuring a robust risk culture focused on protecting capital and an adequate return on capital.
— The Group's aim in terms of tax risk is to ensure compliance with tax obligations while guaranteeing an adequate return for shareholders.
— Achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.
— The Group must have sufficient human and technological resources to track, control and manage all the risks that may arise in the course of its business.
— The Group's compensation systems should align the interests of employees and senior management with compliance with the Risk Appetite Framework.

Overall organisation of the risk function

The Group has a risk culture that is integrated into all of its units. It has units managing different risk types, so as to guarantee the independence of the risk function, combined with strong senior management involvement.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect. For this reason, the Board of Directors is the body responsible for approving the Risk Appetite Framework (developed in cooperation with the Managing Director, the Chief Risk Officer and the Chief Financial Officer) and ensuring that it is aligned with the bank's short- and long-term objectives, as well as with the business plan, capital planning, risk capacity and compensation programmes.

There are four Board sub-committees to which the Board of Directors delegates its functions using the powers conferred on it in the Articles of Association; the sub-comittees report to the Board of Directors about the performance of their functions and any decisions they adopt (G4).

The Group's control framework is based on three lines of defence, structured around the following assignment of functions:

First line of defence

This consists mainly of the business units and corporate centres, principally the Risk Management Department, the Finance Department, the Treasury and Capital Markets Department, and the IT Control Department. The first line of defence is responsible for managing the risks inherent in the bank's activity, mainly the acceptance, monitoring and assessment of these risks, and the associated processes.

Board committees related to risk management

Risk Committee	Executive Committee	Audit and Control Committee	Remuneration Committee
Supervision of the risk profile and suitability of the RAS	Approval of transactions by delegation Approval of the asset allocation strategy	Supervision of the efficacy of internal control, internal audit and risk management systems	Oversight of remuneration policy and its alignment with the Risk Appetite Framework

Main committees related to risk management

Technical Risk Committee	Asset/Liability Committee	Credit Transactions Committee	Asset and Capital Transactions Committee	Operational Risk Committee	UK Coordination Committee
Risk Committee support Risk management	Balance sheet structural risk monitoring and management	Approval of credit transactions by delegation	Approval of asset transactions by delegation	Operational risk management and monitoring	Guarantee alignment between TSB and Group policies

G4 Board sub-committees and main committees related to risks

It is responsible for implementing corrective actions to remedy weaknesses in processes and controls. The essential functions attributed to this line under the control framework are:
— Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis.
— Identifying, assessing, controlling and mitigating risks, following established internal policies and procedures and ensuring that activities are consistent with the bank's targets and objectives.
— Establishing proper management and supervision processes to ensure regulatory compliance and focusing on control errors, inadequate procedures and unexpected events.

Second line of defence
This consists essentially of:
— The Risk Control Department, which is independent of the first line of defence and is responsible for identifying, measuring, monitoring and controlling the Group's significant risks and for providing information about such risks.
— The Compliance Department, whose goal is to minimise the possibility of regulatory breaches and ensure that any breaches that occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented.
— The Internal Validation Department, which is responsible for checking that the models work as expected and that their results are appropriate to their uses, both internal and regulatory.

In general, the second line of defence ensures that the first line of defence is well designed and fulfils the functions assigned to it, and puts forward suggestions for continuous improvement. The essential functions attributed to this line under the control framework are:
— Proposing the risk management and control framework.
— Guiding and ensuring the application of the risk policies, defining responsibilities and objectives for their effective implementation.
— Collaborating with the management team to develop risk management processes and controls.
— Identifying changes in the organisation's underlying risk appetite.
— Verifying compliance with the regulations applicable to the Group in conducting its business activities.
— Providing the technological infrastructure for risk management, measurement and control.
— Analysing and cross-checking existing and future incidents by reviewing the information.
— The internal validation function, which is responsible for checking that these models work as expected and that their results are appropriate to their uses, both internal and regulatory.
— Promoting and endeavouring to reach the highest levels of compliance with the legislation in force and principles of professional ethics within the Group.
— Guaranteeing both the operational continuity of the ordinary business and the security of the information that sustains it.

Third line of defence
Underpinned by the Internal Audit Department, it performs the following functions.
— Verification and advisory activities on an independent and objective basis, governed by a philosophy of adding value and helping the Group to fulfil its objectives.
— Assists the Group in meeting its objectives by providing a systematic, disciplined approach to evaluating the sufficiency and effectiveness of the organisation's governance processes and the risk management and internal control activities.

Planning and stress testing

The Banco Sabadell Group has an internal process for planning and stress testing involving teams with extensive experience in such exercises, which involve carrying out an in-depth analysis of how the Group's income statement and balance sheet would perform in a specific scenario.

The risk forecasting models represent a key aspect of the Group's management activities, as they enable an assessment to be made of the ways in which a range of economic scenarios might impact the Group's capital position and its attainment of its target risk appetite. These scenarios set out the main risk factors that might affect the Group's results and solvency. Three main uses of the forecasting techniques developed by the Group have been identified: drafting the Strategic Business plan, performing internal stress tests, and executing regulatory stress tests.

The internal forecasting exercises, Strategic Business Plan and stress tests are not carried out independently; they share certain common factors in terms of the definition of the economic scenarios used for such purposes and also in relation to other exercises such as liquidity stress tests and the development of recovery plans.

The internal economic scenarios are described in terms of the main macroeconomic aggregates (GDP, unemployment rate, etc.) and in terms of financial variables (home prices, interest rates, exchange rates, etc.) and they generally follow the structure described below:
— Baseline scenario: this is the most likely economic scenario and it is used to prepare the Strategic Business Plan and also as the baseline scenario for the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).
— Global adverse systemic scenario: this is an adverse scenario that assumes a global recession and, though possible, has a low probability of arising. This scenario is used as the most adverse scenario when preparing the ICAAP and it is also shared with the ILAAP.
— Specific adverse scenarios: these are adverse scenarios that reflect situations that are relevant to the Group's specific risk profile, e.g. Brexit.
— Recovery scenario: this is the most adverse scenario

possible. It is based on the global adverse systemic scenario but includes an additional level of stress which makes it suitable for the purposes of a recovery plan.

Strategic Business Plan

The Group draws up a Strategic Business Plan which sets out the institution's strategy over a certain period of time (currently 2018-2020). The Plan is also monitored on a regular basis, and it is updated every year to ensure it takes into account the most recent evolution of the portfolios and risks undertaken by the Group. This projection is carried out on the basis of the most likely economic scenario for the key geographies (baseline scenario), and it is also used as the baseline scenario in the ICAAP. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

The Strategic Business Plan's projection exercises and monitoring are integrated into management procedures, as they set out the key aspects of the Group's medium- and long-term strategy. The Plan is prepared at business unit level, on the basis of which the Group manages its activity, and annual results are also assessed in terms of compliance with the target risk appetite.

Together with the internal stress test results, the outcomes of the projections used to prepare and monitor the Strategic Business Plan are a necessary input for assessing the suitability of the thresholds (targets or tolerance limits) defined in order to quantify the Group's risk appetite.

Internal stress tests

Under the framework of the ICAAP, the Group regularly carries out multi-year stress testing exercises (over a 3-year projection period) in order to assess the potential impacts that adverse economic scenarios could have on the Group's capital position and on fulfilment of its Risk Appetite Framework. The macroeconomic scenarios are designed and selected to reflect feasible but unlikely adverse situations, which are also in line with the particular characteristics of the Group's business: composition and geographical location of the risks.

The Group's internal stress testing exercises are integrated into its management procedures. They assess the impact of adverse economic scenarios on the level of compliance with the Risk Appetite Framework, as well as the impact of a potential adverse scenario on each business unit. The results of the tests are sent to the governing bodies for approval, thereby ensuring that the Group's management team has access to the necessary information to assess the Group's solvency and the degree of compliance with its risk appetite under adverse scenarios.

The results of tests of this type are used as input for the review and definition of the thresholds (targets or tolerance limits) relating to the metrics used to define the Group's risk appetite.

These scenarios are complemented with the identification of specific events, under the framework of reverse stress testing exercises, which could represent significant risks for the Group's solvency.

Regulatory stress tests

The Group takes part in regulatory stress tests conducted by the European Banking Authority together with competent national authorities, the European Central Bank and the European Systemic Risk Board. These tests are conducted every two years. They cover the main risks undertaken by the Group, assess the institution's capital position under a baseline scenario and under an adverse scenario over a three-year time horizon, and they serve as a basis for establishing Pillar 2G. The main new feature in 2018 with respect to the previous stress tests was the inclusion of IFRS 9 when projecting credit losses.

The Group carries out its regulatory stress test using existing internal approaches, although subject to the methodological restrictions of the regulatory stress test. This enables the results of the regulatory stress test to be analysed and considered in internal processes and provides additional input with which to assess the internal stress tests, and vice versa. Like other forecasting exercises, the results of the stress tests are submitted to the Group's management bodies for approval.

Managing and monitoring the main risks

Credit risk

Credit risk is the possibility that losses may be incurred as a result of borrowers failing to honour their obligations or through losses in value due simply to deterioration in borrower quality.

Credit risk management framework

Risk acceptance and monitoring

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to honour their obligations to the Group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also normal practice to mitigate exposure to credit risk by requiring borrowers to provide sureties.

The Board of Directors grants powers and autonomy to the Executive Committee to allow the latter to delegate responsibilities to other decision-making levels. The implementation of authority thresholds for credit approval ensures that powers delegated at each level are linked to the expected loss calculated for each transaction that is requested.

To optimise the business opportunities provided by each customer and guarantee an appropriate level of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst who, by maintaining effective communication with the units involved, are able to obtain a comprehensive (360°), forward-looking view of each customer's individual circumstances and needs.

The relationship manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking, while the risk analyst takes a more system-based approach using specialised knowledge.

The implementation of advanced risk management methodologies (in line with the New Basel Capital Accord and industry best practices) also benefits the process by ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are tools such as credit rating systems for corporate borrowers and credit scoring systems for retail customers, as well as early warning indicators for monitoring risk. These are integrated into a single tool that provides a comprehensive forward-looking vision of customers.

By analysing indicators and early warning alerts in addition to credit rating reviews, the quality of a risk can be monitored constantly in an integrated way. The establishment of efficient procedures to manage performing loans also benefits the management of past-due loans by enabling a proactive policy to be devised based on a preliminary identification of any cases with a propensity to default.

Risk is tracked in all exposures in order to identify possible problematic situations and avoid a deterioration in credit quality. In general, this monitoring is based on early warning systems at both transaction/borrower and portfolio level, and both systems use the firm's internal information and external information in order to obtain results. Risk tracking is forward-looking, i.e. seeking to predict changes in circumstances so as to take action with an impact on the business (increase lending) and prevent risk (reduce exposure, enhance collateral, etc.).

The early warning system gives an integrated measurement of the quality of a given risk and enables it to be referred to recovery specialists, who will determine the procedures that should be applied. Therefore, based on risks exceeding a certain limit and on the predicted default rates, groups or categories are identified for individual treatment. These warnings are managed complementarily by the account manager and the risk analyst.

Managing non-performing risks

Generally, during stages of weakness of the economic cycle, debt forbearance and restructuring are the main risk management techniques used. In the case of debtors or borrowers that have, or are expected to have, financial difficulties in meeting their payment obligations in the contractual terms, the Bank's objective is to facilitate repayment of the debt by minimising the likelihood of non-payment. A number of common policies to achieve this are in place, as well as procedures for the approval, monitoring and control of debt forbearance and restructuring processes, the most significant of which are the following:

— Having a sufficiently detailed compliance record for the borrower and evidence of a clear intention to repay the loan, assessing the time-frame of the financial difficulties they are experiencing.
— Forbearance and restructuring conditions based on a realistic repayment schedule which is in line with the borrower's current and expected repayment capacity, preventing issues being put off until a later date.
— If new guarantees are provided, they must be regarded as a secondary and exceptional means of recovering the debt, so as to avoid impairing the existing means. In any event, all ordinary interest accrued must be paid up to the refinancing date.
— Limitations on grace periods.

The Group continually monitors compliance with current terms and conditions and with these policies.

Internal risk models

Banco Sabadell Group also has a system which is made up of three lines of defence to ensure the quality and oversight of internal models, as well as a governance process which has been specifically designed to manage and monitor these models and to ensure compliance with the regulations and the supervisor's instructions.

The governance framework for internal credit risk and impairment models (risk management, regulatory capital and provisions) is underpinned by:

— Effective management of changes to internal models.
— Recurring monitoring of the internal model environment.
— Regular reporting, both internal and external.
— Tools for managing internal models.

One of the main bodies within the governance framework for internal credit risk and impairment models is the Models Committee, which convenes on a monthly basis and has the function of approving (depending on the materiality level) and tracking internal credit risk models.

The Banco Sabadell Group also has an advanced model for managing non-performing exposures. The purpose of managing non-performing exposures is to identify the best solution for the customer as soon as there are any signs of impairment so as to prevent customers in difficulties from reaching a situation of default by working the problem intensively and avoiding lags between phases.*

*** For further quantitative information, see Schedule VI of the consolidated financial statements "Other risk information: Refinancing and restructuring operations".**

Real estate loan risk management

As part of its ongoing risk management and, in particular, its policy on the construction and real estate sectors, the Group has a number of specific policies for mitigating risks.

The main measures that are implemented are continuous risk monitoring and reassessment of the borrower's creditworthiness in their new circumstances. If the borrower is found to be creditworthy, the existing arrangements are continued as originally agreed, and commitments are renegotiated if they offer a better fit to the customer's new circumstances.

The policy varies as a function of the type of asset that is being financed. For completed property developments, sale support actions are carried out through the Group's distribution channels, by setting a competitive price which will attract demand and by offering finance to end buyers provided that they meet the risk requirements. For projects in progress, the main objective is to complete construction, provided that short- and medium-term market prospects are sufficient to absorb the resulting supply of dwellings.

As regards financing for land and plots, the possibility of selling the future homes is also considered before financing construction.

Where the analysis and tracking do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt ("dation in payment") and/or the purchase of the assets.

Where a solution of this kind is not practicable, legal proceedings are taken to foreclose.

Assets taken into possession by the Group, whether through the dation in payment, purchase, or court-ordered repossession, whether in debt collection or to execute other credit enhancements, are mainly foreclosed tangible assets received from borrowers and other obligors of the Bank to settle financial assets representing a debt claim held by the bank, and they are managed actively with the primary purpose of divestment.

Depending on the stage of completion of the construction process in the case of real estate assets, three strategic lines of action have been established.

1 New funding: real estate development

In late 2014, a commercial unit was re-established to deal exclusively with new lending to real estate developers based on the identification of a market need and the existence of solvent new players. This unit has a new monitoring methodology that gives the Group detailed information about all the projects that the unit is considering (land/floor area, number of units, sales volume, construction budget and level of pre-sales).

In parallel, a new Real Estate Analysis Department was created to analyse all applications for finance for real estate projects from a purely real estate business standpoint, focusing on the location and the suitability of the product, as well as the current potential supply and demand, cross-checking with the figures in the business plan presented by the customer (costs, sales and deadlines are key factors). The new analysis model is accompanied by a method for tracking developments that the bank agrees to finance. The progress of each real estate development project is monitored using standardised reports in order to control drawdowns and fulfilment of the business plan (sales, costs and timelines).

Under the new management model, alerts are defined for tracking by both the Analysis and Monitoring Department and the Risks Department, both of which participated in defining the alerts. In addition to the alerts for funded developments, new funding is based on the development framework, which defines the optimal allocation of new business as a function of the quality of the customer and of the development.

2 Managing non-performing real estate loans

Non-performing exposures are managed in line with the defined policy. Risk management generally takes account of the customer, the collateral and the loan status, ranging from the first early warning about a performing loan to the adoption of dation in payment or purchase by mutual agreement, or foreclosure and auction.

After analysing those three dimensions, the optimal solution is adopted in order to stabilise or liquidate the position, by mutual agreement or judicial means, depending on developments with the individual customer and case. If it is not possible to stabilise the loan or have the customer settle, there are number of backup options depending on the type of loan and the asset it funds. In the case of finished developments or non-residential buildings, the possibility is offered of marketing them via Solvia at prices that can generate demand in the market. In the case of land for building, the possibility of additional debt with which to develop homes is offered if the Bank's internal teams identify proven demand for housing in the area; they take charge of overseeing the loan and the selling process. For other properties, the possibility of sale to third parties is considered, solutions by mutual agreement are proposed (purchase, or dation in payment, which may be accompanied, in the case of residential properties, by favourable conditions to enable the borrower to relocate or obtain social housing, depending on the circumstances); judicial proceedings are a last resort.

3 Managing foreclosed properties

Once the loan is converted into real estate, a management strategy is established based on the asset type and location in order to identify its possibilities on the basis of potential demand. Sale is the main exit mechanism; for this purpose, the Bank, via Solvia, has developed a range of channels depending on the type of property and customer. Those channels are successful, as evidenced by the large volume of homes sold every year, the sizeable growth in the volume of non-residential properties, zoned land and pre-zoned land that is sold after market interest has been generated in these property types, and the fact that third parties rely on Solvia to market their properties.

In the case of certain sites and plots of pre-zoned land in areas with strong demand potential and scope for considerable price appreciation, the Bank invests to optimise the outcome, taking account of projected margins under conservative development assumptions.

Due to having previously reached a high level of concentration in this risk, the Group has an RAS tier-1 metric which establishes a maximum level of concentration for real-estate development in Spain. This metric is monitored on a monthly basis, and is reported to the Risk Technical Committee, the Risk Committee and the Board of Directors.

The Risk Control Department, together with the Business and Risk Management Departments, also regularly monitors the degree to which new lending conforms to the framework established for property developers, including a review of compliance and of asset allocation. The outcome is reported to the Risk Technical Committee.*

Credit risk management models

Credit rating

Credit risks incurred with corporates, developers, projects with specialised funding, financial institutions and countries are rated using a system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on an analysis of behaviour patterns in defaulted loans. Each internal rating score is assigned to a projected default rate, which allows consistent comparisons to be made across segments and with the ratings produced by independent rating agencies, according to a master scale (G5).

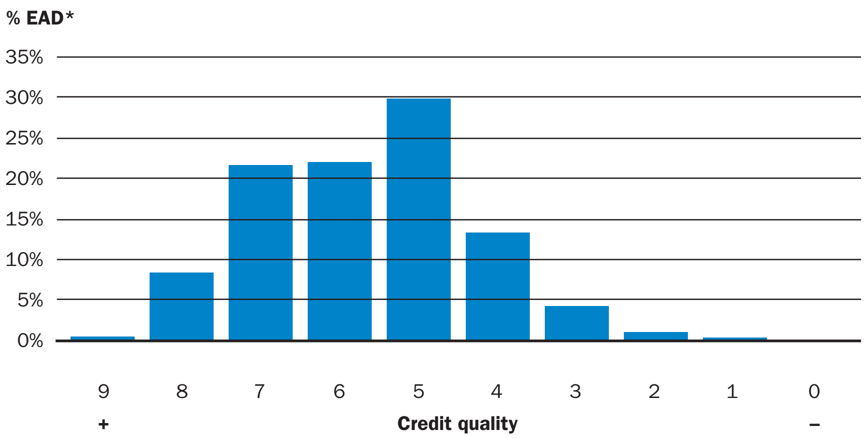
Scoring

In general, credit risks undertaken with individual customers are rated using scoring systems based on a quantitative model of historical statistics to identify meaningful predictive factors. In geographies where scoring is used, it is divided into two types.

Behavioural scoring: the system automatically classifies customers based on information regarding their activity and each product. It is used primarily for such purposes as granting loans, setting overdraft limits, targeting sales campaigns, and for monitoring and segmenting in claim and/or recovery procedures.

Reactive scoring: this approach is used to evaluate applications for personal loans, mortgage loans and credit cards. Once all the transaction data has been entered, the system calculates a result based on the estimated creditworthiness and financial profile and any collateral.

If no scoring system exists, individual assessments supplemented with policies are applied (G6).



G5 Company loan rating profile

* EAD (exposure at default)

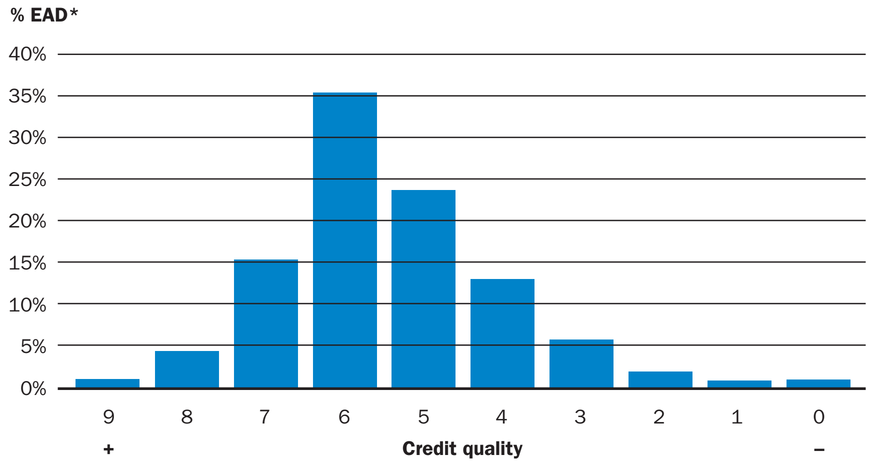
*** For further quantitative information, see Schedule VI of the consolidated financial statements "Credit risk: Risk concentration and exposure to the construction and real estate sectors".**

Warning tools

In general, Banco Sabadell Group has a system of early warnings comprised of both individual warnings and advanced early warning models in place for both corporates and private individuals. These early warnings are based on behavioural indicators that rely on available sources of information (rating or scoring, customer files, balance sheets, CIRBE — Bank of Spain Central Credit Register, industry and operating performance, etc.). They model the risk posed by a customer on a short-term basis (predicted propensity to default) and have achieved a high level of accuracy in detecting potential cases of default. The score, which is produced automatically, is included in the monitoring process as one of the basic inputs in tracking the risk posed by individuals and companies.

This alert system allows for:

— Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or score (different cut-off points for each group).
— Early action to manage any negative change in the customer's situation (change in score, serious alerts, etc.).
— Regular oversight of customers whose situation remains unchanged and who have been evaluated by the Basic Management Team.



G6 Individual customer portfolio credit score profile

* EAD (exposure at default)

Outstanding lending increased by +3.5% (in like-for-like terms) due to strong lending to SMEs and large corporates.

NPAs were reduced by 7.8 billion in 2018.

€M

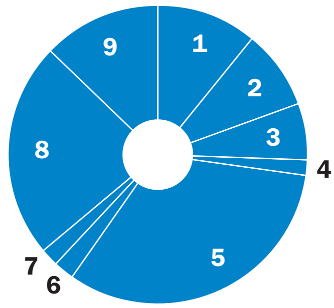
T1 Credit risk exposure

	2017	2018
Maximum credit risk exposure		
Financial assets held for trading	**131.76**	**324.69**
Equity instruments	7.43	7.25
Debt securities	124.33	317.44
Loans and advances	—	—
Financial assets not held for trading that are measured obligatorily at fair value through profit or loss	**39.53**	**141.31**
Equity instruments	39.53	—
Debt securities	—	141.31
Loans and advances	—	—
Financial assets at fair value through other comprehensive income	**13,187.17**	**13,247.06**
Equity instruments	413.30	270.34
Debt securities	12,773.87	12,976.72
Financial assets at amortised cost	**164,457.77**	**167,850.73**
Debt securities	11,748.66	13,132.06
Loans and advances	152,709.11	154,718.67
Derivatives	**1,814.76**	**2,022.25**
Total financial asset exposure	**179,630.99**	**183,586.04**
Guarantees given	1,983.14	2,040.79
Contingent liabilities given	20,906.05	22,645.95
Guarantees	9,916.99	8,233.23
Total off-balance sheet exposure	**32,806.19**	**32,919.96**
Total maximum credit risk exposure	**212,437.18**	**216,506.00**

Table 1 shows the financial assets exposed to credit risk, broken down by portfolio and instrument at year-end, indicating the carrying amount as representing the highest level of exposure to credit risk, inasmuch as it reflects the borrower's highest level of debt at the reference date.

The Group also maintains guarantees and loan commitments with borrowers, materialised by the establishment of guarantees provided or commitments inherent in credit facilities up to an availability level or limit, ensuring financing for the customer when the latter needs it. Those facilities also require the Group to assume credit risk and are subject to the same management and monitoring systems as described above.*

Figure G7 shows the distribution of credit risk across the Group's segments and portfolios.



G7
Overall risk profile by customer category (distribution of credit risk exposure) %EAD (Exposure at default)

1	Large corporates	11.1
2	Midsize businesses	8.4
3	Small businesses	6.3
4	Retailers and sole proprietors	1.5
5	Mortgage loans	32.5
6	Consumer loans	2.4
7	Banks	1.9
8	Sovereign	23.3
9	Other	12.6

Credit risk mitigation

Credit risk exposure is subject to rigorous monitoring and oversight through regular reviews of borrowers' creditworthiness and their ability to honour their obligations to the Group, with exposure limits for each counterparty being set at levels that are deemed to be acceptable. It is also normal practice to mitigate exposure to credit risk by requiring borrowers to provide sureties.

Generally, these take the form of real collateral, mainly mortgages on properties used as housing, whether finished or under construction. The Group also accepts, although to a lesser degree, other types of collateral, such as mortgages on business premises, industrial warehouses, etc., and financial assets. Another common credit risk mitigation technique is to accept guarantees, in this case subject to the guarantor presenting valid proof of solvency.

Legal certainty is secured in all these mitigation techniques by signing legal agreements that are binding on all parties and can be enforced in all pertinent jurisdictions to ensure, at all times, that the guarantee can be executed. This entire process is subject to internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be obtained where the contracts are subject to foreign law.

Collateral is formalised before a notary in the form of a public instrument to ensure enforceability vis-à-vis third parties. The public instruments referring to mortgage loans are also registered at the pertinent registry to ensure that they are fully valid and enforceable vis-à-vis third parties. In the case of pledges, the pledged goods are normally deposited with the Bank. Unilateral cancellation by the debtor is not permitted, and the guarantee remains in force until the debt is discharged in full.

Personal guarantees or bonds are established in favour of the Bank and, barring exceptional cases, are also formalised before a notary in the form of a public instrument

*** For more information, see note 26 and Schedule VI to the 2018 consolidated financial statements, which present quantitative data on collateral and commitments with respect to loans granted and credit risk exposure by geographical area, respectively.**

in order to achieve the utmost legal certainty and be able to seek enforcement via the courts in the event of non-payment. They constitute an irrevocable debt claim against the guarantor that is payable on first demand.

In addition to risk mitigation through the establishment of formal guarantees between the debtors and the entity, the acquisition of Banco CAM provided the group with an additional guarantee for a certain asset portfolio: the Asset Protection Scheme (APS), retroactive from 31 July 2011 and for a period of ten years (for more details, see Note 2 to the 2018 consolidated financial statements).

The Bank has not received significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of such guarantees, except for those intrinsic to the treasury business, which are mostly repos with maturities of no more than six months, as a result of which their fair value does not differ substantially from their carrying amount.

The main concentration of risk in relation to all these types of collateral or credit enhancements refers to the use of the mortgages as a credit risk mitigation technique in loans to fund the construction of homes or other types of real estate. Exposures secured with mortgage loans represent 61.1% of total gross lending.

The NPL ratio continues to decline and now stands at 4.2%.

The NPA coverage ratio was 52.1% in 2018.

Credit quality of financial assets

The Group generally uses internal models to rate most borrowers (or transactions) with which credit risk is incurred. These models have been designed in line with the best practices proposed by the New Basel Capital Accord (NBCA). Nonetheless, not all portfolios giving rise to credit risk use internal models, partly due to the fact that a minimum level of default experience is required to reasonably design such a model.

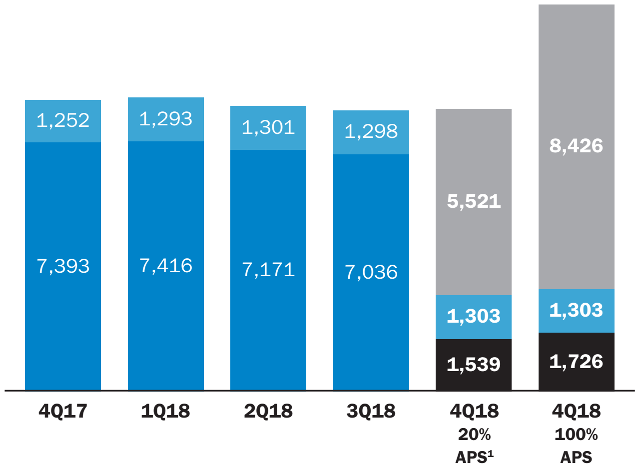
The percentage exposure of the institution calculated using internal models, for solvency purposes, is 79%. That percentage has been calculated following the TRIM guidelines (Article 31.a).

The breakdown of total exposure, based on internal ratings, is shown in figures G8 and G9.

Stage 3 loan performance improved in 2018, as the balance declined by €1,372 million, leading to an NPL ratio of 4.2% at year-end.

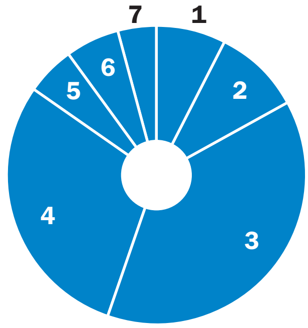
Active management by the Bank resulted in a notable reduction in NPAs in 2018 (G10, G11 & G12).

G10 Foreclosed assets excl. TSB (€M)



● Solvia Desarrollos Inmobiliarios

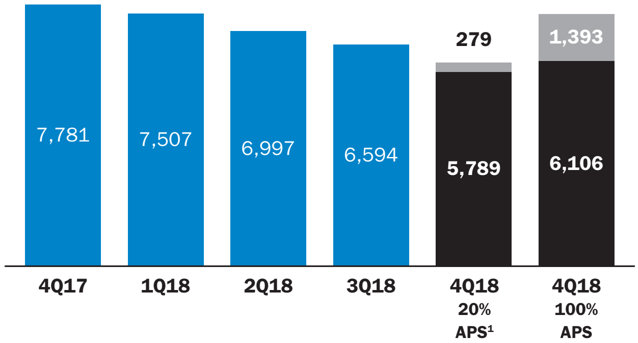
● Pro forma the institutional sales of problematic assets announced in 2Q18 and reclassified as non-current assets available for sale



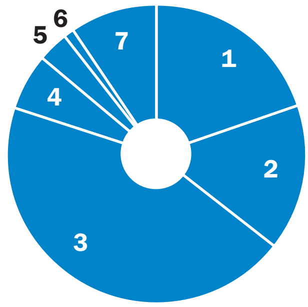
G8
Breakdown of exposure, by rating (M€)

1	AAA/AA	13,659
2	A	17,465
3	BBB	69,265
4	BB	53,020
5	B	9,623
6	Others	10,772
7	No assigned rating/scoring	7,218

G11 NPLs, excl. TSB (€M)



● Pro forma the institutional sales of problematic assets announced in 2Q18 and reclassified as non-current assets available for sale



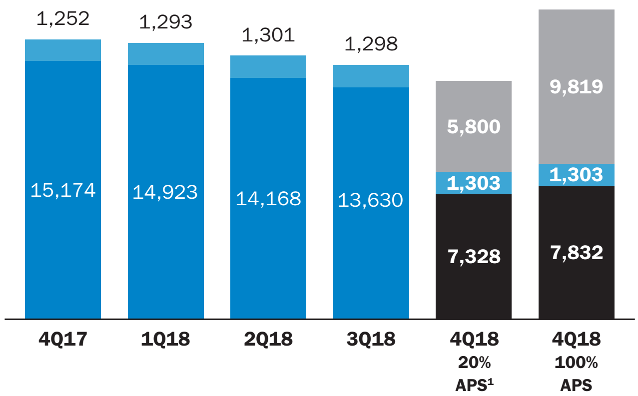
G9
Breakdown of total off-balance sheet exposures, by rating (M€)

1	AAA/AA	6,572
2	A	5,156
3	BBB	14,652
4	BB	2,001
5	B	1,137
6	Others	307
7	No assigned rating/scoring	3,106

C.7.8B€

Reduction of total NPAs

G12 Total NPAs, excl. TSB (M€)



● Solvia Desarrollos Inmobiliarios

● Pro forma the institutional sales of problematic assets announced in 2Q18 and reclassified as non-current assets available for sale

Note: Includes contingent risks.

1 Sabadell's NPLs, foreclosed assets and NPAs (excl. TSB) include 20% of the non-performing exposure covered by the APS. This risk is borne by Banco Sabadell under the APS protocol.

Concentration risk

Concentration risk refers to the level of credit exposure to a set of economic groups which, because of their materiality, could generate significant credit losses in the event of an adverse economic situation. Exposures can be concentrated within a single customer or economic group, or at sector or geography level.

Concentration risk can be caused by two risk subtypes:

— Individual concentration risk: this refers to the possibility of incurring significant credit losses as a result of maintaining large exposures with specific customers.
— Sectoral concentration risk: imperfect diversification of the systemic components of portfolio risk, which can be sector-based, geographical, etc.

Banco Sabadell has a series of specific tools and policies to ensure efficient management of concentration risk:

— Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, as tier-one metrics.
— Individual limits for risks and customers considered to be significant, which are established by the Executive Committee.
— A structure of conferred powers which requires transactions with significant customers to be approved by the Credit Operations Committee, or even by the Executive Committee.

In order to control its concentration risk, the Banco Sabadell Group has deployed the following critical control parameters:

Consistency with the Risk Appetite Framework
The Group guarantees the consistency between the concentration of its risk exposures and the tolerance to such risks, as defined in the RAS. There are overall limits to risk concentration and appropriate internal controls to ensure that the concentration of these risk exposures does not exceed the risk appetite levels established by the Group.

Establishment of limits and metrics
For controlling concentration risk Given the nature of the Group's activity and its business model, concentration risk is primarily linked to credit risk, and various metrics and associated limits are in place.

Credit risk exposure limits are based on the institution's historical loss experience, seeking to ensure that exposures are in line with the Group's capitalisation as well as the expected returns under different scenarios.

All of the metrics used to measure such levels, as well as appetite limits and tolerance thresholds for the identified risks, are described in the RAS metrics.

Risk control monitoring and regular reporting
The Banco Sabadell Group ensures that concentration risk is monitored on a regular basis in order to enable any weaknesses in the mechanisms implemented to manage this risk to be identified and resolved quickly. This information is also reported to the Board of Directors on a recurring basis in accordance with the established risk governance.

Action plans and mitigation techniques
The approach to dealing with exceptions to internally established limits must set out the criteria for granting such exceptions.

Where necessary, the Group will take the appropriate measures to match the concentration risk to the levels approved in the RAS by the Board of Directors.

Exposure to customers or significant risks

At 31 December 2018 there were no borrowers with a risk that individually exceeded 10% of the Group's equity.

Country risk: geographic exposure to credit risk

Country risk is that applicable to the debts of a country, taken as a whole, for reasons inherent in the country's sovereignty and economic situation, i.e. for circumstances other than normal credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to the foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation.

Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such a State and who, for reasons outside their control and not at their volition, are generally unable to honour debts.

An exposure limit is set for each country which is applicable across the whole Banco Sabadell Group. These limits are approved by the Executive Committee and the corresponding decision-making bodies, depending on the level of delegation, and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time.

The principal component of the framework for the acceptance of country risk and financial institution risk is the structure of limits on the various metrics; on this basis, the various risks are monitored and senior management and the Board sub-committees establish the Group's risk appetite on this basis.

The limits are structured in two Tiers: Tier 1 metrics in the RAS, and Tier 2 (or "management") limits.

Additionally, a number of indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

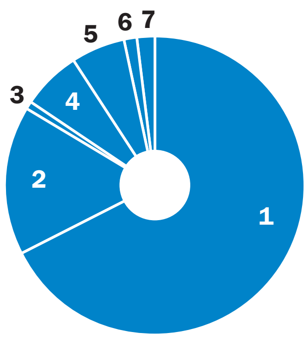
The breakdown of risk concentration by activity and worldwide in 2018 is shown in table 2.

The breakdown, by type of financial instrument, of the exposure to sovereign risk at 31 December 2018, applying the criteria required by the European Banking Authority (EBA), is shown in figures G13, G14 and G15.

€M

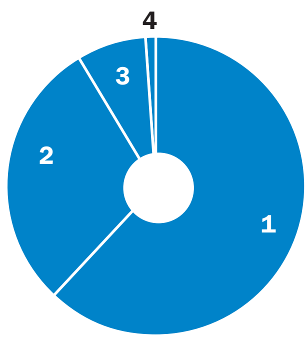
	2018				
	Total	**Spain**	**Rest of European Union**	**America**	**Rest of the world**
Central banks and credit institutions	**32,994.69**	**16,025.19**	**15,610.80**	**1,040.38**	**318.32**
Public authorities	**35,006.76**	**23,278.57**	**10,544.89**	**1,084.24**	**99.06**
Central government	8,425.79	8,368.77	0.01	0.01	57.01
Others	26,580.97	14,909.80	10,544.89	1,084.23	42.05
Other financial companies and sole proprietors	**4,224.63**	**2,315.02**	**1,326.27**	**546.35**	**36.99**
Non-financial companies and sole proprietors	**60,687.19**	**48,152.72**	**4,327.53**	**7,530.60**	**676.34**
Construction and real estate development	3,519.28	3,203.25	32.23	199.75	84.06
Civil engineering	985.36	939.40	35.51	8.22	2.24
Other	56,182.54	44,010.08	4,259.79	7,322.64	590.04
Large corporates	25,240.55	14,585.54	3,425.98	6,863.02	366.02
SMEs and sole proprietors	30,942.00	29,424.54	833.82	459.62	224.02
Other households	**72,533.04**	**35,540.68**	**35,569.47**	**509.52**	**913.38**
Home loans	62,803.73	28,247.03	33,202.05	491.90	862.75
Consumer loans	7,459.33	5,487.62	1,932.43	8.94	30.34
Other	2,269.99	1,806.03	434.99	8.68	20.29
Total	**205,446.32**	**125,312.18**	**67,378.97**	**10,711.08**	**2,044.08**

T2 Breakdown of risk concentration by activity



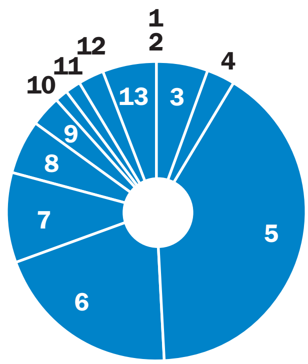
G13 Breakdown of sovereign risk exposure (%)

1	Spain	67.6
2	Italy	16.1
3	USA	1.0
4	United Kingdom	6.4
5	Portugal	5.6
6	Mexico	1.6
7	Rest of the world	1.7



G14 Breakdown of counterparty risk (%) **(by geography)**

1	Eurozone	62.1
2	Rest of Europe	29.4
3	USA and Canada	7.5
4	Rest of the world	1.0



G15 Breakdown of counterparty risk, by rating (%)

1	AAA / Aaa	0.0
2	AA+ / Aa1	0.0
3	AA / Aa2	5.7
4	AA- / Aa3	3.1
5	A+ / A1	40.5
6	A / A2	20.3
7	A- / A3	9.8
8	BBB+ / Baa1	5.7
9	BBB / Baa2	3.3
10	BBB- / Baa3	1.4
11	BB+ / Ba1	1.7
12	BB / Ba2	2.8
13	Others	5.7

Counterparty risk

This heading refers to credit risk arising from activities in financial markets that are carried out via specific trades with counterparty risk. Counterparty risk arises in the event where, in a transaction involving derivatives or repos with deferred settlement or on margin, the counterparty defaults before the final settlement of the transaction cash flows.

Exposure to counterparty risk is concentrated in customers, financial institutions and clearing houses.

The risk is concentrated in counterparties with high credit quality: 79% of the exposure is to counterparties rated A or higher.

In June 2016, the European Market Infrastructure Regulation (EMIR — Regulation 648/2012) made it obligatory for the Group to clear and settle certain over-the-counter (OTC) derivatives through Central Counterparties (CCPs). Consequently, the derivatives arranged by the Group that are susceptible to being cleared through a CCP are cleared in this way. At the same time, the Group has worked to standardise OTC derivatives with a view to increasing the use of CCPs. The exposure to CCPs depends mainly on the amount of the guarantees provided.

With regard to derivative transactions in organised markets (OMs), it is considered, based on management criteria, that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and margin mechanism is in place to ensure the transparency and continuity of the activity. Exposure to OMs is equivalent to the guarantees provided.

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times while maintaining a balance between return and risk. For this purpose, criteria have been established for supervising and tracking counterparty risk deriving from activity in the financial markets so as to ensure that the Bank can carry out its business activity within the risk thresholds established by senior management.

Counterparty risk exposure is quantified on the basis of current and future exposure. Current exposure represents the cost of replacing a transaction at market value in the event that a counterparty defaults at the present time. To calculate this, it is necessary to mark the transaction to market (MtM). The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out under a collateral agreement, it represents the possible fluctuation of MtM throughout the term of the operation.

Each day at close of business all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation techniques established by the Group. In this way, exposures are monitored on a daily basis to ensure that they conform to the limits approved by senior management. This information is included in risk reports for disclosure to the departments and units responsible for management and monitoring them.

With regard to counterparty risk, the Group adopts a number of mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and CMOF).
- Collateral agreements for derivatives (CSA and Schedule 3 - EMA), repos (GMRA, EMA) and securities lending (GMSLA).

Netting agreements allow positive and negative MtM to be aggregated in transactions with the same counterparty in such a way that, in the event of default, a single payment or collection obligation is established in relation to all of the transactions arranged with that counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to trade in derivatives.

Collateral agreements provide not just for netting but also for the regular exchange of guarantees that mitigate the exposure to a counterparty in respect of the operations covered by the agreement.

The Group requires that a collateral agreement be in place in order to trade in derivatives or repos with financial institutions. Furthermore, pursuant to Delegated Regulation (EU) 2251/2016, for derivative transactions with such institutions, the Group is required to exchange collateral with financial counterparties in order to mitigate the current exposure. The Group's standard collateral agreement, which complies with the aforementioned regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees in the form of cash in euro.

Assets pledged in financing activities

At the end of 2018, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. Those assets are mainly loans linked to the issuance of long-term mortgage covered bonds, public-sector covered bonds and asset-backed securities (see Note 20 and Schedule III to the 2018 consolidated financial statements, for transactions in connection with the Spanish mortgage market, and Schedule IV for details of issues). The other pledged assets are debt securities that are delivered in repos, collateral (loans or debt instruments) provided to gain access to certain types of funding from central banks and collateral of all types provided as surety for derivatives transactions.

The Group has used part of its portfolio of homogeneous loans and advances in fixed-income securities by transferring the assets to securitisation trusts created for this purpose. Under current regulations, securitised assets cannot be derecognised unless the risk has been substantially transferred.

Assets and liabilities held in securitisation trusts set up after 1 January 2004 and whose associated risks and rewards were not transferred to third parties have been retained in the consolidated financial statements. In the case of those assets, the risk is not transferred as some form of subordinated loan or credit enhancement has been granted to the securitisation trusts. At 31 December 2018, there was no significant financial aid from the Group for unconsolidated securitisations.

The Other transferred financial assets fully derecognised from the balance sheet heading included mainly assets transferred to SAREB (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria) by Banco Gallego, as they continue to be managed by the institution. These assets amount to €621,627 thousand.

For further information on funding programmes in capital markets, refer to the section below on liquidity risk.

Liquidity risk

Liquidity risk arises due to the possibility of losses being incurred as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to refinance debts at a reasonable cost. This may be associated with factors of a systemic nature or specific to the bank itself.

In this regard, the objective of the Banco Sabadell Group is to maintain liquid assets and a funding structure that, in line with its strategic objectives and based on its risk appetite statement, enable it to honour its payment commitments normally and at a reasonable cost, under business as usual conditions or under a stress situation caused by systemic or idiosyncratic factors.

The governance structure for Banco Sabadell's liquidity management and control is based on the direct involvement of the governing and management bodies and senior management, the three lines of defence, a strict separation of functions, and a clear structure of responsibilities.

Liquidity management

Banco Sabadell's liquidity management policy seeks to ensure that its lending can be financed at an appropriate cost and within an appropriate time so that liquidity risk is kept to a minimum. The bank's funding policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, supplemented with access to wholesale markets that enables the Group to maintain a comfortable liquidity position at all times.

In order to manage its liquidity, the Group applies a structure based on Liquidity Management Units (LMU). Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. At present, the LMUs are Banco Sabadell (includes foreign branches, as well as Mexican subsidiaries Banco Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R.), BancSabadell d'Andorra (BSA) and TSB.

In order to achieve the objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the LMUs' retail business model and the defined strategic objectives:

— Involvement of the Board of Directors and senior management in managing and controlling liquidity risk and funding.
— Clear segregation of functions between the different areas within the organisation, with a clear delimitation of the three lines of defence, to ensure independence when measuring positions and when controlling and assessing risks.
— Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
— Sound identification, measurement, management, control and reporting processes with respect to the liquidity and funding risks to which the Group is exposed.
— Existence of a transfer price system to transfer funding costs.
— A balanced funding structure based primarily on customer deposits.
— A broad base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprises the Group's first line of defence.
— Diversification of funding sources, with controlled recourse to short-term wholesale funding and without depending on any specific funding provider.
— Self-funding of significant foreign banking subsidiaries.
— Monitoring of the amount of the balance sheet being used as collateral in funding transactions.
— Maintenance of a second line of liquidity consisting of the capacity to issue mortgage covered bonds and public-sector covered bonds.
— Compliance with regulatory requirements, recommendations and guidelines.
— Regular public disclosure of information relating to liquidity risk.
— Availability of a Liquidity Contingency Plan.

Tools/metrics for monitoring and managing liquidity risk

Banco Sabadell Group has a system of metrics and tolerance limits that define its liquidity risk appetite, set out in the Risk Appetite Statement (RAS) and approved by the Board of Directors. The system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, and compliance with the regulations and supervisory guidelines. Some liquidity metrics are set at Group level and calculated on a consolidated basis, others are set at Group level but deployed to the LMUs, and others are set at LMU level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in subsidiaries' local RAS are subject to governance relating to the approval, monitoring, reporting of breaches and remediation plans established in the Risk Appetite Framework (RAF) on the basis of the hierarchical level of each metric (classified into three levels).

The Group has designed and implemented a system of early warning indicators (EWIs) at the LMU level, which includes market and liquidity indicators adapted to the funding structure and each LMU's business model. Implementation of these metrics at LMU level complements the RAS metrics and enables local threats to the liquidity position and funding structure to be detected in advance, which facilitates decision-making and the implementation of corrective actions and reduces the risk of spillover to other LMUs.

Additionally, each LMU's risk is monitored daily through the Structural Treasury Report, which measures the daily changes in the balance sheet funding needs, the daily changes in the outstanding balance of transactions in capital markets, and the daily changes in the first line of liquidity maintained by each LMU.

The reporting and control framework involves, among other aspects:

— Monitoring the RAS metrics and the associated thresholds at consolidated and LMU level with the frequency established for each metric.
— Reporting to the relevant committees and governing and management bodies on the basis of the metric's hierarchical level.
— In the event a breach is detected, activating the communication protocols and the necessary plans to resolve it.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons that are aligned with the Group's strategic objectives and risk appetite. Each LMU has a 1- and 3-year funding plan setting out its potential funding needs and the strategy for addressing them, and they regularly analyse fulfilment of the latter and deviations from the budget and its suitability to the market environment.

The institution also has an internal funds transfer pricing system for transferring funding costs to the business units.

Banco Sabadell also has a Liquidity Contingency Plan (LCP) that sets out the strategy for ensuring that the institution has sufficient management capacities and measures in place to limit any negative impacts of a crisis situation affecting its liquidity position and to enable it to regain a business-as-usual situation. The LCP also aims to facilitate operational continuity in liquidity management, particularly in the event of a crisis due to deficient performance of one or more market infrastructures. The LCP can be triggered in response to a number crisis scenarios, either in the markets or in the institution itself. The key components of the LCP include: measures to generate liquidity in business-as-usual situations or in a crisis situation that triggers the LCP, and a communication plan (both internal and external) for the LCP.

Funding strategy and liquidity trends

The Group's main source of funding is customer deposits (mainly demand accounts and deposits with agreed maturity captured through the branch network), supplemented by funding through the interbank and capital markets in which the entity maintains a number of short- and long-term funding programmes in order to achieve an appropriate level of diversification in terms of product, term and investor. The institution also maintains a diversified portfolio of liquid assets, most of which are eligible as collateral for European Central Bank funding transactions.

On-balance sheet customer funds

At 31 December 2018, customer funds on the balance sheet amounted to €137,343 million, 4.0% more than at 2017 year-end (€132,096 million) and 3.0% more than at 2016 year-end (€133,457 million). The downward trend in interest rates in the financial markets triggered a shift in the composition of customer funds from deposits with agreed maturities to demand accounts and off-balance sheet funds. At 31 December 2018, the balance of demand accounts had increased by 9.8% to €107,665 million, whereas deposits with agreed maturities had declined by 10.8% (T3).*

T3 On-balance sheet customer funds, by maturity

€M

	2018	3 months	6 months	12 months	>12 months	No fixed maturity
Total on-balance sheet customer funds (*)	**137,343**	**7.3%**	**4.3%**	**7.4%**	**2.6%**	**78.4%**
Deposits with agreed maturity	26,593	32.9%	18.7%	37.3%	11.1%	—
Demand accounts	107,665	—	—	—	—	100.0%
Retail issues	3,085	42.3%	31.1%	5.5%	21.2%	—

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

T4 Key figures and basic liquidity ratios

€M

	Excl. TSB 2017	ExTSB 2018	Group total 2017	Group total 2018
Gross loans and advances to customers, excluding repos	109,742	111,673	145,323	145,824
NPL and country-risk provisions	(3,646)	(3,211)	(3,727)	(3,433)
Brokered loans	(3,110)	(2,426)	(3,835)	(2,808)
Adjusted net loans and advances	**102,986**	**106,036**	**137,761**	**139,583**
On-balance sheet customer funds	97,686	104,859	132,096	137,343
Loan to deposits ratio (%)	**105.4**	**101.1**	**104.3**	**101.6**

T5 Maturity of issues aimed at institutional investors, by product type

€M

	2019	2020	2021	2022	2023	2024	>2024	Outstanding balance
Mortgage-backed bonds and mortgage covered bonds (*)	1,124	2,015	1,808	1,678	1,388	1,850	2,301	12,165
Senior debt (**)	52	—	—	25	984	744	—	1,805
Subordinated debt and preference shares (**)	—	411	430	—	500	—	1,660	3,001
Other medium- and long-term financial instruments (**)	—	—	10	—	—	4	—	14
Total	**1,176**	**2,426**	**2,249**	**1,703**	**2,872**	**2,598**	**3,961**	**16,985**

(*) Collateralised
(**) Uncollateralised

*** For further details of off-balance sheet customer funds managed by the Group and those marketed but not managed by the Group, see note 27 to the 2018 consolidated financial statements.**

The Group's deposits are sold through the following Group business units/companies (Commercial Banking, Corporate Banking and Global Businesses, Private Banking and TSB).

The funding gap continued to rise in 2018, in line with the previous year's trend. This enabled the Group to maintain its policy of partially refinancing maturities in the capital markets and, at the same time, to continue reducing its loan-to-deposit (LtD) ratio (from 147% at the end of 2010 to 101.6% at the end of 2018) (T4).

Capital markets

Recourse to funding in the capital markets has been declining in recent years as a consequence of the positive trend in the funding gap, among other factors. At the end of 2018, the outstanding balance of capital market funding stood at €21,719 million, compared with €22,390 million at the end of 2017. As of 2018 year-end, of the amount of capital market funding, €12,165 million were in the form of mortgage covered bonds, €2,353 million were commercial paper and ECP placed with wholesale investors, €1,805 million were senior debt, €3,001 million were subordinated debt and preference shares, €2,381 million were asset-backed securities placed in the market (of which €698 million correspond to TSB), and €14 million were other medium- and long-term financial instruments (T5, G16 & G17). The Banco Sabadell Group is an active participant in the capital markets and has a number of active funding programmes with a view to diversifying its sources of liquidity.

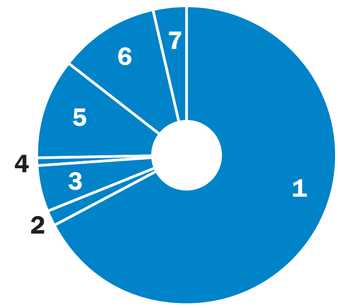
In terms of short-term financing, the institution maintains a commercial paper programme and a Euro Commercial Paper (ECP) programme:

— Corporate commercial paper programme: this programme regulates issues of commercial paper aimed at institutional and retail investors. On 15 March 2018, Banco Sabadell registered its commercial paper programme for 2018 with the CNMV (Spanish Securities Market Commission), with an issue limit of €7 billion, eligible to be extended up to €9 billion. The outstanding balance of the commercial paper programme declined as the year advanced. At 31 December 2018, the outstanding balance stood at €2,565 million (net of commercial paper acquired by Group undertakings), compared with €2,823 million at 31 December 2017.

— Euro Commercial Paper (ECP) Programme, aimed at institutional investors, under which short-term securities are issued in several currencies: EUR, USD and GBP. On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of €3,500 million. At 31 December 2018, the outstanding balance of the programme stood at €696 million, up from €346 million at the end of 2017.

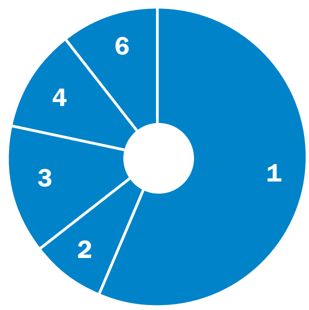
The institution has the following medium- and long-term funding programmes:

— Non-equity securities programme ("Fixed Income Programme") registered with the CNMV on 10 April 2018, with a maximum issue amount of €16,500 million: this programme regulates the issuance of bonds and debentures (non-convertible, subordinated and structured), and



G16 Funding structure
31.12.2018 (%)

1	Deposits	67.3
2	Retail issues	1.6
3	Repos	5.1
4	ICO funding	0.8
5	Wholesale market	10.8
6	ECB	10.8
7	Bank of England	3.6



G17 Institutional issues
31.12.2018 (%)

1	Mortgage covered bonds	56.4
2	Senior debt	8.3
3	Subordinated and AT1	13.9
4	ECP + institutional commercial paper	10.9
5	Asset-backed securities	10.5

mortgage and public-sector covered bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. The limit available for new issues under the Banco Sabadell Non-equity securities programme for 2018 was €12,280 million at 31 December 2018 (€10,046 million under the Fixed Income Programme at 31 December 2017).
— Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 23 March 2018, and supplemented on 27 April, 30 July and 30 October 2018. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in any currency, with a maximum limit of €5,000 million. On 7 September 2018, Banco Sabadell issued €750 million of 5.5-year senior preferred debt under this programme, and on 12 December it issued €500 million of subordinated Tier 2 debt maturing in 10 years and callable in the fifth year.

With regard to asset-backed securities:
— Since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other highly solvent institutions, assigning mortgage loans, SME loans, consumer loans and debt claims deriving from finance lease contracts.
— There are currently 24 outstanding issues of asset-backed securities (including those issued by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB). Although some of the bonds were retained as liquid assets eligible as collateral for European Central Bank funding transactions, the remainder of the bonds were placed in the market. At the end of 2018, the balance of asset-backed securities placed in the market stood at €2,381 million.
— In the first quarter, Banco Sabadell sold a total of €455 million from tranche A of the IM Sabadell PYME 11 asset-backed issue to the EIB to fund two new lines.
— For efficiency reasons, three asset-backed transactions were redeemed early in 2018 (for more details on securitisation trusts, see Schedule II to the 2018 consolidated financial statements).

The markets were very volatile in 2018, mainly as a result of geopolitical uncertainty, which translated into a significant widening of credit spreads and the closure of the markets for relatively long periods of time on a number of occasions during the year.

In March 2016, the European Central Bank announced economic stimulus measures through a new targeted long-term refinancing operation (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II, for a total of €20,500 million (€10,000 in the first auction, in June 2016, and €10,500 in the last auction, in March 2017).

In 2016, the Bank of England also implemented a series of measures to support economic growth. They included the Term Funding Scheme (TFS), designed to incentivise lending, which was implemented in August 2016, against which UK banks could borrow for a 4-year term against eligible collateral. As a member of the Sterling Monetary Framework (SMF), TSB made use of the TFS throughout 2017, drawing €6,334 million, and also in February 2018, with an additional drawdown of €958 million. As a result, the amount drawn under this scheme amounted to €7,233 million at the end of 2018.

Liquid assets

In addition to these funding sources, the Group maintains a liquidity buffer in the form of liquid assets with which to meet potential liquidity needs (T6).

With respect to 2017, the Group's first line of liquidity increased by €3,790 million, mainly due to the generation of a customer funding gap and to collateral management.

T6 Available liquid assets

€M

	2018
Cash (*) + Net interbank position	18,229
Available under Bank of Spain facility	4,081
Collateral provided under facility (**)	25,760
Balance drawn under Bank of Spain facility (***)	21,548
Assets eligible as collateral for ECB facility not yet used	12,468
Other marketable assets ineligible for ECB facility (****)	2,177
Pro memoria: Balance drawn under Bank of England Term Funding Scheme	7,233
Total available liquid assets	**36,955**

(*) Excess reserves at central banks.
(**) Market value after applying ECB haircut for monetary policy transactions.
(***) Includes TLTRO-II and weekly balance of 1,200 M€ drawn against ECB.
(****) Market value after applying the Liquidity Coverage Ratio (LCR) haircut. Includes fixed-income securities classified as high-quality liquid assets (HQLA) for the purposes of the LCR and other marketable securities of Group undertakings.

The balance of central bank reserves and the net interbank position declined by €4,132 million in 2018, mainly due to a reduction in repo funding in the year. The bank also has €7,143 million of liquid assets that are eligible for the European Central Bank, while the volume of available assets that are not ECB-eligible increased by €779 million.

As for TSB, the first line of liquidity at 31 December 2018 was mainly comprised of gilts amounting to €1,372 million (€761 million at 31 December 2017) and surplus reserves at the Bank of England (BoE) amounting to €7,703 million (€8,286 million at 31 December 2016), mostly from draws on the TFS.

The Group applies a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. As a result, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the eligibility, availability and liquidity requirements established both internally and by regulation in order to comply with the regulatory minima.

There are no significant amounts of cash and cash equivalents which are not available for use by the Group. In addition to the first line of liquidity, the bank maintains a buffer of mortgage assets and loans to public authorities that are eligible as collateral for mortgage covered bonds and public-sector covered bonds, respectively, which, at the end of 2018, added €2,320 million in terms of the capacity to issue new covered bonds that are eligible as collateral for the ECB facility, after net issuance of €1,626 million of mortgage covered bonds and €300 million in public-sector covered bonds in the year. At the end of 2018, available liquidity amounted to €39,275 million in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity at the end of December to issue mortgage and public-sector covered bonds bonds.

Fulfilment of regulatory ratios

As part of its liquidity management approach, the Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the LMUs as a whole.
At 1 January 2018, the minimum LCR required by the regulator is 100%, which is amply surpassed by all of the institution's LMUs. At Group level, the LCR remained well above 100% consistently throughout the year. At the end of December 2018, the LCR stood at 168% for the Group (excl. TSB) and at 298% at TSB.

The NSFR is still undergoing evaluation and has yet to be finalised, even though it was scheduled to be introduced in January 2018. The bank has nonetheless already commenced tracking this ratio as a liquidity metric at the LMU level.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is medium/long-term, this ratio is consistently well over 100%.

Market risk

This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.

Those positions that generate market risk are usually held in trading activities, consisting of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

They may also arise simply from maintaining overall balance sheet positions (structural positions) that are open in net terms. In the latter case, the institution uses the market risk management and monitoring system to manage the structural market risk position.

Trading activity

The main market risk factors considered by the Group in its trading activity are:
— Interest rate risk: risk associated with the possibility of fluctuations in interest rates adversely affecting the value of a financial instrument. This is reflected, for example, in interbank deposit operations, fixed-income securities and interest rate derivatives.
— Credit spread risk: this risk derives from the fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

T7 VaR

€M

	2018		
	Mean	Maximum	Minimum
Interest rate risk	2.35	26.73	0.41
Exchange rate risk in trading position	0.11	0.27	0.04
Equities	0.59	1.59	0.29
Credit spread	0.15	0.61	0.07
Aggregated VaR	**3.19**	**27.46**	**0.97**

— Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the reference currency. In the case of Banco Sabadell, the reference currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.
— Equity risk: risk which derives from fluctuations in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices did not have an impact in the year, given that the Group's exposure, both direct and in underlying assets, is marginal.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies, which allow for standardisation of risks across different types of financial market transactions.

The VaR provides an estimate of the maximum potential loss posed by a position due to an adverse but normal movement of any of the identified parameters influencing market risk. This estimate is expressed in monetary terms and refers to a specific date, a specified level of confidence and a specific time horizon. A 99% confidence level is used. Due to the low complexity of the instruments and the high liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on the full appreciation of the transactions under recent historical scenarios, and it is not necessary to make assumptions about the distribution of market prices. The main limitation to this methodology is its reliance on historical data since, if a potential event has not materialised within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the contemplated confidence level. Back testing consists of a comparison between daily VaR and daily results. If losses exceed the level of VaR, an exception occurs. In 2018, there were no exceptions in the backtesting exercise due to the institution's low exposure in terms of its trading activity to the significant events that took place during the year, such as the decline by international stock markets in February and December, the euro's depreciation against the dollar in April, May and August, and the decline in the price of Italian bonds which began in May.

Stressed VaR is calculated in the same way as VaR but with a historical window of variations in the risk factors in stressed market conditions. This stressed situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes.

The methodology used for this risk metric is historical simulation.

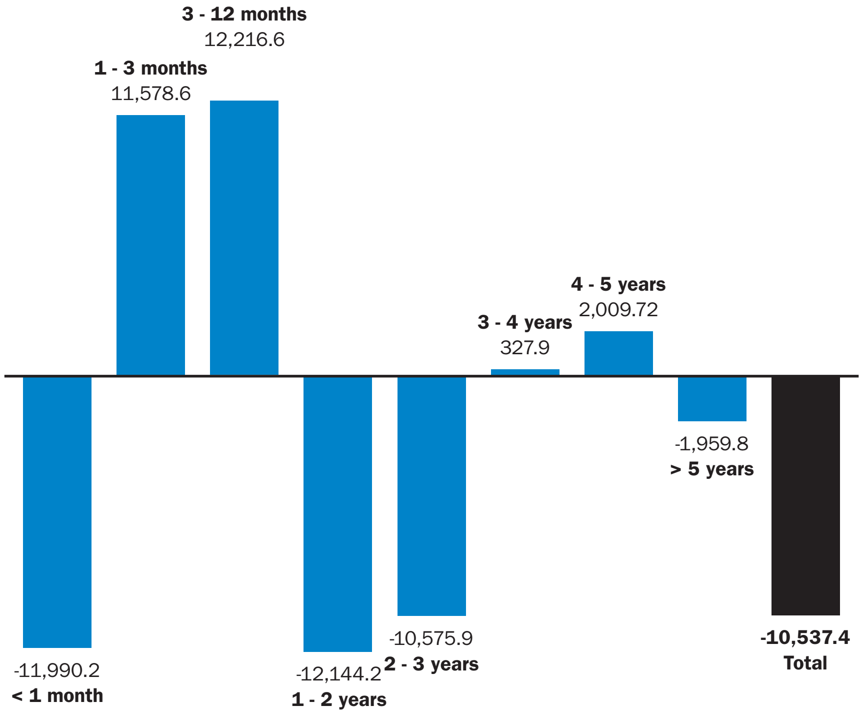
This is supplemented with additional measures such as sensitivities, which refer to the change produced in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out with extreme market scenarios (stress testing), in which the impacts on portfolios of different past and theoretical scenarios are analysed.

Market risks are monitored on a daily basis, and risk levels and compliance with the limits established by the Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable) are reported to the oversight bodies. This makes it possible to keep track of changes in exposure levels and measure the contribution by each risk factor.

Trading market risk incurred in terms of the 1-day VaR with 99% confidence is shown in table T7. The table shows the market risk associated with trading activity, initially

G18 Interest rate gap (M€)



including interest rate derivatives (swaps) under accounting hedges, which were discontinued in 2018 and 2017, between the date of discontinuation of the accounting hedge and the subsequent final cancellation of the derivative. Taking into account only trading activity excluding discontinued hedging derivatives, the average 1-day VaR with a 99% confidence interval stood at €1.73 million in 2018.

Structural interest rate and exchange rate risks

Structural interest rate risk

Structural interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking and is defined as the possibility of incurring losses as a result of the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).

The following are considered under structural interest rate risk:

— Repricing risk: related to a mismatch between maturity dates and repricing of assets, liabilities and short- and long-term off-balance sheet positions.
— Curve risk: arising from changes in the slope and shape of the yield curve.
— Basis risk: arising from hedging an interest rate exposure using exposure to an interest rate that is repriced in different conditions.
— Optionality risk: arising from options, including embedded options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with market best practices and are implemented consistently across all balance sheet management units (BMUs) and by local asset and liability committees. The effect of diversification between currencies and BMUs is taken into account when presenting overall figures.

The Group's current interest rate risk management strategy relies particularly on the following principles and pillars, in line with the business model and the defined strategic objectives:

— Each BMU has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report IRRBB. This enables them to obtain information from all of the identified sources of IRRBB, assess their effect on net interest income and the economic value of assets and measure the vulnerability of the Group/BMU to potential losses deriving from IRRBB under different stress scenarios.
— The Group establishes a set of limits for overseeing and monitoring the level of IRRBB exposure that are appropriate to its internal management policies and risk appetite. However, each BMU has the autonomy to set any other additional limits it deems necessary, based on its specific needs and the nature of its activities.
— The existence of a transfer pricing system.
— The systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap (G18), which is a static measure that shows the breakdown of maturities and repricing of sensitive items on the balance sheet. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered. To this end, a model has been defined using historical monthly data in order to reproduce customer behaviour, establishing stability and remuneration parameters in line with the type of product and the type of customer, thereby satisfying current regulatory requirements.

The sensitivity (difference between the value of implicit market rates in the baseline scenario and in the stressed scenario) of the various key economic figures is calculated:

T8 Sensitivity to interest rate risk, by currency

%

	Instantaneous parallel increase of 100bp	
Interest rate sensitivity	**Impact on net interest income**	**Impact on economic value**
EUR	2.6%	(3.8%)
GBP	2.3%	0.2%
USD	0.1%	(0.5%)

T9 Two-year sensitivity

%

	Instantaneous parallel increase of 100bp	
Impact on net interest income in the second year	**High pass-through**	**Average pass-through**
Global	7.9%	12.1%
Of which EUR	4.2%	6.9%
Of which GBP	3.4%	4.6%

net interest income margin (difference between accrued interest receivable and payable) and the economic value (sum of the net present value of cash flows from assets, liabilities and off-balance sheet exposures that form part of the banking book) in the event of changes in the interest rate curve. Table T8 shows the interest rate risk levels in terms of the sensitivity of the Group's main foreign currencies at the end of 2018 to the yield scenarios most commonly used in the industry.

In addition to the impact on net interest income within one year, presented in table T8, the Group calculates the impact on net interest income over two years, the result of which is notably more positive for all currencies. In particular, the sensitivity of net interest income in the second year considering the group's main currencies, with a high pass-through rate (i.e. where the bulk of any increase in reference interest rates is transferred to deposits with agreed maturity and remunerated sight accounts), is 7.9%, while a medium pass-through would put it at 12.1% (T9).

Given the current level of market interest rates, in the scenario of a decline in interest rates, for the points of the curve in which rates are positive, a maximum shift of 100 basis points is applied in each term, so that the resulting interest rate is always greater than or equal to zero. No shift is applied at the points of the curve in which rates are negative.

Derivatives are arranged in the financial markets to hedge risks, mainly interest rate swaps (IRS), which qualify for hedge accounting. Two different forms of macro-hedging are used:

— Interest rate macro-hedging of cash flows, the purpose of which is to reduce the volatility of net interest income in the event of interest rate fluctuations, for a one-year time horizon.
— Fair value interest rate macro-hedges, whose purpose is to maintain the economic value of the hedged items, consisting of assets and liabilities at fixed interest rates.

As part of the continuous improvement process, Banco Sabadell implements structural interest rate risk management and monitoring activities and updates them regularly, aligning the institution with best market practices and current regulations.

Structural exchange rate risk

This risk arises from changes in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in overseas offices and subsidiaries that use currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise the impact of adverse movements in currency markets on the value of the portfolio and the entity's equity. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on net interest income, subject to the risk appetite defined in the RAS, and the established levels for the risk metrics must be complied with at all times.

Exchange rate risk is monitored regularly and reports on current risk levels and on compliance with the established limits are sent to the risk control bodies. The main metric is currency exposure (as a percentage of Tier 1), which measures the sum of the institution's net open interest (assets less liabilities) in each currency through any type of financial instrument (FX spot, forward and option transactions), measured in euro and in relation to Tier 1.

Compliance with and the effectiveness of the Group's targets and policies are monitored and reported on a monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

The Bank's Financial Department, through the ALCO, designs and implements strategies for hedging the structural position in foreign currency with the objective of managing structural exchange rate risk.

As regards permanent investments in US dollars, the structural position in this currency went from USD 442 million at 31 December 2017 to USD 968 million at 31 December 2018.

As for permanent investments in Mexican pesos, given the uncertainty surrounding the new government (increasing market volatility linked to the perceived increase in political risk), balances deriving from the business in Mexico are monitored, as is the EUR/MXN currency pair, in order to hedge over 70% of the total exposure in this currency. As a result, the capital buffer rose from MXN 7,474 million at 31 December 2017 (out of total exposure of MXN 10,566 million) to MXN 11,050 million at 31 December 2018 (out of total exposure of MXN 14,703 million) (see Note 12 to the 2018 consolidated financial statements).

As for the structural position in pounds sterling, in a context of political instability in the United Kingdom, Banco de Sabadell, S.A. closely monitors changes in the EUR/GBP exchange rate on an ongoing basis. The Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios, and on earnings generated by its business in GBP, that might arise as a result of fluctuations in the EUR/GBP exchange rate. The bank maintains an economic hedge of expected profits and flows in GBP from its subsidiaries.

Taking into account the potential impact of Brexit (see note 4 to the 2018 financial statements), adjustments were made to the capital buffer in 2018, which rose from GBP 1,268 million at 31 December 2017 to GBP 1,368 million at 31 December 2018, representing 75% of the total investment (excluding intangibles) (see note 12 to the 2018 consolidated financial statements).

Currency hedges are continuously monitored in light of market fluctuations.

The value in euro of the assets and liabilities denominated in foreign currencies held by the group at 31 December 2018, classified on the basis of their nature, is shown in figure G19.

The net position of foreign currency assets and liabilities includes the institution's structural position, valued at the exchange rates at the end of the month in question, which amounted to €1,857.2 million, of which €809.6 million corresponded to permanent shareholdings in

GBP, €783.2 million to permanent shareholdings in USD, €223.6 million to permanent shareholdings in MXN and €40.2 million to permanent shareholdings in MAD. Net assets and liabilities are hedged with forward transactions and options denominated in foreign currencies in line with the Group's risk management policy.

At 31 December 2018, the equity exposure sensitivity to a 2.6% depreciation against the euro of the main currencies to which the bank is exposed amounted to €39 million, of which 32% corresponds to the pound sterling, 54% to the US dollar and 11% to the Mexican peso. This potential depreciation is in line with historical quarterly volatility in recent years.

Operational risk

Operational risk is defined as the risk of incurring losses due to deficiencies or failures on the part of internal processes, people or systems or due to unexpected external events. This definition includes reputational, behavioural, technology, model and outsourcing risks.

Management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data throughout the organisation. The Group has a specialized central unit to manage operational risk whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by process managers in line with the Banco Sabadell Group's risk management approach.

Senior management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of Senior Management members from different functional areas within the institution. Managing this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action.

The first line of action is based on the analysis of processes, the identification of risks associated with such processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment which lets the entity know its future exposure to the risk in terms of expected and unexpected loss, and also allows trends to be projected and mitigating actions to be targeted appropriately.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators, resulting in alerts that are triggered by any increase in this exposure, the identification of the causes of such an increase, and measurement of the efficacy of the controls and of any improvements.

At the same time, business continuity plans are designed and implemented for any processes identified as being of high criticality in the event of outage. A qualitative estimate is made of the reputational impact that the identified risks might cause in the event of their occurrence.

The second line of action is based on experience. It consists of recording all losses incurred by the institution in a database, which provides information about operational risks encountered by each line of business as well as their causes, so that action may be taken to minimise them.

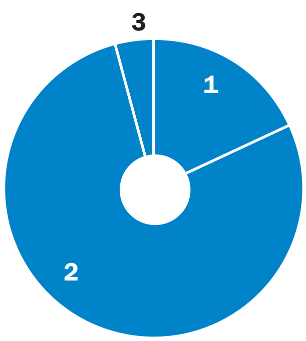
Additionally, this information makes it possible to cross-check the estimates of potential losses with actual losses, in terms of both frequency and severity, iteratively improving the estimates of exposure levels (G20 & G21).

Operational risk includes management and oversight of the following main risks:

— Reputational risk: the possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution, with an impact on its solvency.

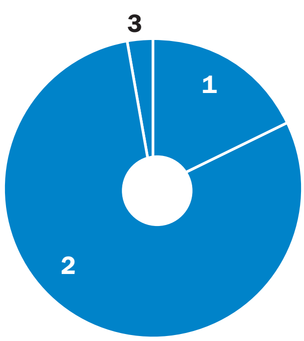
— Technology risk: impact or effect on customer services (both internal and external) in terms of the types of services affected and the resulting quality of such

G19 Value in euro of foreign currency assets and liabilities (%)



Assets in foreign currency

1	US dollar	18.2
2	Pound sterling	77.8
3	Other currencies	4.0



Liabilities in foreign currency

1	US dollar	18.0
2	Pound sterling	79.4
3	Other currencies	2.6

services, which could give rise to losses and/or errors in relation to data integrity, arising from the incorrect management, operation, control and/or failure of information systems and the resilience of such systems and the teams responsible for their management.
— Outsourcing risk: the possibility of losses deriving from failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.
— Model risk: the possibility of losses arising from decision-making based on the use of inadequate models.

Technology risk has become a key focus area in the Banco Sabadell Group's risk management approach for a number of reasons:
— Growing importance, complexity and use of technology in banking processes.
— Increase in external threats (cyber crime) and their potential impacts on institutions and the financial system in general.
— Implementation of new business models based on data and new technology and which, consequently, bring new (emerging) risks that could potentially change Banco Sabadell's risk profile.

Additionally, this risk is applicable not only to the bank's systems but also to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when to managing outsourcing.

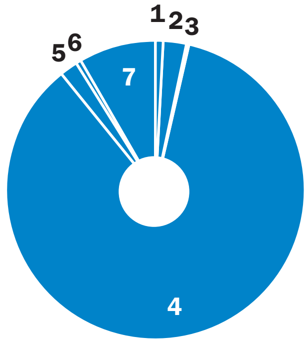
Tax risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:
— On one hand, the probability of failing to comply with the tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the Bank's goals.
— On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

Banco Sabadell's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and objectives are systematically identified, measured and managed so as to comply with the new requirements of the Spanish Capital Companies Act and meet the demands of the Banco Sabadell Group's stakeholders.

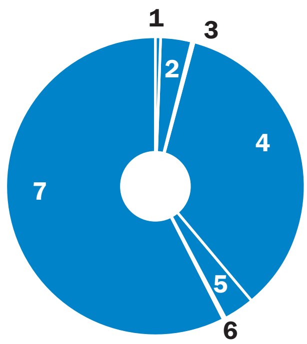
Banco Sabadell aims to meet its tax obligations at all times while conforming to the current legal framework in matters relating to taxation.

Banco Sabadell's tax strategy also reflects its commitment to promoting responsible taxation, adopting a



G20
Breakdown of operational risk events by amount, excl. TSB (last 12 months) (%)

1	Internal fraud	0.6
2	External fraud	3.4
3	Staff relations and job security	0.4
4	Customers, products and business practices	34.7
5	Property damage	3.2
6	Business disruption/ systems failure	0.3
7	Process execution, delivery and management	57.4



G21
Breakdown of operational risk events by amount, excl. TSB (last 5 years) (%)

1	Internal fraud	1.0
2	External fraud	2.6
3	Staff relations and job security	0.1
4	Customers, products and business practices	85.5
5	Property damage	2.0
6	Business disruption/ systems failure	0.5
7	Process execution, delivery and management	8.3

preventive approach and developing transparency programmes in order to strengthen trust among stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, and is generally aligned with the business strategy of the Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible for the following, which responsibility is non-delegable:

— Setting the institution's tax strategy.
— Approving investments and transactions of all types that are considered to be strategic or to have a particular tax risk due to their amounts or specific characteristics, except when such approval corresponds to the Annual General Meeting.
— Approving the creation and acquisition of holdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
— Approving any transaction which, due to its complexity, might undermine the transparency of the institution and its Group.

Thus, the functions of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance by implementing an appropriate control and oversight system as part of the Group's general risk management and control framework.

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, internal rules or codes of conduct applicable to the Group's business.

An essential aspect of the Banco Sabadell Group's policy, and one of the foundations of its organisational culture, is meticulous compliance with the law. Achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

To this end, the Group has a Compliance Department whose mission is to seek the highest levels of compliance with current legislation and ensure that professional ethics are applied in all areas of the Group's activity. This Department assesses and manages compliance risk in order to minimise the possibility of failure to comply with legislation, and to ensure that any instances of non-compliance are diligently identified, reported and resolved. It does this by:

— Distributing and overseeing the implementation of new regulations applicable to all of the institution's activities, in order to ensure that they conform to the law.
— Promoting the establishment of appropriate policies, procedures and controls in order to ensure that the company, its executives, employees and third parties all comply with the applicable regulatory framework and to ensure that the necessary measures are taken to prepare for changes in legislation.
— Coordinating the units within the Compliance Department in order to standardise approaches and provide action guidelines in relation to compliance with the regulatory framework.
— Promoting the creation of a methodological framework that enables the identification, classification and assessment of compliance risks, including risks relating to corporate crime prevention.
— Directing the definition and implementation of control mechanisms to ensure that all activity is in line with the established laws and regulations in relation to: (i) anti-money laundering and terrorist financing, (ii) market integrity, (iii) codes of conduct and investor protection, (iv) insurance distribution, and (v) data protection, with the goal that the standard of compliance be aligned with market best practices.
— Guaranteeing that compliance is supervised through a compliance risk oversight programme, reporting regularly to senior management on compliance risk.
— Liaising with the regulatory bodies, overseeing the responses to demands for information and inspections by official or supervisory bodies in relation to anti-money laundering and counter-terrorist financing (SEPBLAC, Bank of Spain, etc.), and in relation to securities markets (CNMV), insurance distribution (Directorate-General of Insurance and Pension Plans) and data protection (AGPD).
— Advising on and overseeing compliance by the Group with data protection law and liaising between the organisations and the oversight authorities.
— Managing the capabilities required in the units within the Compliance Division in order to ensure that the necessary technical and human resources are in place, thereby enabling Group-level control mechanisms to be designed and implemented that can guarantee the alignment of all activities with the established laws, rules and ethical codes.
— Lending support to the Internal Control Body responsible for compliance with the regulations governing anti-money laundering and counter-terrorist financing.
— Reporting on, reviewing and proposing corrective measures and/or responses to incidents detected in relation to conduct and queries submitted to the Corporate Ethics Committee on potential conflicts of interest, for the purpose of providing guidance to employees.

Roadmap of published information

Roadmap of published information

Block	Document	Website section
Corporate Governance System		
General data	**General information about the group**	**Group**
General Meeting	GM Regulations, Proxies, Forthcoming General Meeting, Shareholder information and Electronic shareholders' forum	Shareholder and investor information_General meetings
Corporate governance	Board of Directors, Director CVs and Board sub-committees	Group_Corporate Governance
Statutory documents	Articles of Association, Regulation of the Board of Directors, and internal regulations	Corporate governance and Remuneration policy
Internal Governance Framework	Banco Sabadell Internal Governance Framework	Corporate governance and Remuneration policy
Remuneration policy	Annual report on director remuneration	Corporate governance and Remuneration policy
Committee reports	Committees: Audit and Control, Appointments, Remuneration, and Risks	Corporate governance and Remuneration policy
Annual Corporate Governance Report	Annual Corporate Governance Report	Corporate governance and Remuneration policy
	Legal information 2018_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Corporate Social Responsibility	Non-financial disclosures report 2018	CSR_Corporate Social Responsibility
	General information	CSR_Corporate Social Responsibility
	Codes and policies	CSR_Corporate Social Responsibility
The share and communication policy and channels	Share price, capital stock, key data, investor calendar and ownership structure	Shareholder and investor information_The BS share (SAB)
	Shareholder remuneration	Shareholder and investor information_The BS share (SAB)_Shareholder remuneration
	InfoAccionista	Shareholder and investor information_Products and services_Infoaccionista
	Annual report	Shareholder and investor information_Financial information_Annual reports
	Policy on communication and contacts with shareholders, institutional investors and proxy advisors	Shareholder and investor information_ Communication policy and channels
Economic and regulatory environment	Annual report_Economic, business and regulatory environment	Shareholder and investor information_ Financial information_Annual reports
Financial information		
Business plan	Annual report_subchapter on Milestones in 2018 and Plan 2018-2020	Shareholder and investor information_Financial information_Annual reports
	Earnings presentations (quarterly)	Shareholder and investor information_Financial information_Results
	Legal information 2018_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports
Balance sheet and earnings performance	Annual report_Banco Sabadell Group financial information chapter	Shareholder and investor information_Financial information_Annual reports
Financial statements	Legal information 2018_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Businesses		
General data	General business data	Businesses
Description, data and milestones in the year	Annual report_Businesses chapter	Shareholder and investor information_Financial information_Annual reports
Financial data - main businesses	Legal information 2018_Financial statements_ Directors' report	Shareholder and investor information_Financial information_Annual reports_Legal information
Risks and Capital	Annual report_Risk management chapter	Shareholder and investor information_Financial information_Annual reports
	Legal information 2018_Financial statements_ Note 4, Note 5 and Schedule 6	Shareholder and investor information_Financial information_Annual reports_Legal information
	Pillar III disclosures	Shareholder and investor information_Financial information_Pillar III disclosures

Statutory information

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Banco de Sabadell, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, and the income statement, statement of recognized income and expenses, statement of total changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2018, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the key audit matter
Impairment due to credit risk and real estate assets arising from foreclosures	

Determining impairment due to credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying consolidated annual accounts. The evaluation of impairment due to credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Group's internal models.

In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. The Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral.

In this financial year 2018, these internal models have been updated in accordance with the new requirements arising from the entry into force of IFRS 9 "Financial Instruments". Note 1 of the accompanying consolidated annual accounts includes changes in policies, procedures and the Group's tools as a result of the entry into force of said standard, as well as the most significant impacts recorded as of January 1, 2018.

Periodically the Group performs recalibrations of its internal models in order to optimize its predictive capacity by updating, where appropriate, the variables considered or the algorithms used.

It should be noted that the estimation of the impairment of real estate assets originated from loan activities and which, through deed in lieu, purchase or judicial proceedings, are awarded to the Group, are subject to the same policies indicated above for real estate collateral.

Models and valuation methods used suppose a high component of judgment and estimation for the determination of losses due to deterioration.

In addition to the guarantees established on the different operations, as a result of the acquisition of Banco CAM, the Asset Protection Scheme (hereinafter, APS) entered into force for a predetermined portfolio of assets. Through said APS, the Deposit Guarantee Fund (hereinafter, DGF) assumes 80% of the losses derived from said portfolio during a period of 10 years, once the provisions constituted on said date of acquisition have been absorbed.

Our work has focused on the analysis, evaluation and verification of the internal control system, as well as the performance of detailed tests on provisions, both for those estimated collectively and individually.

The procedures we performed on the internal control system included the following, among others:

- Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Group's internal governance model.
- Review of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the deterioration.

In addition, we carried out the following tests of details:

- Review of the methodology for classifying credit assets in the three states defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified as Stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.
- Review of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected credit loss, including: i) the estimation of the risk parameters throughout lifetime or 12 months, depending on the corresponding stage; ii) the use of alternative scenarios in the projections carried out in the future, considering specially the reasonableness of assumptions and likelihood assigned to the no-deal Brexit scenario (Cliff Edge Brexit scenario); and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation.
- Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models.

Key audit matters	How our audit addressed the key audit matter
In this way, for the accounting impairment losses corresponding to these assets, Group Banco Sabadell estimates a collection right against the DGF for the guarantee granted under the heading "Loans and advances". This collection right is subject to periodic settlements by the DGF. On July 19, 2018, the Group agreed to transfer almost all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. The real estate assets of the operation have a total gross carrying amount of approximately €9,100 million and a total net carrying amount of approximately €3,900 million. Additionally, on July 24, 2018, the transfer of a credits portfolio, mainly mortgage loans, composed, in turn, of three sub-portfolios, with an outstanding balance of approximately €2,295 million, to Deutsche Bank and Carval Investors, has been agreed. These assets are recognized at December 31, 2018 under *"Non-current assets and disposal groups classified as held for sale"*. These operations are expected to be concluded in the financial year 2019, once the corresponding permits have been obtained and the conditions for each of the portfolios have been met, implying the transfer of control of these real estate assets and credits and, consequently, their deconsolidation from the consolidated balance sheet. See Notes 1, 2, 4.4.1 and 11 and Appendix 6 to the accompanying consolidated annual accounts with respect to impairment due to credit risk and Notes 1, 2, 4.4.1, 13, 15 and 17 and Appendix 6 to the accompanying consolidated annual accounts with respect to the impairment of real estate assets deriving from foreclosures.	• Review of the working of the "calculation engine" and re-execution of the calculation of collective provisions, for portfolios with structural models, and of the calculation of impairment of real estate assets deriving from foreclosures based on the different asset categories. • Review of a sample of individualized credit files, as well as real estate assets deriving from foreclosures, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment. • Review of the Group's consolidated equity impacts as at January 1, 2018 related to the estimation of credit risk impairment, deriving of entry into force of IFRS9. We performed the following tests of details specifically on the estimate of the receivable entitlement from the DGF deriving from the Asset Protection Scheme: • Review of the reliability and the coherence of sources of the data concerning assets covered by the APS used in the calculation of the estimated receivable entitlement from the DGF. • Verification of the calculation of the estimated receivable entitlement from the DGF based on the various categories of assets and transactions carried out, as well as its alignment with the accounting records. • Analysis of changes to accounting estimates as a result of the periodic evaluation of the assets and projected profits related to the APS cover, as a result of additional information or new events regarding the situation of the assets. Regarding sales operations for real estate assets and credits portfolios, we have performed the following tests: • Review and analysis of contractual support documentation of the agreements reached and the related accounting impact. • Execution of tests of details to verify the correct evaluation of the real estate assets and credits of these operations, in accordance with the sales price agreed between the parties and based, where appropriate, on the guarantees deriving from the APS. • Review, from the date of the agreement, of the procedures for assigning risks and profits to the economic transactions performed on the real estate assets of the transaction in accordance with the percentages of shareholding in the corporate structure that will own these assets when the operation is concluded.

Key audit matters	How our audit addressed the key audit matter
	As a result of our tests on the calculations and estimates of the amount of credit risk impairment and real estate assets deriving from foreclosures, we have not identified any differences outside a reasonable range in the amounts recorded in the accompanying consolidated annual accounts.
Verification of the recoverability of goodwill On an annual basis, or when there are indications of impairment, Banco Sabadell Group performs an assessment to determine whether the goodwill recognized in its consolidated annual accounts is impaired. Each goodwill item is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans within each CGU to estimate their recoverable value. The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgments and estimates given that it is based on assumptions concerning macroeconomics evolution and other matters such as key business assumptions (the evolution of credit, non-performing loans ratio, interest rates, etc...) that determine the cash flows, discount rates and long-term growth rates that are applied. The models are sensitive to the variables and assumptions used, and there is a risk of the inaccurate assessment of those items due to their nature. See Notes 1 and 16 to the accompanying consolidated annual accounts.	With the assistance of our appraisal experts, we gained an understanding and performed a review of the estimation process carried out by the Group, focusing our procedures on aspects such as: • Review of the criteria for defining the Group's CGUs associated with the various goodwill items. • Evaluation of the method used by to estimate the impairment of goodwill. • Review of the annual measurement reports on the impairment of goodwill prepared by the Group. We have performed tests to examine the cash flow projection models for the various CGUs utilized by the Group, taking into consideration the content of current legislation, market practices and the specific expectations for the banking sector. This assessment included the verification of assumptions such as growth rates and discount rates used, as well as an analysis of the budgetary monitoring of the primary CGUs and the impact of variations identified in the budgets and growth rates. Finally, we have also reviewed the adequacy of the information presented in the accompanying consolidated annual accounts. As a result of the aforementioned procedures, we consider that the estimates made by the Group with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these consolidated annual accounts are prepared.

Key audit matters	How our audit addressed the key audit matter

Provisions for tax, legal and regulatory litigations

During the ordinary course of its business operations the Group may become involved in administrative, judicial or arbitration proceedings of a tax, legal and/or regulatory nature.

There are therefore situations that are not subject to judicial proceedings but which, based on the Group's evaluation, require the recognition of provisions like those associated with possible impacts regarding the amounts payable as a result of the cancellation by the Courts of floor clauses or the application of Royal Decree-Law 1/2017 on consumer protection with regard to floor clauses, as well as the client's claims associated to the incidents occurred as a consequence of the TSB Bank PLC technological branch migration's.

These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the legislation prevailing in the various jurisdictions in which the Group operates.

The Group records a provision in this respect, therefore estimating the associated payment deemed probable based on the estimates made, applying calculation procedures that are prudent and consistent with the uncertainty conditions inherent to the obligations they cover. Additionally it also considers all disbursements to be made in the process of incident analysis and its remediation, considered unavoidable.

The recognition of provisions for litigation is one of the areas requiring the highest degree of judgments and estimates.

See Notes 1 and 11 where the provisions made by the Group to cover the contingency outcomes related to floor clauses are detailed in the accompanying consolidated annual accounts.

Our review of the process for estimating the provisions for tax, legal and regulatory litigations carried out by the Group, and the analysis and evaluation of the internal controls over that process, consisted of the following procedures:

- We familiarized ourselves with the policy for classifying litigation and provisions needed, in accordance with applicable accountant legislation.
- We analysed the main individual and class-action lawsuits.
- We obtained confirmation letters from internal attorneys who work with the Group to cross-check its assessment of the outcome of the litigation, the correct recognition of the provisions and the identification of potentially omitted liabilities.
- With the support of our internal experts, we monitored ongoing tax inspections, we analysed the estimate of the expected outcomes of the most significant tax proceedings in progress and possible contingencies relating to compliance with the Group's tax obligations for all the years open to inspection.
- We analysed the recognition, estimation of, and movements in, the provisions recorded for accounting purposes.

Specifically in connection with the provisions recorded to cover client claims relating to floor clauses and the ones caused by client's claims associated to the incidents ocurred as a consequence of the TSB Bank Plc. Technological branch migration's, our procedures focused on:

- Understanding the control environment, assessing and checking the controls associated with the calculation and review of the provision recognized for customer compensation, including the process of generating and approving the model assumptions and results.
- Evaluating the methodology and hypothesis used by the Group, verifying that it is in line with market practice.
- Performing a sensitivity analysis on the model's results to determine possible changes in key assumptions.

The result of our work shows that, in general, the judgments and estimates applied by the Group when evaluating these types of provisions are supported and reasonable based on available information.

Key audit matters	How our audit addressed the key audit matter
Automation of financial reporting systems	

Due to its nature, Banco Sabadell Group's business, particularly the preparation of financial and accounting information, is highly dependent on information technology systems, such that adequate control of these systems is crucial to ensuring correct data processing.

Moreover, as the systems become more complex, the risks relating to the organization's information technology systems and, by extension, the data they process, increase.

The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls.

Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology Area, software maintenance and development controls, physical and logical security and system operation.

With the help of our information technology system experts, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Group's accounting recognition and closings. We have also gained an understanding of the functionalities and involvement of the various information systems at the Group within the accounting recognition and closing process.

We essentially performed the following procedures on the information systems considered relevant to the financial reporting process:

- Review of the general computer controls relating to aspects deriving from operations, the development and maintenance of applications, their security and the governance and organization of the Group's Information Systems Area.
- Review of the general controls to manage authorization to access financial reporting systems and controls relating to the authorization of personnel to make changes to computer processes.
- Understanding of key business processes, identifying automatic controls that exist in those processes and their validation.
- Understanding and review of the process for generating manual accounting entries considered to give rise to a risk. Extraction, completeness validation and filtering of the accounting entries.
- Understanding and re-execution of some of the calculations performed by the Group considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits) and the fees received.

Regarding TSB Bank Plc., as a result of the incidents identified in the computer systems environment, following TSB's Technological Migration Project, our audit approach for this component has mainly been substantive, based on tests of details, and supposing a significant increase of our audit procedures. At the moment of the technological migration, various procedures were performed to test the completeness and accuracy of relevant data in the financial reporting process, which concluded satisfactorily.

In general terms, the results of our procedures were satisfactory and we did not detect any material aspect affecting the financial information included in the accompanying consolidated annual accounts.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2018 financial year, the formulation of which is the responsibility of the Parent company´s directors, and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information contained in the consolidated management report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report (ACGR), as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the management report or, if appropriate, that the consolidated management report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated management report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated management report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2018 financial year and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the Audit and Control Committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s Audit and Control Committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's Audit and Control Committee dated January 28, 2019.

Appointment period

The General Ordinary Shareholders' Meeting held on April 19, 2018 appointed us as auditors of the Group for the year ended December 31, 2018.

Previously, we were appointed by resolution of the General Shareholders' Meeting and we have been auditing the accounts continuously since the year ended December 31, 1983.

Services provided

PricewaterhouseCoopers Auditores, S.L. has provided to Group Banco Sabadell during the period between January 1, and December 31, 2018, after obtaining the relevant approval from the Audit and Control Committee, services other than audit, including the issuance of comfort letters, other regulatory reviews required from the auditor, as well as advisory and regulatory compliance services.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro (20210)

February 1, 2019

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

Consolidated annual accounts
for the year ended 31 December 2018

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As at 31 December 2018 and 31 December 2017

Thousand euro

Assets	Note	2018	2017 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**23,494,479**	**26,362,807**
Financial assets held for trading		**2,044,965**	**1,572,504**
Derivatives	10	1,720,274	1,440,743
Equity instruments	9	7,254	7,432
Debt securities	8	317,437	124,329
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*66,006*	*20,245*
Non-trading financial assets mandatorily at fair value through profit or loss		**141,314**	**39,526**
Equity instruments		-	39,526
Debt securities	8	141,314	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets at fair value through other comprehensive income		**13,247,055**	**13,180,716**
Equity instruments	9	270,336	413,298
Debt securities	8	12,976,719	12,767,418
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*4,676,769*	*2,814,601*
Financial assets at amortised cost		**164,415,563**	**160,723,766**
Debt securities	8	13,131,824	11,746,645
Loans and advances	11	151,283,739	148,977,121
Central banks		98,154	63,151
Credit institutions		8,198,763	5,316,004
Customers		142,986,822	143,597,966
Memorandum item: loaned or pledged as security with sale or pledging rights		*4,680,404*	*7,701,852*
Derivatives – Hedge accounting	12	**301,975**	**374,021**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**56,972**	**48,289**
Investments in joint ventures and associates	14	**574,940**	**575,644**
Joint ventures		-	-
Associates		574,940	575,644
Assets under insurance or reinsurance contracts		**-**	**-**
Tangible assets	15	**2,497,703**	**3,826,523**
Property, plant and equipment		1,796,682	1,861,730
For own use		1,526,976	1,625,032
Leased out under operating leases		269,706	236,698
Investment properties		701,021	1,964,793
Of which: leased out under operating leases		-	-
Memorandum item: acquired through finance leases		-	-
Intangible assets	16	**2,461,142**	**2,245,858**
Goodwill		1,032,618	1,019,440
Other intangible assets		1,428,524	1,226,418
Tax assets		**6,859,405**	**6,861,406**
Current tax assets		312,272	329,558
Deferred tax assets	39	6,547,133	6,531,848
Other assets	17	**1,639,985**	**2,975,511**
Insurance contracts linked to pensions		132,299	139,114
Inventories		934,857	2,076,294
Rest of other assets		572,829	760,103
Non-current assets and disposal groups classified as held for sale	13	**4,586,923**	**2,561,744**
TOTAL ASSETS		222,322,421	221,348,315

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

(**) See details in the consolidated cash flow statement of the Group.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2018.

Consolidated balance sheets of Banco Sabadell Group
As at 31 December 2018 and 31 December 2017

Thousand euro

Liabilities	Note	2018	2017 (*)
Financial liabilities held for trading		**1,738,354**	**1,431,215**
Derivatives	10	1,690,233	1,361,361
Short positions		48,121	69,854
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**39,540**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	39,540
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost		**206,076,860**	**204,045,482**
Deposits		179,877,663	177,325,784
Central banks	18	28,799,092	27,847,618
Credit institutions	18	11,999,629	14,170,729
Customers	19	139,078,942	135,307,437
Debt securities issued	20	22,598,653	23,787,844
Other financial liabilities	21	3,600,544	2,931,854
Memorandum item: subordinated liabilities		*2,023,978*	*2,552,417*
Derivatives – Hedge accounting	**12**	**633,639**	**1,003,854**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**36,502**	**(4,593)**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**22**	**466,379**	**317,538**
Pensions and other post employment defined benefit obligations		88,456	84,843
Other long term employee benefits		12,404	16,491
Pending legal issues and tax litigation		5,107	36,293
Commitments and guarantees given		108,568	84,949
Other provisions		251,844	94,962
Tax liabilities		**176,013**	**531,938**
Current tax liabilities		8,783	106,482
Deferred tax liabilities	39	167,230	425,456
Share capital repayable on demand		**-**	**-**
Other liabilities		**995,069**	**740,915**
Liabilities included in disposal groups classified as held for sale	**13**	**82,605**	**20,645**
TOTAL LIABILITIES		**210,205,421**	**208,126,534**

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2018.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2018 and 31 December 2017

Thousand euro

Equity	Note	2018	2017 (*)
Own Funds	**23**	**12,544,931**	**13,425,916**
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		35,487	32,483
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		3,832,935	4,207,340
Reserves or accumulated losses of investments in joint ventures and associates		206,149	(13,633)
Other		3,626,786	4,220,973
(-) Treasury shares		(143,452)	(106,343)
Profit or loss attributable to owners of the parent		328,102	801,466
(-) Interim dividends		(110,739)	(111,628)
Accumulated other comprehensive income	**24**	**(491,470)**	**(265,311)**
Items that will not be reclassified to profit or loss		(52,564)	49,443
Actuarial gains or (-) losses on defined benefit pension plans		(329)	6,767
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(52,235)	42,676
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Items that may be reclassified to profit or loss		(438,906)	(314,754)
Hedge of net investments in foreign operations [effective portion]		213,031	236,647
Foreign currency translation		(640,720)	(678,451)
Hedging derivatives. Cash flow hedges reserve [effective portion]		4,306	(80,402)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(22,958)	195,869
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		7,435	11,583
Minority interests (non-controlling interests)	**25**	**63,539**	**61,176**
Accumulated other comprehensive income		118	207
Other items		63,421	60,969
TOTAL EQUITY		12,117,000	13,221,781
TOTAL EQUITY AND TOTAL LIABILITIES		222,322,421	221,348,315
Memorandum item: off-balance sheet exposures			
Financial guarantees given	**26**	**2,040,786**	**1,983,143**
Loan commitments given	**26**	**22,645,948**	**20,906,053**
Other commitments given	**26**	**8,233,226**	**9,916,992**

(*) Shown for comparative purposes only (see section "Comparability of information" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2018.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2018 and 2017

Thousand euro

	Note	2018	2017 (*)
Interest income	28	4,861,943	4,839,633
Financial assets at fair value through other comprehensive income		212,080	368,422
Financial assets at amortised cost		4,268,831	4,145,503
Other interest income		381,032	325,708
(Interest expenses)	28	(1,186,759)	(1,037,263)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**3,675,184**	**3,802,370**
Dividend income		8,180	7,252
Profit or loss of entities accounted for using the equity method	14	56,554	308,686
Fee and commission income	29	1,558,648	1,478,603
(Fee and commission expenses)	29	(223,347)	(255,167)
Gains or (-) losses on financial assets and liabilities, net	30	226,709	614,104
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		208,106	371,365
Financial assets at amortised cost		(75,870)	(12,268)
Other financial assets and liabilities		283,976	383,633
Gains or (-) losses on financial assets and liabilities held for trading, net		10,568	214,786
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		10,568	214,786
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(13,902)	-
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(13,902)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		19	134
Gains or (-) losses from hedge accounting, net		21,918	27,819
Exchange differences [gain or (-) loss], net		(1,318)	8,429
Other operating income	31	256,682	338,365
(Other operating expenses)	32	(547,065)	(546,323)
Income from assets under insurance or reinsurance contracts		-	67,415
(Expenses on liabilities under insurance or reinsurance contracts)		-	(86,462)
Gross income		**5,010,227**	**5,737,272**

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated income statement for 2018.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2018 and 2017

Thousand euro

	Note	2018	2017 (*)
(Administrative expenses)		(2,920,350)	(2,722,972)
(Staff expenses)	33	(1,590,590)	(1,573,560)
(Other administrative expenses)	33	(1,329,760)	(1,149,412)
(Depreciation)	15, 16	(353,095)	(402,243)
(Provisions or (-) reversal of provisions)	22	(160,706)	(13,864)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(756,092)	(1,211,373)
(Financial assets at fair value through other comprehensive income)		(2,472)	(53,374)
(Financial assets at amortised cost)		(753,620)	(1,157,999)
Profit/(loss) on operating activities		**819,984**	**1,386,820**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		157	(663)
(Impairment or (-) reversal of impairment on non-financial assets)	35	(400,648)	(799,362)
(Tangible assets)		(60,428)	(231,342)
(Intangible assets)		(286)	(2,601)
(Other)		(339,934)	(565,419)
Gains or (-) losses on derecognition of non-financial assets, net	36	34,573	400,905
Negative goodwill recognised in profit or loss		-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	(35,201)	(139,447)
Profit or (-) loss before tax from continuing operations		**418,865**	**848,253**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(83,635)	(43,075)
Profit or (-) loss after tax from continuing operations		**335,230**	**805,178**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the year		**335,230**	**805,178**
Attributable to minority interest [non-controlling interests]	25	7,128	3,712
Attributable to owners of the parent		328,102	801,466
Earnings per share (euro)	3	**0.05**	**0.14**
Basic (in euro)		0.05	0.14
Diluted (in euro)		0.05	0.14

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated income statement for 2018.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2018 and 2017

Thousand euro

	Note	2018	2017 (*)
Profit or loss for the year		**335,230**	**805,178**
Other comprehensive income (*)	**24**	**(285,394)**	**(372,418)**
Items that will not be reclassified to profit or loss		(102,007)	(15,109)
Actuarial gains or (-) losses on defined benefit pension plans		(10,138)	(9,278)
Non-current assets and disposal groups held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(135,478)	(12,306)
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Income tax relating to items that will not be reclassified		43,609	6,475
Items that may be reclassified to profit or loss		(183,387)	(357,309)
Hedge of net investments in foreign operations [effective portion]		(23,616)	85,282
Valuation gains or (-) losses taken to equity		(23,616)	80,351
Transferred to profit or loss		-	4,931
Other reclassifications		-	-
Foreign currency translation		38,813	(249,801)
Translation gains or (-) losses taken to equity		38,813	(175,573)
Transferred to profit or loss		-	(74,228)
Other reclassifications		-	-
Cash flow hedges (effective portion)		121,163	(87,004)
Valuation gains or (-) losses taken to equity		200,505	(123,824)
Transferred to profit or loss		(79,342)	36,820
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Hedging instruments [not designated elements]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Debt instruments at fair value through other comprehensive income		(396,409)	(45,506)
Valuation gains or (-) losses taken to equity		(120,071)	281,250
Transferred to profit or loss		(276,338)	(326,756)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		-	(137,571)
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	(137,571)
Other reclassifications		-	-
Share of other recognised income and expense of investments in joint ventures and associates		(4,148)	(4,257)
Income tax relating to items that may be reclassified to profit or (-) loss		80,810	81,548
Total comprehensive income for the year		**49,836**	**432,760**
Attributable to minority interest [non-controlling interests]		7,039	3,747
Attributable to owners of the parent		42,797	429,013

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

(**) Includes “Other comprehensive income” obtained between 1 January 2018 (date of first implementation of IFRS 9) and 31 December 2018.

The consolidated statement of recognised income and expense and the consolidated statement of total changes in equity of Banco Sabadell Group make up the consolidated statement of changes in equity.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity for 2018.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2018 and 2017

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2017	**703,371**	**7,899,227**	**-**	**32,483**	**-**	**-**	**4,207,340**	**(106,343)**	**801,466**	**(111,628)**	**(265,311)**	**207**	**60,969**	**13,221,781**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies (*)	-	-	-	-	-	-	(707,405)	-	-	-	59,146	-	-	**(648,259)**
Opening balance 01/01/2018	**703,371**	**7,899,227**	**-**	**32,483**	**-**	**-**	**3,499,935**	**(106,343)**	**801,466**	**(111,628)**	**(206,165)**	**207**	**60,969**	**12,573,522**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**328,102**	**-**	**(285,305)**	**(89)**	**7,128**	**49,836**
Other changes in equity	**-**	**-**	**-**	**3,004**	**-**	**-**	**333,000**	**(37,109)**	**(801,466)**	**889**	**-**	**-**	**(4,676)**	**(506,358)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration) (**)	-	-	-	-	-	-	(281,348)	-	-	(110,739)	-	-	-	**(392,087)**
Purchase of treasury shares	-	-	-	-	-	-	-	(267,449)	-	-	-	-	-	**(267,449)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	1,795	230,340	-	-	-	-	-	**232,135**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	689,838	-	(801,466)	111,628	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments (***)	-	-	-	3,004	-	-	-	-	-	-	-	-	-	**3,004**
Other increase or (-) decrease in equity	-	-	-	-	-	-	(77,285)	-	-	-	-	-	(4,676)	**(81,961)**
Closing balance 31/12/2018	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**

(*) See reconciliation between consolidated equity as at 31 December 2017 and the date of entry into force of IFRS 9 in Note 1.

(**) Distribution of supplementary dividend (see Note 3).

(***) See Note 33.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2018.

The consolidated statement of recognised income and expense and the consolidated statement of total changes in equity of Banco Sabadell Group make up the consolidated statement of changes in equity.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2018 and 2017

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2016	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance 31/12/2016	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**801,466**	**-**	**(372,453)**	**35**	**3,712**	**432,760**
Other changes in equity	**1,352**	**16,328**	**-**	**(5,933)**	**-**	**-**	**402,275**	**(4,959)**	**(710,432)**	**(347)**	**-**	**-**	**7,761**	**(293,955)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration)	-	-	-	-	-	-	(168,485)	-	-	(111,628)	-	-	-	**(280,113)**
Purchase of treasury shares	-	-	-	-	-	-	-	(345,543)	-	-	-	-	-	**(345,543)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	2,142	340,584	-	-	-	-	-	**342,726**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	1,352	16,328	-	-	-	-	-	-	-	-	-	-	-	**17,680**
Transfers among components of equity	-	-	-	(23,717)	-	-	622,868	-	(710,432)	111,281	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	17,784	-	-	-	-	-	-	-	-	-	**17,784**
Other increase or (-) decrease in equity	-	-	-	-	-	-	(54,250)	-	-	-	-	-	7,761	**(46,489)**
Closing balance 31/12/2017	**703,371**	**7,899,227**	**-**	**32,483**	**-**	**-**	**4,207,340**	**(106,343)**	**801,466**	**(111,628)**	**(265,311)**	**207**	**60,969**	**13,221,781**

Shown for comparative purposes only (see section "Comparability of information" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated statement of changes in equity as at 31 December 2018.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2018 and 2017

Thousand euro

	Note	2018	2017 (*)
Cash flows from operating activities		**(3,527,010)**	**12,723,308**
Profit or loss for the year		335,230	805,178
Adjustments to obtain cash flows from operating activities		1,734,258	1,922,332
Depreciation		353,095	402,243
Other adjustments		1,381,163	1,520,089
Net increase/decrease in operating assets		(6,889,631)	(4,638,398)
Financial assets held for trading		(472,461)	1,911,717
Non-trading financial assets mandatorily at fair value through profit or loss		18,417	-
Financial assets designated at fair value through profit or loss		-	(4,699)
Financial assets at fair value through other comprehensive income		1,572,710	956,589
Financial assets at amortised cost		(8,349,090)	(8,202,376)
Other operating assets		340,793	700,371
Net increase/decrease in operating liabilities		1,351,513	14,825,272
Financial liabilities held for trading		307,139	(544,592)
Financial liabilities designated at fair value through profit or loss		-	4,704
Financial liabilities at amortised cost		1,534,920	15,677,746
Other operating liabilities		(490,546)	(312,587)
Income tax receipts or payments		(58,380)	(191,076)
Cash flows from investment activities		**624,954**	**1,310,144**
Payments		(738,048)	(1,018,119)
Tangible assets	15	(300,530)	(588,086)
Intangible assets	16	(375,093)	(376,703)
Investments in joint ventures and associates	14	(46,178)	(52,930)
Subsidiaries and other business units	Schedule I	(16,247)	(400)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		1,363,002	2,328,264
Tangible assets	15, 36	504,881	249,029
Intangible assets		-	-
Investments in joint ventures and associates	14	93,240	187,327
Subsidiaries and other business units		-	1,100,869
Non-current assets and liabilities classified as held for sale	13, 37	764,881	791,038
Other collections related to investment activities		-	-

(*) Shown for comparative purposes only (see section “Comparability of information” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2018.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2018 and 2017

Thousand euro

	Note	2018	2017 (*)
Cash flows from financing activities		**21,324**	**727,763**
Payments		(710,811)	(764,963)
Dividends		(392,087)	(280,113)
Subordinated liabilities	Schedule V	-	(115,790)
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(267,449)	(345,543)
Other payments related to financing activities		(51,275)	(23,517)
Collections		732,135	1,492,726
Subordinated liabilities	Schedule V	500,000	1,150,000
Issuance of own equity instruments		-	-
Disposal of own equity instruments		232,135	342,726
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**12,404**	**(86,659)**
Net increase (decrease) in cash and cash equivalents		**(2,868,328)**	**14,674,556**
Cash and cash equivalents at the beginning of the year		**26,362,807**	**11,688,250**
Cash and cash equivalents at the end of the year		**23,494,479**	**26,362,807**

Memorandum item		
CASH FLOWS CORRESPONDING TO:		
Interest received	4,822,300	5,156,766
Interest paid	1,134,273	1,161,233
Dividends received	8,180	185,237
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash	814,761	733,923
Cash equivalents in central banks	22,065,440	25,097,038
Other demand deposits	614,278	531,846
Other financial assets	-	-
Less: bank overdrafts repayable on demand	-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	23,494,479	26,362,807
Of which: held by Group entities but which cannot be drawn by the Group		-

(*) Shown for comparative purposes only (see section "Comparability of information" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2018.

For the year ended 31 December 2018

Note 1 – Activity, accounting policies and practices

1.1. Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the bank or the company), with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations of governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a corporate group (see Schedule I and Note 2) whose activity it controls directly or indirectly and which comprise, together with the bank, Banco Sabadell Group (hereinafter, the Group).

1.2. Basis of presentation

The consolidated annual accounts for the year 2018 of the Group have been prepared in accordance with that set forth in International Financial Reporting Standards adopted by the European Union (IFRS) applicable at the end of 2018, taking into account Bank of Spain Circular 4/2017, of 27 November, and other provisions of the regulatory framework of financial information applicable to the Group, in a manner which shows a faithful image of equity and of the Group's consolidated financial position as at 31 December 2018 and of the results of its operations, changes in equity and cash flow on a consolidated basis, which materialised in 2018.

The consolidated annual accounts have been prepared based on the accounting records kept by the bank and each of the other entities in the Group, and include adjustments and reclassifications necessary to ensure the harmonisation of the accounting principles and policies and the measurement criteria applied by the Group, which are described in this note.

The information included in these consolidated annual accounts is the responsibility of the directors of the Group's parent company. The bank's consolidated annual accounts for 2018 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 31 January 2019 and will be submitted to the shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

Except as otherwise indicated, these consolidated annual accounts are expressed in thousands of euros. In order to show the amounts in thousands of euros, the accounting balances have been subject to rounding; for this reason, some of the amounts appearing in certain tables may not be the exact arithmetic sum of the preceding figures.

Standards and interpretations issued by the International Accounting Standards Board (IASB) which have entered into effect in 2018

During 2018 the following standards have come into force and have been adopted by the European Union:

Standards	Titles
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Clarifications to IFRS 15	Revenue from contracts with customers
Amendments to IFRS 4	Application of IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts"
Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Annual improvements to IFRS	Cycle 2014 - 2016
Amendments to IAS 40	Investment property transfers
Interpretation of IFRIC 22	Foreign currency transactions and advance consideration

IFRS 9 “Financial instruments”

On 1 January 2018 IFRS9 “Financial Instruments”, which replaced IAS 39 “Financial instruments: recognition and measurement” came into force, and has represented the amendment of accounting requirements for the recognition and measurement of financial assets and liabilities, which are described in the sections “Measurement of financial instruments and recognition of changes arising in their subsequent measurement” and “Impairment of financial assets” in this note.

Additionally, IFRS 9 has introduced an additional accounting scheme for hedge accounting, supplementary to the scheme available to date, with the latter prevailing during a transitional period. During 2018, the Group has continued applying hedge accounting criteria set forth in IAS 39.

On the other hand, the implementation of this standard has given rise to significant amendments in IFRS 7 “Financial instruments: disclosures”, which have been considered in the preparation of these consolidated annual accounts.

The application of this standard implies, in general, the anticipation of the recognition of losses due to the impairment of financial assets in relation to the criteria applied in accordance with the foregoing regulation.

The principal quantitative impacts of the first implementation of IFRS 9 as at 1 January 2018 are shown below:

- The reconciliation of the portfolios in which the Group’s financial assets were grouped as at 31 December 2017, for the purposes of their presentation and valuation in the consolidated annual accounts for 2017 with those established by IFRS 9 at the date of its entry into force, is as follows:

Million euro

Portfolios used in the consolidated annual accounts for 2017 (IAS 39)	Measurement category IAS 39	Portfolios used after the entry into force of IFRS 9	Measurement category IFRS 9	Balance IAS 39 31/12/2017	Reclassification	Remeasurement	Balance IFRS 9 01/01/2018
Loans and receivables		**Financial assets at amortised cost**		**153,285**	**(94)**	**-**	**153,191**
Loans and advances		Loans and advances		152,709	-	-	152,709
Central banks and Credit institutions	Amortised cost	Central banks and Credit institutions	Amortised cost	5,384	-	-	5,384
Customers	Amortised cost	Customers	Amortised cost	147,325	-	-	147,325
Debt securities	Amortised cost	Debt securities	Amortised cost	576	(94)	-	482
Loans and receivables		**Non-trading financial assets mandatorily at fair value through profit or loss**		**-**	**94**	**-**	**94**
Debt securities	Amortised cost	Debt securities	FV-PL (*)	-	94	-	94
Held-to-maturity investments		**Financial assets at amortised cost**		**11,173**	**(2,050)**	**-**	**9,123**
Debt securities	Amortised cost	Debt securities	Amortised cost	11,173	(2,050)	-	9,123
Held-to-maturity investments		**Financial assets at fair value through other comprehensive income**		**-**	**2,037**	**84**	**2,121**
Debt securities	Amortised cost	Debt securities	FV-OCI (**)	-	2,037	84	2,121
Held-to-maturity investments		**Non-trading financial assets mandatorily at fair value through profit or loss**		**-**	**13**	**-**	**13**
Debt securities	Amortised cost	Debt securities	FV-PL (*)	-	13	-	13
Available-for-sale financial assets		**Financial assets at fair value through other comprehensive income**		**13,187**	**(54)**	**-**	**13,133**
Equity instruments	Available for sale	Equity instruments	FV-OCI (**)	413	-	-	413
Debt securities	Available for sale	Debt securities	FV-OCI (**)	12,774	(54)	-	12,720
Available-for-sale financial assets		**Non-trading financial assets mandatorily at fair value through profit or loss**		**-**	**54**	**-**	**54**
Debt securities	Available for sale	Debt securities	FV-PL (*)	-	54	-	54
Financial assets held for trading		**Financial assets held for trading**		**1,572**	**-**	**-**	**1,572**
Derivatives	FV-PL (*)	Derivatives	FV-PL (*)	1,441	-	-	1,441
Equity instruments	FV-PL (*)	Equity instruments	FV-PL (*)	7	-	-	7
Debt securities	FV-PL (*)	Debt securities	FV-PL (*)	124	-	-	124
Financial assets designated at fair value through profit or loss		**Non-trading financial assets mandatorily at fair value through profit or loss**		**40**	**-**	**-**	**40**
Equity instruments	FV-PL (*)	Equity instruments	FV-PL (*)	40	-	-	40
Gross carrying amount				**179,257**	**-**	**84**	**179,341**

(*) At fair value through profit or loss.
(**) At fair value through other comprehensive income.

- The reconciliation of asset impairment allowances and the Group's off-balance sheet exposures as at 31 December 2017 recorded in the consolidated annual accounts for 2017, with those recorded in accordance with IFRS 9, on the date of its entry into force, is as follows:

Million euro

Portfolios used in the consolidated annual accounts for 2017 (IAS 39)	Measurement category IAS 39	Portfolios used after the entry into force of IFRS 9	Measurement category IFRS 9	Loss allowance IAS 39 31/12/2017	Remeasurement	Loss allowance IFRS 9 01/01/2018
Loans and receivables		**Financial assets at amortised cost**		**3,733**	**990**	**4,723**
Loans and advances		Loans and advances		3,732	989	4,721
Central banks and Credit institutions	Amortised cost	Central banks and Credit institutions	Amortised cost	5	(1)	4
Customers	Amortised cost	Customers	Amortised cost	3,727	990	4,717
Debt securities	Amortised cost	Debt securities	Amortised cost	1	1	2
Loans and receivables		**Financial assets at fair value through other comprehensive income**		**-**	**3**	**3**
Debt securities	Amortised cost	Debt securities	FV-OCI (*)	-	3	3
Held-to-maturity investments		**Financial assets at amortised cost**		**1**	**-**	**1**
Debt securities	Amortised cost	Debt securities	Amortised cost	1	-	1
Available-for-sale financial assets		**Financial assets at fair value through other comprehensive income**		**6**	**-**	**6**
Debt securities	Available for sale	Debt securities	FV-OCI (*)	6	-	6
Total asset impairment allowances				**3,740**	**993 (**)**	**4,733**
Loss allowances for off-balance sheet exposures				**85**	**8 (***)**	**93**
Total impairment allowances				**3,825**	**1,001**	**4,826**
Of which: Loss allowances for the purchase of credit-impaired assets				*45*	*45*	*90*

(*) At fair value through other comprehensive income.
(**) See Note 11.
(***) See Note 22.

- The reconciliation between consolidated equity as at 31 December 2017 and the date of entry into force of IFRS 9 is as follows:

Million euro

	Balance IAS 39 31/12/2017	Reclassification	Remeasurement	Tax Impact	Balance IFRS 9 01/01/2018
Consolidated equity	13,222	-	(917)	268	12,573
Of which:					
Accumulated other comprehensive income	*(265)*	*(1)*	*84*	*(25)*	*(207)*
Other reserves	*4,207*	*1*	*(1,001)*	*293*	*3,500*

The first implementation of this standard implied, as at 1 January 2018, an increase in the NPL ratio by 18 basis points, an increase in the NPL coverage ratio (covering risks classified as Stage 3) by 10.79 percentage points, and an impact of 90 basis points on the fully-loaded CET 1 ratio (see Note 5).

On the other hand, the entry into force of IFRS 9 has not had a significant impact on the classification and recognition of the rest of the Group's financial assets and liabilities.

IFRS 15 "Revenues from contracts with customers"

IFRS 15 lays down new requirements for the recognition of revenue, based on the principle that an institution should recognise revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services.

This principle is reflected in a model for revenue recognition consisting of five steps, in which institutions must identify the separate performance obligations in contracts with customers, allocate the transaction price to the performance obligations identified and recognise revenue when, or as, the institution satisfies its performance obligation. This standard is therefore expected to have a greater impact on companies selling products and services on a combined basis or those that take part in long-term projects, such as telecommunications, software, engineering, construction and real estate companies. In view of the Group's core activities, and the fact that IFRS 15 is not applicable to financial instruments and other contractual rights or obligations under the scope of IFRS 9, the impact of the application of this standard has been very limited.

Clarifications to IFRS 15 "Revenue from Contracts with Customers"

These clarifications address the identification of performance obligations, principal versus agent considerations, licensing, as well as some information regarding transition rules.

Amendments to IFRS 4 "Application of IFRS 9 "Financial instruments" with IFRS 4 "Insurance contracts"

The objective of these amendments is to address the concerns of some entities, particularly insurance entities, regarding the different effective dates of the first application of IFRS 9 and the new standard on insurance contracts, which has not yet been approved. These concerns relate to the possibility of accounting mismatches and volatility in results if IFRS 9 is applied before the new standard on insurance contracts, as well as the difficulties and costs of implementing both standards.

Therefore, there are two options which entities who issue insurance contracts may choose in accordance with IFRS 4:

- Reclassification of gains included in profit or loss for the year to total equity, for income and expenses deriving from designated financial assets.

- Temporarily not applying IFRS 9, in the case of entities whose activity predominantly consists of issuing insurance contracts within the scope of IFRS 4.

Amendments to IFRS 2 "Classification and measurement of share based payment transactions"

These amendments address specific issues such as the accounting of cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments settled net of tax and certain aspects of the accounting of the amendments to the terms and conditions of share-based payments.

Annual Improvements to IFRS "Cycle 2014-2016"

These improvements have included non-urgent amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards"; IFRS 12 "Disclosure of Interests in Other Entities"; and IAS 28 "Investments in Associates and Joint Ventures."

Amendments to IAS 40 "Investment Property"

According to these amendments, it is only possible to record one asset as a real estate investment, or reclassify it to a different item on the balance sheet, when there is evidence that a change in its use has occurred. In particular, in accordance with these amendments, a change in the intended use of the asset does not constitute, in itself, evidence of a change in the use of the asset.

Interpretation of IFRIC 22 "Foreign currency transactions and advance consideration"

This interpretation refers to the treatment of transactions in a foreign currency when an entity recognises a non-monetary item arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income.

In these cases, the exchange rate to be used is that of the date of initial recognition of the payment or receipt of advance consideration. In the event that there are various advance consideration payments, the exchange rate used for each such consideration shall be the exchange rate on the date of their recognition.

Except for the impact deriving from the adoption of IFRS 9, described above, no significant effects have derived from the application of the consolidated annual accounts.

IASB standards and interpretations not yet in effect

As at 31 December 2018 the most significant standards and interpretations for the Group that have been published by the IASB but which have not been applied when preparing these consolidated annual accounts, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
IFRS 16	Leases	1 January 2019
Amendments to IFRS 9	Prepayment features with negative compensation	1 January 2019
Interpretation of IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Not approved for application in the EU		
Amendments to IAS 28	Long-term interests in associates and joint ventures	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
Annual improvements to IFRS	Cycle 2015 - 2017	1 January 2019
Amendments to IAS 19	Plan amendment, settlement or curtailment	1 January 2019
Amendments to IFRS Conceptual Framework	Amendment of references to IFRS Conceptual Framework	1 January 2020
Amendments to IFRS 3	Business combinations	1 January 2020
Amendments to IFRS 1 and 8	Definition of material	1 January 2020

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. Similarly, unless otherwise indicated, management estimates that their adoption would not have a material impact on the Group.

Approved for implementation in the EU

IFRS 16 "Leases"

In January 2016, IASB published this new standard, which supersedes IAS 17 "Leases", and establishes new criteria for the identification and accounting of leasing contracts, for both lessors and lessees.

IFRS 16 establishes a control model for the identification of these contracts, distinguishing between lease and service contracts based on the existence of a specific asset controlled by the lessee.

This standard includes significant changes in the accounting of lessees, eliminating the distinction between finance leases and operating leases. The standard requires right-of-use assets and lease liabilities to be recognised on the balance sheet. This standard does not introduce significant amendments in the accounting of these contracts by lessors.

IFRS 16 also introduces amendments in the accounting of sale and leaseback transactions. However, on the date of this standard's first application, banks shall not be required to reassess whether sale and leaseback transactions carried out in previous years resulting in asset disposals comply with the requirements of IFRS 15 in order to be considered as sales. In the specific case of transactions recognised as sale and leasebacks, the lease contracts shall be accounted for following the same criteria as other operating leases in effect at the time of the standard's first application.

In 2018 the Group has carried out an analysis of the impact of the first application of IFRS 16, concluding that this fundamentally affects the accounting of the leasing contracts of properties and branches where the Group carries out its activity.

As a consequence of the entry into force of this standard, the Group has registered, on 1 January 2019, a liability for the pending payments of the estimated lease contracts, based on their expected maturity date, discounting the incremental financing rate, understanding it as the interest rate that the Group would pay for financing asset purchases for a similar value to the rights of use acquired for the goods subject to lease for an equal term to the estimation duration of the lease contracts. For the purpose of carrying out this estimation, the Group, in accordance with that permitted by new regulations, has not included contracts for goods of negligible value or with short term maturity. Additionally, it has chosen to fully record contracts which includes services other than lease services as leasing contracts.

In accordance with the foregoing, the Group has recorded a lease liability as at 1 January 2019 for the amount of 1,107 million euros, and an asset for an amount equal to the lease liability. Consequently, the first application of this standard has not had an impact on the Group's equity.

Amendments to IFRS 9 "Prepayment features with negative compensation"

This amendment allows financial assets whose cash flows represent payments of principal and interest only, with the exception of cases in which their early termination gives rise to payments as compensation by the lending institution to the borrower, to be measured, under certain circumstances, at their amortised cost or fair value with a counterpart in equity.

Interpretation of IFRIC 23 "Uncertainty over income tax treatments"

This interpretation establishes how to estimate the accounting position when there is uncertainty over the income tax treatments. This requires entities to determine whether tax positions for which there is uncertainty must be valued separately or together, and whether it is probable that the tax authority will accept the uncertain tax treatment that an entity has used, or plans to use, in its income tax filing.

- If considered probable, the entity will have to determine its tax position consistently with the tax treatment which it has used or plans to use;

- If considered not probable, the entity should reflect the effect of such uncertainty when determining its tax position.

<u>Not approved for their implementation in the EU</u>

Amendments to IAS 28 "Long term interests in Associates and Joint Ventures"

These amendments clarify that institutions must apply IFRS 9, including their requirements relating to the impairment of financial instruments, long term interests in associates and joint ventures which form part of net investment in the associate or joint venture, but which are not valued by the equity method.

IFRS 17 "Insurance contracts"

IFRS 17 establishes the principles of recognition, measurement, presentation and breakdown of insurance contracts. The objective of IFRS 17 is to ensure that entities provide relevant information that faithfully represents those contracts.

In accordance with this standard, insurance contracts combine components of financial instruments and service contracts. Furthermore, many insurance contracts generate cash flows that vary substantially and have a long duration. For the purpose of providing useful information on these aspects, IFRS 17:

- Combines the current measure of future cash flows with recognition of income throughout the period during which the services established in the contracts are provided.

- Presents results for services provided separately from the expenses and income relating to these contracts.

- Requires entities to decide whether to recognise the entirety of their financial income and expenses relating to insurance contracts in the income statement or whether part of such revenue shall be recognised in the statement of equity.

Annual Improvements to IFRS "2015-2017 Cycle"

These improvements include slight amendments to standards IAS 12 - "Income Taxes", IAS 23 "Borrowing Costs" and IAS 28 "Investments in Associates and Joint Ventures".

Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

This amendment to IAS 19 uses actuarial assumptions to determine the cost of the actual service and net interest for the rest of the period after the amendment, curtailment or settlement, and which recognises in the results, as part of the cost of the service, or earnings or loss in the settlement, or any reduction of a surplus, even if the surplus had not previously been recognised due to the impact of the limit of the assets.

This amendment shall be applied prospectively to the amendments, settlements or curtailments of the defined benefit pension plans from 1 January 2019 onwards, whereby their early application is permitted.

Amendment of references to IFRS Conceptual Framework

The Conceptual Framework establishes the fundamental concepts applied in the development of new IFRS and contributes to ensuring that they are coherent and that similar transactions are recorded in the same manner, with the purpose of providing useful information to users. Furthermore, it also helps institutions to develop accounting criteria in the cases in which developed standards which are applicable to a particular transaction do not exist.

The revised Conceptual Framework entered into force in March 2018, and amongst other aspects, it reintroduces the concept of prudence, amends the definitions of assets and liabilities, includes clarifications with regards to the recording and write off of assets and liabilities and based on the measurement of items in the financial statements and uses profit/loss as a key indicator of the profitability of an entity.

Additionally, the IASB has published the document "Amendments to References to the Conceptual Framework in IFRS", which updates the references included in several IFRS to the new Conceptual Framework. These amendments shall be applicable from 1 January 2020, as their early application is permitted.

Amendments to IFRS 3 "Business combinations"

The objective of these modifications is to introduce improvements in the definition of business, with the purpose of helping institutions to differentiate between asset purchases and business acquisitions. This distinction is relevant because goodwill is only generated in business acquisitions.

The amended definition of business emphasises that the purpose of a business is to provide goods and services to consumers, whereas the previous definition focused on obtaining dividends, reducing costs or other benefits for investors.

Amendments to IAS 1 and IAS 8 "Definition of material"

These amendments establish a new definition of "material" with the objective of helping companies to make decisions which imply the application of best judgement with regards to the information that should be included in the financial statements. In accordance with the new definition, information is material if its omission, distortion, or obscuration may reasonably impact the decisions which users make on the basis of the entity's financial statements.

No accounting principles or valuation criteria that have ceased to be applied in the preparation of the Group's annual consolidated accounts for 2018 due to any significant effect thereof.

Best judgement and estimates

The preparation of the consolidated annual accounts requires certain accounting estimates to be made. It also requires that management exercise judgement in the process of applying the Group's accounting policies. Such estimates could affect the amount of assets and liabilities and the breakdown of contingent assets and liabilities at the date of the consolidated annual accounts, as well as income and expenses during the year.

The main estimates refer to the following items:

- Amendments to business models under which financial assets are managed (see Notes 1.3.3, 8 and 11).
- The determination of the significant increase in credit risk of financial assets from their initial recognition (see Notes 1.3.4, 8 and 11).
- Losses due to the impairment of certain financial assets (see Notes 1.3.4, 8, 9 and 11).
- The assumptions used in actuarial calculations of liabilities and commitments in respect of post-employment remuneration (see Notes 1.3.17 and 22).
- The useful life of tangible and intangible assets (see Notes 1.3.10, 1.3.12, 15 and 16).
- The valuation of consolidated goodwill (see Notes 1.3.12 and 16).
- The provisions and consideration of contingent liabilities (see Notes 1.3.16 and 22).
- The fair value of certain unquoted financial assets (see Note 6).
- The fair value of real estate assets included in the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 39).

Although estimates are based on the best information available to management about the current and foreseeable circumstances, final results could differ from these estimates.

1.3. Accounting principles and policies and measurement criteria

The most significant accounting principles and policies, as well as measurement criteria that have been applied in preparing these consolidated annual accounts are as follows:

1.3.1 Consolidation principles

In the consolidation process, a distinction is drawn between subsidiaries entities, joint ventures and associates and structured entities.

Subsidiaries entities

Subsidiaries entities are institutions over which the Group has control. This occurs when the Group is exposed to, or entitled to, variable returns derived from its involvement in the subsidiary entity and it has the ability to influence those returns through its power over the entity.

For control to exist, the following criteria must be met:

- Power: an investor has power over an investee when it holds rights which provide it with the capacity to direct the relevant activities, i.e. those that significantly affect the investee's returns.

- Returns: an investor is exposed, or is entitled, to variable returns due to his/her involvement in the investee when the returns obtained from such involvement may vary depending on the investee's business performance. The returns may only be positive, only negative or both positive and negative.

- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed or is entitled, to variable returns due to his/her involvement with the investee, but also the ability to use their power to affect the returns obtained due to their involvement with the investee.

At the time of the takeover of a subsidiary entity, the Group applies the acquisition method provided for in the regulatory framework for business combinations (see Note 1.3.2) except in the case of acquisitions of an asset or group of assets.

The financial statements of subsidiaries entities are consolidated with the bank's financial statements using the full consolidation method.

The participation of third parties in Group consolidated equity is shown in the heading *"Minority interests (non-controlling interest)"* of the consolidated balance sheet and the part of the profit for the year attributable to the same is shown under the heading *"Profit or loss for the year - Attributed to minority interests (non-controlling interest)"* in the consolidated income statement.

Joint ventures

These are institutions subject to joint control agreements whereby decisions on significant activities are made unanimously by the institutions which share control.

Investments in joint ventures are accounted for by the equity method i.e. they are accounted for in terms of the fraction of equity represented by the Group's share of their capital stock, after taking account of any dividends received from them and any other equity disposals.

The Group has not held investments in joint ventures during 2018.

Associates

Associates are institutions over which the Group has a significant influence which generally, although not exclusively, takes the form of direct or indirect interest representing 20% or more of the investee's voting rights.

In the consolidated annual accounts, associated entities are accounted for using the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or other similar rights are not the determining factor when it comes to deciding who controls the entity.

In cases in which the Group holds a stake in an entity, or constitutes an entity, for the purpose of transferring risks or for any other purposes, or to allow customers access to certain investments, whether or not there is control over the entity is determined based on the provisions of the regulatory framework, as described above and, subsequently, a determination is made as to whether or not they should be subject to consolidation. Specifically, the following factors, among others, are considered:

- Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.

- Implicit or explicit commitments of the Group to provide financial support to the entity.

- Identification of the entity's manager and analysis of the remuneration scheme.

- Existence of removal rights (possibility of dismissing managers).

- -Significant exposure of the Group to the variable returns on the assets of the entity.

These entities include those known as “Asset securitisation funds”, which are consolidated in cases where, based on the above analysis, it is determined that the Group has maintained control. For these operations, there are contractual agreements for financial aid commonly used in securitisation markets, but there are no significant financial aid agreements other than those established contractually. By reason of the foregoing, it is considered that for virtually all securitisations made by the Group, the risks transferred cannot be derecognised from the asset side of the consolidated balance sheet and the issues of securitisation funds are recognised as liabilities on the Group consolidated balance sheet.

In the case of investment firms and investment and pension funds managed by the Group (in most cases, retail funds with no legal personality over which the investors acquire proportional units providing them with ownership of the equity managed), they are considered not to meet the regulatory requirements for them to be considered structured entities and they are analysed under the same criteria as subsidiaries.

Such firms and funds are self-sufficient in terms of their activities, and their capital structure does not prevent them from carrying out their activities without further financial aid, for which reason they are not subject to consolidation.

Schedule II provides details of the structured entities of the Group.

In all cases, the consolidation of the results generated by the companies forming part of the Group during a given year is carried out considering only those relating to the period spanning between the acquisition date and year-end. Similarly, the consolidation of the results generated by the companies disposed of during the year is carried out considering only those relating to the period spanning between the start of the year and the disposal date.

In the consolidation process, all material balances and transactions between the companies forming part of the Group have been eliminated, in the proportion corresponding to them based on the applied consolidation method.

The financial and insurance institutions, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies. Current laws in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the capacity of such institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 2 includes information on the most significant acquisitions and disposals that have taken place during the year. Relevant information regarding the Group’s companies is provided in Schedule I.

1.3.2 Business combinations

A business combination is a transaction, or any other event, whereby the Group obtains control over one or more businesses. Business combinations are accounted for using the acquisition method.

Under this method, the acquiring entity recognises the assets and liabilities acquired in its financial statements, also considering contingent liabilities, in line with their fair value, including those which were not recognised for accounting purposes by the institution acquired. This method also requires the estimate of the cost of the business combination, which will normally correspond to the consideration paid, defined as the fair value, on the date of acquisition, of the assets delivered, the liabilities incurred against the former owners of the acquired business and the equity instruments issued, if any, by the acquiring entity.

The Group recognises goodwill in the consolidated annual accounts if at the acquisition date there is a positive difference between:

- the sum of the consideration paid and the amount of all minority interests and the fair value of prior interests held in the acquired business, and

- the fair value of recognised assets and liabilities.

If the difference is negative, it is recorded under the heading *“Negative goodwill recognised in profit and loss”* in the consolidated income statement.

In cases where the amount of the consideration depends on future events, any contingent consideration is recognised as part of the consideration paid and is measured at fair value on the acquisition date. The costs associated with the transaction do not form part of the cost of the business combination for these purposes.

If the cost of the business combination or the fair value assigned to the acquired institution’s assets, liabilities or contingent liabilities cannot be definitively determined, the initial accounting of the business combination is considered provisional. In any event, the process should be completed within a maximum of one year from the acquisition date and effective as of that date.

Minority interests in the acquired institution are measured on the basis of the proportional percentage of its identified net assets. All purchases and disposals of these minority interests are accounted for as equity transactions when they do not result in a change of control. No profit or loss is recognised in the consolidated income statement and the initially recognised goodwill is not re-measured. Any difference between the consideration paid or received and the decrease or increase in minority interests, respectively, is recognised in reserves.

With regard to non-monetary contributions of businesses to associates or jointly controlled institutions in which control is lost over said businesses, the Group’s accounting policy is to record the full profit or loss in the consolidated income statement, recognising any remaining equity interest at fair value.

1.3.3 Measurement of financial instruments and recognition of changes arising in their subsequent measurement

In general, all financial instruments are initially recognised at fair value (see definition in Note 6) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments which are not recognised at fair value through profit or loss, the amount of fair value is adjusted either by adding or deducting the transaction costs directly attributable to its acquisition or issue. In the case of financial instruments at fair value through profit or loss, the transaction costs directly attributable are recognised immediately in the consolidated income statement. In general, conventional sales and purchases of financial assets are recognised in the Group’s consolidated balance sheet using the settlement date.

Changes in value of financial instruments originating from the accrual of interest and similar items are recorded in the consolidated income statement, under the headings “*Interest income*” or “*Interest expenses*”, as applicable. Dividends received from other companies are recognised in the consolidated income statement for the year in which the right to receive them is originated.

The instruments which form part of a hedge are treated in accordance with current regulations applicable to hedge accounting.

Variations in the evaluations which arise subsequent to the initial registration due to causes other than those mentioned above are treated based on the classification of financial assets and liabilities for the purposes of their evaluation which, in general, is based on the following aspects:

- The business model for the management of financial assets, and

- The characteristics of contractual cash flows from financial assets.

<u>Business model</u>

Business model under which the financial assets are managed to generate cash flows. The business model is determined considering how groups of financial assets are managed together, to achieve a specific objective. Therefore, the business model does not rely on the Group’s intentions for an individual instrument, yet it is determined for a group of instruments.

The business models used by the Group are indicated below:

- Maintenance of financial assets to receive contractual cash flows: under this model, financial assets are managed with the objective of receiving specific contractual cash flows and not to receive overall returns by maintaining and selling assets. Notwithstanding the foregoing, disposals prior to the maturity of assets under determined circumstances are permitted. Amongst the sales which could be compatible with a model of maintaining assets to receive contractual cash flows, assets close to maturity, those which are maintained due to an increase in credit risk and those carried out to manage concentration risk, are the least common or least significant.

- Sale of financial assets.

- Combination of the two business models above (maintenance of financial assets to receive contractual cash flows and sale of financial assets): this business model implies carrying out the sales of the most frequent and highest-value assets, which are essential to the business model.

<u>Characteristics of contractual cash flows of financial assets</u>

A financial asset must initially be classified in one of the following two categories:

- Those whose contractual conditions given rise, on specific dates, to cash flows which only consist of principal and interest payments on the amount of outstanding principal.

- Rest of financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at the moment of the initial recognition, which could change throughout the life of the financial asset; for example, if there are principal repayments. Furthermore, interest is understood as the sum of the compensation for the temporary value of money, financing and structural costs, and credit risk associated with the amount of the principal pending payment during a specific period, plus a profit margin.

<u>Financial instrument classification portfolios for the purpose of their valuation</u>

Financial assets and liabilities are classified for the purposes of their valuation in the following portfolios, based on the aspects described above:

<u>Financial assets at amortised cost</u>

This category includes financial assets which comply with the following two conditions:

- They are managed using a business model, the purpose of which is to maintain them to receive their contractual cash flows, and

- Their contractual conditions give rise to cash flows on specific dates, which are only for principal and interest payments for the amount of outstanding principal.

This category comprises investments associated with typical lending activities such as amounts loaned to customers and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities which comply with the two conditions indicated above, as well as debts incurred by purchasers of goods or users of services forming part of the Group's business.

Following their initial recognition, financial assets classified in this category are measured at amortised cost, which consists of the acquisition cost adjusted to take into account principal repayments and the portion allocated in the consolidated income statement, using the effective interest rate method, of the difference between the initial cost and the repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item of the same value.

The effective interest rate is the discount rate that equals the value of a financial instrument exactly to the estimated cash flows over the instrument's expected life, on the basis of the contractual conditions, such as early repayment options, but without taking into account future credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate set at the time of their acquisition, plus, where appropriate, the fees which, because of their nature, may be likened to an interest rate. In the case of variable-rate financial instruments, the effective interest rate is the same as the rate of return in respect of all applicable concepts, until the first date on which the reference interest rate is reviewed.

Financial assets at fair value through other comprehensive income

This category includes financial assets which comply with the following two conditions:

- Managed through a business model, the objective of which combines the perception of its contractual cash flows and its sale, and

- Contractual conditions give rise to cash flows on specific dates which are only for principal and interest payments for the amount of outstanding principal.

These financial assets primarily correspond to debt securities.

Furthermore, the Group may opt, at the time of the initial recognition, and irrevocably, to include the portfolio of financial assets at fair value through other comprehensive income, investments in equity instruments that should not be classed as held for trading and which would otherwise be classified as financial assets mandatorily at fair value through profit or loss. This option is exercised instrument by instrument. The Group has exercised this option for almost all of these financial instruments in these consolidated annual accounts.

Income and expenses from financial assets at fair value through other comprehensive income are recognised in accordance with the following criteria:

- Interest accrued, or when applicable, dividends accrued, in the consolidated income statement.

- Exchange differences, in the consolidated income statement for monetary financial assets, and through other comprehensive income for non-monetary financial assets.

- Losses due to impairment of debt securities, or gains due to their subsequent recovery, in the consolidated income statement, and in the case of equity instruments, through other comprehensive income.

- Other changes in value, through other comprehensive income.

When a debt instrument at fair value through other comprehensive income is derecognised from the balance sheet, the amount due to the change in value is recognised under the heading *"Accumulated other comprehensive income"* of consolidated equity is reclassified to the consolidated income statement. However, when an equity instrument at fair value through other comprehensive income is derecognised from the balance sheet, this amount is not reclassified to the consolidated income statement, yet to a reserves account.

Financial assets mandatorily at fair value through profit or loss

A financial asset is classified in the financial assets portfolio mandatorily at fair value through changes in profit or loss always provided that the Group business model for its management or due to the characteristics of its contractual cash flows it is not appropriate to classify it in one of the portfolios described above.

This portfolio is then subdivided into:

- *Financial assets held for trading*

  Financial assets held for trading are those which have been acquired to be used in the short term, or which form part of a portfolio of financial instruments that are identified and managed together and for which activities have been recently carried out to achieve short-term profits. Derivative instruments which do not comply with the definition of a financial guarantee contract, nor which have been designated as hedging instruments are also considered as financial assets held for trading.

- *Non-trading financial assets mandatorily at fair value through profit or loss*

  The rest of financial assets mandatorily at fair value through profit or loss are classified in this portfolio.

Changes in fair value are directly recognised in the consolidated income statement, for instruments which are not derivatives, distinguishing between the part attributable to returns accrued from the instrument which are recognised as "*Interest income*", applying the effective interest rate method, or as dividends, depending on their nature, and the rest shall be recognised as *"Gains or (-) losses on financial assets and liabilities, net"* under the corresponding heading.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities which have been issued to be repurchased in the short term, or which form part of a portfolio of financial instruments that are identified and managed together and for which activities have recently been carried out to achieve short-term profits. It also includes short positions arising from sales of assets acquired under repurchase agreements or loans of securities, as well as derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments for accounting purposes.

Changes in fair value are directly recognised in the consolidated income statement, for instruments which are not derivatives, distinguishing between the part attributable to returns accrued from the instrument which are recognised as interest, applying the effective interest rate method and the rest shall be recognised as *"Gains or (-) losses on financial assets and liabilities, net"* under the corresponding heading.

Financial liabilities designated at fair value through profit or loss

This category includes financial liabilities which do not form part of the financial liabilities held for trading and which have been irrevocably designated in their initial recognition. This designation can only be carried out if it relates to hybrid financial instruments (see section "Hybrid financial instruments in this note) which comply with the conditions for their designation; if by doing so it eliminates or significantly reduces any accounting mismatches in the valuation or the recognition that would arise, otherwise, from the valuation of the assets or liabilities or the gains or losses, with different bases, or if more relevant information is obtained as it is a group of financial instruments which is managed and the returns of which is evaluated based on its fair value in accordance with a risk management or documented investment strategy, and information for such group is provided in accordance with its fair value for key management personnel.

Changes in fair value of these instruments are recognised in the consolidated income statement.

Financial liabilities at amortised cost

Financial liabilities at amortised cost correspond to financial liabilities that cannot be classified under the categories above and are associated with the normal deposit-taking activity of a financial institution, irrespective of their instrumentalisation and their maturity.

In particular, this category includes capital having the nature of a financial liability. This item corresponds to the amount of financial instruments issued by the Group which, although they are treated as capital for legal purposes, do not qualify for classification as consolidated equity for accounting purposes. They consist mainly of issued shares that do not carry voting rights on which a dividend is paid based on a fixed or variable rate of interest.

Following initial recognition they are valued at amortised cost applying the same criteria as those applicable to financial assets at amortised cost. Interest accrued calculated using the effective interest rate method is recorded in the consolidated income statement. However, if the Group has discretionary powers with regards to the payment of coupons associated with the financial instruments issued and reclassified as financial liabilities, the Group's accounting policy consists of recognising them by charging them to consolidated reserves.

Hybrid financial instruments

Hybrid financial instruments are a combination of a non-derivative principal contract and a financial derivative, known as a "implicit derivative", which cannot be independently transferred, nor does it have a different counterparty, the effect of which is that some of the cash flows of the hybrid instrument vary in a way which is similar to the cash flows of the derivative considered independently.

Generally, when the principal contract of a hybrid financial instrument is a financial asset, the implicit derivative is not segregated and the valuation rules are applied to the hybrid financial instrument.

When the principal contract of a hybrid financial instrument is a financial liability, the implicit derivatives of this contract are segregated, and they are treated independently for accounting purposes if the characteristics and the economic risks of the implicit derivative are not closely related to the principal contract; a different financial instrument with the same conditions as those of the implicit derivative would comply with the definition of a derivative instrument; and the hybrid contract is not fully valued in its entirety at its fair value through profit or loss.

The fair value of the bank's financial instruments as at 31 December 2018 and 2017 is included in Note 6.

1.3.4 Impairment of financial assets

A financial asset or a credit exposure is considered to be impaired upon the existence of objective evidence that an event has occurred, or that various events have occurred, and their combined effect have given rise to:

- For debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time the transaction was formalised, due to the materialisation of credit risk.

- In the case that off-balance sheet exposures include credit risk, the flows which are expected to be received are lower than contractual cash flows, in the event of the drawdown of the payment or the payments expected to be made, in the case of financial guarantees given.

- In the case of investments in joint ventures and associates, in which their carrying values will not be recovered.

Debt instruments and off-balance sheet exposures

Impairment losses for debt instruments and other off-balance sheet exposures are recognised as an expense in the consolidated income statement in which the impairment is estimated and the recoveries of previously recognised impairment allowances, if applicable, are also recognised in the consolidated income statement for the year in which the impairment is eliminated or reduced.

The impairment of financial assets is calculated depending on the type of instrument and other circumstances that could affect it, taking into account the effective guarantees received. For debt instruments valued at amortised cost, the Group recognises adjustment accounts, when provisions for insolvencies are created to cover impairment losses, as well as write-offs against the asset, when the probability of recovery is considered to be low. For debt instruments at fair value through other comprehensive income, impairment losses are recognised in the consolidated income statement, with a counterparty under the heading "*Accumulated other comprehensive income*" of consolidated equity. Impairment losses for off balance sheet exposures are recognised as liabilities in the consolidated balance sheet as a provision.

For risks classified as Stage 3 (see the section "Definition of classification categories" in this note), the recognition in the consolidated income statement of the accrual of interest is carried out applying the effective interest rate on the adjusted amortised cost due to any impairment allowances.

To determine impairment losses, the Group monitors borrowers individually, at least those who are significant borrowers, and collectively, for groups of financial assets with similar credit risk characteristics indicative of the capacity of borrowers to satisfy their outstanding payments. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed on a solely individual basis to determine whether it is impaired and, if so, to estimate the impairment losses.

The Group has policies, methods and procedures in place to estimate losses that may arise as a result of its credit risks, both due to insolvency attributed to counterparties and due to country risk. These policies, methods and procedures are applied when granting, assessing and formalising off-balance sheet debt instruments and exposures, and when identifying their possible impairment and, where applicable, when calculating the necessary amounts to cover such estimated losses.

Accounting classification of transactions on the basis of credit risk attributable to insolvency

The Group has set forth criteria that allow borrowers showing weaknesses or objective evidence of impairment to be identified and classified in line with their credit risk.

The following sections lay out the classification principles and methodologies used by the Group.

Definition of classification categories

Credit exposures, as well as off-balance sheet exposures are classified, based on credit risk, into the following phases or stages:

- Stage 1: operations which do not meet the requirements to be classified into other categories.

- Stage 2: this category is comprised of all operations which, without complying with criteria to be individually classified as *stage* 3 or write-off, show significant increases in credit risk from their initial recognition. Transactions with amounts that are more than 30 days past-due are included in this category. Refinanced and restructured operations classified in this category shall be classified into a lower risk category when the requirements established for such classification to be granted have been met. Operations which have been classified as underperforming (stage 2), due to significant increases in risk or due to amounts more than 30 days past-due, are reclassified to the performing category (Stage 1) once they have exceeded a test period of 6 months, based on the probability of entering into the performing category.

- Stage 3: comprised of debt instruments, whether they have matured or not, in which, without meeting the circumstances to classify them as write-off, there are reasonable doubts about their full repayment (principal and interests) by the holder, as well as off-balance sheet exposures, whose payment by the Group is likely, but whose recovery is doubtful.

    - As a result of borrower arrears: transactions any part of whose principal, interest or contractually agreed expenses is, in general, more than 90 days past-due, (although the specific characteristics of the operations originated or purchased with credit impairment are taken into account), unless they should be classed as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears in the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when such transactions have amounts which are generally, as previously indicated, more than 90 days past-due, and exceed 20% of the amounts pending collection.

    - For reasons other than borrower arrears: transactions which are not classifiable as write-off or stage *3* due to borrower arrears, but for which there are reasonable doubts about obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures, not classified as stage *3* due to borrower arrears, whose payment by the Group is likely and whose recovery is doubtful.

  The accounting definition of stage 3 is aligned with the definition used in the management of credit risk carried out by the Group. Furthermore, it is aligned with the regulatory definition of default, with the exception that in regulatory terms, default is considered to be all of a holder's transactions in the business segment, when amounts are more than 90 days past-due, whilst the accounting definition of default considers all of a holder's transactions to be stage 3 when the amounts which are more than 90 days past due exceed 20% of the amounts pending collection.

- Write-off risk:

  The Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is considered remote after an individual assessment. This category includes risks of customers who are in bankruptcy proceedings filing for liquidation and transactions classified as stage 3 due to arrears, with payments over four years past-due, or less than four years, when the amount not covered with effective guarantees has been maintained with 100% credit risk coverage for more than two years, except for balances which have sufficient efficient guarantees. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

  The remaining amount of operations with amounts which have been written off ("partial write-off"), whether due to the expiry of Group rights ("definitive loss") - due to motives such as remissions or reductions-or because they are considered irrecoverable, without the extinction of the rights ("partial write-offs") they will be fully classified in the corresponding category based on credit risk.

  In the situations described above, the Group has derecognised from the consolidated balance sheet any amount recorded as write-off, together with its provision, without prejudice to any actions that may be taken to collect payment, until no more rights to collect payment exist, whether due to prescription, discharged loans or any other reasons.

Purchased or originated credit-impaired transactions

Estimated credit loss in the purchase or origination of these assets will not form part of the coverage or the gross book value in the initial recognition. When a transaction is purchased or originates with credit deterioration, the coverage will be equal to the cumulative amount of the changes expected in the life of transactions subsequent to initial recognition and interest income of these assets will be calculating by applying the effective interest rate adjusted for credit quality to the amortised cost of the financial asset.

Classification criteria for transactions

The Group applies diverse criteria to classify borrowers and operations into different categories based on their credit risk. These categories include:

- Automatic criteria;
- Specific criteria for refinancing; and
- Criteria based on indicators (triggers).

The automatic factors and specific criteria for refinancing constitute the classification and cure algorithm, and are applied to the entire portfolio.

Furthermore, with the objective of enabling the early identification of the significant increase in risk, or the weaknesses and the impairment of transactions, the Group establishes triggers based on the number of days of non-payment, on refinancing and restructuring indicators, and in bankruptcy indicators and significant risk increase, amongst others, differentiating between significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the criteria based on which they would be classified as stage 2 or 3 are evaluated using indicators which aim to identify significant increases in risk or signs of weakness which could lead to the incurrence of losses exceeding those in other similar transactions classified as stage 1.

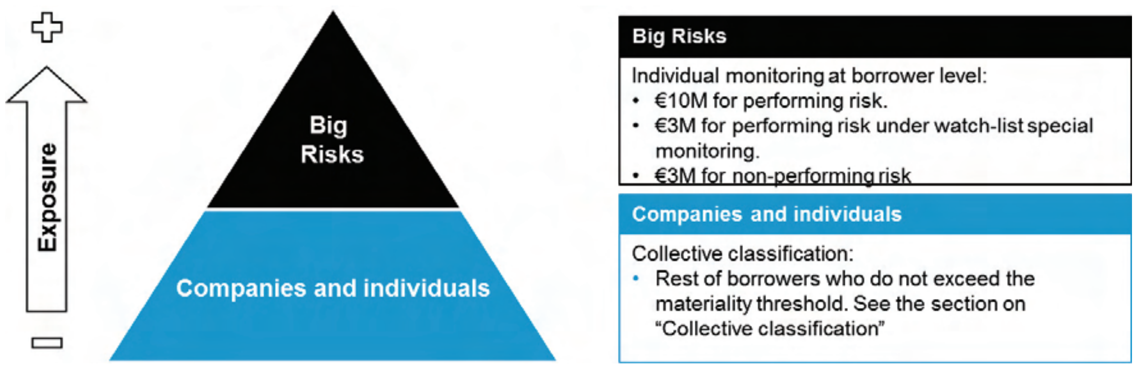
Transactions classified as stage 3 are reclassified as stage 1 or 2 when, as a consequence of the total or partial payment of unpaid risks in the case of transactions classed as stage 3 due to default, or due to having exceeded the cure period in the case of operations classified as stage 3 for reasons other than default, eliminating the causes which motivated their classification into stage 3, unless other reasons make it advisable to maintain them in this category.

As a result of the application of these criteria, the Group classifies its borrowers as stage 2 or 3 or maintains them in stage 1.

Individual risk

The Group has established a threshold in terms of exposure to classify borrowers as significant, based on the exposure at default parameter (draw down risk and off-balance sheet exposures). Furthermore, borrower's exposures corresponding to the principal risk groups are considered individually, as well as those borrowers who are not associated with a homogenous risk group for which, subsequently, their classification and coverage cannot be estimated collectively.

The following table shows the thresholds established by the Group to differentiate between borrowers whose classification is determined individually from those which are determined collectively.



For significant borrowers, a system of triggers or indicators has been established which allows any significant increase in risk or impairment weaknesses to be identified. The system of triggers covers signs of impairment or weakness by using the definition of:

- o Specific triggers that signal when there has been a significant increase in risk;
- o Specific triggers that signal when there are signs of impairment;
- o Triggers that allow an increase in credit risk and signs of impairment to be detected, on the basis of the various early warning thresholds.

A team of expert risk analysts will individually analyse borrowers that have activated triggers to determine whether there has been a significant increase in credit risk or whether there is any objective evidence of impairment. If there is evidence of impairment, they determine whether the event or events that have given rise to the loss have an impact on estimated future cash flows of the financial asset or its group.

The indicators system for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently to the loan portfolio. The triggers system seeks to identify the following aspects:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in risk or an impairment event insofar as their classification as being significant limits the ability of the issuer or obligor to honour their financial obligations in the usual manner.
- In this regard, to identify a significant increase in risk or impairment, it is necessary to consider variables which are indicative of a poor economic and financial situation as well as variables that are the potential cause or which anticipate this poor economic and financial situation.

  For example:

  - *Stage* 2 *triggers*:
    - o Adverse changes in the financial situation, such as a significant increase of debt levels, significant declines in the business figures or a significant tightening of operating margins.
    - o Adverse changes in the economy or market indicators, such as a significant decline in share prices or a reduction in the price of debt issues. In the case of sovereign debt issues, price spreads compared to the German bond (risk premium) are also analysed.
    - o Significant decline, real or expected, or the internal credit rating of the transaction or the holder, or a reduction in the performance scoring attributed to the internal monitoring of credit risk.
    - o For transactions with collateral, deterioration of the relationship between the amount and the value of the collateral, due to an unfavourable evolution of the value of the guarantee, or the maintenance or increase of the amount pending amortisation due to the payment conditions established.
    - o Significant increase in credit risk of other operations by the same holder, or entities related to the risk group of the holder.

- *Stage* 3 *triggers*:
    - Signs of impairment of other operations by the same holder, or entities related to the risk group of the holder.
    - Negative EBITDA, significant decrease in EBITDA or business figures, or in general, of current holder cashflows.
    - Increase in the holder's leverage ratios.
    - Negative equity or decrease as a consequence of equity losses of the holder, by at least 50% in the last year.
    - Internal or external credit rating which shows that the holder is in a situation of default.
    - Matured commitments by the holder for significant amounts payable to public bodies.
    - For transactions secured with collateral, significant impairment of the value of the collateral received.
    - Remissions or write-offs for the same holder or entities related to the Group in the last 2 years.
    - Temporary suspension of the listing of the holder's shares.

- Non-compliance with contractual clauses, defaults or delays in the payment of principal or interests: in addition to defaults longer than 90 days, which form part of the automatic classification algorithm, defaults and delays of less than 90 days are also identified, as these can be a sign of impairment or significant risk increase. Breaches of covenants and non-payments declared in other credit institutions in the financial system are also considered in the analysis.

- Borrowers are granted concessions or benefits due to their financial difficulties that would not otherwise be considered: the act of granting refinancing to a debtor in financial difficulties may prevent or delay their failure to comply with their obligations whilst at the same time preventing or delaying the recognition of the impairment associated with the financial asset linked to that debtor.

- Probability of the borrower becoming insolvent: in cases in which there is a high probability of borrowers going bankrupt or entering restructuring proceedings, the solvency of the issuers and obligors is ostensibly affected, and could give rise to a loss event depending on the impact on estimated future cash flows pending collection.

- The disappearance of an active market for the financial asset due to financial difficulties: the discontinuance of financial assets issued by the obligor or issuer could give rise to a complicated economic and financial situation and therefore a reduced capacity to honour their payment obligations.

The Group carries out an annual review of the reasonableness of the thresholds and the individual analysis coverage achieved through their application.

Collective risk

For borrowers who have been classed below the materiality threshold and who, in addition, have not been classified as stage 2 or 3 by the automatic classification algorithm, the Group has established a process to identify transactions which exhibit a significant increase in risk compared to the time of granting the transaction, which could result in losses higher than losses on other similar transactions classified as stage 1.

For borrower transactions which are evaluated under collective risk, the Group uses a statistical model which allows the temporary structure of PD, and therefore, the residual lifetime PD of a contract to be obtained, based on different characteristics:

- Systemic: characterised by common macroeconomic conditions for all exposures.

- Cross-cutting: characterised by common aspects which are stable over time, in a pool of transactions such as the common effect of credit policies valid at the time of concession, or the channel of concession.

- Idiosyncratic: characterised by specific aspects of each transaction or borrower.

Under this specification, the Group is able to measure the residual lifetime PD at each moment of the transaction, under the conditions at the time of concession, or under the conditions in force at that particular moment in time. In this manner, actual lifetime PD may fluctuate with regards to PD at the time of concession, due to changes in the economic environment, or in the idiosyncratic characteristics of the transaction or of the borrower.

Based on the residual lifetime PD comparison under the actual systemic and idiosyncratic conditions at the time of the concession, an algorithm has been created which makes it possible to identify when a significant increase in risk has arisen, taking into account the historic performance of customers, and therefore, when a transaction should be classified as stage 2. This algorithm seeks to identify populations whose rate of default is statistically different.

This threshold is not unique and it has a non-linear relationship with PD, in a way that the increase required in PDs with low likelihood must be relatively higher than the increase required for PDs with high likelihood in order to identify a significant increase in PD. The level required is variable and it is aligned with the criteria which has been published in other regulatory specifications (EBA *"2018 EU-Wide Stress Test – Methodological Note."* January 2018 paragraph 51).

In the case of retail exposures, in which the valuation of the transaction is carried out at contract level, the thresholds are calibrated and applied to this level. Nonetheless, in the case of companies, in which the ratings are carried out at borrower level, the thresholds are calibrated to ensure that they correspond to the borrower's PD and to the period between concession and maturity, as it is applied at contract level.

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group guarantee a detailed monitoring of borrowers, and demonstrate the need to make provisions when there is evidence of impairment to their solvency (see Note 4). For this purpose, the Group generates the insolvency provisions for transactions in which the borrower's circumstances requires them, prior to formalising the restructuring/refinancing operations, which should be understood as follows:

- Refinancing operation: this is granted or used for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower in order to cancel one or more operations granted by the bank, or to bring outstanding payments either fully or partly up to date, to enable borrowers to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in due time and form.

- Restructuring transactions: financial terms and conditions of a transaction are amended for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower in order to facilitate the repayment of their debt (principal and interest) when they are unable, or will predictably soon be unable, to meet such terms and conditions in due time and form, even when this amendment is already envisaged in the contract. In any case, restructured transactions are those in which the terms and conditions are amended to extend the period to maturity, to amend the repayment schedule to reduce the amounts of short-term repayments or to reduce the repayment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, unless it can be proven that the terms and conditions are being amended for reasons other than borrowers' financial difficulties and which are equivalent to the terms that would be applied by other institutions in the market for similar risks.

The formalisation of amendments to contractual terms and conditions does not entail any significant additional deterioration of the borrowers' circumstances that will require the creation of additional provisions.

If a transaction is classified under a specific risk category, the refinancing operation does not entail any automatic improvement in its risk classification. For refinancing operations, the algorithm establishes its initial classification based on the characteristics of the operations, mainly that the borrower encounters financial difficulties (for example, an unsuitable business plan) the fulfilment of certain clauses as well as long grace periods, or which include amounts which have been written off as they are considered to be non-revocable. Subsequently, the algorithm modifies the initial classification based on the fixed cure periods. A reclassification into a lower risk category shall only be considered if there is a quantitative or qualitative increase in efficient guarantees backing the transaction and if there has been a significant improvement in the continuous recovery of the debt over time, therefore the act of refinancing does not in itself produce any immediate improvements.

Refinancing, refinanced and restructured transactions remain in the stage *2* category during the test period until all of the following requirements have been fulfilled:

- That upon the completion of the review of the equity and financial position of the borrower, it is concluded that they may face financial difficulties.

- That a minimum period of 2 years has elapsed from the date of the formalisation of the restructuring or refinancing transaction, or if later, from the date of reclassification from the stage 3 risk category.

- That the holder has mainly paid the amounts accruing from the principal and interest from the date of the formalisation of the restructuring or refinancing transaction, or if later, from the date of reclassification from the stage 3 risk category.

- That the holder does not have any other transactions with amounts which are more than 30 days past-due from the end of the test period.

On the other hand, refinancing, refinanced or restructured transactions remain in the stage 3 category until the general criteria which determine the reclassification of the transactions outside of stage 3 have been verified, and in particular, the following requirements:

- That the period of one year has elapsed from the date of the refinancing or restructuring.

- That the holder has paid the amounts accruing from the principal and interests.

- That the holder does not have any other transaction with amounts which are more than ninety days past due as at the date of the reclassification to stage 2 risk of the refinancing, refinanced or restructured transaction.

With regard to refinanced/restructured loans classified as stage 2, different types of transactions are specifically assessed to reclassify them, if applicable, into a higher risk category using the same categories described in the previous section (i.e. in stage 3 due to counterparty arrears, when payments are, in general, over 90 days past-due, or for reasons other than borrower arrears, when there are reasonable doubts concerning their recoverability).

Estimated losses due to credit impairment that are consistent with the accounting classification of the risk are provisioned for as soon as they are identified.

The methodology used to estimate losses for these portfolios is generally similar to that used for other financial assets at amortised cost, but it is considered that, a priori, a transaction that has had to be restructured to enable payment obligations to be satisfied should have a higher loss estimate than a transaction that has never suffered default (unless there are sufficient additional effective guarantees to justify otherwise).

Determination of allowances

The Group applies the following parameters when calculating allowances for credit risk losses.

- EAD (*Exposure at Default*): the entity defines exposure at default as the amount of exposure which is anticipated at the moment of default.

  As an exposure metric for allowances and provisions, the Group uses current drawn down balances, and the estimation of the amounts that it expects to disburse in the case of entry into default for off-balance sheet exposures, through the application of a Credit Conversion Factor (CCF).

- PD (*Probabililty of Default*): estimation of the probability of a borrower's default in a specific time horizon.

  The Group has tools which support credit risk management in order to predict the probability of default of each borrower, which covers almost all credit activity.

  In this context, the Group reviews the quality and stability of the rating tools which are currently in use on an annual basis. The review process includes the definition of the sample used and the methodology to be applied for the monitoring of rating models.

  The tools used to assess the profitability of default of a debtor are comprised of behavioural scorings for the risk monitoring of natural persons and company ratings:

  - Rating: in general terms, credit risks contracted with companies are classified through a rating system based on the internal estimate of the probability of default (PD). Comprised of factors which predict default in one year, designed for different segments. The rating model is reviewed annually based on the analysis of real default trends. A predicted default rate is assigned to each credit rating level, which also allows a homogeneous comparison to be made of other segments and credit ratings from external credit rating agencies using a master ratings scale.

    Ratings are used within risk management. Most notably through being a key input in the automatic tool that determines authorization levels, monitoring of risk and risk-based pricing.

  - Scoring: in general, credit risks undertaken with individual customers are rated using scoring systems, which are in turn based on a quantitative model of historic statistical data, where the relevant predictive factors are identified. In geographies in which scoring takes place, the latter is divided into two types:

    - Reactive scoring: this is used to evaluate applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated debt capacity, financial profile and, if applicable, the profile of pledged assets. The result of the rating is integrated into the risk management through the automatic tool.

    - Behavioural scoring: the system automatically classifies customers based on information regarding their activity and on each product which they have acquired. These scorings are mainly used in: the granting of transactions, setting (authorised) overdraft limits, advertising campaigns and modulation of the complaints process in the initial stage.

If no scoring system exists, it is replaced with individual assessments supplemented with policies.

- LGD (*Loss Given Default*): estimation of the expected loss for transactions which are in default. This loss also takes into account outstanding debt, late payment interest and expenses relating to the recovery process. Additionally, for each one of the flows (outstanding balances and recoveries) an adjustment is applied to consider the temporary value of the money).

- Effective Interest Rate (EIR): rate which exactly discounts estimated future cash payments or receipts through the expected life of the financial assets or liability with the carrying amount of the financial asset or with the amortised cost of the financial liability.

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to include the effect of the non-linearity of losses. To do so, the provisions required are estimated against different scenarios for which a probability of likelihood is established. Specifically, the Group has considered three macroeconomic scenarios: a central scenario, an adverse scenario and a favourable scenario, which have been defined at Group level, whereby the likelihood of such scenarios occurring is 65%, 20% and 15%, respectively. To carry out the projections of these scenarios, 5-year time horizons are considered. The principle variables considered are the evolution of GDP, the unemployment rate and housing prices.

  - Central scenario:

  The (geo) political situation is maintained as one of the main pillars of the scenario, increasing its influence as monetary stimuli are withdrawn and the economic policy becomes more interventionist. This scenario is not exempt from international conflicts, and legal security is affected. Furthermore, governments prioritise growth, applying expansionary fiscal and pro-cyclical policies for macroeconomic stability. The growth environment, alongside protectionism, are conducive for inflation to reach higher levels, and global funding conditions are tightened.

In this scenario, it is considered that the United Kingdom and the European Union reach an agreement to initiate a transition period after Brexit, and that China and Europe are able to maintain healthy economic growth, that Italy recovers its fiscal tightening and that the tightening of financial conditions takes place in an orderly manner.

Long term public debt returns are driven upwards, and the ECB monetary policy gains importance. Trump's mercantilist policy and persistent deficits in the United States weigh the dollar down.

The Spanish economy shows lower growth than in the last few years, although it shall maintain a favourable evolution compared to the Euro Zone. Domestic demand shall continue to remain the principal driver of economic activity.

o Adverse scenario:

Characterised by an increase in inflation in developed countries, as a result of:

- Economic overheating in the United States and output gaps which are lower than those initially estimated in the Euro Zone and in the United Kingdom.
- Reduced globalisation and the application of populist and interventionist policies.
- Higher commodities prices ahead of demand from China and other economies.
- Higher petrol prices due to OPEC policies and certain premiums due to geopolitical risks.

Central banks focus their attention on tackling high inflation by hiking the interest rate at a faster rate than in the central scenario. Higher inflation, interest rate hikes and the term premium lead to a very significant rebound in long term public debt yields and economic activity eventually suffers. In currency markets, the dollar appreciates, benefitting from international risk aversion.

For the Spanish economy, the cost of the significant increase in interest rates hinders fiscal consolidation and the stabilisation of public debt. Furthermore, the increase in oil prices leads to an increase in the economy's energy bill, which entails a loss of competitivity, thus threatening current/account surpluses.

o Favourable scenario:

This scenario differs from the central scenario primarily due to four aspects:

- Productivity gains facilitate improved economic growth without generating imbalances and with a similar rate of inflation.
- The political and geopolitical situation improve significantly.
- Increased dynamism in international trade.
- Global funding conditions are maintained in spite of interest rate increases on behalf of central banks, and the upturn in long term interest rates.

In the political environment, Europe makes progress in the integration process and adequate progress is achieved in Brexit negotiations. In the United States, institutions prevent Trump from making progress in his protectionist policies programme.

Productivity improvements enable sustainable growth in the absence of inflationary pressure, which facilitates soft increases in interest rates and long term public debt interest rates show an upturn. This environment generates a positive impact on the financial sector and public accounts, translating into multiple sovereign debt rating upgrades in the European periphery.

Productivity gains in the Spanish economy enable potential growth to increase, in line with the growth rate prior to the crisis. The favourable economic environment materialises with a stable political environment, which enables structural reforms to be achieved. Furthermore, the reduction of public debt is maintained, and progress is made in the correction of the public defecit. Rating agencies carry out credit rating upgrades.

Based on the foregoing parameters, the Group applies the criteria described below to calculate allowances and provisions for credit risk losses.

The amount of coverage for impairment losses is calculated based on whether a significant increase in credit risk has materialised or not, compared to the initial recognition of the transaction, and whether a breach has arisen or not. In this way, coverage for impairment losses in the transactions is equal to:

- Expected credit losses in twelve months, when the risk of a breach of the transaction has not significantly increased from its initial recognition (assets classified as stage 1).

- Expected credit losses during the lifecycle of the transaction, if the risk of the materialisation of a breach of the transaction has significantly increased from its initial recognition (assets classified as stage 2).

- Expected credit losses, when a breach of the transaction has materialised (assets classified as stage 3).

Expected losses in twelve months are defined as:

$$PE_{12M} = EAD_{12M} \cdot PD_{12M} \cdot LGD_{12M}$$

Where:

EAD_{12M} is the 12 month exposure to default, PD_{12M} the probability of default in 12 months and LGD_{12M} estimated losses when a risk is at default.

Expected lifetime losses are defined as:

$$PE_{LT} = \sum_{i=1}^{m} \frac{EAD_i \cdot PD_i \cdot LGD_i}{(1 + EIR)^{i-1}}$$

Where:

EAD_i is the exposure at default for each year, taking into account PD_i entry into default as well as the amortisation (agreed and/or anticipated), LGD_i the probability of entering into default in twelve months for each year, the estimated loss once a risk is at default for each year, and EIR, the effective interest rate for each transaction.

During this estimation process, on one hand, calculations are made of the amount required to hedge credit risk attributable to the borrower and on the other hand, credit risk attributable to country risk is also calculated.

The Group includes forward-looking information when calculating expected credit losses and determining whether there has been a significant increase in credit risk. Simulation models have been used for this scenario.

The Group uses estimates of the prepayment rates for different products and segments based on historical data observed (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected loss of exposures classified as stage *2*. The agreed amortisation schedule for each transaction is used.

Subsequently, these expected cash flow losses are updated by applying the effective interest rate of the instrument (if its interest rate is fixed) or by applying the effective contractual interest rate on the date on which they are updated (if the interest rate is variable). Similarly, the amount of effective guarantees received is also taken into account.

The following sections describe the different methodologies applied by the Group to determine impairment loss coverage.

Individual provisioning estimations

The following must be estimated individually:

- Provisions for transactions classified as stage 2 and 3 of borrowers individually considered to be significant.

- Where applicable, the transactions or borrowers whose characteristics do not allow a collective calculation of impairment to be carried out.

- Provisions for transactions identified as without negligible risk classified as stage *3*.

The Group has developed a methodology to estimate these provisions and allowances, calculating the difference between the gross carrying amount of the operation and the present value of the estimated cash flows it expects to collect, discounted using the effective interest rate. To do, effective guarantees received are taken into account (see the "Guarantees" section of this note).

Three methods are established to calculate the recoverable value of assets which are assessed individually:

- Discounted cash flow method: debtors who are estimated to be able to generate future cash flows through their own business activity, thereby allowing them, through the economic and financial structure of the company, to repay the debt owed in full or in part. This involves the estimation of cash flows generated by the borrower through their business activity.

- Method involving the recovery of collateral: debtors who do not have the capacity to generate cash flows through their own business activities, who are then forced to liquidate assets in order to honour their payment obligations. Involves the estimation of cash flows based on the enforcement of the guarantees.

- Combined method: debtors who are estimated to be able to generate future cash flows and also have non-core assets. These flows can be supplemented with the potential sale of non-functional assets, insofar as they are not required for the performance of their activity, and subsequently, for the generation of future cash flows.

Collective allowance estimations

Exposures which are not assessed using individual allowance estimates are subject to collective allowance estimates.

When carrying out the calculation of collective impairment, the Group, in accordance with that laid out in IFRS 9, takes the following aspects into consideration:

- The impairment estimation process takes all credit exposures into account. The Group recognises an impairment loss equal to the best estimation available from internal models, taking into account all of the relevant information which the Group holds on the current conditions at the end of the period which is being reported on. For certain types of exposures, including sovereign risk for Public Administrations in European Union countries and countries classified as Group 1 for country-risk purposes, the Group does not use internal models. These exposures are considered to be without negligible risk, due to estimating, based on the information available at the date of the formulation of the consolidated annual accounts, that the impairment coverage that these exposures could require is not as significant, insofar as that they are not classified as stage 3.

- For the purpose of carrying out a collective evaluation of impairment, financial assets are pooled together based on the similarity of their characteristics with regard to credit risk, for the purpose of estimating differentiated risk parameters for each group of similar assets. This segmentation differs for each estimated risk parameter. In the case of PDs, the pooling is carried out through a statistical technique which determines which PD ranges have an observed default rate which is statistically different. With regards to LGD, the pooling is principally carried out by guarantee type and borrower segments. In this manner, the historical loss experience observed for a homogeneous group of assets is taken into account, once it has been adjusted to the current economic situation, and the estimation of the scenarios considered, which are representative of the expected credit losses in this segment. This segmentation discriminates against risk, and it is aligned with risk management. It is used in the Group's internal models, as well as by internal control units for different purposes, and it is also used by the supervisor. Additionally, it is subject to recurring back-testing, and the estimates are regularly updated and reviewed in order to ensure that all of the information available is included.

The classification of credit risk and the amount of the allowance is determined based on whether a significant increase in risk has materialised since the origination of the operation, or whether breaches have materialised or not.

Observed credit risk impairment since its initial recognition

Credit risk category	Performing Risk (Stage 1)	Watch List Performing (Stage 2)	Non-performing Risk (Stage 3)	Write-off Risk
Classification criteria between stages	Operations in which there has been no material increase in credit risk since the initial recognition and do not comply with requirements to be classified in other categories.	Operations for which there have not been any default events, yet for which there has been a material increase in credit risk since initial recognition.	Operations whose reasonable expectations of recovery are doubtful, without amounts that are more than 90 days past due. Operations with amounts that are more than 90 days past-due.	Operations whose reasonable expectations of recovery are doubtful due to a significant and irrevocable recovery of the solvency of the operation or the borrower.
Calculation of impairment allowance	Expected credit losses at twelve months	Expected credit losses during the life of the operation		Derecognition from the balance sheet and recognition of the loss in profit for the carrying amount.
Interest accrual	Calculated by applying the effective interest rate to the gross carrying amount of the operation		Calculated by applying the effective interest rate at amortised cost (adjusted to reflect impairment value corrections).	Not recognised in the profit or loss statement
Operations included	Initial recognition	Operations for which there has been a material increase in credit risk since initial recognition. Operations included in a debt sustainability agreement Operations of debtors seeking bankruptcy proceedings which are not classified as non-performing. Refinancing, refinanced or restructured operations which do not need to be classified as nonperforming. Operations with amounts that are more than 30 days past-due.	**Non-performing due to default reasons:** Operations with amounts that are more than 90 days past-due Amounts of all of a borrower's transactions when such transactions have amounts which are generally more than 90 days past-due, and exceed 20% of the amounts pending collection. **Non-performing for reasons other than default:** • Operations which do not have amounts more than 90 days past-due but whose recovery is considered doubtful. • Operations with legally claimed balances. • Operations in which the collateral execution process has been initiated. • Operations and guarantees with the holders seeking bankruptcy proceedings without a settlement request. • Refinanced operations with a corresponding classification as non-performing. • Operations purchased/originated with credit impairment.	Operations whose reasonable expectations of recovery are doubtful. Operations with reasonable doubts without the extinction of rights (partial write-offs) - Non-performing operations due to default reasons, which have been in this category for more than 4 years, or when the amount not provisioned with collateral has been maintained with credit risk allowance of 100% for more than 2 years (except when there is collateral to cover at least 10% of the gross amount). - Operations with holders who have been declared as bankrupt, who have been declared or will be declared bankrupt in the settlement phase, except if they have collateral to cover at least 10% of the gross amount.

<u>Classification and coverage of credit risk attributable to country risk</u>

Country risk is the risk arising in counterparties resident in a specific country for reasons other than ordinary commercial risk (sovereign risk, transfer risk or risks deriving from international financial activity). The Group classifies the transactions carried out with third parties into different groups, based on the economic evolution of the countries, their political situation, regulatory and institutional framework, and payment capacity and experience.

Debt instruments or off-balance sheet exposures with residents in countries which face prolonged difficulties in complying with their debt servicing, considering the possibility of recovery as doubtful, are classified as stage 3, unless they should be classified as write-off risks.

The estimation of coverage is carried out in two stages: firstly, insolvency coverage risk is estimated, and then the additional coverage for country-risk is determined. In this way, the amount of risk not covered by the recoverable amount of effective collateral, nor by the amount of insolvency risk coverage, are covered by applying the coverage percentages established in Circular 4/2017, based on the country-risk group of the risk and its accounting classification for credit risk.

The provisioning levels for this item are not significant in terms of the impairment coverage generated by the Group.

Guarantees

Effective guarantees are collateral and personal guarantees proven by the bank to be a valid means of mitigating credit risk.

Under no circumstances will guarantees whose effectiveness significantly depends on the credit quality of the debtor, or where applicable, the economic group of which the debtor forms part, be accepted as effective guarantees.

Based on the foregoing, the following types of guarantees can be considered as effective:

- Real estate guarantees applied as real estate mortgages, provided that they are first mortgages.
  - Completed buildings and parts thereof:
    - Housing units.
    - Offices, commercial premises and multi-purpose industrial buildings.
    - Other buildings, such as non-multi-purpose industrial buildings and hotels.
  - Urban land and regulated building land.
  - Other real estate.
- Collateral in the form of pledged financial instruments:
  - Cash deposits.
  - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
  - Personal property received as collateral.
  - Subsequent mortgages of properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

The Group has collateral evaluation criteria for assets located in Spain, aligned with current regulations. In particular, the Group applies selection and contracting criteria of appraisers that are geared towards assuring the independence of the appraisers, and the quality of the appraisals. For this purpose, all of the appraisal companies are registered in the Bank of Spain Special Registry, and the evaluations are carried out in accordance with the criteria established in Ministerial Order ECO/805/2003 on rules for the appraisal of real estate and of certain rights for financial purposes.

Real estate guarantees for credit transactions and property are valued at their origination or registration date, in the case of the latter, whether it is via the purchase, foreclosure or payment in kind and when the asset suffers a significant reduction in value. Additionally, minimum updating criteria are applied, which guarantees an annual update in the case of impaired assets (assets classified as stages 2 or 3 and foreclosed properties or received in lieu of debt), or every three years for large debts classified as stage 1 with no signs of latent risk. Statistical approaches are only used to update valuations for the assets described above when they have reduced exposure and risk, although a full ECO valuation must be carried out at least every three years.

For assets located in other EU countries, the valuation is carried out in accordance with that set forth in Royal Decree 716/2009 of 24 April, and in the rest of the world, by companies and/or experts with recognised expertise in the country.

To estimate credit loss allowances, the Group has developed internal methodologies, in order to determine the recoverable amount of real estate guarantees, which use the appraisal value as a starting point. This appraisal value is adjusted considering the time required to enforce such guarantees, price trends and the Group's capacity and experience in realising the value of similar properties in terms of prices and terms, as well as the costs of enforcement, maintenance and sale.

Backtesting of credit risk provisions and real estate asset impairment

The Group has established backtesting methods between estimated losses and losses incurred.

Thanks to this comparison, the Group establishes amendments to its internal methodologies when the regular comparison, through backtesting, reveals significant differences between estimated losses and losses incurred.

The backtests carried out show that the classification and coverage of credit loss risk are adequate, given the credit risk profile of the portfolio.

Investments in joint ventures and associates

The Group recognises impairment allowances joint ventures and associates, always provided that there is objective evidence that the book value of an investment is not recoverable. There is objective evidence that equity instruments have become impaired when, subsequent to their initial recognition, an event occurs, or various events occur, and their combined effect proves that the book value is not recoverable.

The Group considers, amongst others, the following indicators to determine whether there is evidence of impairment.

- Significant financial difficulties.
- The disappearance of an active market for the financial asset due to financial difficulties.
- Significant changes in profit or loss, compared to the data included in budgets, business plans or objectives.
- Significant changes in the market in the issuer's equity instruments, or its products, or potential products.
- Significant changes in the global economy or in the economy in the environment in which the issuer operates.
- Significant changes in the technology or legal environment in which the issuer operates in.

The amount of the impairment allowances of interests in associated entities included under the heading of "*Investments in joint ventures and associates*" is estimated by comparing their recoverable amount with their book value. The latter shall be the higher of its fair value, less selling costs, and its value in use.

The Group determines the value in use of each interest based on its net asset value, or based on estimates of their profit/loss, pooling them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector that could affect the performance of such companies. Specifically, insurance investees are assessed by applying the market consistent embedded value methodology, companies related to real estate are assessed based on their net asset value, and financial investees based on multiples of their book value and/or the profit from other comparable listed companies.

Losses due to impairment are recognised in the consolidated income statement for the year in which they took place and subsequent recoveries are recognised in the consolidated income statement for the year in which they were recovered.

1.3.5 Hedging operations

The Group uses financial derivatives to (i) to supply them to customers requesting such derivatives, (ii) manage risks associated with the Group's proprietary positions (hedging derivatives), and (iii) realise gains as a result of price fluctuations. The Group uses both derivatives traded on organised markets and those traded bilaterally with counterparties on over-the-counter (OTC) markets.

Financial derivatives that do not qualify for designation as hedging instruments are classified as derivatives held for trading. To be designated as a hedging instrument, a financial derivative must meet the following criteria:

- It must cover exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), exposure to changes in the estimated cash flows originating in financial assets and liabilities, commitments and highly probable forecast transactions (cash flow hedge), or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

- The derivative must effectively eliminate a risk that is inherent in the hedged item or position over the entire expected term of the hedge, in terms of both prospective and retrospective efficiency. To this end, the Group analyses whether, at the time the hedge is arranged, it is expected to operate, under business-as-usual conditions, with a high degree of effectiveness and verifies, throughout the life of the hedge and using effectiveness tests, that the effectiveness of the hedge varies between 80% and 125% with respect to the hedged item.

- Suitable documentation must be available to show that the financial derivative has been acquired specifically to provide a hedge for certain balances or transactions and to show how effective coverage was to be achieved and measured, provided that this is consistent with the Group's risk management processes.

Hedges are applied to either individual items and balances (micro-hedges) or to portfolios of financial assets and liabilities (macro-hedges). In the latter case, the set of financial assets and liabilities being collectively hedged share the same type of risk, which is determined when the interest rate sensitivities of the individual hedged items are similar.

Changes that take place after the designation of the hedge in the measurement of the financial instruments designated as hedged items and financial instruments designated as hedging instruments are recorded as follows:

- In fair value hedges, differences arising in the fair value of the derivative and the hedged item attributable to the risk being hedged are recognised directly in the consolidated income statement; the balancing entries consist of the balance sheet headings in which the hedged item is recorded or under the heading "*Derivatives - Hedge accounting*", as appropriate.

  In fair value hedges of interest rate risk in a portfolio of financial instruments, gains or losses arising when the hedging instrument is measured are recognised directly in the consolidated income statement. Losses and gains arising from changes in the fair value of the hedged item attributable to the hedged risk are recognised in the consolidated income statement with a balancing entry under the heading *"Fair value changes of the hedged items in portfolio hedge of interest rate risk"* on the asset side or the liabilities side of the balance sheet, as applicable. In this case, effectiveness is assessed by comparing the overall net position of assets and liabilities in each time period with the hedged amount designated for each one of them, and the ineffective portion is immediately recorded under the heading *"Gains or (-) losses on financial assets and liabilities, net"* of the consolidated income statement.

- In cash flow hedges, differences in the value arising in the effective portion of hedging instruments are recorded under the heading *"Accumulated other comprehensive income - Hedging derivatives". Cash flow hedges reserve (effective portion)"* of consolidated equity. These differences are recognised in the consolidated income statement when the gains or losses of the hedged item are recognised, when the envisaged transactions are performed or on the date of maturity of the hedged item.

- In hedges of net investments in foreign operations, measurement differences in the effective portion of hedging instruments are recorded temporarily in the statement of equity under *"Accumulated other comprehensive income – Hedges of net investments in foreign operations (effective portion)"* of consolidated equity. These differences are recognised in the consolidated income statement when the investment in a foreign operation is disposed of or derecognised from the consolidated balance sheet.

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedging transactions and net investments in foreign operations are recognised in the income statement under the heading *"Gains or (-) losses on financial assets and liabilities, net"* of the consolidated income statement.

If a derivative which is treated as a hedging derivative does not meet the above requirements due to its ineffectiveness or for any other reason it does not comply with the requirements described above, it will be treated as a derivative maintained for trading for accounting purposes. Therefore, changes in its valuation shall be recorded with a counterparty in income.

When a fair value hedge is discontinued, any previous adjustments made to the hedged item are charged to the income statement using the effective interest rate method, recalculated as of the date on which the item ceased to be hedged, which must be fully amortised upon maturity.

Where a cash flow hedge is discontinued, the accumulated income on the hedging instrument recognised in the statement of equity under *"Accumulated other comprehensive income"* in consolidated equity (while the hedge was in effect), will continue to be recognised under that heading until the hedged transaction takes place, at which time the gain or loss will be recognised in the income statement, unless the hedged transaction is not expected to take place, in which case it will be recognised in the income statement immediately.

1.3.6 Financial guarantees

Contracts by which the Group undertakes to make specific payments for a third party in the event of the third party failing to do so, irrespective of their legal form are considered financial guarantees. These can take the form of, amongst others, bonds, bank guarantees, insurance contracts or credit derivatives.

The Group recognises financial guarantee contracts under the heading *"Financial liabilities at amortised cost - Other financial liabilities"* at their fair value which, at inception and unless otherwise evidenced, is the present value of the expected fees and returns to be received. At the same time, the Group recognises fees and similar income received at the commencement of the operations and the accounts receivable for the present value of future cash flows pending collection as loans on the asset side of the balance sheet.

In the particular case of long-term guarantees given in cash to third parties within the framework of service contracts, when the Group guarantees a certain level or volume in terms of the provision of such services, it initially recognises these guarantees at their fair value. The difference between their fair value and the disbursed amount is considered as an early payment or collection for the provision of this service, and this is recorded in the consolidated profit and loss statement during the period for which such service is provided. Subsequently, the Group applies analogous criteria to debt instruments valued at amortised cost.

Financial guarantees are classified according to the insolvency risk attributable to the customer or the transaction and in appropriate cases an assessment is made of the need to make provisions for such guarantees by applying similar criteria for debt instruments valued at amortised cost.

Income from guarantee instruments are recorded under the heading *"Fee and commission income"* in the consolidated income statement and are calculated applying the rate laid down in the related contract to the nominal amount of the guarantee. Interest from long-term guarantees given in cash to third parties is recognised by the Group under the heading *"Interest income"* in the consolidated profit and loss statement for their remuneration.

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

Financial assets are only derecognised from the consolidated balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties. Similarly, financial liabilities are only derecognised from the consolidated balance sheet when the obligations generated by the liabilities have expired or are acquired for the purpose of their cancellation or resale.

Note 4 provides details of asset transfers in effect at the end of 2018 and 2017, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

Financial assets and liabilities are only offset in order to be included in the consolidated balance sheet when the Group has a legally enforceable right to offset the amounts recognised in such instruments and intends to settle them at their net amounts or to realise the asset and settle the liability simultaneously.

1.3.9 Non-current assets and assets and liabilities included in disposal groups classified as held for sale and discontinued operations

The *"Non-current assets and disposal groups classified as held for sale"* heading on the consolidated balance sheet comprises the carrying values of assets – stated individually or combined in a disposal group, or as part of a business unit that the Group intends to sell (discontinued operations) – which are very likely to be sold in their current condition within one year of the date of the consolidated annual accounts.

It can therefore be assumed that the carrying value of an asset of this kind, which may be of a financial or non-financial nature, will be recovered through the disposal of the item concerned rather than from its continued use.

Specifically, real estate or other non-current assets received by the Group in the full or partial settlement of borrowers' payment obligations are treated as non-current assets held for sale, unless the Group has decided to make continued use of the assets or include them in its rental operations. Similarly, investments in joint ventures or associates that meet these criteria also qualify as non-current assets classified as held for sale. For all of these assets, the Group has specific units focused on real estate management and sale.

The heading "*Liabilities included in disposal groups classified as held for sale*" includes credit balances associated with disposal groups or assets, or with the Group's discontinued operations.

Non-current assets and disposal groups classified as held for sale are measured both on the acquisition date and thereafter, at the lowest between their carrying value and the net fair value of their estimated sale costs. The book value at the date of acquisition of non-current assets and disposal groups of items classified as held for sale derived from foreclosure or recovery is defined as the balance pending collection on the loans or credit facilities that give rise to these purchases (net of any associated impairment allowances), whilst they are classified as *"Non current assets and disposal groups held for sale"* tangible and intangible assets that would otherwise not be subject to amortisation.

In order to determine the net fair value of real estate assets, the Group uses its own internal methodology, which uses as a starting point the appraisal value, which is adjusted considering experience of selling similar properties in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors. Similarly, agreements reached with third parties for the disposal of these assets are also taken into consideration.

The appraisal amount of real estate assets recognised in this heading is obtained following the policies and criteria described in the section "Guarantees" section in note 1.3.4. The main appraisal companies and agencies used to obtain market values are listed in Note 6.

Gains and losses arising from the disposal of assets and liabilities classified as held for sale, as well as impairment losses and their reversal, if applicable, are recognised under the heading *"Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations"* in the consolidated income statement. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

Discontinued operations are components of the entity that have been disposed of or classified as held for sale and which: (i) represent a line of business or geography which is significant and separate from the rest or is part of a single coordinated plan to dispose of said business or geography, or (ii) are subsidiaries acquired solely in order to be resold. Income and expenses of any kind generated by discontinued operations during the year, including those granted before they were classified as discontinued operations, are presented net of the tax effect as a single amount under the heading *"Profit or loss after tax from discontinued operations"* in the consolidated income statement, both when the business has been derecognised from the asset side of the balance sheet and when it continues to be recorded on such side of the balance sheet at year end. This heading also includes the results obtained from their sale or disposal.

1.3.10 Tangible assets

Tangible assets include (i) property, plant and equipment held by the Group for current or future use which is expected to be used for over one year, (ii) property, plant and equipment loaned to customers under operating leases, and (iii) investment properties, which include land, buildings and other structures held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received in lieu of debts classified on the basis of their final use.

As a general rule, tangible these assets are valued at cost less accumulated depreciation and, if applicable, less any impairment allowances identified from a comparison of the net carrying value of each item with its recoverable amount.

Depreciation of tangible assets is calculated using the straight-line method, applying the estimated years of useful life of the various items to the acquisition cost of acquisition of the assets less their residual value. The land on which the buildings and other structures stand is considered to have an indefinite life and is therefore not depreciated.

The annual depreciation charge on tangible assets is reflected against the consolidated income statement and calculated over the remaining years of their estimated useful lives, on average, of the different asset groups:

	Useful life (years)
Land and buildings	37,5 to 75
Fixtures and fittings	4,2 to 25
Furniture and office equipment	3,3 to 18
Vehicles	3,1 to 6,25
Cash dispensers, computers and computer equipment	4

The Group reviews the estimated useful life of tangible assets at the end of each year as a minimum, in order to detect any major changes in such lives. Should any such changes arise, the corresponding adjustments are made in the consolidated income statement for future years to the depreciation charge based on the new estimated useful life.

At each reporting date, the Group analyses whether there are internal or external indications that a tangible asset might be impaired. If there is evidence of impairment, the Group analyses if such impairment has actually taken place by comparing the asset's carrying value with its recoverable value (the higher of its fair value less selling costs and its fair value less its value in use). When the asset's carrying value exceeds the recoverable value, the Group reduces the carrying value of the corresponding item to its recoverable value and future depreciation charges are adjusted in proportion to the adjusted carrying value and new remaining useful life, if this needs to be re-estimated. Where there are indications that the value of an asset has been recovered, the Group records the reversal of the impairment loss recognised in previous years and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset will in no circumstances result in an increase in its carrying value above the value that the asset would have had if impairment allowances had not been recognised in previous years.

In particular, certain items of property, plant and equipment are assigned to cash generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Group (i) calculates the recurring net cash flow at each branch based on the accumulated contribution margin less an allocated recurring risk cost, and (ii) this recurring net cash flow is regarded as a perpetual flow and a valuation is effected using the discounted cash flow method applying the cost of capital and growth rate to perpetuity determined by the Group (see Note 16).

For real estate investments, the Group uses third party valuations, registered with Bank of Spain's special register of appraisal firms, in accordance with criteria set forth in Order ECO/805/2003.

Maintenance expenses and the maintenance of tangible assets are recorded on the consolidated income statement for the year in which they occur.

1.3.11 Leases

Finance leases

A lease is treated as a finance lease when there is a substantial transfer of risks and benefits associated with ownership of the asset.

Where the Group is the lessor of an asset, the sum of the present values of payments receivable from the lessee is recorded as financing provided to a third party and is therefore included in the balance sheet under the heading *"Financial assets at amortised cost"* from the consolidated balance sheet. This financing includes the exercise price of the purchase option available to the lessee upon the termination of the contract in cases where the exercise price is sufficiently lower than the fair value of the asset at the date of maturity of the option, such that it is reasonably likely to be exercised.

When the Group acts as lessee, the cost of the leased assets is recorded in the consolidated balance sheet according to the nature of the leased asset, and at the same time a liability is reflected for the same amount which will be the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if applicable, the exercise price of the purchase option. These assets are depreciated using criteria similar to those applicable to tangible assets for the Group's own use.

Financial income and expenses arising from lease agreements are credited or charged, respectively, to the consolidated income statement in such a way as to ensure that the return remains constant throughout the term of the contracts.

Operating leases

In operating leases, ownership of the leased asset and a substantial proportion of all of the risks and benefits of ownership of the asset remain with the lessor.

When the Group is the lessor of the asset, the acquisition cost of the leased item is recorded under the heading *"Tangible assets"*. These assets are depreciated by the same procedure as for similar tangible assets for own use and the revenue from the leases is recognised in the consolidated income statement on a straight-line basis.

Where the Group is the lessee, the expenses arising from the lease, including any incentives offered by the lessor, are recorded in the consolidated income statement on a straight-line basis. When contracts include interest rate revision clauses, the revision takes place annually on the basis of fluctuations in the consumer price index in Spain or the country in which the asset is located, without adding any spread thereto.

Sale and lease-back

In the case of sales at fair value with subsequent lease-backs, any profit or loss is recorded at the time of the sale. In the event of a subsequent lease-back, the income generated is apportioned over the term of the lease.

When determining whether a sale with a lease-back operation results in an operating lease the Group analyses, amongst other aspects, whether at the inception of the lease there are purchase options which, due to their terms, are reasonably likely to be exercised, and which party will receive the losses or gains derived from fluctuations in the fair value of the residual amount of the corresponding asset.

1.3.12 Intangible assets

Intangible assets are identifiable, non-physical, non-monetary assets that arise as a result of an acquisition from third parties or which are carried out internally by the Group. An intangible asset will be recognised when it meets this criterion and the Group considers it likely that economic benefits deriving from the asset and its cost can be reliably estimated.

Intangible assets are initially recognised at their acquisition or production cost and are subsequently measured at cost less, when applicable, any accumulated depreciation and impairment loss which may have been sustained.

Goodwill

Positive differences between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the entity acquired is recognised on the consolidated balance sheet as goodwill. These differences represent an advance payment made by the Group of the future economic benefits derived from the acquired entities that are not individual and separately identifiable and recognisable. Goodwill, which is not amortised, is only recognised when acquired for good and valuable consideration in a joint venture.

Each goodwill is assigned to one or more cash-generating units (UGE, for their acronym in Spanish) which are expected to benefit from the synergies derived from the business combinations. These UGE are the smallest identifiable groups of assets which, as a result of their continuous operation, generate cash flow for the Group, irrespective of other assets or groups of assets.

The UGEs to which the goodwill has been assigned are tested annually for impairment, or whenever there is evidence that impairment might have arisen. In this respect, the Group recalculates the recoverable amount mainly using the distributed profit discount method in which the following parameters are taken into account:

- Key business assumptions: these assumptions are used as a basis for cash flow projections used as part of the valuation. For businesses engaging in financial activity, projections are made for variables such as: changes in lending volumes, default rates, customer deposits and interest rates under a forecast macroeconomic scenario and capital requirements.

- Estimates of macroeconomic variables and other financial parameters.

- Projection period: this is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take account of the economic outlook at the time of the valuation. These projections take account of the economic outlook at the time of the valuation.

- Type of discount: the present value of future dividends, from which a value in use is derived, is calculated using the capital cost of the entity (Ke) from the standpoint of a market participant as a discount rate. To determine the capital cost the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: "$Ke = Rf + \beta (Pm) + \alpha$", where: Ke = Required return or cost of capital, Rf = Risk-free rate, β = Company's systemic risk coefficient, Pm = Market premium and α = Non-systemic risk premium.

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: it is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the current financial market outlook at all times.

If the carrying value of a UGE is higher than its recoverable amount, the Group recognises an impairment loss which is allocated firstly by reducing the goodwill attributed to that UGE and secondly, if any losses remain to be allocated, by reducing the carrying value of the remaining assigned assets on a proportional basis. Impairment losses recognised for goodwill cannot subsequently be reversed.

Other intangible assets

This heading includes intangible assets identified in business combinations such as the value of brands and contractual rights arising from relations with customers acquired through the acquired businesses, as well as computer software.

These intangible assets are amortised on the basis of their useful lives, applying similar criteria to those used for tangible assets. In particular, the useful lives of brands and contractual rights arising from customer relations in acquired businesses vary between 5 and 15 years, while for computer software the useful life is between 7 and 15 years.

The criteria for recognising impairment allowances in intangible assets and any recoveries of impairment allowances recorded in earlier financial years are similar to those applied to tangible assets. In this respect, the Group determines whether there is evidence of impairment by comparing actual trends with the initial assumptions applied in the parameters used when they were first recognised. These include possible loss of customers, average customer balances, average ordinary income and the assigned cost-to-income ratio.

Changes in the estimated useful lives of intangible assets are treated in a similar way to changes in the estimated useful lives of tangible assets.

1.3.13 Inventories

Inventories are non-financial assets that are held for use or sale by the Group in the normal course of its business activity, or which are in the process of production, construction or development in order to be sold or used, or are to be used in the production process or in the provision of services.

In general, inventories are valued at the lower of their value at cost, including all purchase and conversion costs and other direct and indirect costs incurred in bringing the inventories to their present condition and location, and their net realisable value.

Net realisable value means the estimated sale price net of the estimated production and marketing costs to carry out the sale. This figure is revised and recalculated on the basis of actual losses incurred on the sale of the assets.

Any value adjustments to inventories, whether caused by impairment due to damage, obsolescence or a fall in sale prices, to reflect their net realisable value, or arising from other losses, are recognised as expense in the year in which the impairment or other loss occurred. Any subsequent recoveries in value are recognised in the consolidated income statement in the year in which they occur.

For inventories comprising land and buildings , the net realisable value is calculated based on the appraisal carried out by an independent expert, registered with the Bank of Spain Special Register of Valuation Firms and prepared in accordance with the criteria established in Order ECO/805/2003 on valuation rules for real estate and certain rights for certain financial purposes, which are adjusted in line with the internal methodology developed by the Group, considering its experience in selling similar property, in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors.

The book value of the inventories is derecognised from the consolidated balance sheet, and it is recorded as en expense during the year in which the income proceeding from its sale is recorded.

1.3.14 Own equity items

Own equity items are defined as equity instruments that meet the following criteria:

- Does not involve any contractual obligation for the issuer which entails: delivering cash or another financial asset to a third party, or exchanging financial assets or liabilities with a third party in terms which are potentially unfavourable to the issuer.

- If they may be, or will be, settled with the issuer’s own equity instruments: in the case of a non-derivative financial instrument, it does not entail an obligation to deliver a variable number of its own equity instruments; in the case of a derivative instrument, it will be considered an equity item provided that it is settled for a fixed amount of cash or with another financial asset, in exchange for a fixed number of the issuer’s own equity instruments.

All transactions involving the Group’s own equity items, including their issuance or redemption, are recognised directly with a balancing entry in consolidated equity.

Changes in the value of instruments classified as own equity items are not recognised in the financial statements. Any consideration received or paid in exchange for such instruments is added to or deducted directly from the consolidated equity and the associated transaction costs are deducted therefrom.

Equity instruments issued in full or partial settlement of a financial liability are recognised at fair value unless this cannot be reliably determined. In this case, the difference between the carrying value of a financial liability (or any part thereof) that has been settled and the fair value of the equity instruments issued is recognised in the income statement for the year.

On the other hand, compound financial instruments, which are those contracts which simultaneously generate a financial liability and their own equity instrument for the issuer (such as, for example, convertible debentures which grant their holder the right to convert them into equity instruments of the issuing entity) are recognised on the date of their issue, separating their components and classifying them in accordance with the economic fund.

The assignment of the initial amount to the different components of the compound instrument will not imply, under any circumstances, a recognition of income. The amount shall firstly be assigned to the component which is a financial liability, including any implicit derivative for which its own equity is not used as an underlying asset. The amount shall be obtained based on the fair value of the entity's financial liabilities, with similar characteristics to compound instruments, but which are not associated with own equity instruments. The attributable value at the start of the capital instrument will be the residual portion of the initial amount of the compound instrument, once the fair value assigned to the financial liability has been deducted.

1.3.15 Remuneration based on equity instruments

The delivery to employees of the Group's own equity instruments in payment for their services, where the instruments are determined at the start and are delivered on completion of a specified period of service, is recognised as an expense for services over the period during which the services are being provided, with a balancing entry under the heading *"Other equity"* in the consolidated equity. On the date such instruments are awarded, the services received are measured at fair value unless this cannot be reliably estimated, in which case they are measured by reference to the fair value of the committed equity instruments, bearing in mind the terms and other conditions envisaged in the commitments.

The amounts recognised in consolidated equity are not subsequently reversed, even when employees do not exercise their right to receive the equity instruments.

For transactions involving share-based remuneration paid in cash, the Group records an expense for services as the employees provide them, with a balancing entry on the liabilities side of the consolidated balance sheet. The Group recognises said liability at fair value until it is settled. Changes in value are recognised in the income statement for the year.

1.3.16 Provisions and contingent assets and liabilities

Provisions are current obligations of the Group which have arisen from past events and whose nature at the balance sheet date is clearly specified, but which are of uncertain timing and amount; when such obligations mature or become due for settlement, the Group expects to settle them through an outflow of resources.

In general, the Group's annual consolidated accounts include all significant provisions with respect to which it is estimated that the likelihood of having met the obligation is higher than the opposite. These provisions include, amongst others, pension commitments undertaken with employees by some of the Group's entities (see Note 1.3.17), as well as provisions for legal and other disputes.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events that lie outside the Group's control. Contingent liabilities include present obligations of the Group, the cancellation of which is not likely to result in an outflow of resources embodying economic benefits or whose amount, in extremely rare instances, cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the annual consolidated accounts but they are disclosed in the report on such consolidated annual accounts.

As set forth in IAS 37.92, if it is considered that giving a detailed breakdown of information on certain provisions and contingent liabilities would seriously affect the bank's position in disputes with third parties related to situations which contemplate provisions and contingent liabilities (such as those linked to certain disputes or arbitration issues), the Group chooses not to give details of this information.

Contingent assets are potential assets arising out of past events the existence of which is conditional upon events that are out of the Group's control and confirmation must be given both when such events occur and when they do not occur. These contingent assets are not recognised on the consolidated balance sheet or in the consolidated income statement, but are disclosed in the corresponding report provided that an increase in resources embodying economic benefits for this reason is likely.

1.3.17 Provisions for pensions

The Group's pension commitments to its employees are as follows:

Defined contribution schemes

These are predetermined contributions made to a separate entity under the agreements reached with each group of employees in particular, without any legal or effective obligation to make additional contributions where the separate entity is unable to pay benefits to the employees for the services rendered in the current year and in previous years.

These contributions are recorded each year in the consolidated income statement (see Note 33).

Defined benefit schemes

Defined benefit schemes provide for all current commitments under Articles 42, 43, 44 and 48 of the 23rd Collective Agreement for the Banking Industry.

These commitments are financed through the following formats: the pension scheme, insurance contracts, and the voluntary social welfare entity "E.P.S.V." and internal funds.

1. The pension scheme:

Banco Sabadell's employee pension scheme covers benefits payable under the aforementioned collective agreement with the employees belonging to regulated groups, with the following exceptions:

- Additional commitments due to early retirement as set out in Article 43 of the Collective Agreement.

- Disability arising in certain circumstances.

- Widowhood and orphanhood benefits arising from the death of a retiree joining the bank after 8 March 1980.

The Banco Sabadell employee pension scheme is regarded to all intents and purposes as an asset of the scheme for the obligations insured in entities that are not connected to the Group. Obligations of the pension scheme insured in companies associated with the group are not considered scheme assets.

A Control Committee has been created for the pensions plan, formed of the representatives of the promotor and the representatives of the investees and beneficiaries. This Control Committee is the body responsible for supervising its function and execution.

2. Insurance contracts

Insurance contracts provide general cover for specified commitments under Articles 43 and 44 of the 23rd Collective Agreement for the Banking Industry, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension scheme (listed in the previous section).

- Serving employees covered by a collective agreement with the former Banco Atlántico.

- Pension commitments in respect of some serving employees, not provided for under the collective agreement.

- Commitments towards employees on leave of absence who are not entitled to benefits under the Banco Sabadell employee pension scheme.

- Commitments towards early retirees. These may be partly financed out of pension rights under the Banco Sabadell employee pension scheme.

These insurance policies have been arranged with non-Group insurers, principally for commitments to former Banco Atlántico employees, and also with BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. The voluntary social welfare entity "E.P.S.V.".

The acquisition and subsequent merger of Banco Guipuzcoano resulted in the takeover of Gertakizun, E.P.S.V., which covers defined benefit commitments in respect of the bank's serving and former employees and are insured by policies. This entity was set up by Banco Guipuzcoano in 1991 as a legally separate entity. Pension commitments to serving and former employees are fully covered by entities separate from the Group.

4. Internal funds

Internal funds cover obligations to early retirees up to their legal retirement age for employees previously working for Banco Sabadell, Banco Guipuzcoano and Banco CAM.

Accounting record of defined benefit obligations

The *"Provisions - Pensions and other post-employment defined benefit obligations"* heading on the liabilities side of the balance sheet includes the current actuarial value of pension commitments, which is calculated individually using the projected unit credit method on the basis of financial and actuarial assumptions with are set out below. This is the same method used for the sensitivity analysis described in Note 22.

From the obligations thus calculated, the fair value of the scheme assets have been deducted. Scheme assets are assets that will be used to settle obligations, including insurance policies, since they meet the following requirements:

- They are not owned by the Bank but by a legally separate, non-related third party.

- They are available only to pay or fund employee benefits and are not available to creditors of the bank, even in the event of the Bank becoming insolvent.

- They cannot be returned to the bank unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the bank relating to employee benefits, or unless assets are to be returned to the bank to reimburse it for employee benefits previously paid.

- They are not non-transferable financial instruments issued by the bank.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros are not scheme assets as the company is a related party of the Group.

Pension commitments are recognised as follows:

- In the consolidated income statement, net interest on the net defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes i) the cost of services in the current year, ii) the cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and iii) any gain or loss arising from a settlement of the scheme.

- Under the heading *"Accumulated other comprehensive income"* in consolidated equity, the re-evaluation of the net liabilities (assets) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the prior actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the performance of the scheme assets, and (iii) any change in the effects of the asset limit, excluding, for the last two items, the amounts included in net interest on the net liabilities (assets).

  The amounts recorded in the consolidated statement of equity are not reclassified to the consolidated income statement in subsequent years but are reclassified under the heading *"Other reserves - Other"* of the consolidated equity.

Under the heading *"Provisions- Other long-term employee benefits"* on the consolidated balance sheet mainly includes the value of commitments undertaken with early retirees. Changes occurring during the year in the value of liabilities are recognised in the consolidated income statement.

Actuarial assumptions

The most significant actuarial assumptions used in the valuation of pension commitments are as follows:

	2018	2017
Tables	PERM / F 2000 New production	PERM / F 2000 New production
Discount rate, pension scheme	1.50% per annum	1.50% per annum
Discount rate, internal fund	1.50% per annum	1.50% per annum
Discount rate, related insurance	1.50% per annum	1.50% per annum
Discount rate, non-related insurance	1.50% per annum	1.50% per annum
Inflation	2.00% per annum	2.00% per annum
Rate of increase in salaries	3.00% per annum	3.00% per annum
Retirement due to disability	SS90-Absolute	SS90-Absolute
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Normal retirement age	65 or 67 years	65 or 67 years

In 2018 and 2017, the technical interest rate on all commitments has been determined by reference to the yield on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 11.94 years in 2018 and 11.52 years in 2017.

The age of early retirement is assumed to be the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The yield on long-term assets related to scheme assets and insurance policies linked to pensions has been determined by applying the same technical interest rate (1.50% in 2018).

1.3.18 Transactions in foreign currency and conversion differences

The Group's functional and presentation currency is the euro. All balances and transactions denominated in currencies other than the euro are thus treated as denominated in a foreign currency.

On initial recognition, debit and credit balances denominated in foreign currency are translated to the functional currency at the spot exchange rate, defined as the exchange rate for immediate delivery, on the recognition date. Subsequent to the initial recognition, the following procedures are used to translate foreign currency balances to the functional currency of each entity.

- Monetary assets and liabilities are translated at the closing exchange rate, defined as the average spot exchange rate as at the reporting date of the financial statements.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the date of acquisition.
- Non-monetary items stated at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.
- Income and expenses are translated at the exchange rates ruling at the transaction date.

In general, foreign exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recorded in the consolidated income statement. However, for foreign exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognised under the heading *"Accumulated other comprehensive income"* in consolidated equity, a breakdown is given for the exchange rate component of the revaluation of the non-monetary item.

The balances of the financial statements of consolidated entities whose functional currency is different to the euro are converted into euros in the following manner:

- Assets, liabilities and valuation adjustments are converted by applying exchange rates at the end of each year.
- Income and expenses applying the average exchange rate, weighted by the volume of transactions of the converted company.
- Own funds, at historic exchange rates.

Exchange differences which have arisen in the conversion of financial statements of consolidated entities whose functional currency is different to the euro are recognised under the heading *"Accumulated other comprehensive income"* of consolidated equity.

The exchange rates applied in the datr the balances in foreign currency to euros are those published by the European Central Bank as at 31 December of each year.

1.3.19 Recognition of income and expense

Interest income and expense and similar items are generally accounted for over the period in which they accrue using the effective interest rate method, under the headings *"Interest income" or "Interest expenses"* of the income statement, as applicable. Dividends received from other entities are recognised as income at the time the right to receive them originates.

Generally, income and expenses on commissions and similar fees are recorded in the consolidated income statement in accordance with the following criteria:

- Those linked to financial assets and liabilities carried at fair value through profit or loss are reflected at the time of disbursement.

- Those related to transactions or services performed over a period of time are reflected over this period.

- Those relating to a transaction or service that is performed in a single act are recorded when the originating act takes place.

Financial fees and commissions, which form an integral part of the effective cost or yield of a financial transaction, are deferred net of associated direct costs and recognised in the consolidated income statement over the expected average life of the transaction.

The equity managed by the Group that is owned by third parties is not included in the consolidated balance sheet. Fees generated by this activity are recorded under the heading *"Fee and commission income"* in the consolidated income statement.

Non-financial income and expenses are accounted for on an accrual basis. Deferred payments and collections are accounted for at the amount obtained by discounting expected cash flows at market rates.

For levies and tax obligations whose amount and date of payment are correct, the obligation is recognised when the event that leads to its payment takes place in line with the legislative terms and conditions.

Therefore, the item to be paid is recognised when there is an obligation to pay the tax, such as, for example, in the case of contributions to guarantee deposit funds in the different countries where the Group operates. In these cases in which the payment obligation is accrued throughout a period of time, this is recognised progressively during this period.

Deposit guarantee funds

The bank is a member of the Deposit Guarantee Fund. In 2018, the Management Committee of the Deposit Guarantee Fund of credit institutions, in accordance with that laid out in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities adhered to the deposit guarantee scheme at 1.8 promille of the amount of the deposits guaranteed as at 30 June 2018. The calculation of each entity's contribution was based on the amount of deposits guaranteed and the risk profile of the entity, taking into account indicators such as capital adequacy, the quality of the assets and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee scheme has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2018. In accordance with that set forth by IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded as at 31 December each year (see Note 32).

Some of the consolidated entities are integrated into systems which are similar to the Deposit Guarantee Fund and they make contributions to these systems in accordance with national regulations (see Note 32). The most relevant entities are listed below:

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme, which are accrued on 1 April of every year.
- Banco Sabadell, S.A. Institución de Banca Múltiple (BS IMB México) makes contributions to the deposit guarantee fund establish by the Institute for Bank Savings Protection. In this case the payment obligation, and therefore its accrual, is monthly.

Single Resolution Fund

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and is also one of the standards that have contributed to the constitution of the Single Resolution Mechanism, created through Regulation (EU) 806/2014. This regulation establishes standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

As part of the implementation of this regulation, on 1 January 2016 the Single Resolution Fund entered into effect, to operate as a financing instrument which the Single Resolution Board can use. The Single Resolution Board is the European authority which makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures which are adopted. The Single Resolution Fund receives contributions from credit institutions and investment firms subject to the same.

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 32). The obligation to contribute to the Single Resolution Fund accrues on 1 January of each year.

1.3.20 Corporation tax

The Corporation Tax applicable to the Spanish companies of Banc Sabadell Group, and similar taxes applicable to foreign investees, is considered to be an expense and it is recorded under the heading *"Tax expense or income related to profit or loss from continuing operations"* of the consolidated income statement, except when they arise as a consequence of a transaction directly recorded in consolidated equity, in which case, they are directly recorded in the latter.

The total corporation tax expense is equivalent to the sum of current tax calculated by applying the relevant levy to taxable income for the year (after applying fiscally admissible deductions and allowances) and the variation in deferred tax assets and liabilities recognised in the consolidated income statement.

Taxable income for the year may be at variance with the income for the year as shown in the consolidated income statement, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items which are non-taxable or non-deductible.

Deferred tax assets and liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying value of the assets and liabilities figuring in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 39).

A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or allowance, or a credit in respect of tax-loss carry-forwards is always recognised provided that the Group is likely to obtain sufficient future taxable profits against which the tax asset can be realised, and that these are not derived from the initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect either the tax result or the accounting result.

Deferred tax assets originated due to deductible temporary differences arising from investments in subsidiaries, branches and associates, or from equity interests in joint ventures are only recognised insofar as the bank has the intention of liquidating the investee in the future.

Deferred tax liabilities arising from timing differences associated with investments in subsidiaries and associates are recognised in the accounts unless the group is capable of determining when the timing difference will reverse and, in addition, such a reversal is unlikely.

The "*Tax assets*" and "*Tax liabilities*" on the consolidated balance sheet include all tax assets and liabilities, differentiating between current (to be recovered in the coming 12 months, for example, payment to the tax authority (*Hacienda Pública*) of corporate tax) and deferred (to be recovered/paid in future years).

At each year-end, recorded deferred tax assets and liabilities are reviewed to ascertain whether they are current and to ensure that there is sufficient evidence of the likelihood of generating future tax profits that will allow them to be realised, in the case of assets, by applying relevant adjustments as necessary.

To conduct the aforementioned analysis, the following variables are taken into consideration:

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the bank's administrators for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate.

- Estimate of the reversal of timing differences on the basis of their nature; and

- The period or limit set forth in current legislation in each country for the reversal of the different tax assets.

Income or expenses recognised directly in the consolidated statement of equity that do not affect profits for tax purposes, and income or expenses that are not recognised directly and do affect profits for tax purposes, are recorded as timing differences.

The Banco Sabadell Group companies included in Spain's consolidated tax regime for the bank's Corporation Tax are listed in Schedule I.

1.3.21 Consolidated cash flow statements

Consolidated cash flow statements have been prepared using the indirect method, in such a way that, based on the group's results, the non-monetary transactions and all types of deferred payment items and accruals which have been or will be the cause of operating income and expense have been taken into account, in addition to the income and expenses associated with cash flows from activities classified as investment or funding activities.

The consolidated cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where "cash equivalents" are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.

- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investment or financing activities.

- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.

- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have not generated cash flows not reflected in the consolidated cash flow statement.

1.4. Comparability of information

The information presented in these annual accounts for 2017 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2018 and therefore does not constitute the bank's annual accounts for 2017.

In accordance with that permitted by regulations, the Group has opted not to re-express the comparison information for 2017, applying classification and measurement criteria set forth in IFRS 9, and instead, recognise as at 1 January 2018 the impact deriving from the entry into force of this standard on the Group's consolidated equity. The effects of the initial application of IFRS 9 are presented in the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) which have entered into force in 2018" in Note 1.2.

Additionally, on 6 December 2017, Bank of Spain Circular 4/2017 of 27 November to credit institutions, on public and reserved financial information and financial statement models, was published, and entered into force on 1 January 2018, the objective of which is to adapt the accounting regime of Spanish credit institutions to changes in European accounting regulation deriving from the adoption of IFRS 9 and IFRS 15. This Circular has amended the breakdowns and the denomination of certain headings of the financial statements. With the objective of making this information comparable, in the information for 2017 presented in these consolidated annual accounts, the balances recorded under certain headings of the consolidated financial statements which are no longer used after the entry into force of the aforementioned Circular 4/2017 have been reclassified for comparison purposes only to the new headings established by the Circular. In this way, the balances recorded as at 31 December 2017 in the different portfolios for the purpose of presentation and measure of the financial assets used in the preparation of the consolidated balance sheet as at 31 December 2017 have been reclassified to portfolios in the consolidated balance sheet after the entry into force of Circular 4/2017, presented for comparison purposes, as shown below:

Million euro

	Portfolios used after the entry into force of IFRS 9				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets held for trading	**Total**
Portfolios used in the consolidated annual accounts for 2017 (IAS 39)					
Loans and receivables and held-to-maturity investments	160,724	-	-	-	**160,724**
Available-for-sale financial assets	-	13,181	-	-	**13,181**
Financial assets held for trading	-	-	-	1,572	**1,572**
Financial assets designated at fair value through profit or loss	-	-	40	-	**40**
Total	**160,724**	**13,181**	**40**	**1,572**	**175,517**

Furthermore, the balances of the headings of the rest of the consolidated financial statements of 2017 (income statement, statement of changes in equity, and cash flows statement, all of which are consolidated) which on one hand refer to the portfolio of *"Available-for-sale financial assets"* and on the other hand *"Loans and receivables"* and *"Held-to-maturity investments"*, have been reclassified to new headings in the financial statements, which have been introduced by new regulations and which refer to the following portfolios: *"Financial assets at fair value through profit or loss"* and *"Financial assets at amortised cost"*, respectively.

On the other hand, in December 2018, Bank of Spain Circular 2/2018 of 21 December was published, amending Circular 4/2017. This new Circular has included certain changes in the presentation of the headings of financial statements, particularly the consolidated income statement, extending the breakdown of the information required in this statement. These changes have been considered in the preparation of these Consolidated Annual Accounts, in a way that the information corresponding to 2017 has been adapted to the formats of the financial statements required by Circular 2/2018, for the purpose of making it comparable.

Note 2 –Banco Sabadell Group

The companies comprising the Group as at 31 December 2018 and 2017 are listed in Schedule I, along with their registered offices, primary activities, the bank's percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

Schedule II provides a breakdown of consolidated structured entities (securitisation funds).

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) performed by the Group during 2018 and 2017. Schedule I also includes a detailed list of the companies consolidated for the first time and those no longer consolidated for each year.

Changes in the Group's scope of consolidation in 2018

Additions to the scope of consolidation:

There have been no significant additions to the scope of consolidation in 2018 (see details of the additions in Schedule I).

Exclusions from the scope of consolidation:

There have been no significant exclusions from the scope of consolidation in 2018 (see details of the exclusions in Schedule I).

Changes in the Group's scope of consolidation in 2017

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2017.

Exclusions from the scope of consolidation:

- In June 2017, having obtained the regulatory authorisations required for the contract signed in June 2016, the Group proceeded to recognise the sale of shares representative of 100% of the share capital of Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, an insurance firm that provides life insurance and retirement savings plans, recognising a capital gain net of expenses of 16,634 thousand euros.

- On 28 February 2017, Banco Sabadell reached an agreement to sell shares representing 100% of the share capital of its subsidiary Sabadell United Bank, N.A. (SUB) to the US entity Iberiabank Corporation (hereinafter, "IBKC").

  In July 2017, after receiving the corresponding authorisations, Banco Sabadell completed the sale of its subsidiary, receiving from IBKC, as the purchase price, 795,980 thousand US dollars in cash and 2,610,304 IBKC shares representing 4.87% of its share capital with a value at close of trading on 28 July 2017 of 208,955 thousand US dollars. The capital gain generated by this transaction amounted to 369,817 thousand euros, net of associated costs. The IBKC shares were sold in October 2017, with no significant impact on the income statement.

- In October 2017, the subsidiary Hotel Investment Partners, S.L. sold shares representing 100% of the share capital of HI Partners Holdco Value Added, S.A.U., its hotel management platform, to Halley Bidco S.à r.l., an entity controlled by funds advised by the subsidiaries of The Blackstone Group L.P., for a total price of 630,733 thousand euros.

  Once the corresponding authorisation had been obtained from the CNMV, and once the transaction had been closed, the capital gain generated by this transaction, which amounted to 50,655 thousand euros, was recognised net of associated costs.

Other significant transactions in 2018

- On 19 July 2018, Banco Sabadell agreed to transfer practically all of its problematic real estate exposures to a subsidiary of Cerberus Capital Management L.P. (hereinafter, Cerberus). The overall gross book value of the real estate assets involved in the transaction amounts to approximately 9.1 billion euros, and their overall net book value amounts to approximately 3.9 billion euros.

The transaction has been structured through the transfer of two real estate asset portfolios, called Challenger and Coliseum, to one or more newly incorporated companies (hereinafter, NewCo(s)). The capital of the latter will be contributed and/or sold, as required, in such a way as to ensure that Cerberus ends up directly or indirectly holding an interest of 80% of the capital of the NewCo(s), with Banco Sabadell holding the remaining 20%. Banco Sabadell and Cerberus shall enter into an agreement to govern their relationship as partners of the NewCo(s). Solvia Servicios Inmobiliarios, S.L.U. will continue to provide comprehensive management services (known as 'servicing') for the real estate assets involved in the transaction on an exclusive basis.

The closing of the transaction, once the corresponding authorisations have been obtained and the terms and conditions of each of the portfolios have been met, will entail the transfer of control over the real estate assets and, consequently, their derecognition from the consolidated balance sheet.

The transaction contributes to improving the Group's profitability, having required the recognition of additional provisions with a net impact of approximately 92 million euros, in turn contributing a positive impact on the Group's fully-loaded CET1 ratio of approximately 13 basis points as at the date of signing the deal.

- On 16 May 2018, Banco Sabadell agreed to transfer a portfolio of loans with an outstanding balance of approximately 866 million euros, of which of 737 million euros corresponded to write-offs, to Axactor Capital Luxembourg, S.A.R.L. The closing of this transaction was completed on 13 December 2018, once the corresponding authorisations had been obtained and the relevant terms and conditions had been met.

  This transaction resulted in a net impact of approximately 6 million euros in losses.

- On 24 July 2018, Banco Sabadell reached an agreement to transfer a portfolio of loans, comprised in turn of three sub-portfolios, mostly mortgage loans, with an outstanding balance of approximately 2,295 million euros, of which 480 million euros corresponded to write-offs, to Deutsche Bank and Carval Investors. The transaction will be completed once the corresponding authorisations have been received and the relevant terms and conditions have been met. As at 31 December 2018, the balance of loans of this portfolio recognised on the balance sheet prior the transfer of credit risk to the DGF amounted to 1,393 million euros.

  The transaction will have a negative impact on Banco Sabadell's fully-loaded Common Equity Tier 1 capital ratio of 3 basis points, which includes additional provisions with a net impact on results of approximately 32 million euros.

- On 14 December 2018, the bank agreed the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L.U. to Lindorff Holding Spain, S.A.U., a company owned by Intrum AB Group.

  Solvia has been valued at a total of 300 million euros. The object of the sale is an 80% stake in Solvia, the price of which may increase by a maximum of 40 million euros, provided that the conditions relating to the evolution of Solvia's business lines are met.

  The closing of the transaction, which was subject to obtaining the relevant authorisations, is expected to materialise in the second quarter of 2019 therefore, as at the end of 2018, this stake has been reclassified under "*Non-current assets and assets and liabilities included in disposal groups classified as held for sale*".

  The Group will generate an estimated capital gain of 138 million euros and the transaction will have a positive impact of 15 basis points on its Common Equity Tier 1 (fully-loaded) capital ratio.

  The assets subject to the transfer deals described in this Note and not yet closed have been transferred to the heading "*Non-current assets and disposal groups classified as held for sale* "of the consolidated balance sheet (see Note 13).

Other relevant information

Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, APS) envisaged in the protocol on financial assistance measures for the restructuring of Banco CAM came into force with retroactive effect as from 31 July 2011. Under the scheme, which covers a specified portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

Million euro

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances	21,711	2,912	19,117	2,263
Of which: amount drawn	*21,091*	-	*18,460*	-
Of which: guarantees and contingent liabilities	*620*	-	*657*	-
Real estate assets	2,380	558	4,663	1,096
Investments in joint ventures and associates	193	52	504	163
Write-offs	360	360	360	360
Total	**24,644**	**3,882**	**24,644**	**3,882**

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 31 December 2018 are as follows:

Million euro

Balance as at 31 July 2011	**18,460**
Acquisition of real estate assets	(7,746)
Collections and subrogation	(5,730)
Increase in write-offs	(1,745)
Credit drawdowns	446
Balance at 31 December 2018	**3,685**
Of which: real estate exposure for which a transfer agreement has been reached and which has been classified under non-current assets held for sale	*(1,393)*

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force until 31 December 2018 are as follows:

Million euro

Balance as at 31 July 2011	**4,663**
Acquisition of real estate assets	5,732
Sales of real estate assets	(6,531)
Balance at 31 December 2018	**3,864**
Of which: real estate exposure for which a transfer agreement has been reached and which has been classified under non-current assets held for sale	*(3,631)*

In general, the purpose of financial statements is to provide information that fairly represents the financial condition, financial performance, changes in equity and cash flows of an entity, for the purpose of constituting useful information that can be referred to by a wide range of users when making economic decisions. At the same time, as laid out in IAS 1 –Presentation of Financial Statements, financial statements should provide information on the management carried out by the administrators of the assets they have been entrusted. Among other aspects, a fair presentation requires the entity to present information in a manner that provides relevant, reliable, comparable and understandable information.

In view of the foregoing, and considering the significance of the economic impacts arising from the application of the APS in the Group's financial statements, which are mostly recognised as non-current assets held for sale following the transfer deal reached by the Group and described in Note 2, certain particular aspects specific to the assets classified in this portfolio have been considered in order to ensure that the financial statements provide the most faithful and comparable presentation possible of the guarantees given under the APS protocol. These are described in Note 13. The volume of non-performing assets protected by the APS and which have not been transferred under the aforementioned deal is not significant, therefore the particular aspects mentioned previously have not been taken into account.

The portfolio of assets protected by the APS as at 31 December 2018 breaks down as follows:

Million euro

	Balance	Provision
Loans and advances, guarantees and contingent liabilities	2,300	183
Of which, amount drawn not classified as Stage 3	*1,884*	*15*
Of which, amount drawn classified as Stage 3	*409*	*166*
Of which, guarantees and contingent liabilities not classified as Stage 3	*7*	*0*
Of which, guarantees and contingent liabilities classified as Stage 3	*1*	*1*
Real estate exposures	233	95
Non-current assets held for sale for which a transfer agreement has been reached	5,024	3,412
Of which loans and advances (*)	*1,393*	*1,085*
Of which real estate exposure	*3,631*	*2,327*
Investments in joint ventures and associates	40	32
Write-offs	1,172	1,172
Total	**8,770**	**4,894**

(*) See classification of assets from portfolio sales described in Note 2 and Note 13.

The NPL ratio and NPL coverage ratio (covering risks classified as Stage 3) are indicated below, together with the lending volumes for construction and real estate development, which correspond to loans and advances not classified as non-current assets held for sale:

%

	2018
NPL ratio	17.80
NPL coverage ratio (covering risks classified as Stage 3)	44.62

Million euro

	On Group balance sheet		*Of which, Stage 3*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances - amount drawn	2,292	182	*409*	*166*
Of which, lending to construction and real estate development sector (business in Spain)	*412*	*93*	*167*	*89*
Total	**2,292**	**182**	***409***	***166***

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses on the disposal of these assets), the Group keeps an account receivable classed under the "*Financial assets at amortised cost – Loans and advances - Customers* "heading and recognised to the income statement, in order to reflect the rights of collection from the DGF under the latter's guarantee, and to offset the impact of losses on assets covered by the APS recognised on the income statement. The accumulated amount recorded as at 31 December 2018 amounts to close to 4,080 million euros.

TSB migration project

When TSB Bank plc (hereinafter, "TSB") was incorporated, it used the IT platform of Lloyds Banking Group, and the process for making changes to products and services took longer the period that would have suited TSB.

For this reason, one of the major projects in recent years has been the creation of a new IT platform, the installation of all of the infrastructures required to support TSB's activity and the migration of data to the new platform.

The design and construction of the new system has required more than two years of work, after which TSB conducted a rigorous verification programme. This programme included the testing of business processes, non-functional testing of the technological architecture and operation of the platform and a number of migration test runs. A comprehensive and carefully governed process was also established to ensure that TSB was ready for migration. This process was supervised by TSB's second line of defence and subjected to a wide range of reviews and checks by Internal Audit.

The data migration was carried out 22 April 2018, which entailed transferring the data of around 8.5 million customers to the new technology platform. The Group also received the payment agreed to with Lloyds Banking Group (LBG) as part of the initial public offering in June 2014, in which LBG sold 50% of its capital in TSB for 318 million pounds sterling (450 million pounds, less the migration costs incurred by LBG). The amount recognised in the income statement as at 31 December 2018 includes the impact of migration costs, net of the payment described, amounting to 121 million euros. The Group has recognised TSB's new IT platform, called Proteo4UK, as an intangible asset designed and constructed specifically for TSB. The book value of Proteo4UK, constructed under the framework of the migration project, as at 31 December 2018 amounted to 322 million euros (233 million euros as at 31 December 2017).

The data migration was carried out successfully and all customers 'data and information were adequately transferred to the new platform. However, in the initial period post-migration, some customers encountered difficulties when accessing their online banking and when using the institution's mobile banking app. There were also delays in the services provided by branches and via the telephone banking system due to the instability of the application, which were exacerbated by the high demand for services using these channels as a result of the issues experienced in digital channels. Aside from some minor incidents, the operational processes worked adequately, ensuring that customers ' account balances were accurate and correctly updated, and that the payment processes were adequately fulfilled. These incidents are being investigated by both TSB, with the support of independent experts, as well as by UK regulators.

As a result of the foregoing, TSB implemented a remediation plan to resolve the service-related issues that were affecting its customers and to adequately compensate these customers for the inconvenience caused. At present, all major IT issues have been resolved, and the number of incidents has declined significantly to business-as-usual levels in the sector.

The breakdown of the costs related to the remediation plan and recognised in the consolidated income statement for 2018 is shown below:

Million euro

	2018
Commercial initiatives (includes Classic Plus account)	48.6
NII and fees & commission income	**48.6**
Losses due to fraud and other	55.8
Other operating expenses	**55.8**
Services provided by independent professionals	39.2
Appeals & communications with customers	98.8
Administrative expenses	**138.0**
Allocation to provisions for customer redress	142.1
Provisions	**142.1**
Total post-migration costs	**384.6**

As at 31 December 2018 the Group had a provision of 46 million euros to compensate customers for the incidents which arose post-migration, which include the operating costs required to allocate this provision (see Note 22).

As at the date of authorisation of these consolidated annual accounts, the investigation mentioned above is still ongoing. The decision to recognise a provision for this item requires the use of judgement in order to determine whether there is a current payment obligation and, if so, to reliably estimate the same. Based on the information available regarding the progress of the aforementioned investigation, the Group's management considers that the circumstances do not require a provision for potential sanctions to be recognised, as there is currently no payment obligation and, if such obligation were to exist, there is no way to reliably estimate the amount that would need to be disbursed.

Note 3 –Shareholder remuneration and earnings per share

Set out below is the distribution of 2018 Banco de Sabadell, S.A. profits which the Board of Directors will propose to the shareholders at the Annual General Meeting for approval, together with the proposed distribution of Banco de Sabadell S.A.'s 2017 profits, which was approved by shareholders on 19 April 2018:

Thousand euro

	2018	2017
To dividends	167,008	392,977
To statutory reserve	-	270
To Canary Island investment reserve	383	239
To voluntary reserves	372,475	125,684
Profit for the year of Banco de Sabadell, S.A.	**539,866**	**519,170**

Proposed distributions of profits of subsidiaries are subject to approval by shareholders at their respective Annual General Meetings.

The Board of Directors will submit a proposal at the Annual General Meeting for the distribution of a gross dividend of 0.03 euros per share for 2018.

On 25 October 2018, the Board of Directors agreed to distribute an interim dividend of the 2018 earnings amounting to a total of 110,739 thousand euros (0.02 euros (gross) per share), paid out on 28 December 2018.

Pursuant to Article 277 of the Spanish Capital Companies Act, the forward-looking accounting statement prepared as a mandatory requirement to demonstrate the existence of sufficient liquidity and profit at the bank at the time of approving the interim dividend is shown below:

Thousand euro

Available for the payment of dividends according to the interim statement at:	30/09/2018
Banco Sabadell profit as at the date indicated, after provisions for taxes	465,560
Estimated statutory reserve	-
Estimated Canary Island investment reserve	-
Maximum amount available for distribution	465,560
Interim dividend, proposed and distributed	110,739
Cash balance at Banco de Sabadell, S.A available (*)	12,604,719

(*) Includes the balance of the heading "Cash, cash balances at central banks and other demand deposits".

The Annual General Meeting, held on 19 April 2018, approved shareholder remuneration, supplementary to the dividend corresponding to 2017, of 0.05 euros per share (281,348 thousand euros), which was paid on 27 April 2018. Previously, in December 2017, shareholders received remuneration in the form of a dividend of 0.02 euros per share, charged to the income statement for 2017, which was paid on 29 December 2017.

Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by remuneration in other equity instruments) by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares acquired by the Group. Diluted earnings per share are calculated by applying adjustments for the estimated effect of potential conversions of ordinary shares to the net profit attributable to the Group and the weighted average number of ordinary shares outstanding.

The Group's earnings per share calculations are shown in the following table:

	2018	2017
Profit or loss attributable to owners of the parent (thousand euro)	328,102	801,466
Adjustment: Remuneration of other equity instruments (thousand euro)	(51,275)	(23,517)
Profit or (-) loss after tax from discontinued operations (thousand euro)	-	-
Adjusted net profit attributable to the owners of the parent company (thousand euro)	276,827	777,949
Weighted average number of ordinary shares outstanding (*)	5,564,718,978	5,570,031,161
Conversion undertaken of convertible debt and other equity instruments	-	-
Adjusted weighted average number of ordinary shares outstanding	5,564,718,978	5,570,031,161
Earnings per share (euro)	0.05	0.14
Basic earnings per share adjusted for mandatory convertible bonds (euro)	0.05	0.14
Diluted earnings per share (euro)	0.05	0.14

(*) Average number of shares outstanding, excluding the average number of own shares held in treasury stock during the period.

As at 31 December 2018 and 2017, there were no other share-based financial instruments or commitments to employees with a material impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Note 4 –Financial risk management

4.1 Introduction

During 2018, Banco Sabadell Group has continued to strengthen its risk management and control framework, incorporating improvements which align it with the best practices of the financial sector.

Banco Sabadell Group has a Risk Appetite Framework in place which is intended to guarantee the control and proactive management of all of the Group's risks. This framework is used, among other purposes, to determine the Risk Appetite Statement (RAS), which establishes the quantity and diversity of risks that the Group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The Risk Appetite Framework of Banco Sabadell Group takes into account the Group's international structure in order to ensure a consistent and effective deployment of the Group's RAS in all geographies.

Thus, a first level is established which makes up the Group's RAS, setting general targets and limits, and a second level deploys the targets and limits of the first level to the various geographies.

The RAS comprises quantitative metrics that allow risk management to be objectively monitored, as well as qualitative aspects that complement the quantitative aspects and give the Group's position in relation to risks that cannot be easily quantified.

It is worth noting that these quantitative metrics are divided into:

- Basic first-tier metrics: quantitative aspects that allow the risks undertaken to be objectively monitored and which enable them to be efficiently controlled and managed, both at Group level and in the various geographies.

- Second-tier metrics: quantitative aspects at portfolio level that allow the stock of existing loans as well as the new production (i.e. new lending) to be monitored and which enable the risks undertaken to be efficiently controlled and managed.

The management and control of risks are embodied in a broad framework of principles, policies, procedures and advanced valuation methodologies, forming an efficient decision-making structure within a risk governance framework that is in line with Spanish and European regulations.

The risk policies of Banco Sabadell Group are a set of documents that are reviewed regularly, following the established governance. The body ultimately responsible for their approval is the Board of Directors.

For each of the Group's significant risks, the policies describe the principles and critical management parameters, the main people and units involved and their duties (including the roles and responsibilities of the various divisions and committees in relation to risks and their control systems), the associated procedures, as well as monitoring and control mechanisms.

The main financial risks faced by Banco Sabadell Group entities as a result of their activity related to the use of financial instruments are credit risk, liquidity risk and market risk. Of these, credit risk is the most significant risk for the Group's portfolio.

The main non-financial risks faced by the Group are operational risk, technology risk, tax risk and compliance risk.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2018 are set out below:

- Geopolitics have once again been in the media spotlight: Brexit negotiations, the questioning of European tax rules by the new government in Italy, the United States' protectionist policies, political shifts in certain emerging countries, etc.
- The UK government and the EU reached an agreement to enter a transition period starting in March 2019, during which to negotiate the new bilateral relationship. This deal still needs to be approved by the UK Parliament, although the vote has been postponed until early 2019.
- The US has started a trade war with China and has also renegotiated NAFTA with Canada and Mexico.
- Global economic activity has continued to record relatively high growth rates, supported by factors such as the expansionary nature of the tax policy of countries such as the United States and China, and a monetary policy which is still accommodating in areas such as the Eurozone.
- The Spanish economy has maintained its robust growth rates, exceeding the euro area average, although figures have been slightly lower than in previous years.
- The UK economy has been affected by the uncertainty surrounding Brexit, while the Mexican economy has been hindered by the political situation.
- Financial markets have been increasingly volatile, and they have been more exposed to political events given the gradual normalisation of monetary policies.
- The assets and countries that had benefited the most from the search for yield have recorded a more negative performance, as in the case of corporate debt and emerging markets.
- The ECB has completed its asset purchase programme and the Fed has continued with its gradual interest rate hikes.
- The difference between yields on US and German long-term government bonds has reached its peak since EMU was launched. The political situation in Italy has been one of the determining factors of German bond yields.
- The Italian risk premium increased to its highest level since 2013, and this has affected the performance of the Spanish risk premium.
- The dollar appreciated against the euro as a result of the widening interest rate spread, political noise in Italy and trade tensions, among other aspects.
- The pound has not followed any clear trend in its currency pair with the euro, although it has shown elements of volatility as a result of Brexit negotiations and the domestic political situation.
- The Mexican peso has been subjected to high volatility and downward pressures due to the existing political uncertainty.

- The European banking system has strengthened its solvency, increased its profitability and continued making progress in reducing its NPL ratio in 2018. Political and geopolitical uncertainty could exacerbate the risk of a sudden upturn in risk premiums and volatility, which represents the main vulnerability of the European banking sector.
- In terms of Banking Union, discussions have focused on the common support arrangements for the Single Resolution Fund (SRF), channelled through the European Stability Mechanism (ESM). Voices have also been raised in favour of making further progress with the European Deposit Insurance Scheme, although the lack of a political agreement has prevented much progress from being made.
- In terms of the Capital Markets Union, progress has been limited to the submission of the action plan drawn up by the European Commission on sustainable finances and fintech.
- In 2018, the implementation of reforms to the regulatory and supervisory framework has continued, with new requirements entering into force. The various jurisdictions have also made progress with the interest rate benchmark reforms.

Brexit

The Group has considered the potential developments and consequences of Brexit in its macroeconomic and financial scenarios.

The baseline scenario considers that the UK's withdrawal from the EU in March 2019 takes place in a way that maintains the trade and regulatory status quo during the transition period. In this scenario, the UK continues to incur the economic costs of the uncertainty associated with the process and the lack of clarity on the final framework for the relationship with the EU. It also considers the relocation of some services, particularly financial services.

One of the risk scenarios that the Group is working with (a Cliff Edge Brexit) considers a disorderly Brexit in which the UK leaves the EU without a deal. In this scenario the UK experiences a significant decline in foreign trade, and its economy falls into a lengthy recession. The Spanish economy is particularly affected, given its close links with the UK in terms of trade, tourism and investment. The bank has analysed Spain's sectoral exposure to the United Kingdom. The forecasts in this risk scenario are aligned with those established by the Bank of England for the stress tests that it carries out for financial institutions.

In November, the Bank of England also published the economic implications of the various scenarios for the UK's withdrawal from the EU. The differences between these scenarios relate to whether the withdrawal takes place with or without a deal and whether the new relationship with the EU is a closer relationship or a less close relationship. The Cliff Edge Brexit scenario considered by the Group is similar, in economic terms, to the worst of the scenarios considered by the Bank of England. The forecasts under the Group's baseline scenario are similar to those of the Bank of England scenario which considers a withdrawal with a deal and a less close relationship with the EU.

Other than the impacts on the real economy, TSB's exposure to Brexit is relatively limited, given the domestic nature of its activity. From an operational point of view, it does not show any vulnerability in terms of existing contracts with counterparties, cross dependency on financial market infrastructures, reliance on funding markets, etc. As such, it is worth noting that TSB has a low risk profile, with one of the most robust capital positions in the UK (fully-loaded CET1 capital ratio of 19.5%), an evenly distributed balance sheet between loans and deposits (loan-to-deposit ratio of 104%) as well as a loan portfolio in which over 90% of loans are secured with a mortgage. The quality of its mortgage portfolio is also very high, with an average LTV of 44%, and it has a relatively low exposure to London and high risk segments.

4.2 Key milestones during the year

4.2.1 Improvement of the Group's risk profile during the year

The Group's risk profile during 2018 has mainly improved for three reasons:

(i) International diversification

- International credit risk exposures (45,225 million euros) account for 31.0% of the Group's total exposure, six times more than in 2014.
- The increase in the Group's international diversification continues to be largely due to the acquisition of TSB, with an exposure of 34,151 million euros. TSB's portfolios are following a stable trend and have a remarkably low risk profile (over 90% in retail mortgages with an average LTV of 44%). TSB is also continuously improving its portfolio composition by reducing exposures in its Interest Only and Buy to Let portfolios.
- Similarly, international growth since 2014, excluding the effect of the acquisition of TSB, stands at 65% (even when taking into account the sale of Sabadell United Bank in July 2017), with business growth rates in Mexico being particularly noteworthy.

(ii) Concentration risk

- Reduction of real estate exposures (reduced by one third since 2014) and increase of exposures to the retail segment following the acquisition of TSB in 2015.
- From a sectoral point of view, the portfolio is well diversified with an upward trend in sectors with high credit quality. In terms of individual concentration, concentration risk metrics of large exposures have also been reduced.
- In geographical terms, the portfolio is positioned in the most dynamic regions, both nationally and internationally.

(iii) Quality the loan book

- During 2018, non-performing assets at Group level have been reduced by 1,518 million euros, and it is also important to note that this decline does not include the impact of the institutional portfolio sales announced in the second quarter of 2018.
- Throughout 2018, the Group has closed a number of transactions for the institutional sale of non-performing assets, disposing of practically all of the problematic exposures of the Group's balance sheet.
- In parallel, the Group continues to reduce its volume of loans classified as Stage 3, in line with the trends of recent years. Since 2013, non-performing exposures have been reduced by 63.5%, with the balance falling to 11,401 million euros.
- The foregoing has led to a reduction of the Group's NPL ratio from 5.14% to 4.22%.

The improvement in the Group's fundamentals, particularly in terms of risk, is reflected in the Investment Grade rating assigned by all of the credit rating agencies that rate its debt (see Directors 'Report - Other significant information), with highlights including the upgrade in the long-term credit rating assigned by S&P to BBB from BBB- on 6 April 2018 and the improvement in the outlook to positive (from stable) by DBRS Ratings Limited on 16 July 2018, confirming the long-term rating of BBB (high).

4.2.2 Strengthened risk management and control environment

Planning and control of existing stock and new production

During 2018, the risk management and control environment has been further strengthened by preparing and deploying credit risk management and control frameworks for certain portfolios, sectors and geographies, providing a powerful tool that allows the Risk Appetite Framework to be implemented and guides the growth of lending, seeking to optimise the duality between long-term profitability and risk.

Each such framework defines the Group's risk appetite in each sector or portfolio and the requirements to achieve it, establishing:

- Asset allocation, setting the growth targets in each key pillar (quality, type, etc.).
- General criteria that should govern activity in each portfolio, sector or geography.
- Basic policies for the approval and monitoring of loans and credit.
- Risk monitoring and control metrics (for both existing and new stock).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio performance to be anticipated, enabling the Group to guide the growth in a way that is profitable in the long term.

Asset Allocation / Sectoral Strategic Debate

The Sectoral Strategic Debate arises in the context of the Risk Appetite Framework (RAF) and the Risk Appetite Statement (RAS), and is one of the key developments that have taken place since 2014 in the creation of the Sectoral Risk Management and Control model of Banco Sabadell Group.

As a result of this initial development, the following steps were taken:

- Definition and calculation of key metrics to monitor and manage sectoral concentration risk and their subsequent incorporation into the RAS as first-tier metrics.
- Creation of the Sectoral Analysis Division, reporting to the Chief Economist.
- Generation of a 'correlated sectorisation model', i.e. a model which considers all interrelated aspects of a given supply chain and pools them together into a single sector, thereby creating a model in which each sector represents a more comprehensive concept, following an approach that focuses on risk management and thus enabling the existing expert model to be improved.

In this same context, a decision was made to create a mechanism that would allow all of the current outlooks of the Group in relation to sectoral risk to be integrated. This determined the need to promote a Sectoral Strategic Debate in order to establish the Group's sectoral asset allocation strategy, integrating to this end the various existing outlooks within the organisation in relation to the various economic activity sectors.

The project pursues the following objectives:

(i) Obtain the Group's sectoral strategic outlook.
(ii) Detect growth opportunities as well as undesirable scenarios.
(iii) Define mechanisms to achieve the agreed objectives.

Pricing system that guarantees alignment with credit risk

Pricing process in which prices are assigned on the basis of the cost, risk and capital allocated at transaction level, which is particularly important in the current environment of very competitive pricing.

The Group uses Risk adjusted Return on Capital (RaRoC) as a key risk screening factor to ensure the existence of a framework that measures return on the basis of risks and that contributes a coherent outlook of profitability using the various portfolios.

4.2.3 Improvement of monitoring environment

In 2018, the Group has continued to strengthen its customer credit risk monitoring environment, incorporating the sectoral strategic outlook into the monitoring environment and using this outlook on a forward-looking basis in order to anticipate the needs of its customers. The early warnings system is incorporated into management procedures through a monitoring environment that allows different strategies to be implemented depending on the segment (individuals, retailers and self-employed, and corporates).

The main input used in this monitoring environment is taken from the early warning models adapted to different segments. This leads to:

- Improved efficiency by focusing monitoring activities on customers with signs of impairment.
- Forward-looking management when there are signs of deterioration, in which the Basic Management Team is responsible for renewing the rating of customers in which there has been an impairment.
- Customers whose situation remains unchanged and who have been evaluated by the Basic Management Team to be regularly monitored.
- Feedback using the information provided by the Basic Management Team as a result of this management.

4.2.4 Improvement in the management of non-performing asset risk

During 2018, in compliance with the requirements set forth by the European Central Bank in its document "Guidance to Banks on Non-Performing Loans", the Board of Directors has approved the second version of its "Strategic plan for the management of non-performing assets "as well as the corresponding update of the "Operational Plan for the management of non-performing assets". The key points of the Strategic Plan are:

- Management principles for these assets,
- A governance and management structure that allows these objectives to be achieved, and
- Quantitative objectives with different time horizons, to reduce both assets classified as Stage 3 and foreclosed assets.

In order to achieve these results, the bank has set itself three strategic priorities in relation to the management of non-performing assets:

- Continuous reduction of non-performing assets until full de-risking has been achieved.
- Focus on the management of non-performing assets through the specialised management of its Asset Transformation and Industrial and Real Estate Investees Division, one of the first 'workout units 'in Spain.
- Maintenance of solid and adequate coverage levels of its non-performing assets.

These three strategic priorities translate into six principles for the management of non-performing assets, which are:

- Early default management and the preventive management of potential new entries into default.
- Segmented management of all non-performing and potentially non-performing loans (potential default).
- Large-scale reduction of non-performing loans and foreclosed assets that have been on the balance sheet the longest.
- Business intelligence and continuous improvement of processes.
- Financial capacity.
- Clear governance system based on three lines of defence.

The Strategic Plan for the management of Non-Performing Assets (NPAs) and the objectives included therein are fully integrated into the bank's risk management and control mechanisms, given that:

- The 2020 Plan and the Budget are fully consistent therewith,
- They are included in the risk appetite framework (RAF), where the risks relating to NPAs are considered significant and are therefore subject to specific policies and metrics,
- They have been taken into account in risk assessment processes, capital planning, stress tests and in the quantification of economic capital as part of the ICAAP and, lastly,
- They have been incorporated into other tools used by the organisation (ILAAP, Recovery Plan, etc.)

In view of the foregoing, the actions set out in the Strategic Plan and in the Operational Plan in relation to NPAs are successfully implemented throughout the entire organisation.

4.3 General principles of risk management.

4.3.1 Corporate risk culture

The risk culture of Banco Sabadell is one of the factors that set it apart, and it is firmly rooted throughout the organisation as a result of its progressive development spanning over decades. The aspects that characterise this strong risk culture include:

- A high level of involvement of the Board of Directors in risk management and control procedures. Since before 1994, there has been a Risks Committee in the bank, whose main function is to oversee the management of all significant risks and align these with the risk profile defined by the Group.

- Banco Sabadell Group has had a Risk Appetite Framework in place since 2014. It includes the Risk Appetite Statement, which guarantees the control and proactive management of risks under a strengthened framework of corporate governance, which has been approved by the Board of Directors.

- A Basic Management Team as a key player in the acceptance and monitoring of risk. The team has existed for more than 20 years, and is formed of the account manager on one hand, and the risk analyst on the other. Risks are managed based on the points of view expressed by each party. Decisions must always be discussed and agreed on by all of the parties involved. This ensures that the Commercial and Risks units work together as a single team and guarantees their involvement in decision-making processes, contributing to the quality of discussions and the soundness of the conclusions reached, while improving customer experience.

- Proactive management agreed to by the Basic Management Team regarding actions that need to be taken with customers, in terms of both growth and prevention, by applying a forward-looking management of the shared portfolio.

- Career paths that offer the opportunity to work as part of both the Commercial team and the Risks team, which allows staff to increase their cross-functional duties, contributes to their professional growth and allows them to increase their knowledge of customers by providing them with a unique and overall outlook.

- High degree of specialisation: there are specific management teams for each segment (Real Estate, Corporate Banking, Corporates, SMEs, Retailers, Banks and Countries, etc.), which allows a specialised risk management process to be implemented in each area.

- Advanced internal credit rating models that have served as a fundamental element of decision-making processes for over 15 years (since 1999 for individuals and since 2000 for corporates). The Group, in accordance with the relevant best practices, applies these models to improve the overall efficiency of the process. These models not only allow borrowers to be organised in ordinal terms, but they also provide a basis for a quantitative risk measurement, and they can therefore be used in various key management processes: finetuning the conferral of powers, efficient risk monitoring, Group-wide risk management, risk-adjusted returns and the Group's capital adequacy assessment are just some examples.

- The conferral of powers to approve corporate risk transactions at various levels is based on the level of exposure and expected losses. As a general policy in relation to the conferral of powers, the Group has opted for a system in which different levels are determined using the Expected Loss metric, which takes into account the credit risk exposure of the customer’s transaction pending approval, the risk group, the expected default rate and the estimated loss given default.

- Rigorous credit risk monitoring, supported by an advanced system of early warnings for corporates and individuals, which is integrated into a tool with a comprehensive and forward-looking vision of customers. Risk monitoring at customer and risk group level can be divided into three types: operational, systematic and comprehensive. One of the key sources for this risk monitoring is the implementation of an early warning indicator system for both corporates and individuals (started in 2008 and 2011, respectively) which allows credit risk to be anticipated. These warnings are based on internal information such as, for example, the number of days in non-performing status, overdrawn invoice discounting facilities, bank guarantees and international credit, as well as external information, such as customers classed as defaulters in the rest of the financial system or in information available from credit bureaux.

- Advanced non-performing asset risk management model that strengthens the anticipation and specialised management of this risk. A comprehensive management model which allows different options to be applied to situations in which default is most likely (early default management, refinancing, collections, etc.). This comprehensive system uses specific tools (simulators to help find the best solution on a case-by-case basis), as well as managers who specialise in the different segments and who are dedicated exclusively to this task.

- Risk-adjusted pricing. The business policy in respect of price management is dynamic, and adapted to the economic and financial environment of the market (liquidity premiums, difficulty of accessing credit, interest rate volatility, etc.). The cost of funding and cost of risk (expected credit loss and cost of capital) are taken into account in order to avoid adverse selection caused by an inadequate identification of the risk involved. Risk models are a key element in pricing and profitability objectives.

- The risk management model is fully integrated into the bank’s IT platform, in such a way that all policies can be immediately transferred for daily management: the policies, procedures, methodologies and models that make up the risk management model of Banco Sabadell are technically integrated into the bank’s operational platform. This aspect has been particularly significant in the Group’s acquisitions.

- Use of stress testing as a risk management tool: For years, Banco Sabadell has been working with an internal tool to conduct stress tests, working together with internal teams with extensive experience in carrying out these tests.

4.3.2 Risk Appetite Framework

The Risk Appetite Framework includes, among others, the Risk Appetite Statement, which is defined as the quantity and diversity of risks that Banco Sabadell Group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The Risk Appetite Statement (RAS) comprises quantitative metrics which allow the achievement of the established targets and limits to be objectively monitored, in addition to qualitative elements that complement these metrics and govern the Group's risk control and management policy.

Quantitative elements

The quantitative metrics of the RAS are divided into nine general areas:

- Capital and Solvency: level and quality of capital.
- Liquidity: liquidity buffers and funding structure.
- Profitability: balance between return and risk.
- Asset Quality: for different significant risks and in stress scenarios.
- Credit and Concentration: individual and sector-wide.
- Market Risk.
- Structural Interest Rate and Exchange Rate Risk.
- Counterparty Credit Risk.
- Operational Risk.

Qualitative aspects

As a supplement to the above quantitative metrics, the following qualitative principles should be used to guide the Group's risk management and control:

- The general position maintained by the Group with regard to risk-taking aims to achieve a medium-low risk profile through the use of a prudent and balanced risk policy that ensures the profitable and sustainable growth of its activity, and that it is in line with the strategic objectives of the Group, in order to maximise the generation of value whilst guaranteeing an adequate level of solvency.

- The Board of Directors is committed to risk management and control procedures: it approves policies, limits, the management model and procedures, as well as methodologies for risk measurement, monitoring and control.

- The Group maintains a risk culture that is embedded throughout the institution, and has various units that specialise in addressing different risks. The risk function conveys this culture by introducing policies, implementing and starting up internal models, and adapting these to the risk management processes.

- The risk management policies and procedures are geared towards adapting the risk profile to the Risk Appetite Framework, whilst maintaining a balance between the expected return and risk.

- The risk control and management system in Banco Sabadell Group is set up as an extensive framework of principles, policies, procedures and advanced assessment methodologies that are integrated into an efficient decision-making structure. The risk variable is taken into account when making any kind of decision and quantified in terms of allocated capital using a common measurement method.

- Risk management requires sound and ongoing control procedures to keep risks within the pre-defined limits, with clear-cut responsibilities for identifying and monitoring early warning and other indicators, as well as an advanced risk assessment methodology.

- The levels of capital and liquidity should be sufficient to cover the risks undertaken by the institution, including in unfavourable economic scenarios.

- There should be no risk concentration levels that could significantly compromise own funds.

- The objectives behind accepting market risk for trading purposes are to handle the flow of transactions produced by customers 'operations and to seize market opportunities, whilst maintaining a position that is in line with the bank's market share, risk appetite, risk-taking capacities and risk profile.

- The risk function is independent and Senior Management has a high degree of involvement. This guarantees a strong risk culture focused on protecting and ensuring an adequate rate of return on capital.

- The Group's aim in terms of tax risk is to ensure compliance with its fiscal obligations whilst guaranteeing an adequate return for shareholders.

- The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

- The Group will have the necessary human and technological resources in place to monitor, control and manage all risks that may arise during the course of its activities.

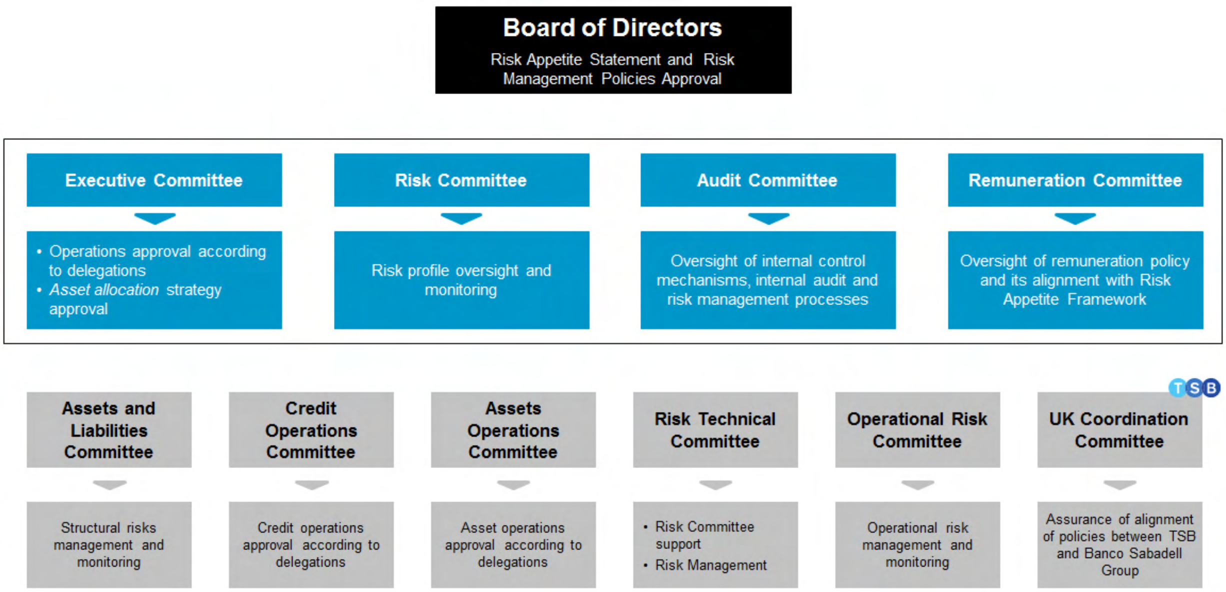
- The Group's remuneration systems should align the interests of employees and Senior Management with compliance with the Risk Appetite Framework.

4.3.3 General Organisation of the Risk Function

The Group has a risk culture that is embedded throughout the organisation, with units that specialise in handling the different types of risks, thereby guaranteeing the independence of the risk function and a close involvement of Senior Management.

The Board of Directors is the body responsible for setting forth general guidelines on the organisational structure of risk management and control functions and for determining the main strategies in this regard. It is the body responsible for approving the Risk Appetite Framework (prepared together with the Chief Executive Officer, the Chief Risk Officer and the Chief Financial Officer) and ensuring that it is aligned with the institution's short- and long-term strategic objectives, as well as with the business plan, capital planning, risk-taking capacity and remuneration schemes.

There are four Delegated Committees in operation to which the Board of Directors delegates functions by making use of the powers conferred to it in the Articles of Association. These Committees report to the full Board on the performance of their activities and report on any decisions made.



The Group has established its Control Framework based on the model of Three Lines of Defence, which is structured around the following assignment of duties:

- **First Line of Defence**, consisting mainly of business units and corporate centres, among the most noteworthy of which are the Risk Management Division, the Financial Division, the Treasury and Capital Markets Division and the IT Control Division. The first line of defence is responsible for the management of risks inherent in the bank's activity, mainly in the acceptance, monitoring, measurement and assessment of risks and associated processes.

  They are responsible for implementing corrective actions to correct weaknesses in their processes and controls. The core responsibilities attributed to this line under the control framework are:

  - Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;
  - Identifying, assessing, controlling and mitigating risks, following internal policies and procedures and ensuring that activities are consistent with the bank's targets and objectives;
  - Implementing adequate management and oversight processes to guarantee compliance and which focus on control errors, inadequate processes and unforeseen events.

- **Second Line of Defence**, consisting mainly of:

  - The Risk Control Division, which is independent of the first line of defence and is responsible for identifying, assessing, monitoring and controlling the Group's significant risks and for providing information about such risks.
  - The Compliance Division, which aims to minimise the risk of failing to comply with regulations and seeks to ensure that any instances of non-compliance are identified, reported and diligently resolved and that the appropriate preventive measures are implemented.
  - The Internal Validation Division, which is responsible for reviewing these models and ensuring that they work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

  In general, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core responsibilities attributed to this line under the control framework are:

  - Proposing the risk management and control framework.
  - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.
  - Cooperating in the implementation of risk management processes and controls.
  - Identifying changes in the underlying risk appetite of the organisation.
  - Verifying compliance with regulations applicable to the Group in the performance of its business activities.
  - Providing the technological infrastructure for risk management, measurement and control.
  - Analysing and comparing existing and future incidents by reviewing available information.
  - Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
  - Promoting and pursuing the highest possible levels of compliance with current legislation and professional ethics within the Group.
  - Guaranteeing both the continuity of ordinary business activities and the security of the information on which such activities are based.

- As a **Third Line of Defence**, the Internal Audit Division:

  - Conducts an independent and objective verification and advisory service, governed by a philosophy of adding value and helping the Group to achieve its objectives.
  - It helps the Group to achieve its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the organisation's governance processes and its risk management and internal control activities.

4.3.4 Planning and stress testing exercises

Banco Sabadell Group has an internal process for conducting planning and stress testing exercises in which teams with extensive experience in such exercises take part and which involves carrying out an in-depth analysis of the evolution of the Group's income statement and balance sheet in a specific scenario.

The risk forecasting models represent a key aspect of the Group's management activities, as they enable an assessment to be made of the ways in which diverse economic scenarios could impact the Group's solvency and its compliance with the target risk appetite. These scenarios set out the main risk factors that could affect the Group's results and solvency. Three general uses of the forecasting techniques developed by the Group have been identified: preparation of the Strategic Business plan, performance of internal stress tests and execution of regulatory stress tests.

The various internal forecasting exercises, Strategic Business Plan and stress tests are not carried out independently; they share certain common factors in terms of the definition of the economic scenarios used for such purposes and also in relation to other exercises such as liquidity stress tests and the development of Recovery Plans.

The internal economic scenarios are described in terms of the main macroeconomic aggregates (GDP, unemployment rate, etc.) and in terms of financial variables (housing prices, interest rates, exchange rates, etc.) and they generally follow the structure described below:

- Baseline scenario: this is the most likely economic scenario and it is used to prepare the Strategic Business Plan and also as the baseline scenario for the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

- Global adverse systemic scenario: this is an adverse scenario which, while plausible, is unlikely to materialise and which considers a global recession. This scenario is used as the most adverse scenario when preparing the ICAAP and it is also shared with the ILAAP.

- Specific adverse scenarios: these are adverse scenarios that reflect situations which are relevant in terms of the Group's specific risk profile, e.g. Brexit developments.

- Recovery scenario: this is the most adverse scenario possible. It is based on the global adverse systemic scenario but includes an additional level of stress which makes it suitable to the purposes of the recovery plan.

Strategic Business Plan

The Group prepares a Strategic Business Plan which sets out the institution's strategy over a certain period of time (currently 2018-2020). The Plan is also monitored on a regular basis, and it is updated every year to ensure it takes into account the most recent evolution of the portfolios and risks undertaken by the Group. This projection is carried out on the basis of the most likely economic scenario for the key geographies (baseline scenario), and it is also included in the ICAAP as a baseline scenario. The economic scenario is described in terms of the key risk factors impacting the Group's income statement and balance sheet.

The projection exercises of the Strategic Business Plan and its monitoring are integrated into management procedures, as they set out the key aspects of the Group's strategy in the medium and long term. The Plan is prepared at business unit level, on the basis of which the Group manages its activity, and annual profit and loss is also assessed in terms of compliance with the target risk appetite.

Together with the internal stress test results, the outcomes of the projections used to prepare and monitor the Strategic Business Plan make up a necessary input to assess the suitability of the thresholds (targets or tolerance limits) defined in order to quantify the Group's risk appetite.

Internal Stress Test

Under the framework of the ICAAP, the Group regularly carries out multi-year stress testing exercises (over a 3-year projection period) in order to assess the potential impacts that adverse economic scenarios could have on the Group's solvency and the compliance with its Risk Appetite Framework. The macroeconomic scenarios are designed and selected to reflect feasible but unlikely adverse situations which have also been adjusted in line with the particular characteristics of the Group's business: composition and geographical location of the risks.

The Group's internal stress testing exercises are integrated into its management procedures. They assess the impact of adverse economic scenarios on the level of compliance with the Risk Appetite Framework, as well as the impact of a potential adverse scenario on each business unit. The results of the exercise are sent to the governing bodies for approval, thereby ensuring that the Group's management team has access to the necessary information to assess the Group's solvency and situation in terms of compliance with its risk appetite under adverse scenarios.

The results of these types of exercises are used as input for the review and definition of the different thresholds (targets and tolerance limits) relating to the metrics used to define the Group's risk appetite.

These scenarios are complemented with the identification of specific events, under the framework of the reverse stress testing exercises, which could represent significant risks for the Group's solvency.

Regulatory Stress Test

The Group takes part in regulatory stress tests conducted by the European Banking Authority together with competent national authorities, the European Central Bank and the European Systemic Risk Board. These exercises are carried out every two years and cover the main risks undertaken by the Group. They assess the level of solvency of institutions under a baseline scenario and under an adverse scenario over a three-year time horizon which serves as a basis for establishing Pillar 2G. The main new feature in 2018 compared to the previous stress tests was the inclusion of IFRS 9 when projecting credit losses.

The Group carries out its regulatory stress test using existing internal approaches, although these are subject to the methodological restrictions of the regulatory stress test. This allows the results of the regulatory stress test to be analysed and considered during internal processes and provides an additional input with which to assess the internal stress tests, and vice versa. The results of the tress tests, in the same way as other forecasting exercises, are submitted to the Group's management bodies for approval.

4.4 Management and monitoring of the main significant risks

4.4.1 Credit risk

Credit risk refers to the risk of incurring losses as a result of borrowers 'failure to comply with payment obligations, as well as experiencing a loss of value due to the deterioration of borrowers 'creditworthiness.

4.4.1.1 Credit risk management framework

Acceptance and monitoring

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the bank.

The Board of Directors grants powers and discretions to the Executive Committee to allow the latter to delegate responsibilities to different decision-making levels. The implementation of authority thresholds in credit approval management systems ensures that the conferral of powers established at each level is linked to the expected loss calculated for each transaction requested.

To optimise the business opportunities provided by each customer and guarantee an appropriate level of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst who, by maintaining effective communication with the corresponding units, are able to obtain a comprehensive (360°) and forward-looking view of each customer's individual circumstances and needs.

The account manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking activity, whilst the risk analyst takes a more system-based approach making use of his/her specialised knowledge.

The implementation of advanced risk management methodologies (adapted to the New Basel Capital Accord and best practices in the industry) also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are tools such as credit rating systems for corporate borrowers and credit scoring systems for retail customers, as well as early warning indicators for monitoring risk. These are integrated into a single tool that provides a comprehensive and forward-looking vision of customers.

The analysis of indicators and early warnings, in addition to credit rating reviews, allows an integrated and continuous measurement to be made of the level of the accepted risk. The establishment of efficient procedures to manage performing loans also benefits the management of past-due loans by enabling a proactive policy to be devised based on a preliminary identification of any cases with propensity to default.

Risk monitoring is carried out for all exposures in order to identify potentially problematic situations and prevent the deterioration of credit quality. In general, this monitoring is based on early warnings systems at both transaction/borrower level and at portfolio level, and both systems use the firm's internal information and external information in order to obtain results. The monitoring is carried out prior to any default and on a forward-looking basis, i.e. with an outlook based on the foreseeable future development of circumstances, in order to determine both actions to strengthen the business (increase lending) and prevent risk (risk mitigation, improvement of guarantees, etc.).

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who determine the different types of procedures that should be implemented. Therefore, based on risks in excess of a set limit and predicted default rates, groups or categories are established to be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

NPA risk management

Generally, during stages of weakness of the economic cycle, debt forbearance and restructuring are the main risk management techniques used. The bank's objective, when faced with debtors and borrowers that have, or are expected to have, financial difficulties to honour their payment obligations under the agreed contractual terms, is to facilitate the repayment of the debt by reducing the probability of default as much as possible. A number of common policies to achieve this are in place in the institution, as well as procedures for the approval, monitoring and control of potential debt forbearance (refinancing and restructuring) processes, the most significant of which are the following:

- The availability of a sufficiently detailed compliance record for the borrower and a manifest intention to repay the loan, assessing the period of time during which the customer is likely to continue experiencing financial difficulties.
- Forbearance and restructuring conditions based on a realistic repayment schedule which is in line with the borrower's current and expected repayment capacity, preventing issues being put off until a later date.
- If new guarantees are provided, these must be regarded as a secondary and exceptional means for recovering the debt, so as to avoid adversely affecting existing means. All ordinary interest accrued must always be paid up to the refinancing date.
- A maximum length is applied to grace periods.

The Group continually monitors compliance with the agreed terms and conditions and with the above policies.

Internal risk models

Banco Sabadell Group also has a system in place which is made up of three lines of defence to ensure the quality and oversight of internal models, as well as a governance process which has been specifically designed to manage and monitor these models and to ensure compliance with regulations and the Supervisor's instructions.

The governance framework of internal credit risk and impairment models (risk management, regulatory capital and provisions) is based on the following pillars:

- Effective management of changes to internal models.
- Ongoing monitoring of internal models.
- Regular reporting, both internal and external.
- Management tools for internal models.

One of the main bodies within the governance framework of internal credit risk and impairment models is the Models Committee, which meets on a monthly basis and carries out internal approval functions, depending on the levels of materiality of the risks, and which also monitors internal credit risk models.

Banco Sabadell Group also has an advanced NPA risk management model in place to manage the impaired assets portfolio. The purpose of managing NPA risk is to identify the best solution for the customer upon detecting the first signs of impairment, whilst reducing the entry into default of customers with financial difficulties, ensuring the smooth progression and consistent management across the different phases.

For further quantitative information, see Schedule VI "*Other risk information: Forbearance*".

Real estate credit risk management

As part of its general policy on risks and, in particular, its policy on the construction and real estate development sector, the Group has a number of specific policies in place for mitigating risks.

The main measure being implemented is the continuous monitoring of risks and the reappraisal of borrowers' financial viability based on their new economic circumstances. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate in light of the new circumstances.

The policy to be implemented depends in each case on the type of asset being financed. For completed developments, sale support actions are carried out through the Group's distribution channels, setting a competitive price to attract buyers and providing final buyers with access to financing, provided they comply with risk requirements. For works in progress, the main objective is to complete the work, provided that the market is able to absorb the resulting supply of property based on short and medium term market expectations.

For land-related loans, the saleability of properties to be built on the site is the key consideration in deciding on the provision of finance for construction.

Where monitoring and scrutiny of a borrower's position do not indicate a reasonable degree of viability, the solution may take the form of a surrender of assets in settlement of the debt and/or the purchase of assets.

Where a solution of this kind is not practicable, legal proceedings will be taken, leading to subsequent foreclosure of the assets.

All assets taken into possession by the Group, whether by surrender in settlement of debt or by purchase, or as a result of legal proceedings, to ensure collection or to execute other lending improvements are mainly foreclosed tangible assets received from borrowers and other obligors of the bank, to satisfy financial assets representing the bank's collection rights, and are actively managed with the primary purpose of divestment.

In terms of the stage of completion of the construction process of real estate assets, three strategic lines of action have been established:

1. New lending: real estate development business

A commercial unit was established at the end of 2014, for the exclusive management of new funding for real estate developers, having identified the requirements of the market and the solvency of its new players. A new monitoring approach was developed for this unit, which enables the Group to have a detailed knowledge of the projects being considered in the unit (including the land area for sale, the number of units being sold, the construction budget and the extent of pre-marketing activities).

In parallel, a new “Real Estate Analysis ”division has been created, responsible for analysing all of the real estate projects that the bank is considering awarding funding to from a perspective of real estate business only, analysing the location and suitability of the product, as well as the potential current supply and demand, and comparing in each case the figures of the business plan submitted by the customer (particularly costs, sales and timelines) against these aspects. The new analysis model is coupled with a model for monitoring approved real estate development projects. The progress of each real estate development project is monitored using standardised reports in order to control drawdowns and the compliance with the business plan (sales, costs and timelines).

The new management model has allowed a system of warnings to be developed for monitoring purposes, which is used by both the “Analysis and monitoring ”division and the “Risks ”division, both of which were involved in the process to define the system. In addition to warnings for already approved real estate development projects, new funding uses the “real estate development framework”, which defines the optimum allocation of the new business on the basis of the quality of the customer and development project.

2. Management of problematic real estate exposures

Problematic exposures are managed in line with the defined policy. In general, they are managed taking into account the customer, guarantees and status of the loan (from the time when a warning is triggered, warning of a potential deterioration of the current status, up until the properties are surrendered in payment of debt (payment in kind) / purchased in an amicable settlement, or until an auction is held following a mortgage enforcement process and whenever there is a ruling in favour of foreclosure).

After analysing the three aforementioned aspects, an optimum solution is sought to stabilise or settle the position (whether through an amicable settlement or through judicial proceedings), which differs depending on the evolution of each customer / case. Cases in which the stabilisation or settlement of the loan by the customer is not a feasible option are managed using support models on the basis of the type of loan or funded property. In the case of completed real estate developments or completed non-residential properties, customers are given the option to sell the assets via Solvia at competitive prices. In the case of plots of land, they can be given the option to increase the debt to develop housing projects if the internal teams at Banco Sabadell identify a demand for housing in that location and are responsible for controlling their investment and marketing. For other funded real estate, the possibility of closing sale agreements with third parties is considered and amicable settlement solutions are proposed (purchase, payment in kind, which in the case of properties owned by retail customers can be coupled with favourable conditions for relocation or social renting depending on the needs of the customer) or else judicial proceedings are initiated.

3. Management of foreclosed assets

Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset and its location, in order to identify the potential of each asset according to its potential demand. The main disposal mechanism is the sale of the asset, for which the bank, through Solvia, has developed different channels on the basis of the type of property and customer. The success of these sales channels is reflected in the high volumes of properties that are sold year after year, the significant growth in the volume of sales of non-residential properties, land ready for development and plots under management. This growth began when the market began to show a greater interest in these types of assets and customers began to entrust the sale of their properties to Solvia.

A decision has been made to invest in certain land sites and plots under management with a high potential demand located in markets for which significant price increases are expected, in order to optimise the revenue from such assets considering the forecast income and applying conservative growth assumptions.

The Group, given the past significance of high concentrations of this type of risk, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate developments based on the TIER 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risks Committee, the Risks Committee and the Board of Directors.

Lastly, it is worth highlighting that the Risk Control Division, together with the Business and Risk Management divisions, regularly monitors the adequacy of new loans granted to real estate developers. The monitoring process includes a review of compliance with policies and asset allocation. Results of this monitoring exercise are escalated to the Technical Risks Committee for information.

For further quantitative information, see Schedule VI "*Credit risk: Risk concentration and exposure to the construction and real estate development sector*".

4.4.1.2. Risk management models

Rating

Credit risks incurred with corporates, real estate developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

The rating model is reviewed annually based on the analysis of performance patterns of defaulted loans. A predicted default rate is assigned to each internal credit rating level, which also allows a uniform comparison to be made against other segments and ratings assigned by external credit agencies using a master ratings scale.

%

Breakdown of Sabadell corporates portfolio by rating										
9	8	7	6	5	4	3	2	1	0	TOTAL
0.37%	8.27%	21.44%	21.78%	29.58%	13.12%	4.17%	0.96%	0.25%	0.06%	100%

Includes sovereigns, corporates and financial institutions

Credit scoring

In general, credit risks undertaken with individual customers are rated using credit scoring systems that are based on a quantitative model of past statistical data, and which identify the relevant predictive factors. In geographies in which credit scoring takes place, the latter is divided into two types:

Behavioural scoring: the system automatically classifies customers based on information regarding their activity and on each product which they have acquired. These scores are mainly used in: approving transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or recovery procedures.

Reactive scoring: this is used to evaluate applications for consumer loans, mortgage loans and credit cards. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated repayment capacity, financial profile and, if applicable, the level of assets pledged as guarantees.

If no credit scoring system exists, individual assessments supplemented with policies are used instead.

%

Breakdown of individuals portfolio by rating										
9	8	7	6	5	4	3	2	1	0	TOTAL
0.80%	4.13%	15.14%	35.21%	23.48%	12.78%	5.49%	1.69%	0.58%	0.69%	100%

Does not include transactions originating in TSB, or individuals' transactions originating in Banco CAM, BMN-Penedès, Banco Gallego and Sabadell Solbank (formerly, Lloyds Bank)

Warning tools

In general, Banco Sabadell Group has a system of warning tools in place, which include both individual warnings and advanced early warning models for both the Corporates sector and the Individuals sector. These warning tools are based on behavioural factors obtained from available sources of information (credit rating or credit scores, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information relating to the industry or past banking activity, etc.). They measure the risk presented by the customer on a short-term basis (predicted propensity to default), obtaining a high level of predictability to detect potential defaulters. The resulting rating or score, which is obtained automatically, is used as a basic input in monitoring the risk of corporates and individuals.

This warnings system enables:

- Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).
- The institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Customers whose situation remains unchanged and who have been evaluated by the Basic Management Team to be regularly monitored.

4.4.1.3. Credit risk exposure

The tables below show the breakdown, by headings of the consolidated balance sheet, of the Group's maximum gross exposure to credit risk as at 31 December 2018 and 31 December 2017, without deducting collateral or credit enhancements received in order to ensure compliance with payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	2018	2017
Financial assets held for trading		**324,691**	**131,761**
Equity instruments	9	7,254	7,432
Debt securities	8	317,437	124,329
Non-trading financial assets mandatorily at fair value through profit or loss		**141,314**	**39,526**
Equity instruments		-	39,526
Debt securities	8	141,314	-
Financial assets at fair value through other comprehensive income		**13,247,055**	**13,187,168**
Equity instruments	9	270,336	413,298
Debt securities	8	12,976,719	12,773,870
Financial assets at amortised cost		**167,850,730**	**164,457,771**
Debt securities	8	13,132,060	11,748,660
Loans and advances	11	154,718,670	152,709,111
Derivatives	**10, 12**	**2,022,249**	**1,814,764**
Total credit risk due to financial assets		**183,586,039**	**179,630,990**
Financial guarantees given	26	2,040,786	1,983,143
Loan commitments given	26	22,645,948	20,906,053
Other commitments given	26	8,233,226	9,916,992
Total off-balance sheet exposures		**32,919,960**	**32,806,187**
Total maximum credit risk exposure		**216,505,999**	**212,437,177**

The Group has also given borrowers guarantees and loan commitments, materialising in the establishment of guaranties given or commitments inherent in credit agreements up to an availability level or limit that ensures that customers can access funding when required. These facilities also require the Group to assume credit risk and are subject to the same management and monitoring systems described above. For further information, see Note 26.

Schedule VI of these consolidated annual accounts shows quantitative data relating to credit risk exposures by geography.

4.4.1.4. Credit risk mitigation

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' creditworthiness and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits for each counterparty to levels that are deemed to be acceptable. It is also normal practice to mitigate credit risk exposures by requiring borrowers to provide collateral or other guarantees to the bank.

Generally, these take the form of collateral, mainly mortgages on properties used as housing, whether finished or under construction. The Group also accepts, although to a lesser degree, other types of collateral, such as mortgages on retail properties, industrial warehouses, etc. and financial assets. Another credit risk mitigation technique commonly used by the institution is the acceptance of sureties, in this case subject to the surety presenting a certificate of good standing.

All of these mitigation techniques are established ensuring their legal certainty, i.e. under legal contracts that are legally binding for all parties and which are enforceable in all relevant jurisdictions, thus guaranteeing that the collateral can be seized at any time. This process is fully subject to an internal verification of the legal adequacy of these contracts, and legal opinions of international specialists can be requested and applied where these contracts have been entered into under foreign legislation.

All collateral is executed before a notary public through a public document, thus ensuring its enforceability before third parties. In the case of property mortgages, these public documents are also registered with the corresponding land registries, thus gaining constitutive effectiveness before third parties. In the case of pledges, the pledged items are generally deposited with the institution. Unilateral cancellation by the obligor is not permitted, and the guarantee remains valid until the debt has been fully repaid.

Personal guaranties or sureties are established in favour of the institution and, except in certain exceptional cases, these are also executed before a notary public through a public document, to vest the agreement with the highest possible legal certainty and to allow legal claims to be filed through executive proceedings in the event of default. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.

In addition to the mitigation of the risk arising from guarantees executed between the obligors and the institution, as a result of the acquisition of Banco CAM, the Group also has an additional guarantee for a particular asset portfolio, provided by the APS, with retroactive effects from 31 July 2011, and for a period of ten years (see further details in Note 2).

The bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic to treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying value (see Note 6). The fair value of the assets sold in connection with repos is included under the heading "*Financial liabilities held for trading*" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 814,658 thousand euros and are included by type under the repos heading in Notes 18 and 19.

There have been no significant changes to the Group's policies in relation to guarantees during this year. Neither have there been any significant changes in the quality of the Group's guarantees with respect to the preceding year.

The table below shows the value of the guarantees received to ensure collection, divided into collateral and other guarantees, along with the book value of the financial assets whose guarantees are large enough to allow the institution not to recognise any credit loss, in line with the expected loss model, as at 31 December 2018 and 2017:

Thousand euro

	2018	2017
Value of collateral	87,807,280	89,271,478
Of which: securing Stage 3 loans	*2,916,904*	*3,983,614*
Value of other guarantees	10,882,213	12,462,899
Of which: securing Stage 3 loans	*320,192*	*355,839*
Total value of guarantees received	**98,689,493**	**101,734,377**

The value of collateral and other guarantees securing risks classified as Stage 2 amounted to 6,222,290 and 820,106 thousand euros, respectively, as at 31 December 2018.

The main risk concentration in relation to all of these types of collateral and credit enhancements corresponds to the use of mortgage guarantees as a credit risk mitigation technique in exposures of loans for use in the financing or construction of housing or other types of real estate. On a like-for-like basis, exposures secured with mortgage loans represent 61.09% of total gross lending.

In the case of market transactions, counterparty credit risk is managed as explained in section 4.4.1.7.

4.4.1.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that such models can only be reasonably designed if a minimum level of experience with cases of non-payment is available.

The percentage exposure of the institution calculated using internal models, for solvency purposes, is 79%. This percentage has been calculated following the TRIM guidelines (Article 31(a)).

The breakdown of the exposure, rated based on the various internal rating levels, is as follows:

Million euro

	Loans assigned rating/score				
	2018				
Breakdown of exposure by rating	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	13,417	242	-	-	13,659
A	17,386	79	-	-	17,465
BBB	69,002	263	-	-	69,265
BB	52,127	893	-	-	53,020
B	6,195	3,428	-	*15*	9,623
Rest	480	3,924	6,368	*405*	10,772
No rating/score assigned	7,048	66	104	-	7,218
Total gross amount	**165,655**	**8,895**	**6,472**	420	**181,022**
Impairment allowances	**373**	**325**	**2,737**	*86*	**3,435**
Total net amount	**165,282**	**8,570**	**3,735**	*334*	**177,587**

The breakdown of total off-balance sheet exposures, rated based on the various internal rating levels, is as follows:

Million euro

	Loans assigned rating/score				
	2018				
Breakdown of exposure by rating	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	6,546	17	9	*9*	6,572
A	5,083	73	-	-	5,156
BBB	14,413	229	-	-	14,642
BB	1,859	142	-	-	2,001
B	571	464	102	-	1,137
Rest	232	63	12	-	307
No rating/score assigned	3,092	-	14	-	3,106
Total gross amount	**31,796**	**988**	**137**	*9*	**32,921**
Impairment allowances	**46**	**14**	**48**	-	**108**
Total net amount	**31,750**	**974**	**89**	*9*	**32,813**

Further details on the credit rating and credit scoring models are included in section 4.4.1.2 of these consolidated annual accounts.

During 2018 an improvement has been observed in the reduction of assets classified as Stage 3, which have been reduced by 1,372 million euros during the year, resulting in a reduction of the Group's NPL ratio as shown in the table below:

%

	2018	2017
NPL ratio (*)	4.22	5.14
NPL coverage ratio (covering risks classified as Stage 3) (*)	54.07	48.27

(*) The NPL ratio excluding TSB stands at 5,04 and the NPL coverage ratio at 54,34 (in 2017, 6,57 and 48,13).

The NPL ratio, broken down by lending segment, is set out below:

%

	Proforma 2018 (*)	2018	Proforma 2017 (*)	2017
Real estate development and construction	15.68	15.62	21.37	21.30
Non-real estate construction	5.68	5.67	6.87	6.86
Corporates	2.32	2.32	3.33	3.33
SMEs and self-employed	6.48	6.45	8.09	8.04
Individuals with 1st mortgage guarantee	5.82	3.82	6.88	3.97
Sabadell Group NPL ratio	5.04	4.22	6.57	5.14

(*) Corresponds to the NPL ratio excluding TSB.

A more detailed breakdown of allowances and assets classified as Stage 3 can be found in Note 11 and a more detailed breakdown of forborne and restructured transactions is included in Schedule VI.

4.4.1.6. Concentration risk

Concentration risk refers to the level of credit exposures to a series of economic groups whose materiality could generate significant credit losses in the event of an adverse economic situation. Exposures can be concentrated within a single customer or economic group, or at sector or geography level.

Concentration risk can be caused by two risk subtypes:

- Individual concentration risk: this refers to the possibility of incurring significant credit losses as a result of maintaining large exposures with specific customers.

- Sector concentration risk: imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, etc.

Banco Sabadell has a series of specific tools and policies in place to ensure an efficient management of concentration risk:

- Quantitative measures from the Risk Appetite Statement and their subsequent monitoring, such as first-tier metrics.

- Individual limits for risks and customers considered to be significant, which are set by the Executive Committee.

- A structure of conferred powers which requires transactions with significant customers to be approved by the Credit Operations Committee, or even by the Executive Committee.

In order to control its concentration risk, Banco Sabadell Group has deployed the following critical control parameters:

Consistency with the Risk Appetite Framework

The Group guarantees the consistency between the concentration of its risk exposures and the tolerance of such risks, as defined in the RAS. There are overall concentration risk limits and adequate internal controls are in place to ensure that the concentration of these risk exposures does not exceed the risk appetite levels established by the Group.

Establishment of limits and metrics for concentration risk control

Given the nature of the Group's activity and its business model, concentration risk is primarily linked to credit risk, and various metrics along with their associated limits are in place.

Credit risk exposure limits are set based on the institution's historical loss experience, seeking to ensure that exposures are in line with the Group's level of capitalisation as well as the expected level of profitability under different scenarios.

All of the metrics used to measure such levels, as well as appetite limits and tolerance thresholds for the identified risks, are described as part of the RAS metrics.

Risk control monitoring and regular reporting

Banco Sabadell Group ensures that concentration risk is monitored on a regular basis, in order to enable any weaknesses in the mechanisms implemented to manage this risk to be quickly identified and resolved. This information is also reported to the Board of Directors on a recurring basis in accordance with the established risk governance.

Action plans and mitigation techniques

When dealing with exceptions to internally established limits, the criteria based on which such exceptions can be approved must be included.

If necessary, the Group will take the corresponding measures to match the concentration risk to the levels approved in the RAS by the Board of Directors.

4.4.1.6.1 Exposure to customers or significant risks

As at 31 December 2018 there were no borrowers with approved lending that individually exceeded 10% of the Group's own funds.

4.4.1.6.2. Country risk: geographic exposure to credit risk

Country risk is defined as the risk of a country's debts taken as a whole due to factors inherent to the sovereignty and the economic situation of a country, i.e. for circumstances other than regular credit risk. It manifests itself in the eventual inability of obligors to honour their foreign currency payment obligations to external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it or the non-enforceability of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country risk not only affects debts undertaken with a state or entities guaranteed by it, but also all private debtors that belong to that state and who, for reasons outside their control and not at their volition, are generally unable to honour their debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Executive Committee and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the political, economic or social situation of a country can be detected in good time.

The main component of the framework for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated committees to establish the Group's risk appetite.

The structure of limits comprises two levels: first-tier RAS metrics and second-tier or management limits.

Additionally, different indicators and tools are used to manage country risk: Credit ratings, credit default swaps, macroeconomic indicators, etc.

Schedule VI includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

4.4.1.6.3. Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule VI includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

4.4.1.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving transactions with counterparty credit risk. Counterparty credit risk refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

Exposure to counterparty credit risk is mainly concentrated in customers, financial institutions and central counterparty clearing houses.

The following two tables show the breakdown of exposure by credit rating and by the geographies in which the Group operates.

%

AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	
-	-	5.7%	3.1%	40.5%	20.3%	9.8%	5.7%	3.3%	1.4%	1.7%	2.8%	1.9%	0.9%	2.9%	**100.0%**

%

	2018
Euro Zone	62.1%
Rest of Europe	29.4%
U.S.A. and Canada	7.5%
Rest of the world	1.0%
Total	**100.0%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 79% of the risk relating to counterparties with a credit rating of A.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) has been applicable to the Group. For this reason, the derivatives subscribed by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has strengthened the standardisation of OTC derivatives with a view to promoting the use of CCPs. The exposure to risk with CCPs largely depends on the value of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), it is considered, based on management criteria, that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets depending on whether the counterparty is another financial institution, clearing house or organised market is as follows:

Million euro

	2018	2017
Transactions with organised markets	2,784	3,582
OTC transactions	178,102	170,015
Settled through clearing houses	*88,452*	*87,502*
Total	**180,886**	**173,597**

There are currently no transactions that meet the criteria set forth in IAS 32 for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation, and is not material in terms of their presentation on the balance sheet.

The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2018 and 2017:

Thousand euro

	2018				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net value
			Cash	Securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,508,703	1,208,294	243,375	-	57,034
Assets acquired under repurchase agreements	5,960,839	-	7,194	5,992,028	(38,383)
Total	**7,469,542**	**1,208,294**	**250,569**	**5,992,028**	**18,651**

Thousand euro

	2018				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net value
			Cash	Securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,219,489	1,208,294	1,067,530	197,924	(254,259)
Assets sold under repurchase agreements	9,819,345	-	258,490	9,940,126	(379,271)
Total	**12,038,834**	**1,208,294**	**1,326,020**	**10,138,050**	**(633,530)**

Thousand euro

	2017				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net value
			Cash	Securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,204,328	1,042,820	132,061	-	29,447
Assets acquired under repurchase agreements	4,966,485	-	23,127	4,883,010	60,348
Total	**6,170,813**	**1,042,820**	**155,188**	**4,883,010**	**89,795**

Thousand euro

	2017				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net value
			Cash	Securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,129,342	1,042,820	1,370,579	274	(284,331)
Assets sold under repurchase agreements	14,123,760	-	314,593	14,583,471	(774,304)
Total	**16,253,102**	**1,042,820**	**1,685,172**	**14,583,745**	**(1,058,635)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2018, are indicated hereafter:

Thousand euro	2018	2017
Derivative financial assets settled through a clearing house	652,615	436,521
Derivative financial liabilities settled through a clearing house	858,273	929,033

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times whilst maintaining a balance between return and risk. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets so as to ensure that the bank can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event that a counterparty defaults at the present time. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the replacement of such transactions in the market. If the transaction is not carried out through a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction.

Each day at close of business all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation techniques established by the Group. Exposures are thus subjected to daily monitoring and controlled in accordance the limits approved by Senior Management. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

With regard to counterparty credit risk, the Group adopts different mitigation measures. The main measures are:

- Netting agreements for derivatives (ISDA and EMA).
- Collateral agreements for derivatives (CSA and Schedule 3 - EMA), repos (GMRA, EMA) and securities lending (GMSLA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with such counterparty.

By default, the Group has netting agreements with all of the counterparties that wish to operate with derivatives.

Collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreement.

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having collateral agreements. Furthermore, for derivative transactions with such institutions, the Group is required to exchange collateral with financial counterparties in order to mitigate the current exposure pursuant to Delegated Regulation (EU) 2251/2016. The Group's standard collateral agreement, which complies with the aforementioned regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees in the form of cash and in euros.

4.4.1.8 Assets pledged in financing operations

As at the end of 2018 and 2017, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of covered bonds, public sector covered bonds and long-term securitisation bonds (see Note 20 and Schedule III for transactions linked to the Spanish Mortgage Market and Schedule IV for details of issues). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to secure derivatives transactions.

Information on mortgage-secured loans awarded in Spain and included in the "*Loans and advances –Customers*" portfolio, which are linked to the issuance of covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, implementing Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The Group has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Group, identifying those in which the risks and associated rewards of ownership have been transferred, is as follows:

Thousand euro

	2018	2017
Derecognised in full from the balance sheet:	**833,792**	**986,224**
Securitised mortgage assets	186,899	322,074
Other securitised assets	16,122	16,712
Other financial assets transferred	630,771	647,438
Retained in full on the balance sheet:	**15,092,110**	**17,813,667**
Securitised mortgage assets	13,876,927	15,773,930
Other securitised assets	1,215,183	2,039,737
Other transfers to credit institutions	-	-
Total	**15,925,902**	**18,799,891**

The assets and liabilities associated with securitisation funds of assets which originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been maintained in the consolidated financial statements. In terms of the assets shown, the risk is not transferred as some form of subordinated loan or credit enhancement has been transferred to the securitisation funds. As at 31 December 2018, there was no significant financial aid from the Group for unconsolidated securitisations.

The heading 'other transferred financial assets fully derecognised from the balance sheet 'included mainly assets transferred to the Spanish company for the management of assets arising from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB) by Banco Gallego, as they continue to be managed by the entity. These assets amount to 621,627 thousand euros.

Schedule II to these consolidated annual accounts includes certain information regarding the securitisation funds originated by the Group.

4.4.2. Liquidity risk

4.4.2.1. Description

Liquidity risk refers to the possibility of losses being incurred as a result of the institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of its being unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the institution itself.

In this regard, the Group aims to maintain a liquid asset base and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to honour its payment commitments normally and at a reasonable cost, both under business-as-usual conditions and under a stress situation caused by systemic and/or idiosyncratic factors.

The pillars of Banco Sabadell's governance structure for liquidity management and control are the direct involvement of governing bodies, management bodies and Senior Management, following the model of three lines of defence, and a strict separation of duties, as well as a clear-cut structure of responsibilities.

4.4.2.2 Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits, and it is supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units ("UGL", for their acronym in Spanish) to manage its liquidity. Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, the UGLs are Banco Sabadell (includes foreign branches, or OFEX for their acronym in Spanish, and the entities Banco Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R., which correspond to the business in Mexico), Banc Sabadell d'Andorra (BSA) and TSB.

In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs 'retail business model and the defined strategic objectives:

- The involvement of the Board of the Directors and Senior Management in the management and control of liquidity and funding risk.
- Clear separation of functions and duties between the different areas and units within the organisation, with a clear-cut delineation of the three lines of defence, to give a degree of independence when evaluating positions and when controlling and assessing risks.
- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
- Sound identification, measurement, management, control and reporting processes for the different liquidity and funding risks to which the Group is exposed.
- Existence of a funds transfer pricing system to transfer the cost of funding.
- Balanced funding structure largely based on customer deposits.
- Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprise the Group's first line of defence.
- Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.
- Self-funding by the main banking subsidiaries outside of Spain.
- Monitoring of the balance sheet volume being used as collateral in funding transactions.
- Maintenance of a second line of liquidity that includes the issuing capacity of covered bonds.
- Compliance with regulatory requirements, recommendations and guidelines.
- Regular disclosure to the public of information relating to liquidity risk.
- Availability of a Liquidity Contingency Plan.

With respect to TSB, although ring-fencing will not officially enter into effect until 2019, TSB is set up as an autonomous unit within the Group's liquidity management, or in other words, as an independent UGL. The future economic performance of the United Kingdom should not generate liquidity problems, as TSB operates independently from its parent company.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and tolerance limits that define its liquidity risk appetite. This system is described in the Risk Appetite Statement (RAS) and approved by the Board of Directors. The system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, as well as compliance with regulations and supervisory guidelines. As part of the monitoring of liquidity metrics at Group level, there are metrics that have been established at Group level and which are calculated on a consolidated basis, metrics established at Group level and deployed to each Group UGL, as well as metrics established at UGL level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in the local RAS of subsidiaries are subject to governance relating to the approval, monitoring, reporting of breaches and remediation plans established in the Risk Appetite Framework (RAF) on the basis of the hierarchical level of each metric (these are classified into three levels).
It should be mentioned that the Group has designed and implemented an early warning indicators (EWIs) system at the UGL level, which includes market and liquidity indicators adapted to the funding structure and the business model of each UGL. The deployment of these indicators at UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

The risk of each UGL is also monitored daily through the Structural Treasury Report, which measures the daily changes in the funding needs of the balance sheet, the daily changes in the outstanding balance of transactions in capital markets, as well as the daily changes in the first line of liquidity maintained by each UGL.

The reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and the associated thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.

- Reporting to the relevant committees, governing and management bodies on the basis of the levels into which such metrics have been classified.

- In the event a breach is detected, activating the communication protocols and necessary plans for its resolution.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons, which it aligns with the Group's strategic objectives and target risk appetite. Each UGL has a 1 and 3-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse the compliance therewith, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

The institution also has an internal funds transfer pricing system to transfer the funding costs to business units.

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for guaranteeing that the institution has sufficient management capacities and measures in place to limit any negative impacts of a crisis situation affecting is liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate business continuity in the management of liquidity, particularly in the event that the crisis has arisen due to a substandard performance of one or more financial market infrastructures. The LCP can be activated in response to different crisis situations in either the markets or the institution itself. The key components of the LCP include: measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

4.4.2.3. Residual maturity periods

The table below shows the breakdown by contractual term to maturity, excluding, in some cases, valuation adjustments and impairment losses, of certain consolidated balance sheet items as at 31 December 2018 and 2017, under business-as-usual market conditions:

Thousand euro

	2018									
Time to revision or maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	256,019	25,364,611	1,956,971	1,289,360	27,362	-	-	-	-	**28,894,323**
Loans and receivables	630,627	7,082,922	6,176,911	14,988,247	10,958,819	10,375,647	10,379,198	10,981,792	63,055,785	**134,629,948**
Debt securities	7,931	66,604	506,146	995,897	932,276	718,879	387,174	1,252,685	20,496,119	**25,363,711**
Other assets	-	-	-	-	3	11	199	513	6,353	**7,079**
Total assets	**894,577**	**32,514,137**	**8,640,028**	**17,273,504**	**11,918,460**	**11,094,537**	**10,766,571**	**12,234,990**	**83,558,257**	**188,896,061**
Money Market	1,735	9,923,238	1,775,054	1,231,577	16,604,682	11,467,377	20,642	22,733	56,554	**41,103,592**
Of which: Repos	-	7,434,634	1,335,200	1,114,616	264,091	-	-	-	-	***10,148,541***
Customer funds	106,595,948	2,975,566	4,973,879	15,504,583	1,184,999	335,028	378,070	527,412	(34,250)	**132,441,235**
Marketable debt securities (*)	-	831,993	2,089,686	4,001,142	3,855,355	2,717,029	2,456,932	2,967,201	5,961,569	**24,880,907**
Of which: Secured senior debt	-	316,423	211,743	1,522,583	2,482,001	2,658,745	1,232,132	1,463,201	4,650,843	***14,537,671***
Of which: Unsecured senior debt	-	-	607,566	968,170	518,361	58,284	74,800	1,004,000	795,700	***4,026,881***
Of which: Subordinated liabilities	-	-	-	-	854,993	-	1,150,000	500,000	515,025	***3,020,018***
Other liabilities	-	54,883	81,694	421,697	326,364	227,169	146,347	101,462	374,976	**1,734,592**
Total liabilities	**106,597,683**	**13,785,680**	**8,920,313**	**21,158,999**	**21,971,400**	**14,746,603**	**3,001,991**	**3,618,808**	**6,358,849**	**200,160,326**
Of which:										
Secured liabilities	-	7,751,057	1,544,473	2,630,182	9,453,522	3,608,964	1,232,132	1,463,201	4,650,843	***32,334,374***
Unsecured liabilities	106,597,683	6,034,623	7,375,840	18,528,816	12,517,878	11,137,639	1,769,859	2,155,607	1,708,005	***167,825,950***
Trading and Hedging Derivatives										
Receivable	-	15,841,747	16,128,261	19,550,449	9,526,320	12,754,095	10,051,165	9,499,730	50,860,322	**144,212,089**
Payable	-	17,736,003	24,206,174	16,107,711	13,591,530	12,852,916	10,589,734	9,565,725	49,748,018	**154,397,811**
Net	**-**	**(1,894,256)**	**(8,077,913)**	**3,442,738**	**(4,065,210)**	**(98,821)**	**(538,569)**	**(65,995)**	**1,112,304**	**(10,185,722)**
Contingent risks										
Financial guarantees	27,042	60,375	90,453	325,621	262,494	118,434	63,196	45,180	1,516,028	**2,508,823**

(*) See details on the maturity of issues aimed at institutional investors in section 4.4.2.4

Thousand euro

Time to revision or maturity	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
					2017					
Money Market	98,234	28,722,208	657,491	1,044,861	22,238	-	-	-	-	**30,545,032**
Loans and receivables	745,849	5,927,569	5,093,749	12,928,020	10,292,763	9,492,673	9,014,589	8,722,157	67,624,312	**129,841,681**
Debt securities	2,000	2,126,329	522,038	957,593	442,519	601,843	1,593,241	459,736	16,735,917	**23,441,216**
Other assets	4	2	-	25	1	13	115	308	4,099	**4,567**
Total assets	**846,087**	**36,776,108**	**6,273,278**	**14,930,499**	**10,757,521**	**10,094,529**	**10,607,945**	**9,182,201**	**84,364,328**	**183,832,496**
Money Market	3	10,614,572	3,336,963	2,497,925	21,559	10,307,232	16,878,502	42,554	24,506	**43,723,816**
Of which: Repos	-	8,916,680	2,737,601	2,437,884	-	264,091	-	-	-	**14,356,256**
Customer funds	96,403,851	4,011,728	6,068,825	16,129,945	2,460,154	464,116	51,679	534,378	7,835	**126,132,511**
Marketable debt securities (*)	-	1,712,134	1,664,857	3,317,464	3,116,107	3,647,214	2,869,381	3,055,315	7,244,767	**26,627,239**
Of which: Secured senior debt	-	1,074,548	203,007	700,993	1,540,181	2,678,627	2,322,562	1,807,315	5,715,075	***16,042,308***
Of which: Unsecured senior debt	-	-	5,125	1,531,682	1,575,926	543,987	112,884	98,000	1,014,667	***4,882,271***
Of which: Subordinated liabilities	-	-	-	-	-	424,600	433,935	1,150,000	515,025	***2,523,560***
Other liabilities	-	69,001	108,638	603,812	528,657	331,588	228,519	145,445	485,948	**2,501,608**
Total liabilities	**96,403,854**	**16,407,435**	**11,179,283**	**22,549,146**	**6,126,477**	**14,750,150**	**20,028,081**	**3,777,692**	**7,763,056**	**198,985,174**
Of which:										
Secured liabilities	-	9,991,228	2,931,408	3,132,369	1,540,181	2,948,353	9,085,180	1,807,315	5,715,075	***37,151,109***
Unsecured liabilities	96,403,853	6,416,207	8,247,875	19,416,777	4,586,297	11,801,797	10,942,901	1,970,377	2,047,981	***161,834,065***
Trading and Hedging Derivatives										
Receivable	-	9,295,770	7,137,872	21,000,797	12,599,015	10,661,451	13,577,220	12,749,192	58,599,454	**145,620,771**
Payable	-	6,608,953	7,232,680	22,519,319	12,605,849	14,793,592	13,509,551	13,218,907	59,013,772	**149,502,623**
Net	**-**	**2,686,817**	**(94,808)**	**(1,518,522)**	**(6,834)**	**(4,132,141)**	**67,669**	**(469,715)**	**(414,318)**	**(3,881,852)**
Contingent risks										
Financial guarantees	20,848	37,839	95,317	300,100	210,704	98,594	107,150	43,590	1,489,956	**2,404,098**

(*) See details on the maturity of issues aimed at institutional investors in section 4.4.2.4

In this analysis, very short-term maturities traditionally represent funding requirements, as they include continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they actually end up satisfying these requirements and even resulting in an increase in outstanding balances.

It should be noted that the Group's funding capacity in capital markets is systematically checked to ensure it can meet its short, medium and long-term needs.

With regard to the information included in this table, it is worth highlighting that the table is a snapshot of the balance sheet which shows residual time to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding requirements.

It should also be noted that cash flows broken down in the parent company have not been discounted.

In order to present the contractual maturities of financial liabilities with certain particular characteristics, the parent company has applied the following approach:

- For any transaction that includes flows corresponding to repayments (regular or irregular), each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual amortisation schedule).

  Demand liabilities are included in the "on demand "tranche, without taking into account their type (stable vs. unstable).

- There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for their control.

  Note 26 includes a breakdown of balances of loan commitments given. Given the characteristics of these contracts, loan commitments given are generally enforceable from the time of their contractual formalisation. It is for this reason that they should appear as "on demand "in the table of the parent company's contractual maturities.

- Balances from financial guarantee contracts have been included in the parent company's table, assigning the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

- Financing in the capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a downgrade in credit rating) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

- As at 31 December 2018 the Group has no instruments in addition to those regulated by master agreements associated with the acquisition of derivatives and repos/reverse repos.

- The Group does not have any instruments which allow the institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2018.

- As at 31 December 2018 the Group does not have any instruments which are subject to master netting agreements.

4.4.2.4 Funding strategy and evolution of liquidity in 2018

The Group's primary source of funding is customer deposits (mainly demand deposits and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the institution maintains various short-term and long-term funding programmes in effect in order to achieve an adequate level of diversification by type of product, term and investor. The institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

On-balance sheet customer funds

As at 31 December 2018, the balances of on-balance sheet customer funds amounted to:

Million euro

	Note	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
On-balance sheet customer funds		137,343	132,096	4.0	104,859	97,686	7.3
Of which: sight accounts	19	107,665	98,020	9.8	77,736	68,039	14.3
Of which: customer term deposits (*)		28,709	32,425	(11.5)	26,154	27,996	(6.6)

(*) Includes deposits redeemable at notice and hybrid financial liabilities.

The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to demand deposits and off-balance sheet funds.

On-balance sheet customer funds by maturity are shown below:

Million euro

	Note	2018	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**137,343**	**7.3%**	**4.3%**	**7.4%**	**2.6%**	**78.4%**
Deposits with agreed maturity		26,593	32.9%	18.7%	37.3%	11.1%	-
Sight accounts	19	107,665	-	-	-	-	100.0%
Retail issues		3,085	42.3%	31.1%	5.5%	21.2%	-

(*) Includes customer deposits (ex-repos) and other liabilities sold by the branch network: mandatory convertible bonds, Banco Sabadell straight bonds, commercial paper and others.

Million euro

	Note	2017	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**132,096**	**8.4%**	**4.8%**	**7.2%**	**5.4%**	**74.2%**
Deposits with agreed maturity		29,816	33.9%	19.4%	29.7%	17.1%	-
Sight accounts	19	98,020	-	-	-	-	100.0%
Retail issues		4,260	24.0%	12.9%	15.2%	47.8%	-

(*) Includes customer deposits (ex-repos) and other liabilities sold by the branch network: mandatory convertible bonds, Banco Sabadell straight bonds, commercial paper and others.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 27 to these consolidated annual accounts.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking and TSB). Details of the volumes of these business units are included in the section on business results of the Directors 'Report.

In 2018, the positive trend in terms of the generation of a customer funding gap observed in recent years has continued, which has allowed the Group to continue with its policy to partially refinance capital market maturities and, at the same time, continue reducing the Group's Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 101.6% as at 2018 year-end).

Capital Markets

The level of funding in capital markets has declined in recent years, due to, among other aspects, the positive evolution of the customer funding gap. The outstanding balance of funding in capital markets by type of product as at December 2018 and 2017 is shown below:

Million euro

	2018	2017
Balance outstanding	**21,719**	**22,390**
Covered Bonds	12,165	13,335
Of which: TSB	*559*	*564*
Commercial paper and ECP	2,353	2,037
Senior debt	1,805	1,669
Subordinated debt and preference shares	3,001	2,497
Of which: TSB	*430*	*434*
Securitisation bonds	2,381	2,820
Of which: TSB	*698*	*925*
Other medium/long term financial instruments	14	33

Maturities of issuances aimed at institutional investors by type of product as at 31 December 2018 are analysed below:

Million euro

	2019	2020	2021	2022	2023	2024	>2024	Outstanding Balance
Covered bonds (*)	1,124	2,015	1,808	1,678	1,388	1,850	2,301	12,165
Senior Debt (**)	52	-	-	25	984	744	-	1,805
Subordinated debt and preference shares (**)	-	411	430	-	500	-	1,660	3,001
Other medium/long term financial instruments (**)	-	-	10	-	-	4	-	14
Total	**1,176**	**2,426**	**2,249**	**1,703**	**2,872**	**2,598**	**3,961**	**16,985**

(*) Secured issues.

(**) Unsecured issues.

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its sources of liquidity.

In terms of short-term funding, the institution maintains a corporate commercial paper programme and a Euro Commercial Paper (ECP) programme:

- Corporate commercial paper programme: this programme regulates issues of commercial paper and is aimed at institutional and retail investors. On 15 March 2018, the commercial paper programme of Banco Sabadell for 2018 was registered with the Spanish Securities Market Commission, with an issue limit of 7 billion euros, eligible to be extended up to 9 billion euros. The outstanding balance of the commercial paper programme has been declining over the year. As at 31 December 2018, the outstanding balance of the programme was of 2,565 million euros (net of commercial paper subscribed by companies of the Group), compared with the 2,823 million euros as at 31 December 2017.

- Euro Commercial Paper (ECP) Programme: this programme is aimed at institutional investors, whereby short-term securities are issued in various foreign currencies (EUR, USD and GBP). On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Programme for a maximum nominal amount of 3.5 billion euros. As at 31 December 2018 the outstanding balance of the programme stood at 696 million euros, increasing in comparison to the 346 million euros as at the end of 2017.

Regarding medium- and long-term funding, the institution has the following programmes in effect:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 10 April 2018, with a maximum issue amount of 16.5 billion euros: this regulates the issues of bonds and debentures (straight, subordinated and structured), as well as covered bonds, public sector covered bonds and mortgage bonds carried out under Spanish law through the CNMV and aimed at both national and foreign institutional and retail investors. The limit available for new issues under the Programme for the issue of non-equity securities for 2018 of Banco Sabadell as at 31 December 2018, was of 12,280 million euros (as at 31 December 2017, the limit available under the 2017 Fixed Income Programme was of 10,046 million euros).

  During 2018, Banco Sabadell has carried out public issues under the Fixed-Income Programme in force for a total of 436 million euros. Banco Sabadell has carried out the following issues throughout the year:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Issue of Non-Convertible Bonds I/2018	ES0213860283	Retail	February-18	4	5
Issue of Non-Convertible Bonds II/2018	ES0213860291	Retail	March-18	6	7
Issue of Non-Convertible Bonds III/2018	ES03138602Z0	Retail	April-18	6	5
Issue of Non-Convertible Bonds IV/2018	ES03138603A1	Retail	May-18	3	5
Issuance of Structured Bonds 1/2018	ES0213860309	Retail	November-18	10	6
Issuance of Structured Bonds 2/2018	ES0213860325	Retail	November-18	13	6
Issue of Non-Convertible Bonds V/2018	ES03138603B9	Retail	November-18	1	5
Issue of Non-Convertible Bonds VI/2018	ES0213860317	Retail	November-18	3	7
Covered Bonds BEI I/2018	ES0413860646	Institutional	December-18	390	8

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 23 March 2018, and replaced on 27 April, 30 July and 30 October 2018. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in any currency, with a maximum limit of €5 billion. On 7 September 2018, Banco Sabadell carried out one 5.5-year issue of senior preferred debt for 750 million euros under this programme, and on 12 December it carried out one subordinated Tier 2 issue for 500 million euros, maturing after 10 years, with an an early call option in favour of Banco Sabadell in the fifth year.

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Issuance of Senior Debentures I/2018	XS1876076040	Institutional	September-18	750	5.5
Issuance of Subordinated Bonds I/2018	XS1918887156	Institutional	December-18	500	10

In relation to asset securitisation:

- Since 1993, the Group has been an active participant in this market and has taken part in a number of securitisation programmes, in some cases together with other highly solvent institutions, awarding mortgage loans, SME loans, consumer loans and finance lease receivables.

- There are currently 24 outstanding asset securitisation transactions (including those performed by Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB). Although part of the bonds issued were retained by the institution as liquid assets eligible for funding operations with the European Central Bank, the rest of the bonds were placed in capital markets. As at the end of 2018, the balance of securitisation bonds placed in the market stood at 2,381 million euros.

- In the first quarter, Banco Sabadell sold a total of 455 million euros from tranche A of the asset securitisation IM Sabadell PYME 11 to the EIB for the funding of two new lines.

- For efficiency reasons, three securitisation transactions were redeemed early in 2018 (see further details on securitisation funds in Schedule II to these consolidated annual accounts).

In general, the tone of the markets in 2018 has been characterised by high volatility, caused mainly by geopolitical uncertainty, which has translated into a significant widening of credit spreads of market issuances, and by the closure of markets on different occasions during the year over relatively long periods of time.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted long-term refinancing operations programme (TLTRO II), consisting of four auctions of liquidity at a term of four years, to be performed between June 2016 and March 2017. Banco Sabadell took part in TLTRO II for a total amount of 20.5 billion euros (10 billion euros in the first auction of June 2016 and 10.5 billion euros in the last auction of March 2017).

In 2016, the Bank of England also implemented a package of measures to support economic growth. This package includes the introduction of the Term Funding Scheme (TFS), a scheme to incentivise lending which was implemented in August 2016 by the Bank of England, through which British banks could carry out 4-year drawdowns in exchange for the provision of collateral eligible as consideration. TSB, as a member of the Sterling Monetary Framework (SMF), made use of the TFS throughout 2017, drawing 6,334 million euros, and also in February 2018, with an additional drawdown of 958 million euros. Including this, the amount drawn under this scheme amounted to 7,233 million euros as at the end of 2018.

Liquid Assets

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets with which to meet potential liquidity needs.

Million euro

	2018	2017
Cash(*) + Net Interbank Position	18,229	22,361
Funds available in Bank of Spain facility	4,081	5,393
Assets pledged in facility (**)	*25,760*	*26,894*
Balance drawn from Bank of Spain facility(***)	*21,548*	*21,501*
ECB eligible assets not pledged in facility	12,468	4,013
Other non-ECB eligible marketable assets (****)	2,177	1,398
Memorandum item: Balance drawn from Bank of England Term Funding Scheme	7,233	6,334
Total Liquid Assets Available	36,955	33,165

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the ECB haircut for monetary policy operations.

(***) Includes TLTRO-II and weekly drawdown from ECB facility of 1,200 million dollars.

(****) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

With respect to 2017, the Group's first line of liquidity has grown by 3,790 million euros, mainly due to the generation of a customer funding gap and the management of collateral. The balance of central bank reserves and the net interbank position have declined by 4,132 million euros in 2018, mainly due to a reduction in repo funding in the year. There is also a volume of ECB eligible liquid assets, whose volume over the year has increased by 7,143 million euros, while available non-ECB eligible assets have grown by 779 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2018 is mainly comprised of gilts amounting to 1,372 million euros (761 million euros as at 31 December 2017) and a surplus of reserves in the Bank of England (BoE) amounting to 7,703 million euros (8,286 million euros as at 31 December 2017), mostly as a result of extended participation in the TFS.

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession which meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

In addition to the first line of liquidity, the institution maintains a buffer of mortgage loans and loans to general governments eligible as collateral for covered bonds and public sector covered bonds respectively, which as at the end of 2018 contributed 2,320 million euros in terms of the capacity to issue new covered bonds eligible as collateral in exchange for access to the ECB facility, after one net issuance in the year of 1,626 million euros in covered bonds and 300 million euros in public sector covered bonds. At the end of 2018, available liquidity amounted to 39,275 million euros in cash, corresponding to the amount of the first line of liquidity plus the bank's capacity to issue covered bonds and public sector covered bonds bonds as at the end of December.

4.4.2.5 Compliance with regulatory ratios

As part of its liquidity management approach, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the set of UGLs.

In terms of LCR, as of 01 January 2018, the regulatory required minimum LCR is 100%, a level which is amply surpassed by all of the institution's UGLs. At Group level, throughout the year the LCR has consistently been well above 100%. As at the end of December 2018, the LCR stood at 168% for the Group (excl. TSB) and at 298% in TSB.

In terms of NSFR, this is still undergoing evaluation and has yet to be finalised, despite its implementation being scheduled for January 2018. However, the Group has already started monitoring this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium/long-term, the Group has maintained stable levels consistently over 100%.

4.4.3. Market risk

Market risk is defined as the risk of financial asset positions losing their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the interconnections that exist between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the bank to provide services to its customers as well as discretionary proprietary positions.

It may also arise simply due to maintaining overall balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the institution uses the market risk management and monitoring system to manage its structural exchange rate risk position.

The items of the Group’s consolidated balance sheet are shown below, making a distinction between positions included in trading activity and other positions. In the case of of items not included in trading activity, their main risk factor is indicated:

Thousand euro

	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**222,322,421**	**1,974,271**	**220,348,150**	
Cash, cash balances at central banks and other demand deposits	23,494,479	-	23,494,479	Interest rate
Financial assets held for trading	2,044,965	1,564,828	480,137	Interest rate
Non-trading financial assets mandatorily at fair value through profit or loss	141,314	-	141,314	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	13,247,055	409,443	12,837,612	Interest rate; credit spread
Financial assets at amortised cost	164,415,563	-	164,415,563	Interest rate
Derivatives – Hedge accounting	301,975	-	301,975	Interest rate
Investments in joint ventures and associates	574,940	-	574,940	Equity; Exchange rate
Other financial assets	56,972	-	56,972	Interest rate
Other non-financial assets	18,045,158	-	18,045,158	
Liabilities subject to market risk	**210,205,421**	**1,319,238**	**208,886,183**	
Financial liabilities held for trading	1,738,354	1,319,238	419,116	Interest rate
Derivatives – Hedge accounting	633,639	-	633,639	Interest rate
Financial liabilities at amortised cost	206,076,860	-	206,076,860	Interest rate
Provisions	466,379	-	466,379	Interest rate
Other financial liabilities	36,502	-	36,502	Interest rate
Other non-financial liabilities	1,253,687	-	1,253,687	
Equity	**12,117,000**	**-**	**12,117,000**	

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and the establishment of limits for each one, in such a way that the trading desks have the obligation to manage their positions within the established limits and to obtain approval from the risks unit.

4.4.3.1 Trading activity

The main risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Exchange rate risk: risk associated with the fluctuation in exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, given that the Group's has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specific time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on the full revaluation of the transactions under recent historical scenarios, and that no assumptions are required concerning the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a potential event has not materialised within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the considered confidence level. Backtesting consists of comparing daily VaR against daily results. If losses exceed the level of VaR, an exception occurs. In 2018, there were no exceptions in the backtesting exercise due to the institution's low exposure in terms of its trading activity to the significant events that took place during the year, such as the decline of international stock markets in February and December, the devaluations of the euro against the dollar in April, May and August and the price drop of Italian bonds which began in May.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios 'risk profile changes. The methodology used for this risk metric is historical simulation.

Its supervision is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risks are monitored on a daily basis and reports are made to the control bodies on the existing risk levels and on the compliance with the limits set forth by the Risks Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

Market risk incurred on trading activity in terms of the 1-day VaR with a 99% confidence interval for 2018 and 2017 is as follows:

Million euro

	2018			2017		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	2.35	26.73	0.41	5.97	23.74	0.40
Currency risk-trading	0.11	0.27	0.04	0.17	0.41	0.05
Equity	0.59	1.59	0.29	1.17	3.40	0.30
Credit spread	0.15	0.61	0.07	0.37	2.38	0.08
Aggregate VaR	**3.19**	**27.46**	**0.97**	**7.69**	**24.95**	**1.35**

The preceding table shows the market risk associated with trading activity, initially including interest rate derivatives (swaps) under accounting hedges, which were discontinued in 2018 and 2017, between the date of discontinuation of the accounting hedge and the subsequent final cancellation of the derivative. Taking into account only trading activity excluding discontinued hedging derivatives, the average VaR over 1 day and with a 99% confidence interval stood at 1.73 million euros in 2018 and at 2.84 million euros in 2017.

4.4.3.2 Structural interest rate risk

Structural Interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking activities and is defined as the possibility of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (income and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).

The concept of structural interest rate risk includes the following risk subtypes:

- Repricing risk: related to a temporary mismatch between the maturity dates and the repricing of assets, liabilities and short and long-term off-balance sheet positions.
- Curve risk: arising from changes in the form or gradient of the interest rate curve.
- Basis risk: arising from hedging an interest rate exposure position by using a contrary position that is not repriced in correlation with the initial position.
- Option risk: arising from options, including implicit options.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market's best practices and are consistently implemented across all balance sheet management units (UGBs, for their acronym in Spanish), and by local asset and liability committees. The diversification effect between currencies and UGBs is taken into account when presenting overall figures.

The Group's current interest rate risk management strategy is based particularly on the following principles and pillars, in line with the business model and the defined strategic objectives:

- Each UGB has appropriate tools and processes and robust systems in order to properly identify, measure, manage, control and report on IRRBB. This allows them to obtain information from all of the identified sources of IRRBB, assess their effect on net interest margin and the economic value of equity and measure the vulnerability of the Group/UGB in the event of potential losses deriving from IRRBB under different stress scenarios.
- The Group establishes a set of limits for overseeing and monitoring the level of IRRBB exposure that are appropriate to its internal management policies and risk appetite. However, each UGB is given discretions to set any other additional limits deemed necessary, based on their specific needs and the nature of their activities.

- The existence of a funds transfer pricing system.
- The set of systems, processes, metrics, limits, reporting and governance covered by the IRRBB strategy must comply with regulatory requirements.

The metrics used to monitor structural interest rate risk include, on one hand, the interest rate gap, a static measure which shows the breakdown of maturities, and the repricing of sensitive balance sheet items on the other. For items with no contractual maturity, expected maturities estimated using the bank's past experience are considered. To this end, a model has been defined using historical monthly data in order to reproduce customer behaviour, establishing stability and interest payout parameters in line with the type of product and the type of customer, thereby satisfying current regulatory requirements.

For the loan portfolio, prepayment assumptions are defined, broken down by type of product, to capture consumer behaviour. To this end, the institution uses historical data to allow such assumptions to be aligned with the market's best practices.

The following table gives details of the Group's interest rate gap as at 31 December 2018:

Thousand euro

Time to revision or maturity	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Money Market	26,460,370	1,118,971	1,314,982	-	-	-	-	-	**28,894,323**
Loans and receivables	26,838,230	22,028,374	42,528,912	12,223,494	7,448,807	6,510,695	5,646,026	11,405,410	**134,629,948**
Debt securities	291,199	903,015	873,122	704,444	644,694	373,207	1,241,635	20,332,395	**25,363,711**
Other assets	341	2,637	3,886	-	-	-	-	215	**7,079**
Total assets	**53,590,140**	**24,052,997**	**44,720,902**	**12,927,938**	**8,093,501**	**6,883,902**	**6,887,661**	**31,738,020**	**188,895,061**
Money Market	17,313,677	1,835,407	1,182,646	10,264,338	10,501,470	1,520	1,890	2,644	**41,103,592**
Customer funds	48,587,726	8,343,466	22,920,529	9,252,506	6,620,567	4,984,132	5,072,770	26,659,539	**132,441,235**
Marketable debt securities	3,272,029	4,373,927	3,170,893	2,646,285	2,086,393	1,919,244	2,554,000	4,858,136	**24,880,907**
Of which: Subordinated liabilities	-	-	-	*424,600*	*430,393*	*1,150,000*	*500,000*	*515,025*	***3,020,018***
Other liabilities	147,304	220,654	721,221	195,361	126,033	76,811	51,152	196,056	**1,734,592**
Total liabilities	**69,320,736**	**14,773,454**	**27,995,289**	**22,358,490**	**19,334,463**	**6,981,707**	**7,679,812**	**31,716,375**	**200,160,326**
Hedging Derivatives	**3,740,385**	**2,299,075**	**(4,509,003)**	**(2,713,692)**	**664,994**	**425,705**	**2,801,867**	**(1,981,448)**	**727,883**
Interest rate gap	**(11,990,211)**	**11,578,618**	**12,216,610**	**(12,144,244)**	**(10,575,968)**	**327,900**	**2,009,716**	**(1,959,803)**	**(10,537,382)**

A calculation is made of the sensitivities (difference between the value of forward rates in the baseline scenario and in the stressed scenario) of the various key economic figures: net interest margin (difference between interests accrued received and payable) and the economic value of equity (sum of the current net value of cash flows of assets, liabilities and off-balance sheet exposures that form part of the banking book) to changes in the interest rate curve. The following table shows the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2018 year-end, to the most frequently used interest rate scenarios in the sector.

	Instant and parallel increase of 100 bps	
Interest rate sensitivity	Impact on net interest margin	Impact on economic value of equity
EUR	2.6%	(3.8%)
GBP	2.3%	0.2%
USD	0.1%	(0.5%)

In addition to the impact on the net interest margin within the time horizon of one year shown in the previous table, the Group calculates the impact on the margin over a time horizon of two years, the result of which is notably more positive for all of the currencies. In particular, the net interest margin's sensitivity for the second year considering the main currencies of the Group has a high "pass through", i.e. the percentage increase in benchmark interest rates which is transferred to customers 'term deposits and remunerated demand deposits stands at 7.9%, whereas with an average pass through this increases to 12.1%, as shown in the following table:

	Instant and parallel increase of 100 bps	
Impact on net interest margin 2nd year	High Pass Through	Medium Pass Through
Total	7.9%	12.1%
Of which EUR	*4.2%*	*6.9%*
Of which GBP	*3.4%*	*4.6%*

Given the current level of market interest rates, in the scenario of a decline in interest rates, for the points of the curve in which rates are positive, a maximum shift of 100 basis points is applied in each term, so that the resulting interest rate is always greater than or equal to zero. In the points of the curve in which rates are negative, no shift is applied.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedging are used:

- Interest rate macro-hedging of cash flows, the purpose of which is to reduce the volatility of the net interest margin in the event of interest rate fluctuations, for a one-year time horizon.

- Interest rate macro-hedging of fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the institution with best market practices and current regulations.

4.4.3.3 Structural exchange rate risk

Structural exchange rate risk arises in the event that changes in market exchange rates between different currencies generate losses on financial investments and on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise the impact on the value of the portfolio / the institution's equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the established levels for the risk metrics must be complied with at all times.

Exchange rate risk is monitored on a regular basis and reports on current risk levels and compliance with the established limits are sent to the relevant control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the institution in each currency through any type of financial instrument (FX spots, forwards and options), valued in euros and in terms of Tier 1.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Risks Committee and to the Audit and Control Committee, respectively.

The bank's Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural exchange rate risk.

As regards permanent investments in US dollars, the structural position in this currency has gone from 442 million US dollars as at 31 December 2017 to 968 million US dollars as at 31 December 2018.

In terms of permanent investments in Mexican pesos, given the uncertainty surrounding the new government (increasing market volatility linked to the perceived increase in political risk), the evolution of balances deriving from the business in Mexico is monitored, as is the EURMXN currency pair, in order to maintain a coverage level of over 70% of the total exposure in this currency. This has enabled the capital buffer to go from 7,474 million Mexican pesos as at 31 December 2017 (of a total exposure of 10,566 million Mexican pesos) to 11,050 million Mexican pesos as at 31 December 2018 (of a total exposure of 14,703 million Mexican pesos) (see Note 12 in the section on hedges of net investments in foreign operations).

In terms of the structural position in pound sterling, in a context of political instability in the United Kingdom, Banco de Sabadell, S.A. closely monitors changes in the EUR/GBP exchange rate on an ongoing basis. The Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that could be experienced as a result of fluctuations in the aforementioned EUR/GBP exchange rate. The bank has maintained an economic hedge of profits and flows expected from its subsidiaries in GBP.

Taking into account the potential impacts of Brexit (see Section 4.1 in this Note), in 2018 adjustments have been made to the capital buffer, going from GBP 1,268 million as at 31 December 2017 to GBP 1,368 million as at 31 December 2018, representing 75% of total investments (excluding intangibles) (see Note 12 on hedges of net investments in foreign operations).

Currency hedges are continuously monitored in light of market fluctuations.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 2018 and 2017, classified in accordance with their nature, is as follows:

Thousand euro

	2018			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**11,011,621**	**47,111,002**	**2,424,043**	**60,546,666**
Cash, cash balances at central banks and other demand deposits	446,509	8,017,603	304,241	8,768,353
Debt securities	1,708,755	2,802,081	87,501	4,598,337
Loans and advances	8,618,739	35,629,011	1,890,111	46,137,861
Central banks and Credit institutions	962,860	565,559	218,533	1,746,952
Customers	7,655,879	35,063,452	1,671,578	44,390,909
Other assets	237,618	662,307	142,190	1,042,115
Liabilities denominated in foreign currency:	**10,019,381**	**44,214,461**	**1,478,222**	**55,712,064**
Deposits	9,237,300	41,551,588	1,436,092	52,224,980
Central banks and Credit institutions	2,786,229	7,359,098	231,348	10,376,675
Customers	6,451,071	34,192,490	1,204,744	41,848,305
Other liabilities	782,081	2,662,873	42,130	3,487,084

Thousand euro

	2017			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**8,996,748**	**49,113,676**	**1,597,970**	**59,708,394**
Cash, cash balances at central banks and other demand deposits	435,237	8,552,609	136,379	9,124,225
Debt securities	1,635,972	2,386,903	56,072	4,078,947
Loans and advances	6,743,269	37,091,916	1,300,986	45,136,171
Central banks and Credit institutions	244,307	723,556	75,666	1,043,529
Customers	6,498,962	36,368,360	1,225,320	44,092,642
Other assets	182,270	1,082,248	104,533	1,369,051
Liabilities denominated in foreign currency:	**8,320,641**	**46,172,977**	**687,767**	**55,181,385**
Deposits	8,101,475	42,834,480	648,843	51,584,798
Central banks and Credit institutions	2,666,442	6,411,793	276,525	9,354,760
Customers	5,435,033	36,422,687	372,318	42,230,038
Other liabilities	219,166	3,338,497	38,924	3,596,587

The net position of foreign currency assets and liabilities includes the structural position of the institution, valued at the exchange rates at the end of the analysed month, which amounted to 1,857.2 million euros, of which 809.6 million euros corresponded to permanent shareholdings in GBP, 783.2 million euros corresponded to permanent shareholdings in USD, 223.6 million euros corresponded to permanent shareholdings in MXN and 40.2 million euros to permanent shareholdings in MAD. Net assets and liabilities are hedged with forwards transactions and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2018, the equity exposure sensitivity to a 2.6% devaluation in exchange rates against the euro of the main currencies to which the bank is exposed amounted to 39 million euros, of which 32% correspond to the pound sterling, 54% to the US dollar and 11% to the Mexican peso. This potential devaluation is in line with historical quarterly volatility in recent years.

4.4.4. Operational Risk

Operational risk is defined as the risk of incurring losses due to inadequate or failed internal processes, people or systems or due to unexpected external events. This definition includes reputational risk, conduct risk, technology risk, model risk and outsourcing risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data throughout the organisation. The Group has a central unit specialised in the management of operational risk, whose main functions are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Operational Risk Committee. The latter is formed of Senior Management members from different functional areas within the institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk management is based on two lines of action:

The first line of action is based on the analysis of processes, the identification of risks associated with such processes that may result in losses and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment which lets the bank know its future exposure to the risk in terms of expected and unexpected loss and also allows trends to be foreseen and the corresponding mitigating actions to be efficiently planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the bank to any increase in this exposure, and also enable the identification of the causes for this increase, and the measurement of the effectiveness of the implemented controls and improvements.

At the same time, a check is carried out to ensure that processes identified as being highly critical in the event of discontinued service have specific business continuity plans defined and in place. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of action is based on experience. It consists in recording all losses incurred by the institution in a database, which provides information about operational risks encountered by each line of business as well as their causes, so that action may be taken to minimise these risks.

Additionally, this information allows the consistency between the estimated losses and the actual losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Within operational risk, the following risks are also managed and controlled:

- Reputational risk: the possibility of incurring losses as a result of negative publicity related to the institution's practices and business, which may also generate a loss of confidence in the institution, thereby affecting is solvency.

- Technology risk: impact or effect on customer services (both internal and external) in terms of the types of services affected and the resulting quality of such services, which could give rise to losses and/or errors in relation to data integrity, arising from the incorrect management, operation, control and/or failure of information systems and the resilience of such systems and the teams responsible for their management.

- Outsourcing risk: the possibility of incurring losses deriving from suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems 'security, disloyal customers or a breach of applicable regulations.

- Model risk: the possibility of losses arising from decisions made using inadequate models.

In relation to technology risk, it should be noted that this has become a key focus area in the risk management of Banco Sabadell Group for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.

- Increase in external threats (cyber crime) and their potential impacts on institutions and the financial system in general.

- Implementation of new business models based on data and new technology and which therefore bring new risks (emerging risks) which could potentially change Banco Sabadell’s risk profile.

Additionally, this risk is not only applicable to the bank’s systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

4.4.5. Tax Risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to comply with tax obligations, potentially resulting in an undue shortfall of income, or the occurrence of any other event that generates potential damages for the bank in terms of meeting its objectives.

- On the other hand, the probability of receiving an undue surplus of income as a result of failing to comply with tax obligations, thus negatively affecting shareholders and other stakeholders.

Banco Sabadell’s tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and fiscal objectives are systematically identified, measured and managed so as to comply with the new requirements of the Spanish Capital Companies Act and of Banco Sabadell Group stakeholders.

In terms of tax risk, Banco Sabadell aims to comply with its tax obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell’s tax strategy reflects its commitment to promoting responsible taxation, promoting prevention measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the institution's tax strategy.

- Approving investments and operations of all types which are considered strategic or to have a particular tax risk due to their amounts or particular characteristics, except when such approval corresponds to the Annual General Meeting.

- Approving the creation and acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.

- Approving any transaction which, due to its complexity, might undermine the transparency of the institution and its Group.

Thus, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

4.4.6. Compliance Risk

Compliance risk is the risk of incurring legal or administrative sanctions, significant financial losses or a loss or damage to the institution's reputation as a result of an infringement of laws, regulations, internal procedures and codes of conduct applicable to the Group's activity.

An essential aspect of Banco Sabadell Group's policy, and one of the foundations of its corporate culture, is the meticulous fulfilment of all legal provisions. The achievement of the business objectives must be compatible, at all times, with compliance with the law and the application of best practices.

To this end, the Group has a Compliance Division whose mission is to seek the highest levels of compliance with current legislation and ensure that professional ethics are present in all areas of the Group's activity. This Division assesses and manages compliance risk in order to minimise the possibility of any failures to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Distributing and overseeing the implementation of new regulations applicable to all of the institution's activities, in order to keep them in line with the legislative framework.
- Promoting the establishment of adequate policies, procedures and controls in order to ensure that the company, in addition to its management staff, employees and third parties, comply with the applicable regulatory framework and to ensure that the necessary measures are taken to anticipate any changes in legislation.
- Coordinating the different units within the Compliance Division in order to unify criteria and provide action guidelines in relation to compliance with the regulatory framework.
- Promoting the creation of a methodological framework that enables the identification, classification and assessment of compliance risks, including risks relating to corporate crime prevention.
- Directing the definition and implementation of control mechanisms to guarantee that all activity is in line with the established laws and rules in relation to: (i) anti-money laundering and counter-terrorist financing, (ii) market integrity, (iii) codes of conduct and investor protection, (iv) insurance distribution and (v) data protection, in order to place the standard of compliance within the market's best practices.
- Guaranteeing that compliance is supervised through a compliance risk oversight programme, reporting regularly to Senior Management on compliance risk.
- Acting as a spokesperson before the relevant regulatory bodies, overseeing the responses to requirements and inspections by official or supervisory bodies in relation to anti-money laundering and counter-terrorist financing (SEPBLAC, Bank of Spain, etc.), and in relation to securities markets (CNMV), insurance distribution (Directorate General of Insurance and Pension Plans) and data protection (AGPD).
- Advising on and overseeing compliance with the Group's data protection regulation and acting as a link between organisations and control authorities.
- Managing the capabilities required in the different units within the Compliance Division and the Customer Care Service in order to ensure that the necessary technical and human resources are in place, thereby enabling Group-level control mechanisms to be designed and implemented that can guarantee the alignment of all activities with the established laws, rules and ethical codes.
- Lending support to the Internal Control Body responsible for compliance with regulations governing anti-money laundering and counter-terrorist financing.
- Reporting on, reviewing or proposing corrective measures and/or responses to incidents detected in relation to conduct and queries submitted to the Corporate Ethics Committee on potential conflicts of interest, so that these may be used as guidance by employees.

Note 5 –Minimum own funds and capital management

Regulatory Framework

The new regulatory framework with which the European Union implemented the capital regulations envisaged in the Basel III accords by the Basel Committee on Banking Supervision (BCBS) entered into force on 1 January 2014 in the form of a phase-in model spanning from this date until 1 January 2019.

This regulation, which is split into three pillars, regulates the minimum own funds required to be kept by credit institutions, on an individual basis as well as on a consolidated basis, taking into account the way in which these own funds must be calculated (Pillar I), the internal capital assessment and oversight process (Pillar II), and the public information that must be disclosed to the market (Pillar III).

This regulatory framework is based on the following legal acts:

- Directive 2013/36/EU (generally known as CRD-IV) of 26 June, of the European Parliament and of the Council, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 202/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

- Regulation (EU) 575/2013 (generally known as CRR) of 26 June 2013, of the European Parliament and of the Council, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) 648/2012.

Directive CRD-IV was transposed into the Spanish legal system through:

- RD-Law 14/2013 of 29 November, on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions.

- Law 10/2014 of 26 June, on the regulation, supervision and solvency of credit institutions.

- Royal Decree 84/2015 of 13 February, implementing Law 10/2014 of 26 June, on the regulation, supervision and solvency of credit institutions, completing the regulatory implementation of the above law, while merging into a single text all of the regulatory requirements for the organisation and discipline of credit institutions.

- Bank of Spain Circular 2/2016 of 2 February, the primary objective of which is to complete, in matters related to credit institutions, the transposition of Directive 2013/36/EU (Supervision of Credit Institutions) into the Spanish legal system.

The CRR, which is directly applicable to Member States and, as such, to Spanish credit institutions, grants powers to the competent national authorities to make use of certain regulatory options.

In this respect, Bank of Spain, by virtue of the enabling clause included in Royal Decree Law 14/2013, published Circulars 2/2014 and 3/2014, of 31 January and 30 July, respectively. It also recently published Circular 2/2016 by which it makes use of and implements these regulatory options.

Under the requirements set forth in the CRR, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority under the new regulatory framework and require institutions to maintain additional capital.

On 14 December 2017 the bank received a communication from the European Central Bank, subsequent to the Supervisory Review and Evaluation Process (SREP), with regard to the minimum prudential requirements applicable to the institution for 2018, based on which the Group must maintain a Common Equity Tier 1 (CET1) ratio of 8.3125%, measured on the basis of phase-in regulatory capital. This requirement includes the minimum required by Pillar 1 (4.50%), the Pillar 2 requirement (1.75%), the capital conservation buffer (1.875%) and the systemic risk buffer (O-SIIs) (0.1875%), and no final communication has been received since the aforementioned date regarding the prudential minimum requirements for 2019.

Additionally, the Group must comply with the requirement arising from the calculation of the institution's specific counter-cyclical capital buffer, which, as at December 2018, stands at 0.14%.

Furthermore, this is the consolidated CET1 level below which the Group would be obligated to calculate the maximum distributable amount (MDA), which would limit its distributions in the form of dividends, variable remuneration and coupon payments to holders of AT1 capital securities.

As at 31 December 2018, the Group's CET1 capital ratio stood at 12% therefore, with regard to the capital requirements mentioned in the preceding points, this does not imply any of the limitations mentioned.

In 2018, Banco Sabadell Group took part in the stress test carried out by the European Banking Authority (EBA), together with Bank of Spain, the European Central Bank (ECB) and the European System Risk Board (ESRB).

- In the baseline scenario, Banco Sabadell Group showed a significant organic capital generation capacity of +86 basis points over a three-year time horizon, from 2018-2020.

- In the adverse scenario, the Group would achieve a phase-in CET1 ratio of 8.40% and a fully-loaded CET 1 ratio of 7.58% in 2020. This adverse scenario has been set by the ECB and the ESRB with a time horizon of 2020, basing its projections on a static balance sheet assumption as at December 2017 and therefore it does not take into account subsequent business strategies and management actions taken by the Group. Of the Group's overall fully-loaded CET1 ratio reduction of 446 basis points in the adverse scenario:

  (i) 180 basis points (40% of the total) are related to the United Kingdom and specifically to the adverse macro-economic scenario defined for the stress test exercise in this geography, which was particularly severe compared to the scenarios applied to other geographies.

  (ii) This impact is also driven by the fact that the contractual step-up in IT fees paid by TSB to Lloyds is projected and included in the Group's recurrent cost base throughout the entire 2018-2020 period, even though this cost was only applicable from January 2017 until migration was completed in April 2018. In accordance with the methodology used in the stress test, this amount is considered constant during this three-year period although, in reality, this cost was only incurred for four months. This represents a reduction of the fully-loaded CET1 ratio of 45 basis points.

  (iii) Likewise, 2018-2020 financial projections include the expenses incurred by Sabadell United Bank in 2017 prior to the sale of this subsidiary in July 2017, but not its revenue or its balance sheet. This represents a reduction of 15 basis points in the fully-loaded CET1 ratio.

These last two factors have a combined idiosyncratic effect which has translated into a negative impact of 60 basis points in the fully-loaded CET1 ratio.

Finally, the results of the stress test demonstrate the Group's resilience and its ability to overcome the adverse scenario that has been considered.

On 15 May 2014 the following two regulations were published: Directive 2014/59/EU, of the European Parliament and of the Council, establishing a framework for the recovery and resolution of credit institutions and investment firms, and Regulation (EU) 806/2014, of the European Parliament and of the Council (BRRD), establishing the Single Resolution Mechanism, which aims to ensure an orderly resolution of failing banks with minimal costs for taxpayers and the real economy.

With a view to achieving these objectives, the BRRD considers a series of instruments available to the competent resolution authority, which include the bail-in tool. The BRRD introduces a minimum requirement for own funds and eligible liabilities (MREL), which banks are required to comply with at all times in order to ensure that they have a buffer in place to absorb losses and guarantee the effective implementation of resolution tools.

Within the scope of banking restructuring and resolution, Banco Sabadell is subject to the Single Resolution Board (SRB) as a resolution authority, and to Spanish competent authorities:

- Bank of Spain, which acts a resolution prevention authority.

- *Fondo de Reestructuración Ordenada Bancaria* (FROB), the Fund for Orderly Bank Restructuring, is the executive resolution authority.

In May 2018 Banco Sabadell received a communication from Bank of Spain regarding the decision adopted by the Single Resolution Board (SRB) regarding minimum own funds requirements and eligible liabilities (MREL) which are applicable to Sabadell. This decision established a minimum MREL, on a consolidated basis, of 22.7% of risk-weighted assets calculated as at 31 December 2016 and a transition period for compliance, ending on 1 January 2020. The decision was based on current legislation, it shall be updated every year and may be subject to subsequent amendments by the resolution authority. The MREL decision is aligned with Banco Sabadell forecasts and it is included in the funding plan, which forms part of its strategic plan for 2020.

Capital management

The management of capital funds is the result of the ongoing capital planning process. This process considers the expected evolution of the economic, regulatory and sectoral environment, as well as more adverse scenarios. It takes into account the expected capital consumption in different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the various actions that could be considered for implementation. The process is enshrined within the strategic objectives of the bank and aims to achieve an attractive return for shareholders, whilst also ensuring that its own funds are appropriate in terms of the inherent risks of banking activity.

As regards capital management, as a general policy, the Group aims to adjust its overall available capital to the incurred risks.

The Group follows the guidelines set out in CRD-IV and associated regulations in order to establish own funds requirements that are inherent to the risks that have been incurred by the Group, based on internal risk measurement models that have been previously validated by independent parties. To this end, the Group has been authorised by the supervisor to use the majority of its internal models in place to calculate regulatory capital requirements.

The following table outlines the status of credit rating models developed by Banco Sabadell Group with regard to the authorisation by the supervisor for their usage when calculating own funds requirements.

Breakdown of portfolios authorised by the supervisor for the use or gradual application of the internal-ratings based (IRB) approach

Bank	Regulatory Exposure Portfolio	Internal Portfolio	Internal Estimates Used	Internal ratings based approach	Status
BSab	Corporates	Portfolios subject to rating models for customers ranging from corporate banking customers to SMEs and RE developers	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2008
BSab	Retail	*Mortgage scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)*	Advanced IRB	Authorised on 06/2008
BSab	Retail	*Consumer Scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)*	Advanced IRB	Authorised on 06/2008
BSab	Corporates	*Project Finance*	*Probability of Default (PD)*	Supervisory Slotting Criteria	Authorised on 12/2009
BSab	Retail	Retailers and self-employed	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 12/2010
BSab	Retail	*Behavioural scoring of Cards and Loans*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 12/2011
BSab	Retail	Behavioural scoring of Consumer Loans	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2008
BSab	Retail	*Behavioural scoring of mortgage loans*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2008
BSab	Institutions	*Financial Institutions*	*Probability of Default (PD)*	Foundation IRB	Authorised on 12/2012
TSB	Retail	*Mortgage scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2014
TSB	Retail	*Consumer Loans Scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 10/2014
TSB	Retail	*Cards Scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2015
TSB	Retail	*Current Accounts Scoring*	*Probability of Default (PD)* *Loss Given Default (LGD)* *Credit Conversion Factor (CCF)*	Advanced IRB	Authorised on 06/2015

Data of models approved by the Supervisor, as at 31 December 2018
The date of authorisation refers to the date on which the Supervisor authorised the use of IRB models for each specific portfolio.

The Group carries out frequent backtesting exercises on its IRB models, at least on an annual basis. These backtesting exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risks Committee and the Risks Committee (delegated Board committees).

Additionally, the backtesting results that affect the risk parameters, and the main conclusions from these results, taking into account the criteria established by the EBA in its disclosure Guidelines, are included in the annual Pillar III Disclosures report.

The Group has a model in place that comprehensively measures its risks using an internal measurement of allocated capital, and this model is based on the risk measurements provided by the new methodologies.

The allocation of capital by risk type as at the end of 2018 is as follows:

%	2018
Credit risk	81%
Structural risk	5%
Operational risk	10%
Market risk	1%
Other	3%
Total	100%

The Group has a sophisticated system to measure each type of risk incurred as well as methodologies capable of integrating all of them. Such an approach requires a broad perspective of risk that considers possible stress scenarios and suitable financial planning in each case. The risk assessment systems used are in line with current best practices.

Each year the Group carries out an internal capital adequacy assessment process. This process starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk as well as the corresponding mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the Group's own models (such as borrower credit rating and scoring systems) and other internal estimates appropriate to each type of risk. The assessments for each type of risk are then integrated and a figure is calculated to be used as an indicator in terms of allocated capital. In addition, the institution's business and financial plans and stress testing exercises are taken into account to determine whether certain business developments or extreme scenarios could endanger its solvency when compared to its available own funds.

Assessing the risk in terms of the capital that needs to allocated enables the risk to be linked to the profitability obtained at both transaction and customer level, all the way up to business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and included in the transaction pricing process.

The level and quality of capital are metrics corresponding to the Risk Appetite Statement, and are included within the Group's Risk Appetite Framework, which is detailed in Note 4.

For more information on capital management see the Pillar III Disclosures report, published annually, which is available on the bank's website (www.grupbancsabadell.com), in the section on Information for Shareholders and investors / Financial information.

Eligible capital and capital ratios

As at 31 December 2018, the Group's eligible capital amounted to 12,434 million euros, representing a surplus of 6,012 million euros, as shown below:

Thousand euro

	2018	2017	Change (%) year-on-year
Capital	703,371	703,371	-
Reserves	11,732,163	12,106,567	(3.09)
Convertible bonds	-	-	-
Minority interests	11,403	16,608	(31.34)
Deductions	(2,828,269)	(2,411,854)	17.27
CET1 resources	**9,618,668**	**10,414,692**	**(7.64)**
CET1 (%)	12.0	13.4	
Preference shares, convertible bonds and deductions	1,152,606	696,129	-
Additional Tier 1 resources	**1,152,606**	**696,129**	**-**
AT1 (%)	1.4	0.9	
Tier 1 resources	**10,771,274**	**11,110,821**	**(3.06)**
Tier 1 (%)	13.4	14.3	
Tier 2 resources	**1,662,583**	**1,347,976**	**23.34**
Tier 2 (%)	2.1	1.7	
Capital base	**12,433,857**	**12,458,797**	**(0.20)**
Minimum capital requirements	6,422,302	6,200,396	3.58
Capital surplus	**6,011,555**	**6,258,401**	**(3.94)**
Total capital ratio (%)	**15.5**	**16.1**	**(3.80)**
Risk weighted assets (RWAs)	**80,278,775**	**77,504,953**	**3.58**

Common Equity Tier 1 (CET1) capital accounted for 77.4% of eligible capital. Deductions are mainly comprised of goodwill and intangible assets.

In Basel III, Tier 1 capital is comprised, in addition to CET1 funds, by items that largely make up Additional Tier 1 capital (9.3% of own funds), which are capital instruments comprised of preference shares, among others.

Tier 2 capital provides 13.3% of the BIS ratio and is made up largely of subordinated debt.

In its strategic business plan, the Group expects to continue managing capital in such a way as to maintain the same comfortable capital position of recent years, demonstrated by the results of the Supervisory Review and Evaluation Process (SREP), which are given in the first section of this Note.

Over the last 5 years, the Group has increased its capital base by over 5 billion euros, through the organic generation of profits and issues of capital qualifying as CET1, including the capital increase with pre-emptive subscription rights of 1,607 million euros carried out in 2015 in connection with the acquisition of TSB. In December 2018 500 million euros in subordinated bonds (Tier 2) were issued.

All of these actions and events, both in terms of available capital and in terms of risk-weighted assets, have enabled Banco Sabadell to reach a phase-in Common Equity Tier 1 (CET 1) ratio of 12%, and a total capital ratio of 15.5% as at December 2018, substantially above regulatory minima.

The following table shows movements in the various regulatory capital components during 2017-2018:

Thousand euro

CET1 balance as at 31 December 2017	10,414,692
Profit attributed to the Group, net of dividends	164,052
Reserves	(782,893)
Minority interests	162
Valuation adjustments	(326,851)
Deductions and transition effects	149,506
CET1 balance as at 31 December 2018	**9,618,668**

Thousand euro

Additional Tier 1 balance as at 31 December 2017	696,129
Eligible instruments	-
Minority interests	197
Deductions and transition effects	456,280
Additional Tier 1 balance as at 31 December 2018	**1,152,606**

Thousand euro

Tier 2 balance as at 31 December 2017	1,347,976
Eligible instruments	418,116
Credit risk adjustments	(14,198)
Minority interests	263
Deductions and transition effects	(89,575)
Tier 2 balance as at 31 December 2018	**1,662,583**

The changes in the period are largely the effects of two factors:

- The end of the transitional period for the deduction of intangible assets and goodwill, which have been fully deducted from CET1, while in 2017 20% was deducted from AT1.

- The implementation of IFRS 9, although, as the Group decided to apply the transitional arrangements set forth in Regulation (EU) 2017/2395, this effect can be seen in a number of items. For further details, please refer to the table showing the impact that the application of these transitional arrangements has had on the various capital ratios compared to the impact if the IFRS 9 rules had been applied in full (on fully-loaded terms), later on in this section.

In addition to the foregoing, particularly in the second half of the year, there were also impacts caused by the valuation adjustments of the fair value portfolio, the SAREB debt impairment and the impact of institutional sales of non-performing assets (impact on the consolidated income statement through extraordinary provisions).

The changes in Tier 2 reflect the issuance of 500 million euros in subordinated bonds carried out in December 2018.

The table below shows the reconciliation between equity and regulatory capital:

Thousand euro

	2018	2017
Own funds	12,544,931	13,425,916
Accumulated other comprehensive income	(491,470)	(265,311)
Minority interests	63,539	61,176
Total equity	**12,117,000**	**13,221,781**
Goodwill and intangibles	(2,461,142)	(1,796,685)
Other adjustments	(37,190)	(1,010,404)
Regulatory accounting adjustments	**(2,498,332)**	**(2,807,089)**
Common Equity Tier 1 capital	**9,618,668**	**10,414,692**
Additional Tier 1 capital	**1,152,606**	**696,129**
Tier 2 capital	**1,662,583**	**1,347,976**
Total regulatory capital	**12,433,857**	**12,458,797**

As at 31 December 2018, there is no significant difference between the public scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets (RWAs) for the period stand at 80,278,775 thousand euros, which represents a 7.7% increase compared with the previous year.

The following table shows the reasons for changes in RWAs weighted by credit risk occurring during the year:

Thousand euro

	RWA	Capital requirements (*)
Balance as at 31 December 2017	**68,645,275**	**5,491,622**
Change in business volume	2,252,468	180,197
Asset quality	(1,171,501)	(93,720)
Changes in models	(39,603)	(3,168)
Methodology, parameters and policies	(770,716)	(61,657)
Exchange rate (**)	114,630	9,170
Other	8,343	667
Balance as at 31 December 2018	**69,038,896**	**5,523,112**

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs.

(*) Calculated as 8% of RWAs.

(**) Changes due to exchange rate fluctuations are due to structural positions in GBP, USD and MXN, which are not hedged in order to protect the capital ratio against adverse exchange rate effects.

The breakdown of risk-weighted assets by type of risk in 2018 is shown below, with credit risk accounting for the largest proportion.

%

	2018
Credit risk (*)	88.71%
Operational risk	10.37%
Market risk	0.92%
Total	**100%**

(*) Includes counterparty credit risk and other risk exposure amounts.

The tables below show risk-weighted assets for the most significant risk (credit risk), broken down by geography and sector:

%	2018
Spain	75.92%
United Kingdom	14.16%
Rest of European Union	3.25%
Ibero-America	2.81%
North America	2.69%
Rest of the world	1.07%
Other OECD countries	0.09%
Total	**100%**

Includes counterparty credit risk.

%	2018
Finance, retailers and other services	40.32%
Individuals	29.22%
Transportation, distribution and hospitality	8.96%
Real estate activity	7.06%
Manufacturing industries	5.61%
Generation and distribution of energy	6.13%
Construction	1.95%
Agriculture, farming and fishing	0.47%
Mining and quarrying	0.29%
Total	**100%**

Includes counterparty risk. Not includes equity.

The breakdown of regulatory exposures and risk-weighted assets by risk and by segment as at 31 December 2018 is also shown broken down by calculation approach in the following table:

%	EAD	IRB	STDA	RWA	IRB	STDA
Public sector	23.30%	-	100.00%	1.41%	-	100.00%
Financial institutions	1.91%	36.44%	63.56%	1.98%	46.31%	53.69%
Corporates	11.06%	90.31%	9.69%	20.56%	86.99%	13.01%
SMEs (Business banking)	8.37%	80.08%	19.92%	11.75%	77.56%	22.44%
SMEs (Retail banking)	6.33%	84.28%	15.72%	5.45%	77.13%	22.87%
Retailers and sole proprietors	1.47%	80.00%	20.00%	1.19%	71.61%	28.39%
Mortgage loans	32.54%	73.67%	26.33%	18.90%	44.68%	55.32%
Loans	2.37%	68.80%	31.20%	5.76%	71.42%	28.58%
Other retail banking customers	3.67%	77.36%	22.64%	3.63%	70.98%	29.02%
Other	8.56%	-	100.00%	26.30%	-	100.00%
Equity	0.43%	100.00%	-	3.07%	100.00%	-
Total	**100%**			**100%**		

Includes counterparty risk.

The Leverage Ratio (LR) aims to strengthen capital requirements by providing a supplementary measure which is not linked to the level of risk. The leverage ratio is the ratio between eligible primary capital (Tier 1) and exposure, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015.

Part seven of the CRR sets forth calculation and reporting requirements, and the disclosure requirements of the ratio are set out in Article 451 of part eight. It does not set forth a minimum requirement, although the European Commission's amendment proposal to the CRR, of 23 November 2016, already sets forth a minimum requirement of 3%. At present, the bank reports to the supervisor on a quarterly basis.

The leverage ratio as at 31 December 2018 and 2017 is shown below:

Thousand euro

	2018	2017
Tier 1 capital	10,771,274	11,110,821
Exposure	221,104,347	223,444,991
Leverage ratio	**4.87%**	**4.97%**

The capital and leverage ratios as at 31 December 2018 include losses due to additional provisions required by the sales of non-performing asset portfolios mentioned in Note 2. However, these ratios do not reflect the improvement following the reduction of non-performing exposures as a result of such sales, as the transactions have not yet been definitively closed and are pending receipt of the corresponding authorisations. If this impact had been included, the CET1 ratio would stand at 12.4%, the Tier 1 ratio would stand at 13.8%, the total capital ratio would stand at 16.0% and the total pro forma leverage ratio would stand at 4.9%.

In 2018, following the entry into force of IFRS 9, the Group has chosen to apply the transitional arrangements set forth in Regulation (EU) 2017/2395, opting for the “static modified approach ”defined in paragraphs 2, 3 and 4 or Article 1 therein.

The following table shows the impact that the application of these transitional arrangements has had on the various capital ratios compared to the impact if the IFRS 9 rules had been applied in full (in fully-loaded terms):

Thousand euro

	2018
Available capital	
Common Equity Tier 1 (CET1) capital	9,618,668
Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	8,886,897
Tier 1 (T1) capital	10,771,274
Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	10,039,503
Total capital	12,433,857
Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	11,798,930
Risk weighted assets	
Total risk weighted assets	80,278,775
Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied	80,075,304
Capital ratios	
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount)	11.98%
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	11.10%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount)	13.42%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12.54%
Total capital (expressed as percentage of risk exposure amount)	15.49%
Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	14.73%
Leverage ratio	
Total exposure measure corresponding to leverage ratio	221,104,347
Leverage ratio	4.87%
Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied	4.54%

As can be seen, in December, the main impact arising from the application of these transitional arrangements has been the inclusion of 704 million euros in CET1, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. As regards risk-weighted assets, there are two opposite effects, although their impact is not material (increase of 123 million euros):

- Decrease in RWAs following the application of transitional arrangements to deferred tax assets generated by the entry into force of IFRS 9.

- Increase in RWAs as a result of applying the scaling factor to provisions allocated to exposures under the standardised approach, as set forth in Article 1(7)(b) of Regulation (EU) 2017/2395.

For more information on capital ratios and the leverage ratio, their composition, details of parameters and their management, see the Pillar III Disclosures, which is published annually and is available on the bank's website (www.grupbancsabadell.com), in the section Information for shareholders and investors / Financial information.

Note 6 –Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion in market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price "or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability being valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not precisely matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.

- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of instrument concerned:

Level 2 financial instruments	Valuation methods	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk	- Issuer credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied.	- NACE codes - Share price listings in organised markets
Derivatives (a)	Black-Scholes model (analytic/semi-analytic formulae)	For equity derivatives, inflation, currencies and commodities: - Black-Scholes assumes a lognormal process of forward rates taking into account potential convexity adjustments.	For equity derivatives, inflation, currencies and commodities: - Forward structure of the underlying asset, given by market data (dividends, swap points, etc.) - Volatility surfaces of options For interest rate derivatives: - Term structure of interest –Volatility surfaces of Libor rate Options (caps) and Swap rates (swaptions) - Probability of default for the calculation of CVA and DVA (b) For credit derivatives: - Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads
	For equity derivatives, currencies and commodities: - Monte Carlo simulations - SABR	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates. - Forward rates in the term structure of the interest rate curve are fully correlated.	
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Level 3 financial instruments	Valuation methods	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk - current market interest rates	- Estimated credit spreads of the issuer or of a similar issuer
Equity instruments	Cash flow discount method	Calculation of the present value of future cash flows discounted at current market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's estimated cash flows - Risk in the company's sector - Macroeconomic inputs	- Entity's business plans - Risk premiums of the company's sector -Adjustment for systemic risk (Beta Parameter)
Derivatives (a)	For equity derivatives, currencies or commodities, Monte Carlo simulations	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	For equity derivatives, inflation, currencies and commodities: - Historic volatility - Historic correlation - Probability of internal default for the calculation of CVA and DVA (b)
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	For credit derivatives: - Estimated credit spreads of the issuer or of a similar issuer - Historic volatility of credit spreads
	For interest rate derivatives: - Standardised model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates. - Forward rates in the term structure of the interest rate curve are fully correlated.	For interest rate derivatives: - Probability of internal default for the calculation of CVA and DVA (b)

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and financial liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

		2018		2017	
	Note	Carrying balance	Fair value	Carrying balance	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	23,494,479	23,494,479	26,362,807	26,362,807
Financial assets held for trading	8, 9, 10	2,044,965	2,044,965	1,572,504	1,572,504
Non-trading financial assets mandatorily at fair value through profit or loss	8	141,314	141,314	39,526	39,526
Financial assets designated at fair value through profit or loss		-	-	-	-
Financial assets at fair value through other comprehensive income	8, 9	13,247,055	13,247,055	13,180,716	13,180,716
Financial assets at amortised cost	8, 11	164,415,563	166,537,253	160,723,766	167,818,359
Derivatives – Hedge accounting	12	301,975	301,975	374,021	374,021
Fair value changes of the hedged items in portfolio hedge of interest rate risk		56,972	56,972	48,289	48,289
Total assets		**203,702,323**	**205,824,013**	**202,301,629**	**209,396,222**

Thousand euro

		2018		2017	
	Note	Carrying balance	Fair value	Carrying balance	Fair value
Liabilities:					
Financial liabilities held for trading	10	1,738,354	1,738,354	1,431,215	1,431,215
Financial liabilities designated at fair value through profit or loss		-	-	39,540	39,540
Financial liabilities at amortised cost	18, 19, 20, 21	206,076,860	201,463,185	204,045,482	203,506,188
Derivatives – Hedge accounting	12	633,639	633,639	1,003,854	1,003,854
Fair value changes of the hedged items in portfolio hedge of interest rate risk		36,502	36,502	(4,593)	(4,593)
Total liabilities		**208,485,355**	**203,871,680**	**206,515,498**	**205,976,204**

In relation to financial instruments whose book value differs from their fair value, the latter has been calculated as follows:

–The fair value of the heading "*Cash, cash balances at central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

–The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities at amortised cost* "has been estimated by the discounted cash flow method, using market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of these financial assets are considered as Level 2.

–Under the heading "*Fair value changes of hedged items in portfolio hedge of interest rate risk* "of the accompanying consolidated balance sheets, adjustments (positive or negative) are recorded measured at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following table shows the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used to estimate their fair value:

Thousand euro

	Note	2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		320,241	1,724,724	-	2,044,965
Derivatives	10	-	1,720,274	-	1,720,274
Equity instruments	9	4,246	3,008	-	7,254
Debt securities	8	315,995	1,442	-	317,437
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		24,412	42,648	74,254	141,314
Equity instruments		-	-	-	-
Debt securities	8	24,412	42,648	74,254	141,314
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		12,722,944	468,627	55,484	13,247,055
Equity instruments	9	59,027	155,825	55,484	270,336
Debt securities	8	12,663,917	312,802	-	12,976,719
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	12	737	301,238	-	301,975
Total assets		**13,068,334**	**2,537,237**	**129,738**	**15,735,309**

Thousand euro

	Note	2018			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		48,121	1,690,233	-	1,738,354
Derivatives	10	-	1,690,233	-	1,690,233
Short positions		48,121	-	-	48,121
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	12	35,871	597,768	-	633,639
Total liabilities		**83,992**	**2,288,001**	**-**	**2,371,993**

Thousand euro

		2017			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		110,358	1,462,146	-	1,572,504
Derivatives	10	325	1,440,418	-	1,440,743
Equity instruments	9	-	7,432	-	7,432
Debt securities	8	110,033	14,296	-	124,329
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		-	39,526	-	39,526
Equity instruments	9	-	39,526	-	39,526
Debt securities		-	-	-	-
Loans and advances		-	-	-	-
Financial assets designated at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances – Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		12,529,039	475,395	176,282	13,180,716
Equity instruments	9	56,717	180,299	176,282	413,298
Debt securities	8	12,472,322	295,096	-	12,767,418
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	12	41,039	332,982	-	374,021
Total assets		**12,680,436**	**2,310,049**	**176,282**	**15,166,767**

Thousand euro

		2017			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		70,165	1,361,050	-	1,431,215
Derivatives	10	311	1,361,050	-	1,361,361
Short positions		69,854	-	-	69,854
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	39,540	-	39,540
Derivatives – Hedge accounting	12	22,502	981,352	-	1,003,854
Total liabilities		**92,667**	**2,381,942**	**-**	**2,474,609**

Derivatives without a collateral contract (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value. The fair value of these derivatives represents 7.99% of the total, and their adjustment for credit and debit risks represents 1.38% of their fair value.

The movements in the balances of the financial assets and financial liabilities recognised at fair value and classified as Level 3 that are disclosed in the accompanying consolidated balance sheets are as follows:

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2016	**250,807**	**-**
Valuation adjustments recognised in profit and loss (*)	(45,857)	-
Valuation adjustments not recognised in profit and loss	716	-
Purchases, sales and write-offs	(37,536)	-
Net additions/removals in Level 3	8,193	-
Exchange differences and other	(41)	-
Balance as at 31 December 2017	**176,282**	**-**
Valuation adjustments recognised in profit and loss (*)	(17,810)	-
Valuation adjustments not recognised in profit and loss	(129,245)	-
Purchases, sales and write-offs	(8,601)	-
Net additions/removals in Level 3	109,090	-
Exchange differences and other	22	-
Balance as at 31 December 2018	**129,738**	**-**

(*) Relates to securities retained on the balance sheet.

Net level 3 inflows primarily correspond to debt instruments which, as at the date of the first application of IFRS 9, are no longer recorded in the amortised cost portfolio, and are now recorded in portfolios of instruments measured at fair value.

In 2018 no transfers have materialised between different valuation levels. Details of financial instruments that were transferred between valuation levels in 2017 are as follows:

Thousand euro

	2017					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	353,314	8,193	-	-
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**-**	**-**	**353,314**	**8,193**	**-**	**-**

As at 31 December 2018, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) of the range that is considered likely, is not significant.

The instruments considered as Level 3 mainly correspond to the interest that the institution holds in the Spanish company for the management of assets arising from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB), and which, given the unique nature of this investment, is measured at fair value calculated based on the business plan and financial projections of that entity.

At the end of both years there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Loans and financial liabilities at fair value through profit or loss

As at 31 December 2018 and 2017, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

As at the end of 2018 and 2017, there were also no equity instruments valued at their cost of acquisition that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2018 and 2017, net carrying values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section on "Guarantees", in Note 1.3.4. to these consolidated annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

• Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

• Rental update method: applicable when the valued property generates or may generate income and there is a representative market of comparable data.

• Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external valuation firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. At the same time, the value obtained is adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

• Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

• Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the statistical procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down using the valuation method used in their fair value estimate as at 31 December 2018 and 2017:

Thousand euro

	2018			
	Level 1	Level 2	Level 3	Total
Housing	-	3,298,398	-	3,298,398
Offices, retail establishments and other real estate	-	1,928,348	-	1,928,348
Land and building plots	-	-	999,575	999,575
Work in progress	-	-	312,457	312,457
Total assets	**-**	**5,226,746**	**1,312,032**	**6,538,778**

Thousand euro

	2017			
	Level 1	Level 2	Level 3	Total
Housing	-	3,086,525	-	3,086,525
Offices, retail establishments and other real estate	-	2,342,601	-	2,342,601
Land and building plots	-	-	1,481,920	1,481,920
Work in progress	-	-	383,916	383,916
Total assets	**-**	**5,429,126**	**1,865,836**	**7,294,962**

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all valuation firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future sale price, the estimated construction costs, the costs of development, the time required for land planning and development and the upgrade fee. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Group's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2018 and 2017 are shown below:

Thousand euro

	For house purchase	Offices, retail establishments and other real estate	Land, building plots and work in progress
Balance as at 31 December 2016	**-**	**-**	**2,429,521**
Purchases	-	-	268,515
Sales	-	-	(276,344)
Impairments recognised on income statement (*)	-	-	(429,529)
Net additions/removals in Level 3	-	-	(126,327)
Balance as at 31 December 2017	**-**	**-**	**1,865,836**
Purchases	-	-	93,658
Sales	-	-	(174,596)
Impairments recognised on income statement (*)	-	-	(473,444)
Net additions/removals in Level 3	-	-	578
Balance as at 31 December 2018	**-**	**-**	**1,312,032**

(*) Relates to assets kept on the balance sheet as at 31 December 2018 and 2017 (see Note 35).

During 2018, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" and their appraisal value, as at the end of 2018 and 2017:

Thousand euro

	2018				2017			
	Gross carrying amount	Impairment	Carrying amount	Valuation amount	Gross carrying amount	Impairment	Carrying amount	Valuation amount
Investment properties	772,959	(72,894)	700,065	811,492	2,481,601	(517,845)	1,963,756	2,296,475
Inventories	1,859,878	(925,018)	934,860	1,204,111	4,631,749	(2,555,455)	2,076,294	3,212,610
Non-current assets held for sale	6,908,521	(2,805,971)	4,102,550	6,994,966	3,420,414	(1,040,081)	2,380,333	4,150,396
Total	**9,541,358**	**(3,803,883)**	**5,737,475**	**9,010,569**	**10,533,764**	**(4,113,381)**	**6,420,383**	**9,659,481**

The fair values of real estate assets valued by appraisal companies and included in the headings "*Non-current assets and disposal groups classified as held for sale*", "*Investment properties*" and "*Inventories*" in 2018 are as follows:

Thousand euro

Valuation firm	Non-current assets held for sale	Investment properties	Inventories
Afes técnicas de tasación, S.A.	23,853	3,195	-
Alia tasaciones, S.A.	461,866	25,092	121,866
Aplicaciones Estadisticas y Consultoría, S.L.	499	-	-
Arco valoraciones, S.A.	5,458	-	-
Assets-Valoració d'actius S.A.	113	-	-
Col.lectiu d'arquitectes taxadors	3,028	-	-
Compañía hispania de tasaciones y valoraciones, S.A.	175	-	-
Cushman & Wakefield	-	16,393	-
Egara Optiminn, S.L.	447	-	-
Eurovaloraciones, S.A.	318,332	30,298	148,544
Eurovasan, S.L.	209	-	-
Gestión de valoraciones y tasaciones, S.A.	382,218	193,616	145,070
Grupo Tasvalor, S.A.	219	-	-
Ibérica de tasaciones, S.A.	15,157	-	-
Ibertasa, S.A.	255,064	18,947	28,390
Innotasa, S.A.	471	-	-
Instituto de valoraciones, S.A.	158,500	3,325	47,415
Krata, S.A.	202,438	2,202	51
Peritand	9,139	11,387	-
Savills Consultores Inmobiliarios, S.A.	1,033	-	-
Servatas, S.A.	-	-	429
Sociedad de tasación, S.A.	1,245,692	280,082	45,573
Tabimed gestión de proyectos, S.L.	4,726	-	-
Tasaciones de bienes Mediterráneo, S.A.	4,470	-	-
Tasaciones hipotecarias	139,931	-	128
Tasaciones inmobiliarias, S.A.	152,152	9,929	128,953
Tasalia Sociedad de Tasación	127	-	300
Tasasur sociedad de tasaciones, S.A.	1,231	-	-
Tasiberica, S.A.	3,766	1,127	-
Tecglen tasaciones, S.A.	654	-	-
Tecnitasa técnicos en tasación, S.A	216,065	15,290	5,657
Thirsa	69,415	43	1,226
Tinsa Tasaciones Inmobiliarias, S.A.	7,194	1,987	-
Valoraciones Mediterráneo, S.A.	282,312	14,085	28,523
Valtécnic, S.A.	88,729	12,302	43,676
Rest	47,867	60,765	189,059
Total	**4,102,550**	**700,065**	**934,860**

The fair value of property, plant and equipment for own use does not differ significantly from its net carrying amount.

Note 7 –Cash, cash balances at central banks and other demand deposits

The composition of this heading on the asset side of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
By nature:		
Cash	814,761	733,923
Cash balances at central banks	22,065,440	25,097,038
Other demand deposits	614,278	531,846
Total	**23,494,479**	**26,362,807**
By currency:		
In euro	14,726,126	17,238,582
In foreign currency	8,768,353	9,124,225
Total	**23,494,479**	**26,362,807**

Cash balances at central banks include balances held to comply with the central bank's minimum reserve requirement. Throughout 2018 Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

Note 8 –Debt securities

Debt securities reported in the consolidated balance sheets as at 31 December 2018 and 2017 are analysed below:

Thousand euro

	2018	2017
By heading:		
Financial assets held for trading	317,437	124,329
Non-trading financial assets mandatorily at fair value through profit or loss	141,314	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	12,976,719	12,767,418
Financial assets at amortised cost	13,131,824	11,746,645
Total	**26,567,294**	**24,638,392**
By nature:		
Central banks	-	-
General governments	23,732,596	21,979,861
Credit institutions	987,601	856,208
Other sectors	1,575,346	1,435,635
Stage 3 assets	357	13,124
Impairment allowances	(236)	(8,467)
Other valuation adjustments (interest, fees and commissions, other)	271,630	362,031
Total	**26,567,294**	**24,638,392**
By currency:		
In euro	21,968,957	20,559,445
In foreign currency	4,598,337	4,078,947
Total	**26,567,294**	**24,638,392**

In 2018 the Group has sold debt instruments issued by Italy with a book value of 1,549 and 2,832 million euros and which were classified under the heading "*Financial assets at amortised cost* "and "*Financial assets at fair value through other comprehensive income* "of the consolidated balance sheet, respectively. These sales have been carried out for the purpose of managing the increase in credit risk of debt instruments issued by Italy, as a result of changes in the political and economic situation in this country. Therefore, in the case of debt instruments recognised at amortised cost, the Group has considered that these sales are consistent with the business model under which these assets were managed (retained with the objective of receiving cash flows). The results obtained from these disposals have been recorded under the headings "*Gains or (-) losses on derecognition of financial assets and liabilities not at fair value through profit or loss, net —Financial assets at amortised cost* " and "*Gains or losses (-) on derecognition of financial assets and liabilities not at fair value through profit or loss, net —Other financial assets and liabilities* " of the consolidated income statement for 2018, respectively (see Note 30).

The breakdown of the debt securities classified based on their credit risk and the movement of impairment allowances associated with these instruments are included, together with those of other financial assets, in Note 11.

Details of debt instruments included under the "*Financial assets at fair value through other comprehensive income* " heading are as follows:

Thousand euro

	2018	2017
Amortised cost (*)	13,020,937	12,499,359
Fair value	12,976,719	12,767,418
Accumulated losses recognised in equity	(138,296)	(134,950)
Accumulated capital gains recognised in equity	99,906	406,403
Value adjustments made for credit risk	(5,828)	(3,394)

(*) Includes net gains/(-) losses due to impairment in the consolidated income statement for 2018 and 2017 of (2,472) and (6,277) thousand euros, of which those due to provisions during the year amount to (7,685) and (9,323) thousand euros, and those due to reversal of impairment amount to 5,213 and 3,046 thousand in 2018 and 2017 (see Note 34).

The breakdown of public debt securities classified as "*Financial assets at fair value through other comprehensive income* "is as follows:

Thousand euro

	2018	2017
Amortised cost	10,979,744	10,934,636
Fair value	10,939,940	11,177,627
Accumulated losses recognised in equity	(120,525)	(115,704)
Accumulated capital gains recognised in equity	81,236	358,913
Value adjustments made for credit risk	(515)	(218)

The portfolio of "*Financial assets at amortised cost* "breaks down as follows:

Thousand euro

	2018	2017
Central banks	-	-
General governments	12,606,171	11,079,997
Credit institutions	81,007	93,221
Other sectors	444,900	574,171
Impairment allowances	(254)	(744)
Total	**13,131,824**	**11,746,645**

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2018 and 2017 are analysed below:

Thousand euro

	2018	2017
By heading:		
Financial assets held for trading	7,254	7,432
Non-trading financial assets mandatorily at fair value through profit or loss	-	39,526
Financial assets at fair value through other comprehensive income	270,336	413,298
Total	**277,590**	**460,256**
By nature:		
Resident sector	156,226	266,119
Credit institutions	8,869	8,461
Other	147,357	257,658
Non-resident sector	64,487	100,889
Credit institutions	52,815	59,733
Other	11,672	41,156
Interestsin investment vehicles	56,877	93,248
Total	**277,590**	**460,256**
By currency:		
In euro	220,951	368,184
In foreign currency	56,639	92,072
Total	**277,590**	**460,256**

As at 2018 year-end there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

As at 31 December 2018 there were no Group investments in equity instruments included in the portfolio of "*Financial assets at fair value through other comprehensive income*" considered to be individually significant.

Details of equity instruments included under the "*Financial assets at fair value through other comprehensive income*" heading are as follows:

Thousand euro

	2018	2017
Cost of acquisition	347,586	356,159
Fair value	270,336	413,298
Accumulated capital losses recognised in equity at reporting date	(140,597)	(5,185)
Accumulated capital gains recognised in equity at reporting date	63,347	62,324
Transfers of gains or losses within equity during the period	-	-
Recognised dividends from investments held at the end of the year	7,611	-
Recognised dividends from investments derecognised during the year	569	-

As at the end of 2018, the Group, based on the last strategic plan presented by SAREB (Spanish company for the management of assets arising from the restructuring of the banking system), has reduced the book value of the investment held in this company by 128,639 thousand euros, which have been recognised in the consolidated statement of equity. As at 31 December 2018, changes in the fair value of this investment recognised under "*Accumulated other comprehensive income*" of the consolidated statement of recognised income and expenses amounted to 128,639 thousand euros (capital loss), and its book value amounted to 4,535 thousand euros (133,174 thousand euros as at 31 December 2017). Furthermore, the Group has reduced the book value of the subordinated debt it holds in this company by 20,801 thousand euros, which have been charged to the heading "*Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Other gains or losses*" of the consolidated income statement as at the end of 2018. As at 31 December 2018, the book value of subordinated debt in SAREB debt amounted to 73,749 thousand euros (94,550 thousand euros as at 31 December 2017).

No investments in equity instruments measured at fair value through other comprehensive income have been derecognised during 2018.

Note 10 –Asset and liability derivatives held for trading

The breakdown by type of risk of this heading on the asset and liability sides of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Securities risk	162,458	165,141	111,239	111,701
Interest rate risk	1,073,148	1,057,141	891,179	847,753
Currency risk	473,271	456,015	426,520	389,299
Other types of risk	11,397	11,936	11,805	12,608
Total	**1,720,274**	**1,690,233**	**1,440,743**	**1,361,361**
By currency:				
In euro	1,545,066	1,519,317	1,271,688	1,263,837
In foreign currency	175,208	170,916	169,055	97,524
Total	**1,720,274**	**1,690,233**	**1,440,743**	**1,361,361**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2018 and 2017, are shown below:

Thousand euro

	2018	2017
Assets		
Swaps, CCIRS, Call Money Swap	1,050,903	858,154
Currency options	95,011	99,858
Interest rate options	33,717	40,527
Index and securities options	162,383	114,393
Currency forwards	378,260	326,661
Fixed income forwards	-	1,150
Total derivatives on asset side held for trading	**1,720,274**	**1,440,743**
Liabilities		
Swaps, CCIRS, Call Money Swap	1,030,712	807,412
Currency options	95,289	101,028
Interest rate options	29,857	39,241
Index and securities options	173,649	124,309
Currency forwards	360,726	288,271
Fixed income forwards	-	1,100
Total derivatives on liability side held for trading	**1,690,233**	**1,361,361**

Note 11 –Loans and advances

Central banks and Credit institutions

The breakdown of the headings "*Loans and advances –Central banks*" and "*Loans and advances –Credit institutions*" in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro	2018	2017
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	8,296,917	5,379,156
Total	**8,296,917**	**5,379,156**
By nature:		
Deposits with agreed maturity	2,414,351	1,769,568
Assets acquired under repurchase agreements	5,367,349	2,965,960
Hybrid financial assets	-	106
Other	512,058	644,885
Stage 3 assets	299	364
Impairment allowances	(1,861)	(5,306)
Other valuation adjustments (interest, fees and commissions, other)	4,721	3,579
Total	**8,296,917**	**5,379,156**
By currency:		
In euro	6,549,965	4,335,627
In foreign currency	1,746,952	1,043,529
Total	**8,296,917**	**5,379,156**

Customers

The breakdown of the heading "*Loans and advances – Customers*" (General governments and Other sectors) of the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	142,986,822	143,597,966
Total	**142,986,822**	**143,597,966**
By nature:		
On-demand loans and other	7,807,725	7,567,029
Trade credit	6,185,828	5,801,602
Finance leases	2,564,586	2,316,285
Secured loans	83,639,258	86,581,398
Assets acquired under repurchase agreements	595,917	2,001,437
Other term loans	39,168,359	35,255,351
Stage 3 assets	6,471,569	7,867,154
Impairment allowances	(3,433,070)	(3,726,682)
Other valuation adjustments (interest, fees and commissions, other)	(13,350)	(65,608)
Total	**142,986,822**	**143,597,966**
By sector:		
General governments	10,875,811	9,802,679
Other sectors	129,085,862	129,720,423
Stage 3 assets	6,471,569	7,867,154
Impairment allowances	(3,433,070)	(3,726,682)
Other valuation adjustments (interest, fees and commissions, other)	(13,350)	(65,608)
Total	**142,986,822**	**143,597,966**
By currency:		
In euro	98,595,913	99,505,324
In foreign currency	44,390,909	44,092,642
Total	**142,986,822**	**143,597,966**
By geography:		
Spain	96,209,799	98,843,426
Rest of European Union	40,527,715	40,702,868
Ibero-America	4,957,126	3,695,269
North America	2,658,009	2,280,429
Other OECD countries	291,301	206,892
Rest of the world	1,775,942	1,595,764
Impairment allowances	(3,433,070)	(3,726,682)
Total	**142,986,822**	**143,597,966**

The "*Loans and advances*" heading on the consolidated balance sheets includes certain assets pledged in funding operations, i.e. they have been pledged as collateral or guarantees with respect to certain liabilities. For further information, see the "Credit risk" section of Note 4.

Finance leases

Assets leased out under finance leases are recognised by the amortised cost of the instalments payable by the lessee plus the guaranteed and non-guaranteed residual value, excluding interest expenses and value added tax. Details of the foregoing are set out hereafter:

Thousand euro

	2018	2017
Finance leases		
Total gross investment	2,490,608	2,271,417
of which: Contingent lease payments recognised in income	*60,522*	*71,601*
Unearned financial income	236,005	234,829
Unguaranteed residual value	163,411	146,854
Impairment allowances	(52,888)	(41,924)

The table below shows a breakdown by term of the current value of minimum future amounts receivable by the Group during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised):

Thousand euro

	Up to 1 year	1-5 years	More than 5 years	Total
Minimum finance lease payments receivable				
Mandatory minimum lease payments receivable	686,285	1,362,771	570,919	2,619,975

Past-due financial assets

The balance of "*Loans and advances – Customers*" past-due and pending collection not classified as Stage 3 as at 31 December 2018 amounted to 130,322 thousand euros (188,311 thousand euros as at 31 December 2017). Of this total, over 52% of the balance as at 31 December 2018 (76% of the balance as at 31 December 2017) had become due in a period no longer than one month.

Financial assets classified on the basis of their credit risk

The breakdown of the gross book values, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2018 and 1 January 2018 (date of first application of IFRS 9) is as follows:

Thousand euro

Stage 1	31/12/2018	01/01/2018
Debt securities	26,279,110	24,272,982
Loans and advances	139,376,896	137,142,828
Customers	131,106,667	131,785,242
Central banks and Credit institutions	8,270,229	5,357,586
Total *stage* 1	**165,656,006**	**161,415,810**
By sector:		
General governments	34,573,924	31,776,082
Central banks and Credit institutions	9,244,381	6,213,794
Other private sectors	121,837,701	123,425,934
Total *stage* 1	**165,656,006**	**161,415,810**

Stage 2		
Debt securities (*)	16,435	-
Loans and advances	8,878,533	7,505,184
Customers	8,855,004	7,482,251
Central banks and Credit institutions	23,529	22,933
Total *stage* 2	**8,894,968**	**7,505,184**

(*) Of which, 8,972 thousand euros correspond to "Financial assets at amortised cost".

By sector:		
General governments	34,482	6,458
Central banks and Credit institutions	36,978	22,933
Other private sectors	8,823,508	7,475,793
Total *stage* 2	**8,894,968**	**7,505,184**

Stage 3		
Debt securities	357	11,846
Loans and advances	6,471,868	8,123,127
Customers	6,471,569	8,122,763
Central banks and Credit institutions	299	364
Total *stage* 3	**6,472,225**	**8,134,973**
By sector:		
General governments	20,434	12,432
Central banks and Credit institutions	299	364
Other private sectors	6,451,492	8,122,177
Total *stage* 3	**6,472,225**	**8,134,973**
Total *stages*	**181,023,199**	**177,055,967**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the year ended 31 December 2018 were as follows:

Thousand euro

	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
Balance as at 1 January 2018	**161,415,810**	**7,505,184**	**8,134,973**	***480,525***	**177,055,967**
Transfers between impairment stages	(3,364,981)	2,194,203	1,170,778	-	-
Stage 1	1,713,189	(1,698,333)	(14,856)	-	-
Stage 2	(4,157,125)	4,512,248	(355,123)	-	-
Stage 3	(921,045)	(619,712)	1,540,757	-	-
Increases	35,525,449	867,622	279,017	*17,774*	36,672,088
Decreases	(28,097,540)	(1,634,236)	(2,250,806)	*(78,137)*	(31,982,582)
Transfers to write-offs	(2,680)	(346)	(857,144)	-	(860,170)
Adjustments for exchange differences	(136,028)	(37,452)	(4,592)	-	(178,072)
Other movements	315,976	(7)	(1)	-	315,968
Balance as at 31 December 2018	**165,656,006**	**8,894,968**	**6,472,225**	***420,162***	**181,023,199**

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2018 and 1 January 2018 (date of first application of IFRS 9) is as follows:

Thousand euro

	31/12/2018	01/01/2018
Secured with a mortgage	3,480,089	4,258,939
Of which: Stage 3 financial assets with guarantees covering all of the risk	*2,167,560*	*2,974,180*
Other collateral (*)	343,581	482,687
Of which: Stage 3 financial assets with guarantees covering all of the risk	*192,788*	*230,976*
Rest	2,648,555	3,393,347
Total	**6,472,225**	**8,134,973**

(*) Includes the rest of assets secured with collateral.

The breakdown by geography of assets classified as Stage 3 as at 31 December 2018 and 1 January 2018 (date of first application of IFRS 9) is as follows:

Thousand euro

	31/12/2018	01/01/2018
Spain	5,785,832	7,472,062
Rest of European Union	564,060	539,329
Ibero-America	72,694	29,965
North America	3,974	2,425
Other OECD countries	2,691	3,525
Rest of the world	42,974	87,667
Total	**6,472,225**	**8,134,973**

Accumulated financial income on impaired financial assets incurred but not recorded in the consolidated income statement amounted to 402,022 thousand euros as at 31 December 2018 and to 551,729 thousand euros as at 31 December 2017.

The movements in impaired financial assets derecognised from the asset side because the likelihood of their recovery is deemed remote are as follows:

Thousand euro

Balance as at 31 December 2016	**5,249,683**
Additions	**583,192**
Use of accumulated impairment balance	404,726
Directly recognised on income statement	135,416
Contractually payable interests	24,193
Other items	18,857
Disposals	**(997,940)**
Collections of principal in cash from counterparties	(153,782)
Collections of interest in cash from counterparties	(9,568)
Debt forgiveness	(16,466)
Referrals	(447,629)
Forbearance	(541)
Sales	(369,954)
Exchange differences	**(8,037)**
Balance as at 31 December 2017	**4,826,898**
Additions	**940,386**
Use of accumulated impairment balance	850,289
Directly recognised on income statement	5,718
Contractually payable interests	59,911
Other items	24,468
Disposals	**(335,096)**
Collections of principal in cash from counterparties	(72,305)
Collections of interest in cash from counterparties	(4,151)
Debt forgiveness	(44,311)
Referrals	-
Forbearance	(21)
Sales	(214,146)
Other items	(162)
Exchange differences	**648**
Balance as at 31 December 2018	**5,432,836**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side of the consolidated balance sheets as at 31 December 2018 and 2017 are as follows:

Thousand euro

	2018	2017
Debt securities	236	8,467
Loans and advances		
Central banks and Credit institutions	1,861	5,306
Customers	3,433,070	3,726,682
Total	**3,435,167**	**3,740,455**

Movements in impairment allowances allocated by the Group to cover credit risk during 2018 are as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 1 January 2018 (*)	**39,594**	**857,590**	**638,877**	**360,671**	**2,836,309**	**4,733,041**
Movements reflected in impairment gains/(losses) (**)	**15,116**	**72,482**	**(75,831)**	**79,771**	**427,520**	**519,058**
Increases due to origination	-	-	174,318	-	-	174,318
Changes due to credit risk variance	13,404	100,904	(154,297)	114,568	466,534	541,113
Changes in calculation approach	-	-	-	-	-	-
Other movements	1,712	(28,422)	(95,852)	(34,797)	(39,014)	(196,373)
Movements not reflected in impairment gains/(losses)	**(27,807)**	**(192,959)**	**(188,411)**	**(142,543)**	**(1,262,468)**	**(1,814,188)**
Transfers between impairment stages	(27,807)	91,167	18,401	(99,172)	17,411	-
Stage 1	(1,532)	(20,746)	135,809	(67,168)	(46,363)	-
Stage 2	2,994	(496)	(78,873)	158,017	(81,642)	-
Stage 3	(29,269)	112,409	(38,535)	(190,021)	145,416	-
Utilisation of allocated provisions	-	(277,292)	(6,192)	(42,938)	(1,124,688)	(1,451,110)
Other movements (***)	-	(6,834)	(200,620)	(433)	(155,191)	(363,078)
Adjustments for exchange differences	**(19)**	**(1,077)**	**(1,544)**	**(38)**	**(66)**	**(2,744)**
Balance as at 31 December 2018	**26,884**	**736,036**	**373,091**	**297,861**	**2,001,295**	**3,435,167**

(*) Includes the impact of the first application of IFRS 9 which has entailed an increase in impairment allowances for the amount of 992,586 thousand euros (see section "Implementation of IFRS 9 Financial Instruments" in Note 1).

(**) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a counterpart under the heading "Impairment or (-) reversal of impairment of financial assets not measured at fair value through profit or loss and net modification losses or (-) gains" (see Note 34).

(***) Corresponds, mainly, to the transfer of 200,615 thousand euros in impairment allowances allocated to cover the occurrence of contingencies related to mortgage floor clauses (see Note 22) and to the transfer of 162,463 thousand euros to cover credit risk on non-current assets held for sale (see Note 13) and investment properties (see Note 15).

The breakdown by geography of the balance of impairment allowances as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Spain	3,051,311	3,488,647
Rest of European Union	284,298	174,943
Ibero-America	52,936	35,264
North America	8,816	4,982
Other OECD countries	1,509	1,378
Rest of the world	36,297	35,241
Total	**3,435,167**	**3,740,455**

Sensitivity analysis of the key variables of macroeconomic scenarios

In order to measure the potential impact of the economic scenario on cost of risk, an analysis is carried out to determine the sensitivity of cost of risk to any deviations, *ceteris paribus*, with respect to the baseline economic scenario, which is the most likely of the scenarios considered in the Group's business plan. The results of this analysis are shown below:

	Change in the variable	Impact on cost of risk
Deviation in GDP growth	-100pb	+10pb
	+100pb	-7pb
Deviation in unemployment rate	+350pb	+13pb
	-350pb	-10pb
Changes in housing prices	-300pb	+12pb
	+300pb	-10pb

Note 12 –Derivatives - asset and liability hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Banco Sabadell Group establishes strategies to hedge against the interest rate risk of positions not included in the trading book as a fundamental tool with which to manage this risk. To this end, derivative instruments are used, whether fair value instruments or cash flows, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate ALM risk.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

The Group operates with the following types of macro-hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or of the exposure of a specific selection of such assets and liabilities, to changes in their fair value that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The following balance sheet items are hedged:

  - Fixed-rate loans included in the lending portfolio (macro-hedging of assets).
  - Debt securities included in the portfolio of "*Financial assets at fair value through other comprehensive income*"and the portfolio of "*Financial assets at amortised cost*"(macro-hedging of assets).
  - Fixed-rate liabilities, including fixed-term deposits and the institution's capital market funding transactions (macro-hedging of liabilities).

If the macro-hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating to fixed interest rate swap. These derivatives can be traded as cash or F&O. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. It therefore excludes the hedging of risks other than risk-free interest rate risk to which the balance sheet items are exposed.

In order to assess the hedge effectiveness from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes to the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

- Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the year's profit and loss. They are used to reduce net interest income volatility.

  The following balance sheet items are hedged:

  - Floating rate mortgage loans indexed to the mortgage Euribor (macro-hedging of assets).
  - Floating rate liabilities indexed to the 3-month Euribor (macro-hedging of liabilities).

  If the macro-hedge relates to assets, the Group enters into a floating to fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded as cash or F&O. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on balance sheet items. The hedge expressly excludes the credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items.

  In order to assess the hedge effectiveness from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

When designing its hedges, the Group links the notional value of derivatives to the balance of the hedged balance sheet items. Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Group calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Group in its policies and procedures.

Hedging of net investments in foreign operations

The Group has investments in foreign subsidiaries that are consolidated in its financial statements. These positions implicitly entail exposure to exchange rate risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2018 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2018 and 2017, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2018			2017		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Micro-hedges:						
Fair value hedges	**13,000,928**	**47,422**	**82,045**	**8,078,666**	**77,576**	**34,317**
Exchange rate risk	57,838	347	58	5,000	-	120
For funding operations (A)	*5,000*	-	*58*	*5,000*	-	*120*
Of permanent investments	-	-	-	-	-	-
Of non-monetary items (B)	*52,838*	*347*	-	-	-	-
Interest rate risk	10,983,284	47,041	55,117	5,459,440	77,575	14,378
For funding operations (A)	*3,708,940*	*12,139*	*16,266*	*4,884,694*	*25,128*	*6,299*
For lending operations (C)	*7,274,344*	*34,902*	*38,851*	*574,746*	*52,447*	*8,079*
Risk associated with shares	1,959,806	34	26,870	2,614,226	1	19,819
For funding operations (A)	*1,959,806*	*34*	*26,870*	*2,614,226*	*1*	*19,819*
	-	-	-			
Cash flow hedges	**6,443,227**	**140,787**	**13,150**	**12,438,680**	**227,305**	**152,649**
Exchange rate risk	554,999	72,952	-	691,467	74,877	36
Of non-monetary items (D)	*554,999*	*72,952*	-	*691,467*	*74,877*	*36*
Interest rate risk	3,636,428	77	9,123	10,907,129	152,412	137,350
Of future transactions (E)	*786,546*	-	*7,254*	*7,546,378*	*41,039*	*23,538*
For securitisation operations (F)	*2,844,909*	-	*1,869*	*3,355,778*	*111,343*	*113,812*
Rest	*4,973*	*77*	-	*4,973*	*30*	-
Risk associated with shares	800	1	3	4,084	16	47
For funding operations (G)	*800*	*1*	*3*	*4,084*	*16*	*47*
Other risks	2,251,000	67,757	4,024	836,000	-	15,216
For inflation-linked bonds (H)	*2,251,000*	*67,757*	*4,024*	*836,000*	-	*15,216*
Hedge of net investment in foreign operations	**2,155,118**	**5,315**	**22,956**	**1,745,045**	**21,888**	**3,249**
Exchange rate risk (I)	2,155,118	5,315	22,956	1,745,045	21,888	3,249
Macro-hedges:						
Fair value hedges	**23,356,122**	**87,174**	**493,492**	**25,077,994**	**47,252**	**781,373**
Interest rate risk	23,356,122	87,174	493,492	25,077,994	47,252	781,373
For funding operations (J)	*10,571,060*	*60,863*	*20,778*	*4,441,520*	*3,268*	*45,098*
For lending operations (K)	*12,785,062*	*26,311*	*472,714*	*20,636,474*	*43,984*	*736,275*
Cash flow hedges	**2,050,000**	**21,277**	**21,996**	**850,000**	**-**	**32,266**
Interest rate risk	2,050,000	21,277	21,996	850,000	-	32,266
For funding operations (L)	*700,000*	-	*21,996*	*850,000*	-	*32,266*
For lending operations (M)	*1,350,000*	*21,277*	-	-	-	-
Total	**47,005,395**	**301,975**	**633,639**	**48,190,385**	**374,021**	**1,003,854**
By currency:						
In euro	25,734,732	182,794	242,786	30,671,942	239,644	361,854
In foreign currency	21,270,663	119,181	390,853	17,518,443	134,377	642,000
Total	**47,005,395**	**301,975**	**633,639**	**48,190,385**	**374,021**	**1,003,854**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of the institution's funding transactions in capital markets, transactions involving term deposits and demand deposit accounts opened by customers and recognised under the heading "*Financial liabilities at amortised cost*".
B. Micro-hedges against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*".
C. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost* "and debt securities classified in the fair value through other comprehensive income portfolio.
D. Micro-hedges against exchange rate risk to reduce the volatility in the event of exchange rate fluctuations of securitisation bonds, recognised under the heading "*Financial liabilities at amortised cost*", equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income* "and transactions involving currency futures.
E. Micro-hedges of interest rates on future transactions, mainly fixed-income securities. The institution designates as a hedging item derivative contracts that will be settled at their gross value by transferring the underlying asset (according to the contracted price) which, in accordance with the implementation guidelines of IAS 39, can be considered as a cash flow hedge in respect of the consideration that will be settled in a future transaction arising from the settlement of the derivative itself in gross terms. If no derivative had been arranged, the Group would be exposed to changes in price.
F. Micro-hedging operations carried out by the Group's securitisation funds.
G. Micro-hedges for transactions involving term deposits arranged by customers and which are currently being sold.
H. Micro-hedges of interest rates on inflation-linked bonds recognised under the headings "*Financial assets at fair value through other comprehensive income* "and "*Financial assets at amortised cost*". The Group has arranged financial swaps to hedge future changes in cash flows that will be settled by ILBs.
I. Hedges against exchange rate risk on permanent shareholdings currently cover 1,368 million pounds sterling and 11,050 million Mexican pesos corresponding to shareholdings in Group entities, considered as fair value hedges, as well as 40 million US dollars corresponding to shareholdings in foreign branches, which are considered as hedges of net investments in foreign operations (see Note 4). All of these hedges are carried out through currency forwards.
J. Macro-hedges of the institution's funding transactions in capital markets, transactions involving term deposits and demand deposit accounts opened by customers and recognised under the heading "*Financial liabilities at amortised cost*".
K. Macro-hedges of debt securities classified in the portfolios of fair value through other comprehensive income and at amortised cost, and of fixed-rate mortgage loans granted to customers (recognised under the heading "*Financial assets at amortised cost*").
L. Cash flow macro-hedges the purpose of which is to reduce the volatility of the buy-sell spread as a result of interest rate fluctuations, for a one-year time horizon. Thus, this macro-hedge covers future cash flows based on the net exposure of a portfolio consisting of floating rate liabilities recognised under the heading "*Financial liabilities at amortised cost*". The average rate of interest rate swaps used for this hedge is -0.32%.
M. Macro-hedges for floating rate mortgage loans granted to customers recognised under the heading "*Financial assets at amortised cost*". The average rate of interest rate swaps used for this hedge is -0.18%.

The maturity profiles of the hedging instruments used by the Group as at 31 December 2018 are shown below:

Thousand euro

	2018					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Exchange rate risk	827,595	1,561,679	23,675	355,006	-	**2,767,955**
Interest rate risk	6,954,835	733,234	3,122,764	16,008,965	13,206,036	**40,025,834**
Risk associated with shares	4,600	263,626	288,737	1,378,902	24,741	**1,960,606**
Other risks	-	-	-	261,000	1,990,000	**2,251,000**
Total	**7,787,030**	**2,558,539**	**3,435,176**	**18,003,873**	**15,220,777**	**47,005,395**

In 2018 there have been no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that have ultimately not been executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Group:

Thousand euro

	2018					2017	
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies	Carrying amount of hedged item	
	Assets	Liabilities	Assets	Liabilities		Assets	Liabilities
Micro-hedges:							
Fair value hedges							
Exchange rate risk	52,838	4,984	-	24	-	-	4,844
Interest rate risk	7,033,252	3,755,456	(20,306)	1,452	21,798	3,503,965	4,956,191
Risk associated with shares	-	2,052,016	-	3,021	(7)	-	2,129,509
Total	**7,086,090**	**5,812,456**	**(20,306)**	**4,497**	**21,791**	**3,503,965**	**7,090,544**

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2018 amounts to 16,067,394 and 55,300,022 thousand euros, respectively (40,363,123 and 54,520,172 thousand euros in 2017, respectively). Similarly, fair value adjustments of the hedged items amount to 56,972 and 36,502 thousand euros as at 31 December 2018, respectively (48,289 and -4,593 thousand euros as at 31 December 2017).

In relation to fair value hedges, the losses and gains recognised in 2018 and 2017 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2018		2017	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(93,700)**	**89,053**	**(56,163)**	**51,863**
Fixed-rate assets	(49,663)	45,989	(33,790)	30,969
Capital markets	(15,011)	14,561	(10,731)	10,192
Fixed-rate liabilities	(13,214)	12,594	(11,642)	10,702
Assets denominated in foreign currency	(15,812)	15,909	-	-
Macro-hedges	**(11,728)**	**38,895**	**34,604**	**(2,486)**
Capital markets and fixed-rate liabilities	80,892	(61,467)	8,696	19,822
Fixed-rate assets	(92,620)	100,362	25,908	(22,308)
Total	**(105,428)**	**127,948**	**(21,559)**	**49,377**

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from equity and included in earnings during the year are indicated in the statement of total changes in equity of the bank.

The hedge ineffectiveness in 2018 results related to cash flow hedges amounted to losses of 602 thousand euros.

Note 13 –Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these headings in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Assets	**7,409,293**	**3,559,232**
Cash, cash balances at central banks and other demand deposits	-	4,169
Loans and advances	421,422	83,620
Credit institutions	14	1,346
Customers	421,408	82,274
Debt securities	-	-
Equity instruments	-	-
Real estate exposure	6,929,301	3,411,451
Tangible assets for own use	104,451	54,556
Investment properties	20,533	34,408
Foreclosed assets	6,795,709	3,319,131
Leased out under operating leases	8,608	3,355
Rest of other assets	58,570	59,992
Impairment allowances	**(2,822,370)**	**(997,488)**
Non-current assets and disposal groups classified as held for sale	**4,586,923**	**2,561,744**
Liabilities		
Financial liabilities at amortised cost	-	-
Tax liabilities	-	-
Liabilities under insurance or reinsurance contracts	-	-
Rest	82,605	20,645
Liabilities included in disposal groups classified as held for sale	**82,605**	**20,645**

The increase in the balance of the real estate exposures shown in the table above mainly corresponds to the assets subject to the transfer agreement reached with Cerberus described in Note 2.

The increase in the value of loans and advances recognised as non-current assets held for sale is mainly due to the transfer of the loan portfolio that was agreed on 24 July 2018 and to the loans and advances of Solvia Servicios Inmobiliarios, S.L.U., an institution for which an agreement was reached on 14 December 2018 to sell 80% of its share capital. Both transactions are described in Note 2. These loans and advances have been reclassified as "*Non-current assets and disposal groups classified as held for sale*" by their net carrying value.

The breakdown of the gross value and impairment allowances of the loans included in this portfolio, pooled on the basis of their credit risk and intended purpose, is shown below:

Thousand euro

	Gross Value	Allowances	Net value
Portfolio of loans for which a sale agreement has been reached (*)	**525,895**	**217,247**	**308,648**
Loans and advances previously classified in Stage 3	**525,753**	**217,222**	**308,531**
Real estate development and construction	324,063	143,241	180,821
Non-real estate construction	1,020	293	727
Corporates	1,066	359	707
SMEs and self-employed	74,526	28,217	46,309
Individuals	125,078	45,111	79,967
Loans and advances previously classified in Stage 2	**16**	**16**	**-**
Individuals	16	16	-
Loans and advances previously classified in Stage 1	**125**	**8**	**117**
Individuals	125	8	117
Other loans and advances	**112,760**	**-**	**112,760**
Of which, loans and advances of Solvia Servicios Inmobiliarios, S.L.U. (*)	*111,887*	-	*111,887*
Total	**638,655**	**217,247**	**421,408**

(*) See Note 2.

As mentioned in Note 2, certain characteristics specific to the assets classified in this portfolio have been considered in order to achieve the most faithful and comparable presentation possible of the guarantees given under the APS protocol in the financial statements. In order to prevent gross lending from being overvalued or duplicated, provisions allocated for this 80% are presented net of gross lending classified as "*Non-current assets and disposal groups classified as held for sale*". This exclusion of gross lending explains the difference of 867 million euros between the loans and advances for which a transfer deal has been reached, which are shown in Note 2, and those shown in the table above. Presenting the information in this way does not impact the net lending classified under this heading.

With regard to customer lending classified as Stage 3, the Group considers as Stage 3 balances the portion corresponding to 20% of exposure that has been retained as the credit risk has not been transferred to the DGF. For as long as the credit or loan is included on the balance sheet, 80% of the risk is presented as a standard exposure as the credit risk has been transferred. In other words, for each asset protected by the APS, the Group considers the proportion of its flows that will be obtained from borrowers or third parties and the proportion that will be obtained from the DGF as a result of the guarantee given, taking into account the value of any mortgage guarantees securing the loan.

The reconciliation between gross lending recognised as non-current assets held for sale both prior and subsequent to the transfer of credit risk to the DGF is shown below:

Million euro

	2018		
	Post credit risk transfer	Credit risk transfer	Pre credit risk transfer
Gross lending classified as instruments held for sale	**526**	**-**	**526**
Of which Stage 3 assets	*526*	*(867)*	*1,393*
Of which other investments	-	*867*	*(867)*

As the loans and advances that have been classified as non-current assets held for sale mainly correspond to the transfer agreement reached on 24 July 2018 described in Note 2, and given that these loans comprise mainly exposures classified as Stage 3, the NPL ratio of this portfolio is not shown. The coverage ratio before and after excluding the gross lending classified as non-current assets held for sale explained above stands at 77.85% and 41.31%, respectively.

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 89.09% of the balance corresponds to residential properties, 9.38% to industrial properties and 1.53% to agricultural properties.

The average term during which assets remained within the category of "*Non-current assets and assets and liabilities included in disposal groups classified as held for sale –Foreclosed assets*" was 47.5 months in 2018 (refer to Note 4 for policies on selling or otherwise disposing of these assets).

The percentage of foreclosed assets sold with financing granted to the buyer by the bank in 2018 was 20.74% (21.58% in 2017).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2018 and 2017 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2016		**5,423,159**
Reclassification Mediterráneo Vida		972,306
Additions		(710,022)
Disposals		(2,438,065)
Other transfers/reclassifications		476,439
Transfer of credit losses (*)		(164,585)
Balances as at 31 December 2017		**3,559,232**
Additions		1,011,285
Disposals		(1,831,457)
Other transfers/reclassifications		4,840,137
Transfer of credit losses (*)		(169,904)
Balances as at 31 December 2018		**7,409,293**
Impairment allowances:		
Balances as at 31 December 2016		**844,464**
Impairment through profit or loss	37	725,326
Reversal of impairment through profit or loss	37	(512,735)
Utilisations		(198,482)
Other transfers/reclassifications		138,915
Balances as at 31 December 2017		**997,488**
Impairment through profit or loss	37	708,949
Reversal of impairment through profit or loss	37	(636,650)
Utilisations		(1,103,674)
Other transfers/reclassifications		2,856,256
Balances as at 31 December 2018		**2,822,370**
Net balances as at 31 December 2017		**2,561,744**
Net balances as at 31 December 2018		**4,586,923**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2018	2017
Loans and advances	11	409,129	12,292
Tangible assets	15	865,165	297,243
Other assets	17	697,533	-
Rest	2	12,054	27,989
Total		**1,983,881**	**337,524**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2018 and 2017 are as follows:

Thousand euro

Balance as at 31 December 2016	**380,672**
Scope additions / exclusions	(1,173)
Profit/(loss) for the year	308,686
Acquisition or capital increase (*)	52,930
Sale or dissolution	(9,351)
Dividends	(177,985)
Transfer	25,804
Impairment, allowances, translation differences and other	(3,939)
Balance as at 31 December 2017	**575,644**
Scope additions / exclusions	-
Profit/(loss) for the year	56,554
Acquisition or capital increase (*)	46,178
Sale or dissolution	(3,894)
Dividends	(83,772)
Transfer	(11,800)
Impairment, allowances, translation differences and other	(3,970)
Balance as at 31 December 2018	**574,940**

(*) See cash flow statement.

The section of the cash flow statement "*Investment activities – Collections from investments in joint ventures and associates* "shows 93,240 thousand euros which correspond to the sum of 3,894 thousand euros on sales or settlements, 83,772 thousand euros on dividends charged and 5,574 thousand euros, which correspond to the derecognitions or settlements included in the breakdown shown in Schedule I. Furthermore, the section "*Investment activities – Payments for investments in joint ventures and associates* "of this statement shows 46,178 thousand euros, which correspond to the acquisitions carried out during 2018.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2018 and 2017 are indicated in Schedule I.

On 24 June 2017, Bansabadell Vida, S.A. de Seguros y Reaseguros (Bansabadell Vida), a company in which Banco Sabadell and Zurich Vida, Compañía de Seguros y Reaseguros, S.A. (Zurich) each held a 50% interest, entered into a reinsurance contract with the Spanish branch of the reinsurance company Swiss Re Europe, S.A., in respect of its individual life insurance portfolio as at 30 June 2017.

BanSabadell Vida received a reinsurance fee of 683.7 million euros, resulting in net income of approximately 253.5 million euros for Banco Sabadell Group, after deducting taxes and expenses relating to this transaction. This revenue was recognised under the heading "*Share of profit or loss of entities accounted for using the equity method* "in the row of "Profit/(loss) for the year "corresponding to 2017 in the table above.

As at 31 December 2018 and 2017, there was no goodwill associated with investments in joint ventures and associates.

As at 31 December 2018 and 2017, no support agreements or other type of significant contractual commitment had been provided by the bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "*Investments in joint ventures and associates* "is as follows:

Thousand euro

	2018	2017
Group investment in investees (Schedule I)	291,056	243,632
Contributions due to retained earnings	262,859	294,684
Valuation adjustments	21,025	37,328
Total	**574,940**	**575,644**

The following table shows the key financial data relating to the investment considered to be individually significant, BanSabadell Vida, as at 31 December 2018 and 2017. This institution is an associate through which Banco Sabadell completes its product and service offering for customers by distributing this firm's insurance products through the bank's branch network:

Thousand euro

	BanSabadell Vida (*)	
	2018	2017
Total assets	10,072,813	9,485,336
Of which: financial investments	*9,307,566*	*8,952,022*
Total liabilities	9,408,757	8,748,778
Of which: technical provisions	*9,043,282*	*8,367,112*
Result of the technical account of insurer	73,361	777,165
Of which: premiums allocated to the year	*2,404,090*	*2,594,082*
Of which: claims ratio for the year	*(1,574,663)*	*(2,555,765)*
Of which: technical financial yield	*143,423*	*156,735*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

As at 31 December 2018 and 2017, the book value of the investment in BanSabadell Vida, S.A. amounted to 312,803 and 350,511 thousand euros, respectively. As at 31 December 2018 and 2017, the aggregate book value of investments in associates considered as non-material on an individual basis was of 262,137 and 225,133 thousand euros, respectively.

Note 15 –Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018				2017			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, plant and equipment	**3,273,845**	**(1,461,375)**	**(15,788)**	**1,796,682**	**3,378,020**	**(1,490,374)**	**(25,916)**	**1,861,730**
For own use:	2,933,404	(1,396,127)	(10,301)	1,526,976	3,078,409	(1,427,883)	(25,494)	1,625,032
Computer equipment and related facilities	510,945	(378,773)	-	132,172	534,237	(391,481)	-	142,756
Furniture, vehicles and other facilities	1,276,404	(691,182)	(4,078)	581,144	1,329,670	(724,675)	(8,580)	596,415
Buildings	1,094,086	(309,497)	(6,223)	778,366	1,178,037	(298,627)	(16,914)	862,496
Work in progress	7,987	(1)	-	7,986	1,844	(1)	-	1,843
Other	43,982	(16,674)	-	27,308	34,621	(13,099)	-	21,522
Leased out under operating leases	340,441	(65,248)	(5,487)	269,706	299,611	(62,491)	(422)	236,698
Investment properties	**821,885**	**(47,970)**	**(72,894)**	**701,021**	**2,483,103**	**(122,586)**	**(395,724)**	**1,964,793**
Buildings	818,128	(47,444)	(72,362)	698,322	2,427,264	(119,394)	(377,275)	1,930,595
Rural property, plots and sites	3,757	(526)	(532)	2,699	55,839	(3,192)	(18,449)	34,198
Total	**4,095,730**	**(1,509,345)**	**(88,682)**	**2,497,703**	**5,861,123**	**(1,612,960)**	**(421,640)**	**3,826,523**

Movements in the balance of the "*Tangible assets*" heading during 2018 and 2017 were as follows:

Thousand euro

	Not	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Assets leased out under operating leases	Total
Cost:						
Balances as at 31 December 2016		**1,551,599**	**1,786,751**	**2,966,638**	**229,357**	**6,534,345**
Scope additions / exclusions	2	(323,164)	(7,630)	(140,297)	-	(471,091)
Additions		34,343	108,539	348,295	96,909	588,086
Disposals		(26,101)	(17,151)	(276,799)	(24,701)	(344,752)
Other transfers		(13,471)	(3,204)	(393,433)	(1,595)	(411,703)
Transfer of credit losses (*)		-	-	(21,301)	-	(21,301)
Exchange rate		(8,704)	(3,398)	-	(359)	(12,461)
Balances as at 31 December 2017		**1,214,502**	**1,863,907**	**2,483,103**	**299,611**	**5,861,123**
Scope additions / exclusions		-	-	-	-	-
Additions		17,279	100,697	76,758	105,796	300,530
Disposals		(24,052)	(142,650)	(513,080)	(64,631)	(744,413)
Other transfers		(59,512)	(33,799)	(1,218,629)	(260)	(1,312,200)
Transfer of credit losses (*)		-	-	(6,266)	-	(6,266)
Exchange rate		(2,162)	(806)	-	(75)	(3,044)
Balances as at 31 December 2018		**1,146,055**	**1,787,349**	**821,885**	**340,441**	**4,095,730**
Accumulated depreciation:						
Balances as at 31 December 2016		**351,634**	**1,057,816**	**181,841**	**44,823**	**1,636,114**
Scope additions / exclusions	2	(74,658)	(29,836)	(19,309)	-	(123,803)
Additions		46,391	113,790	63,957	33,853	257,991
Disposals		(6,271)	(19,816)	(19,836)	(15,929)	(61,852)
Other transfers		(1,739)	(3,604)	(84,067)	(95)	(89,505)
Exchange rate		(3,630)	(2,194)	-	(161)	(5,985)
Balances as at 31 December 2017		**311,727**	**1,116,156**	**122,586**	**62,491**	**1,612,960**
Additions		34,064	109,658	38,084	39,253	221,060
Disposals		(9,397)	(138,093)	(46,972)	(31,917)	(226,379)
Other transfers		(9,084)	(17,230)	(65,728)	(4,534)	(96,577)
Exchange rate		(1,138)	(536)	-	(44)	(1,718)
Balances as at 31 December 2018		**326,172**	**1,069,955**	**47,970**	**65,248**	**1,509,345**
Impairment losses:						
Balances as at 31 December 2016		**41,366**	**-**	**380,551**	**714**	**422,631**
Scope additions / exclusions	2	(21,878)	3,923	(61,441)	-	(79,396)
Impairment through profit or loss	35	10,643	4,657	507,510	-	522,810
Reversal of impairment through profit or loss	35	-	-	(291,468)	-	(291,468)
Utilisations		-	-	(14,830)	(292)	(15,122)
Other transfers		(13,217)	-	(124,598)	-	(137,815)
Balances as at 31 December 2017		**16,914**	**8,580**	**395,724**	**422**	**421,640**
Impairment through profit or loss	35	-	-	211,212	-	211,212
Reversal of impairment through profit or loss	35	(907)	-	(149,877)	-	(150,784)
Utilisations		(78)	(4,502)	(38,105)	(243)	(42,927)
Other transfers		(9,706)	-	(346,060)	5,308	(350,458)
Balances as at 31 December 2018		**6,223**	**4,078**	**72,894**	**5,487**	**88,682**
Net balances as at 31 December 2017		**885,861**	**739,171**	**1,964,793**	**236,698**	**3,826,523**
Net balances as at 31 December 2018		**813,660**	**713,316**	**701,021**	**269,706**	**2,497,703**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2018	2017
Non-current assets and disposal groups classified as held for sale	13	(865,165)	(297,243)
Credit losses	11	(6,266)	(21,301)
Other assets		-	112,860
Total		**(871,431)**	**(205,684)**

Specific information relating to tangible assets as at 31 December 2018 and 2017 is shown hereafter:

Thousand euro

	2018	2017
Gross value of tangible assets for own use in use and fully amortised	459,417	510.673
Net carrying value of tangible assets of foreign operations	232,636	240,846

Minimum future payments over the period that cannot be cancelled for operating lease contracts in effect as at 31 December 2018 are indicated below:

Thousand euro

	2018
Operating lease expenses (*)	161,506
Current value of future payments up to 1 year	104,430
Current value of future payments between 1 and 5 years	271,873
Current value of future payments of more than 5 years	423,955

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

The Group has closed deals for the sale of properties and in the same operation entered into an operating lease contract with buyers (maintenance, insurance and taxes to be borne by the bank) for the same properties. The main characteristics of the most significant lease contracts in effect as at the end of 2018 are as follows:

	2018			
Operating lease contracts	Nº. properties sold	Nº. contracts with purchase option	Nº. contracts without purchase option	Mandatory term
2009	68	28	40	10 to 20 years
2010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	82	64	18	8 to 20 years
2012 (acquisition Banco CAM)	15	15	-	10 to 25 years
2012	4	4	-	15 years

Specific information in connection with this set of operating lease contracts is given below:

Thousand euro

	2018
Operating lease expenses	53,795
Current value of future payments up to 1 year	49,718
Current value of future payments between 1 and 5 years	175,090
Current value of future payments of more than 5 years	326,696

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

For the batch of 379 properties the sale of which was closed in April 2010 for which an operating lease was arranged at the same time, the income for the mandatory term of the lease, initially set at 37.5 thousand euros per month, is updated annually based on the Spanish CPI with a minimum increase of 2.75% per year until April 2018. For all other real estate, the income is updated annually with the Spanish CPI.

With regard to the tangible assets leased out under operating leases, the bulk of the operating lease operations is carried out by BanSabadell Renting, S.A. and consists of vehicle leases.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2018 amounted to 40,196 and 20,612 thousand euros, respectively. Direct expenses associated with investment properties that did not produce income were not significant in the context of the consolidated annual financial statements.

Note 16 –Intangible assets

The composition of this item as at 31 December 2018 and 2017 was as follows:

Thousand euro

	2018	2017
Goodwill:	**1,032,618**	**1,019,440**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	28,072	14,894
Other intangible assets:	**1,428,524**	**1,226,418**
With a finite useful life:	1,428,524	1,226,418
Contractual relations with customers and brand (Banco Urquijo)	-	2,115
Contractual relations with customers (Banco Guipuzcoano)	10,495	15,983
Private Banking Business, Miami	19,730	22,457
Contractual relations with TSB customers and brand	199,497	241,481
Computer applications	1,197,357	942,766
Other	1,445	1,616
Total	**2,461,142**	**2,245,858**

Goodwill

As set forth in the regulatory framework of reference, Banco Sabadell has carried out an analysis to evaluate the existence of any potential impairment to its goodwill.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the bank over a 5-year projection period (to 2023). It is considered that by 2023, the bank will have generated recurring revenue, therefore the terminal value is calculated using that year as a reference and applying a perpetuity growth rate of 1.85%. An interest rate of 10.2% was used, a figure reached through the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

Recoverable values, both at Group-wide level and at the level of the UGEs (Commercial Banking, Corporate Banking, Private Banking, TSB and Rest), are higher than their respective book values and therefore no impairment has been recognised.

Furthermore, a number of sensitivity analyses have been carried out in an extremely adverse scenario, in which key variables are individually subjected to stress, and the results do not show any sign of impairment.

Variables for which the various sensitivity analyses have been carried out were as follows:

- A 15% haircut on recurring fees and commissions for 2023.
- A 50% increase in recurring cost of risk for 2023.
- An increase in expenses for 2023, calculated by applying a multiplier of 5x the expected inflation to the expenses for 2023.
- A further 1% increase in the premium to calculate the interest rate.
- An increase of +0.5% of the minimum capital requirement for each year.
- No growth rate is applied.
- Aggregated assumption that jointly considers changes in all key variables: a 5% haircut in recurring fees and commissions in 2023, a 5% increase in the recurrent cost of risk for 2023, an increase in expenses as a result of applying a multiplier of twice the expected inflation to 2023 expenses, and an additional 0.5% increase in the premium to calculate the interest rate.

The impairment of goodwill is calculated taking into account the central macroeconomic scenario described in Note 1.3.4.

Evaluation of whether there is any evidence of significant impairment to goodwill:

Banco Urquijo

The goodwill of Banco Urquijo is assigned to cash generating units (UGE, for their acronym in Spanish), which are expected to benefit from the identified synergies. The UGEs and their weight as a percentage of Banco Urquijo's total goodwill are: Private Banking UGE (12.7%), Commercial Banking UGE (21.2%), Corporate Banking UGE (1.9%) and Other UGEs (2.3%). Synergies that could not be assigned to a specific UGE due to limited available historical information of the acquired entity have been assigned to the overall set of UGEs (61.9%).

Banco Guipuzcoano

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking UGE and reflects the future income-generating capacity of the acquired assets and liabilities, the value of the potential income and cost synergies identified and the costs associated with the transaction.

BMN-Penedès

Goodwill generated from the business combination corresponding to the acquisition of assets from BMN-Penedès was assigned to the Commercial Banking UGE.

In accordance with the specifications of the restated text of the Corporation Tax Law, the generated goodwill is not tax-deductible.

Other intangible assets

Banco Guipuzcoano

The intangible assets associated with the acquisition of Banco Guipuzcoano mainly include the value of the contractual rights arising from relationships with customers taken over from Banco Guipuzcoano for core deposits and mutual funds. The valuation of core deposits has been carried out with the income approach using the cost savings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative sources of funding. Mutual funds management was valued by the income approach using the excess earnings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the fees received for the sale of mutual funds. These assets are amortised within ten years from the date of acquisition of Banco Guipuzcoano.

Private Banking business, Miami

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from relationships with customers taken over from this business, mainly short-term lending and deposits. These assets are amortised within 15 years from their creation.

TSB

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from relationships with customers taken over from TSB for core deposits. This asset is amortised within 8 years. The valuation of these intangible assets was carried out by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings technique. To determine whether there is any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the bank has been compared against the estimated balance that such customers would have at the end of 2018, which was forecast at the time of the initial valuation. Based on this comparison, it can be concluded that there is no evidence of any impairment.

The value of the exclusive right of use of the TSB brand was also estimated at 73 million euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised within 12 years. For the brand, the assessment of the recoverable value of the TSB UGE has implicitly analysed its valuation, concluding that there is no impairment.

Software purchase costs comprise mainly the capitalised costs of developing the Group's computer software and the purchase of software licences.

Movements in goodwill in 2018 and 2017 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2016	**1,094,526**	**-**	**1,094,526**
Additions	-	(309)	(309)
Disposals	(2,126)	-	(2,126)
Exchange differences	(5,835)	-	(5,835)
Other	(67,125)	309	(66,816)
Balance as at 31 December 2017	**1,019,440**	**-**	**1,019,440**
Additions	13,178	-	13,178
Disposals	-	-	-
Exchange differences	-	-	-
Scope additions / exclusions (*)	-	-	-
Balance as at 31 December 2018	**1,032,618**	**-**	**1,032,618**

(*) See Note 2

Movements in other intangible assets in 2018 and 2017 were as follows:

Thousand euro

	Cost	Depreciation	Impairment	Total
Balance as at 31 December 2016	**2,195,177**	**(1,154,487)**	**(1)**	**1,040,689**
Additions	376,703	(144,252)	(2,292)	230,159
Disposals	(61,397)	29,798	2,292	(29,307)
Other	(2,180)	390	-	(1,790)
Exchange differences	(19,930)	6,597	-	(13,333)
Balance as at 31 December 2017	**2,488,373**	**(1,261,954)**	**(1)**	**1,226,418**
Additions	375,093	(171,289)	(286)	203,518
Disposals	(55,839)	54,926	286	(627)
Other	(279)	-	-	(279)
Exchange differences	762	(1,267)	-	(506)
Balance as at 31 December 2018	**2,808,109**	**(1,379,584)**	**(1)**	**1,428,524**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2018 and 2017 amounted to 896,451 thousand euros and 701,379 thousand euros, respectively.

Note 17 –Other assets

The “*Other assets* ”heading on the consolidated balance sheets as at 31 December 2018 and 2017 breaks down as follows:

Thousand euro

	Note	2018	2017
Insurance contracts linked to pensions	22	132,299	139,114
Inventories		934,857	2,076,294
Rest of other assets		572,829	760,103
Total		**1,639,985**	**2,975,511**

The heading “*Rest of other assets* ”includes mainly unearned expenses paid, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2018 and 2017 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Finished buildings	Total
Balance as at 31 December 2016		**1,776,858**	**234,922**	**912,679**	**2,924,459**
Additions		74,692	72,132	221,350	368,174
Disposals		(211,679)	(35,253)	(291,128)	(538,060)
Impairment through profit or loss	35	(515,408)	(125,373)	(426,121)	(1,066,902)
Reversal of impairment through profit or loss	35	113,967	97,285	290,231	501,483
Other transfers	15	(31,080)	(25,213)	(56,567)	(112,860)
Balance as at 31 December 2017		**1,207,350**	**218,500**	**650,444**	**2,076,294**
Additions		74,926	88,263	183,873	347,062
Disposals		(148,208)	(53,806)	(249,017)	(451,032)
Impairment through profit or loss	35	(503,145)	(38,461)	(156,914)	(698,520)
Reversal of impairment through profit or loss	35	215,714	40,255	102,618	358,586
Other transfers	13	(245,214)	(109,322)	(342,997)	(697,533)
Balance as at 31 December 2018		**601,422**	**145,428**	**188,006**	**934,857**

As at 31 December 2018 and 2017, there are no inventories associated with debt secured with mortgages.

Note 18 –Deposits in central banks and credit institutions

The breakdown of the deposits in central banks and credit institutions heading in the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
By heading:		
Financial liabilities at amortised cost	40,798,721	42,018,348
Total	**40,798,721**	**42,018,348**
By nature:		
Demand deposits	399,836	235,076
Deposits with agreed maturity	32,517,567	31,964,417
Repurchase agreements	7,600,498	9,591,000
Deposits redeemable at notice	-	-
Hybrid financial liabilities	59,504	62,605
Other accounts	198,300	151,394
Valuation adjustments	23,016	13,856
Total	**40,798,721**	**42,018,348**
By currency:		
In euro	30,422,046	32,663,588
In foreign currency	10,376,675	9,354,760
Total	**40,798,721**	**42,018,348**

Note 19 –Customer deposits

The customer deposits heading on the consolidated balance sheets as at 31 December 2018 and 2017 breaks down as follows:

Thousand euro

	Note	2018	2017
By heading:			
Financial liabilities at amortised cost		139,078,942	135,307,437
Total		**139,078,942**	**135,307,437**
By nature:			
Demand deposits	4	107,665,339	98,019,789
Deposits with agreed maturity		26,705,427	30,377,798
Fixed term		23,925,215	27,521,501
Non-marketable covered bonds and bonds issued		1,962,867	2,412,422
Rest		817,345	443,875
Hybrid financial liabilities		2,003,569	2,047,546
Repurchase agreements		2,532,968	4,749,634
Valuation adjustments		171,639	112,670
Total		**139,078,942**	**135,307,437**
By sector:			
General governments		5,943,438	5,437,779
Other sectors		132,963,865	129,756,988
Other valuation adjustments (interest, fees and commissions, other)		171,639	112,670
Total		**139,078,942**	**135,307,437**
By currency:			
In euro		97,230,637	93,077,399
In foreign currency		41,848,305	42,230,038
Total		**139,078,942**	**135,307,437**

Note 20 – Debt securities issued

The breakdown of the balance of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Straight bonds/debentures	3,979,311	4,843,573
Straight bonds	3,759,097	4,408,506
Structured bonds	220,214	435,067
Commercial paper	3,276,336	3,179,100
Covered Bonds	9,525,100	10,099,200
Covered Bonds (TSB)	558,953	563,552
Securitisation funds	2,247,953	2,544,173
Subordinated marketable debt securities	2,986,344	2,481,835
Subordinated liabilities	1,836,344	1,331,835
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	24,656	76,411
Total	22,598,653	23,787,844

Schedule V shows details of the outstanding issuances at 2018 and 2017 year-end.

Two issues of preference shares contingently convertible into the bank's ordinary shares (Additional Tier 1) have been carried out in 2017. On 18 May 2017, Banco Sabadell carried out its first Additional Tier 1 issuance, amounting to 750,000 thousand euros with a coupon rate of 6.5%. Subsequently, on 23 November 2017, it carried out a second Additional Tier 1 issuance, amounting to 400,000 thousand euros with a coupon rate of 6.125%.

These securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if Banco Sabadell, or its consolidated Group had a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms. The conversion price of the securities shall be the higher of (i) the average of the average prices weighted by the daily volume of the Banco Sabadell share, corresponding to the share listings five days prior to the date of the announcement of the corresponding conversion, (ii) 1.221 euros (floor price for the inaugural issuance in April) and 1,095 euros (floor price for the issuance carried out in November) and (iii) the nominal value of the Banco Sabadell share at the time of the conversion (the nominal value of the share is 0.125 euros).

The remuneration of the securities, the payment of which is subject to certain conditions and is also discretional, is established at an annual 6.5% (for the inaugural issuance in April) and 6.125% annually (for the issuance carried out in November) for the first 5 years, which is then renewed every five years, applying a margin of 641.4 and 605.1 basis points to the 5 year mid-swap rate) respectively.

The securities are considered as Additional Tier 1 Capital. These issuances were exclusively aimed at qualified investors.

Expenses relating to the remuneration for preference shares contingently converted into ordinary shares amount to 73,250 thousand euros as at 31 December 2018 (32,870 thousand euros as at 31 December 2017). The net cost of its fiscal impact has been recorded under the "*Other reserves*" heading of equity.

On 28 October 2017, the final maturity was reached of the Series IV/2013 mandatory convertible subordinated bond issue, resulting in the mandatory conversion of the 70,720,450 Series IV/2013 Bonds which remained in circulation into ordinary shares of Banco Sabadell. As a result, on 16 November 2017, the public deed for the capital increase of a nominal amount of 1,351,688.125 euros was registered with the Alicante Mercantile Registry, agreed by the Executive Committee of Banco Sabadell on 2 November 2017, to attend to the mandatory total conversion arising from the maturity of the issue of mandatory convertible subordinated bonds series IV/2013, which gave rise to the issue and allotment of a total of 10,813,505 ordinary shares of Banco Sabadell. On 23 November 2017, the National Securities Market Commission (CNMV) verified that the requirements for the admission to trading of these new shares with a par value of 0.125 euros each, issued by Banco Sabadell had been satisfied. Lastly, on 23 November 2017, the Governing Bodies of the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia agreed to the admission to trading of the aforementioned new shares, for which reason the effective trading of these new shares in the Stock Exchanges of Barcelona, Bilbao, Madrid and Valencia through Spain's electronic trading system (S.I.B.E, also called Mercado Continuo) was initiated on 24 November 2017.

The capital increases implemented as a result of the mandatory conversions in 2017 are as follows:

Issue	Conversion/ maturity date	Reason for conversion	Bonds converted (*)	Shares issued	Capital increase at nominal value (thousand euro)	Date of admission to quotation
OSNC IV/2013	28/10/2017	Mandatory total conversion	70,720,450	10,813,505	1,352	23/11/2017
Total 2017 (**)					1,352	

(*) Each year 25% of the nominal amount of the 70,720,450 bonds issued were converted.

(**) See consolidated Statement of changes in equity for 2018 and 2017.

Expenses relating to the remuneration of mandatory convertible subordinated bonds amounted to 726 thousand euros in 2017.

Note 21 – Other financial liabilities

The breakdown of the balance of other financial liabilities in the consolidated balance sheet as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
By heading:		
Financial liabilities designated at fair value through profit or loss	-	39,540
Financial liabilities at amortised cost	3,600,544	2,931,854
Total	**3,600,544**	**2,971,394**
By nature:		
Debentures payable	421,562	298,470
Guarantee deposits received	77,907	91,548
Clearing houses	647,274	730,746
Collection accounts	1,789,344	1,285,297
Other financial liabilities (*)	664,457	565,333
Total	**3,600,544**	**2,971,394**
By currency:		
In euro	3,421,501	2,618,984
In foreign currency	179,043	352,410
Total	**3,600,544**	**2,971,394**

(*) Includes trade payables.

The following table shows information relating to the average payment period to suppliers, as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2018	2017
Days		
Average time taken to pay suppliers	32.89	32.46
Ratio of paid operations	32.89	32.47
Ratio of operations pending payment	42.73	22.92
Amount		
Total payments made	1,115,620	920,214
Total payments pending	11	594

Note 22 – Provisions and contingent liabilities

Movements during 2018 y 2017 under the heading of provisions are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions		Total
Balance as at 31 December 2016	**89,471**	**24,554**	**49,404**	**84,032**	**58,753**		**306,214**
Scope additions / exclusions	**-**	**-**	**-**	**-**	**5**		**5**
Interest and similar charges - pension commitments	**1,050**	**183**	**-**	**-**	**-**		**1,233**
Allowances charged to income statement - staff expenses (c)	**1,995**	**7**	**-**	**-**	**-**		**2,002**
Allowances not charged to income statement	**-**	**-**	**-**	**-**	**37,644**		**37,644**
Allowances charged to income statement - provisions	**(518)**	**(71)**	**(3,446)**	**6,065**	**11,834**		**13,864**
Allocation of provisions	-	844	413	124,099	17,761		143,117
Reversal of provisions	-	-	(3,859)	(118,034)	(5,927)		(127,820)
Actuarial losses / (gains)	(518)	(915)	-	-	-		(1,433)
Exchange differences	**-**	**-**	**-**	**(2,485)**	**(787)**		**(3,272)**
Utilisations:	**(31)**	**(9,689)**	**(9,665)**	**-**	**(13,454)**		**(32,839)**
Contributions by the sponsor	-	(358)	-	-	-		(358)
Pension payments	(9,272)	(9,367)	-	-	-		(18,639)
Other	9,241	36	(9,665)	-	(13,454)		(13,842)
Other movements	**(7,124)**	**1,507**	**-**	**(2,663)**	**967**		**(7,313)**
Balance as at 31 December 2017	**84,843**	**16,491**	**36,293**	**84,949**	**94,962**		**317,538**
Impact of first application of IFRS 9 (a)	**-**	**-**	**-**	**8,468**	**-**		**8,468**
Scope additions / exclusions	**-**	**-**	**-**	**-**	**-**		**-**
Interest and similar charges - pension commitments	**1,202**	**114**	**-**	**-**	**-**		**1,316**
Allowances charged to income statement - staff expenses (c)	**1,771**	**4**	**-**	**-**	**-**		**1,775**
Allowances not charged to income statement	**-**	**-**	**-**	**14,360**	**-**		**14,360**
Allowances charged to income statement - provisions	**(896)**	**1,586**	**(631)**	**(5,516)**	**166,163**		**160,706**
Allocation of provisions	217	1,880	2	85,996	175,318	(b)	263,413
Reversal of provisions	-	-	(633)	(91,512)	(9,155)		(101,300)
Actuarial losses / (gains)	(1,113)	(294)	-	-	-		(1,407)
Exchange differences	**-**	**-**	**-**	**(369)**	**(630)**		**(999)**
Utilisations:	**(8,590)**	**(6,595)**	**(30,569)**	**-**	**(197,779)**		**(243,533)**
Net contributions by the sponsor	29	1	-	-	-		30
Pension payments	(8,619)	(6,596)	-	-	-		(15,215)
Other	-	-	(30,569)	-	(197,779)		(228,348)
Other movements	**10,126**	**804**	**14**	**6,676**	**189,128**	**(d)**	**206,748**
Balance as at 31 December 2018	**88,456**	**12,404**	**5,107**	**108,568**	**251,844**		**466,379**

(a) See section "Implementation of IFRS 9 Financial Instruments" in Note 1.

(b) Mainly corresponds to provisions allocated to compensate customers for the incidents which occurred following the migration to TSB's new IT platform (see Note 2).

(c) See Note 33.

(d) Includes transfer of €200,615 thousand in provisions allocated to cover materialisation of contingencies related to floor clauses (see Note 11).

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long term employee benefits*" includes the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "*Provisions for commitments and guarantees given*" includes the amount of provisions for the coverage of guarantees given as a result of financial guarantees or other types of contract.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary, in order to determine the probability of the Group being required to make a disbursement. In cases in which a disbursement is considered likely, a provision is allocated, the amount of which is equivalent to the best estimate of the current value of such disbursement, which is registered under the heading "*Pending legal issues and tax litigation*" or under the heading "*Other provisions*". As at 31 December 2018 and 2017, these headings mainly include:

- Provisions for tax contingencies amounting to 5 million euros as at 31 December 2018 (36 million euros as at 31 December 2017) which mainly include inspections by the tax authority signed on a contested basis (see Note 39) and contested tax settlements.

- As at 31 December 2018, operational losses in the commercialisation of products for TSB customers for the amount of 17 million euros (39 million euros) as at 31 December 2017). TSB is protected against the losses arising from historic operations through coverage provided by Lloyds Bank Plc, therefore recognising an account receivable for the same amount recognised under the heading of "*Other assets*". These losses are shown as a provision with no impact on the profit/loss shown in the table above.

- Provisions carried out to compensate customers for the incidences which materialised subsequent to the migration to TSB's new technology platform for the amount of 46 million euros as at 31 December 2018 (see Note 2).

- Liabilities for legal contingencies amounting to 33 million euros at the end of 2018 (37 million euros at the end of 2017).

- Provisions for the possible reimbursement of amounts paid as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, for the amount of 110 million euros as at 31 December 2018. In the unlikely scenario in which all potential existing claims are made through the procedures established by the entity, in accordance with that set forth in Royal Decree, applying the percentages set forth in the current agreement, the maximum contingency would amount to 505 million euros.

  With regards to these provisions, the bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively cancelled with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provisional Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell against the ruling issued by the Commercial Court no.11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco Sabadell are transparent and valid in their entirety. With regards to the rest of the clauses, the bank considers that it has legal arguments which should be reviewed in the legal appeal which the entity aims to present to the Supreme Court, with regards to the ruling made by the Provincial Court of Madrid.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the provision amount.

Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

	2018	2017	2016	2015	2014
Obligations arising from pension and similar commitments	768,695	793,871	862,218	858,877	1,044,326
Fair value of defined benefit plan assets	(667,835)	(692,537)	(749,295)	(744,256)	(922,165)
Net liability recognised on balance sheet	**100,860**	**101,334**	**112,923**	**114,621**	**122,161**

The returns on the Banco Sabadell pension plan have been negative 2.57% as well as for E.P.S.V. 0.06% in 2018.

The returns on the Banco Sabadell pension plan have been negative 0.15% as well as for E.P.S.V. 0.93% in 2017.

Movements during 2018 and 2017 in obligations due to pensions and similar commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of defined benefit plan assets
Balance as at 31 December 2016	**862,218**	**749,295**
Interest costs	10,372	-
Interest income	-	9,139
Normal cost in year	2,002	-
Past service cost	486	-
Benefits paid	(56,244)	(37,604)
Settlements, curtailments and terminations	1,724	2,242
Net contributions by the institution	-	(249)
Actuarial gains or losses from changes in demographic assumptions	-	-
Actuarial gains or losses from changes in financial assumptions	(23,139)	-
Actuarial gains or losses from changes in actuarial assumptions	(108)	-
Yield on defined benefit plan assets excluding interest income	-	(24,683)
Other movements	(3,440)	(5,603)
Balance as at 31 December 2017	**793,871**	**692,537**
Interest costs	11,424	-
Interest income	-	10,108
Normal cost in year	1,775	-
Past service cost	1,880	-
Benefits paid	(52,465)	(37,250)
Settlements, curtailments and terminations	11,761	12,874
Net contributions by the institution	-	(215)
Actuarial gains or losses from changes in demographic assumptions	-	-
Actuarial gains or losses from changes in financial assumptions	-	-
Actuarial gains or losses from changes in actuarial assumptions	7,054	-
Yield on defined benefit plan assets excluding interest income	-	(2,738)
Other movements	(6,605)	(7,481)
Balance as at 31 December 2018	**768,695**	**667,835**

The breakdown of Group pension commitment and similar obligations as at 31 December 2018 and 2017 based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

		2018	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**408,264**	
Insurance policies with related parties	Matched	34,565	1.50%
Insurance policies with unrelated parties	Matched	373,699	1.50%
Insurance policies		**348,127**	
Insurance policies with related parties	Matched	84,865	1.50%
Insurance policies with unrelated parties	Matched	263,262	1.50%
Internal funds	Without cover	**12,304**	1.50%
Total obligations		**768,695**	

Thousand euro

		2017	
Financing vehicle	Coverage	Amount	Interest rate
Pension plans		**427,904**	
Insurance policies with related parties	Matched	44,988	1.50%
Insurance policies with unrelated parties	Matched	382,916	1.50%
Insurance policies		**349,766**	
Insurance policies with related parties	Matched	89,930	1.50%
Insurance policies with unrelated parties	Matched	259,836	1.50%
Internal funds	Without cover	**16,201**	1.50%
Total obligations		**793,871**	

The amount of obligations covered with matched insurance policies as at 31 December 2018 was 756,391 thousand euros (777,670 thousand euros as at 31 December 2017), therefore in 98.40% of its commitments (97.96% as at 31 December 2017), the Group had no mortality risk (mortality tables) or profitability risk (interest rates). Therefore, the evolution of interest rates throughout the year has not had an impact on the bank's financial situation.

The amount of obligations covered with specific assets was 756,391 thousand euros (of which 31 thousand euros covered early retirement commitments) as at 31 December 2018 and 777,670 thousand euros (of which 186 thousand euros covered early retirement commitments) as at 31 December 2017.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2018 and 31 December 2017, shows how the obligation would have been affected and the cost of the services during the current year for reasonably likely changes on such date.

%

	2018	2017
Sensitivity analysis	Percentage change	
Discount rate		
Discount rate -50 basis points:		
Assumption	1.00%	1.00%
Change in obligation	5.68%	6.00%
Change of service cost in current year	8.48%	8.21%
Discount rate +50 basis points:		
Assumption	2.00%	2.00%
Change in obligation	(5.31%)	(5.38%)
Change of service cost in current year	(7.49%)	(7.08%)
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.31%)	(0.30%)
Change of service cost in current year	(3.62%)	(2.32%)
Rate of salary increase +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	0.33%	0.31%
Change of service cost in current year	3.72%	2.43%

The estimation of the current probabilised values, as at 31 December 2018 of benefits payable for the next ten years:

Thousand euro

	Years										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Future benefit payments	13,889	11,383	9,582	8,587	8,061	7,732	7,441	7,150	6,864	6,570	**87,259**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amount to 132,299 thousand euros as at 31 December 2018 and 139,114 thousand euros as at 31 December 2017 (see Note 17).

The principal categories of the plan assets as the total percentage of the plan assets are listed below:

%

	2018	2017
Equity	0.01%	0.02%
Other equity instruments	-	-
Debt instruments	1.39%	2.10%
Mutual funds	1.53%	1.41%
Deposits and current accounts	0.05%	0.45%
Other (insurance policies with related parties)	97.02%	96.02%
Total	**100%**	**100%**

The following financial instruments issued by the bank are included in the fair value of the plan assets:

Thousand euro

	2018	2017
Equity instruments	100	165
Debt instruments	1,000	-
Deposits and current accounts	314	3,123
Total	**1,414**	**3,288**

Note 23 – Own Funds

The breakdown of the balance of own funds recognised on the consolidated balance sheets as at 31 December 2018 and 2017 is the following:

Thousand euro

	2018	2017
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Equity instruments issued other than capital	-	-
Other equity	35,487	32,483
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	3,832,935	4,207,340
(-) Treasury shares	(143,452)	(106,343)
Profit or loss attributable to owners of the parent	328,102	801,466
(-) Interim dividends	(110,739)	(111,628)
Total	**12,544,931**	**13,425,916**

Capital

Share capital at year-end

The bank's share capital as at 31 December 2018 and 2017 stood at 703,370,587,63 euros, represented by 5,626,964.701 registered shares with a par value of 0.125 euros each. All shares have been fully disbursed and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's continuous securities market managed by Sociedad de Bolsas, S.A.

None of the other companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders can issue a percentage of votes equivalent to the percentage of the share capital in their possession.

Changes in share capital

Changes in the bank's share capital in 2018 and 2017 are shown below:

Thousand euro

	Number of shares	Capital
Balances as at 31 December 2016	**5,616,151,196**	**702,019**
Conversion of mandatory convertible bonds IV/2013 - November 2017 (*)	10,813,505	1,352
Balances as at 31 December 2017	**5,626,964,701**	**703,371**
-	-	-
Balances as at 31 December 2018	**5,626,964,701**	**703,371**

(*) See Note 20.

Significant investments in the bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on the issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in Banco Sabadell as at 31 December 2018:

Direct owner of the shareholding	% of voting rights assigned to shares	% of voting rights through financial instruments	% of total voting rights	Indirect owner of the shareholding
Various subsidiaries of BlackRock Inc.	5.12%	0.20%	5.32%	BlackRock Inc.
Fintech Europe S.A.R.L.	3.10%	-	3.10%	David Martínez Guzmán
Norges Bank	3.06%	0.11%	3.17%	-
Coltrane Master Fund, L.P.	-	1.07%	1.07%	-

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission or directly to the institution.

Share premium

The balance in the share premium as at 31 December 2018 amounted to 7,899,227 thousand euros (7,899,227 thousand euros as at 31 December 2017).

Movements made during 2018 and 2017 are shown below.

Thousand euro	
Balance as at 31 December 2016	**7,882,899**
Capital increase	-
Conversion of subordinated bonds (equity)	-
Conversion of subordinated bonds (financial liabilities)	16,328
Distribution of dividends	-
Reclassification of capital increase expenses to reserves	-
Rest	-
Balance as at 31 December 2017	**7,899,227**
Capital increase	-
Conversion of subordinated bonds (equity)	-
Conversion of subordinated bonds (financial liabilities)	-
Distribution of dividends	-
Reclassification of capital increase expenses to reserves	-
Rest	-
Balance as at 31 December 2018	**7,899,227**

Other reserves

The balance of this heading breaks down as follows on the consolidated balance sheets as at 31 December 2018 and 2017:

Thousand euro

	2018	2017
Restricted reserves:	**325,020**	**414,921**
Statutory reserve	140,674	140,404
Reserves for treasury shares pledged as security	136,459	226,869
Capitalisation reserve Law 27/2014	35,985	35,985
Canary Island investment reserve	8,787	8,548
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,301,766**	**3,806,052**
Reserves of entities valued using the equity method	**206,149**	**(13,633)**
Total	**3,832,935**	**4,207,340**

Information on the reserves for each one of the consolidated companies is indicated in Schedule I.

Other equity

The amount of the instruments associated with instrumentalised remunerations through long term share based incentives plans are included under other equity (see Note 33 *"Administrative expenses"*) which as at 31 December 2018 and 2017 amounted to 35,487 and 32,483 thousand euros.

Business on own equity instruments

The movements of the parent company's shares acquired by the bank are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2016	**51,901,666**	**6,487.71**	**1.72**	**0.92**
Purchases	202,784,158	25,348.02	1.67	3.60
Sales	206,452,578	25,806.57	1.66	3.66
Balance as at 31 December 2017	**48,233,246**	**6,029.16**	**1.82**	**0.86**
Purchases	188,236,870	23,529.61	1.41	3.34
Sales	147,681,602	18,460.20	1.46	2.62
Balance as at 31 December 2018	**88,788,514**	**11,098.57**	**1.57**	**1.58**

Net gains and losses arising on transactions in equity have been included under the heading "*Own funds - Other reserves*" on the balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to sales or cancellations of treasury shares.

As at 31 December 2018 TSB owns 2,448,704 Banco Sabadell shares (11,635,555 at the end of 2017), with a cost of 3,692 thousand euros (18,390 thousand euros at the end of 2017), which are recognised as own shares on the consolidated balance sheet.

As at 31 December 2018, 136,390,382 bank shares are pledged as operation guarantees for a nominal value of 17,049 thousand euros (136,998,348 shares for a nominal value of 17,125 thousand euros as at 31 December 2017).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different companies of the Group, amounts to 21,506,506 and 16,051,137 securities as at 31 December 2018 and 2017, respectively. Their nominal value amounts to 2,688 thousand euros and 2,006 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Items that will not be reclassified to profit or loss	(52,564)	49,443
Actuarial gains or (-) losses on defined benefit pension plans	(329)	6,767
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(52,235)	42,676
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-
Items that may be reclassified to profit or loss	(438,906)	(314,754)
Hedge of net investments in foreign operations [effective portion] (*)	213,031	236,647
Foreign currency translation	(640,720)	(678,451)
Hedging derivatives. Cash flow hedges (effective portion) (**)	4,306	(80,402)
Amount deriving from outstanding operations	6,002	(32,726)
Amount deriving from discontinued operations	(1,696)	(47,676)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(22,958)	195,869
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
Share of other recognised income and expense of investments in joint ventures and associates	7,435	11,583
Total	(491,470)	(265,311)

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions.

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 12).

The breakdown of corporation tax in respect of items that can reclassified to profit or loss related to each heading on the statement of recognised income and expenses as at 31 December 2018 and 2017 is shown below:

Thousand euro

	2018			2017		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	(145,616)	43,609	(102,007)	(21,584)	6,475	(15,109)
Actuarial gains or (-) losses on defined benefit pension plans	(10,138)	3,041	(7,097)	(9,278)	2,783	(6,495)
Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Share of other recognised income and expense of investments in joint ventures and associates	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	(135,478)	40,568	(94,910)	(12,306)	3,692	(8,614)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	-	-	-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	-	-	-	-	-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	-	-	-	-	-	-
Items that may be reclassified to profit or loss	(264,197)	80,810	(183,387)	(438,857)	81,548	(357,309)
Hedge of net investments in foreign operations [effective portion]	(23,616)	-	(23,616)	85,282	-	85,282
Foreign currency translation	38,813	(1,082)	37,731	(249,801)	-	(249,801)
Hedging derivatives. Cash flow hedges reserve [effective portion]	121,163	(36,455)	84,708	(87,004)	28,123	(58,881)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(396,409)	118,347	(278,062)	(45,506)	12,153	(33,353)
Hedging instruments [not designated elements]	-	-	-	-	-	-
Non-current assets and disposal groups classified as held for sale	-	-	-	(137,571)	41,272	(96,299)
Share of other recognised income and expense of investments in joint ventures and associates	(4,148)	-	(4,148)	(4,257)	-	(4,257)
Total	**(409,813)**	**124,419**	**(285,394)**	**(460,441)**	**88,023**	**(372,418)**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading are the following:

Thousand euro

	2018			2017		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	40,265	*4,073*	49.03%	39,874	*3,925*
Business Services for Operational Support, S.A.U.	20.00%	381	*553*	20.00%	-	*519*
Aurica Coinvestment, S.L.	38.24%	21,831	*2,488*	38.24%	20,253	(2)
Rest		1,062	*14*		1,049	*(730)*
Total		**63,539**	***7,128***		**61,176**	***3,712***

The movement in 2018 and 2017 in the balance of this heading is as follows:

Thousand euro

Balances as at 31 December 2016	**49,668**
Valuation adjustments	34
Rest	11,474
Scope additions / exclusions	15,030
Percentage shareholding and other	(5,845)
Changes in consolidation method	(1,423)
Profit or loss for the year	3,712
Balances as at 31 December 2017	**61,176**
Valuation adjustments	(88)
Rest	2,451
Scope additions / exclusions	-
Percentage shareholding and other	(4,677)
Changes in consolidation method	-
Profit or loss for the year	7,128
Balances as at 31 December 2018	**63,539**

Dividends distributed to minority shareholders of the Group's entities in 2018 amount to 1,533 thousand euros (BancSabadell d'Andorra, S.A.) and 1,411 in 2017.

In 2018 the companies Aurica Coinvestment S.L. and Business Services for Operational Support, S.A.U are assigned to the banking business Spain. The company Ederra S.A. is assigned to the Real Estate Transformation business. On the other hand, Banc Sabadell d'Andorra, S.A. is assigned the segment of other geographies (see Note 38).

Note 26– Off-balance sheet exposures

The breakdown of this heading for the annual periods ended 31 December 2018 and 2017 is the following:

Thousand euro

Commitments and guarantees given	Note	2018	2017
Financial guarantees given (*)		**2,040,786**	**1,983,143**
Of which, amount classified as Stage 3		*25,890*	*48,163*
Amount recognised within liabilities on the balance sheet (**)	22	22,617	32,500
Loan commitments given		**22,645,948**	**20,906,053**
Of which, amount classified as Stage 3		*55,932*	*61,719*
Can be drawn by third parties		22,645,948	20,906,053
By credit institutions		549	468
By general governments		638,858	677,317
By other resident sectors		15,640,631	13,750,112
By non-residents		6,365,910	6,478,156
Amount recognised within liabilities on the balance sheet	22	45,759	23,677
Other commitments given		**8,233,226**	**9,916,992**
Of which, amount classified as Stage 3		*55,305*	*9,729*
Other guarantees given		7,341,297	6,743,704
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		921,336	838,922
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,399,961	5,884,782
Other contingent risks		-	-
Other commitments given		891,929	3,173,287
Financial asset forward purchase commitments		557,375	2,825,731
Conventional financial asset purchase contracts		158,985	126,999
Capital subscribed but not paid up		1,939	1,939
Underwriting and subscription commitments		-	-
Other loan commitments given		173,630	218,618
Amount recognised within liabilities on the balance sheet	22	40,192	28,772
Total		**32,919,960**	**32,806,188**

(*) Of which, 137,481 and 89,881 thousand euros as at 31 December 2018 and 31 December 2017, respectively, granted in relation to construction and real estate development.

(**) Of which, 6,410 and 5,451 thousand euros as at 31 December 2018 and 31 December 2017, respectively, recognised within liabilities on the balance sheet in relation to construction and real estate development.

The amount of financial guarantees, loans commitments and other commitments given classed as stage 2, amount to 125,649, 501,605 and 397,675 thousand euros, respectively, as at 31 December 2018.

The total contingent commitments drawable by third parties as at 31 December 2018 includes mortgage-secured lending commitments for the amount of 4,415.019 thousand euros (2,616,999 thousand euros as at 31 de December 2017). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Guarantees given classed as stage 3

The movement of the balance of guarantees classed as stage 3 during 2018 is the following:

Thousand euro

Balances as at 1 January 2018	57,892
Additions	57,036
Disposals	(33,733)
Balances as at 31 December 2018	**81,195**

The breakdown by geography of the balance guarantees classed as stage 3 as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Spain	80,507	56,766
Rest of European Union	387	22
Ibero-America	131	145
Rest of OECD	-	-
Rest of the world	170	959
Total	**81,195**	**57,892**

The coverage of credit risk corresponding to guarantees given as at 31 December 2018 and 1 January 2018 (date of the first application of IFRS 9), distributed based on its method of determination, and the credit risk of off-balance sheet exposures, is as follows:

Thousand euro

	31/12/2018	01/01/2018
Specific individually measured allowances:	**36,008**	**36,293**
Stage 2	2,663	16,735
Stage 3	33,345	19,557
Specific collectively measured allowances:	**26,725**	**25,691**
Stage 1	11,727	9,520
Stage 2	5,153	3,477
Stage 3	9,432	10,727
Allowances for country risk	413	1,967
Total	**62,733**	**61,983**

The movement of this coverage during the periods 2018 and 2017, together with the coverage of other commitments given is shown in Note 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown below:

Thousand euro	2018	2017
Managed by the Group:	**21,893,067**	**23,090,028**
Investment firms and funds	18,297,797	19,091,344
Asset management	3,595,270	3,998,685
Investment funds sold but not managed	**8,081,426**	**8,283,255**
Pension funds (*)	**3,594,186**	**3,986,555**
Insurance (*)	**10,465,118**	**9,964,863**
Financial instruments deposited by third parties	**76,324,331**	**80,970,536**
Total	**120,358,128**	**126,295,237**

(*) The balance in pension funds and insurance relates to those sold by the Group.

Note 28 – Interest income and expenses

These headings in the consolidated income statement include interests accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges. Interests are recorded at their gross value, without deducting any tax withholdings exercised at the source.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through other comprehensive income.

The average annual interest rate during 2018 and 2017 of the indicated balance sheet headings is shown below:

%	2018		2017	
	Banco Sabadell Group	Ex TSB	Banco Sabadell Group	Ex TSB
Assets				
Cash, cash balances at central banks and other demand deposits	0.08	(0.11)	0.02	(0.11)
Debt securities	1.36	1.41	1.72	1.74
Loans and advances				
Customers	2.96	2.86	3.00	2.84
Liabilities				
Deposits				
Central banks and Credit institutions	0.11	(0.03)	0.10	0.05
Customers	0.22	0.15	0.19	0.12

The breakdown of quarterly net interest income for the years 2018 and 2017, as well as returns and average costs of the different components which comprise the total investment and funds, is as follows:

Thousand euro

	2018												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	
Return on the investment	**216,880,053**	**2.10**	**1,124,649**	**217,038,607**	**2.10**	**1,136,182**	**216,813,203**	**2.19**	**1,194,286**	**217,933,850**	**2.21**	**1,211,641**	**4,666,758**
Cash and cash equivalents (*)	29,544,269	0.01	507	28,180,392	0.01	542	27,865,203	0.15	10,771	28,761,958	0.16	11,479	**23,299**
Loans and advances	133,924,261	3.00	991,874	135,992,318	2.90	983,334	137,034,035	2.95	1,019,236	136,621,255	2.97	1,022,242	**4,016,686**
Fixed-income portfolio (**)	25,407,251	1.41	88,606	26,158,261	1.42	92,621	25,885,654	1.28	83,698	26,339,944	1.32	87,541	**352,466**
Equity portfolio	988,827	-	-	1,021,333	-	-	836,220	-	-	891,160	-	-	-
Tangible and intangible assets	3,873,886	-	-	4,061,192	-	-	4,178,935	-	-	4,220,475	-	-	-
Rest of other assets	23,141,559	0.77	43,662	21,625,111	1.11	59,685	21,013,156	1.52	80,581	21,099,058	1.70	90,379	**274,307**
Cost of resources	**216,880,053**	**(0.40)**	**(213,101)**	**217,038,607**	**(0.44)**	**(237,612)**	**216,813,203**	**(0.48)**	**(261,667)**	**217,933,850**	**(0.51)**	**(279,194)**	**(991,574)**
Credit institutions	31,880,652	(0.11)	(8,877)	32,137,191	(0.09)	(6,978)	31,924,079	(0.10)	(8,089)	32,190,104	(0.14)	(11,746)	**(35,690)**
Customer deposits (***)	138,805,488	(0.20)	(68,878)	140,271,284	(0.22)	(76,126)	142,223,843	(0.22)	(77,675)	142,883,019	(0.24)	(86,757)	**(309,436)**
Capital markets	25,588,125	(1.34)	(84,344)	25,004,552	(1.29)	(80,727)	23,715,312	(1.31)	(78,366)	24,173,861	(1.31)	(79,578)	**(323,015)**
Other liabilities	7,848,422	(2.64)	(51,002)	7,326,734	(4.04)	(73,781)	6,799,142	(5.69)	(97,537)	6,581,339	(6.10)	(101,113)	**(323,433)**
Own funds	12,757,366	-	-	12,298,846	-	-	12,150,827	-	-	12,105,527	-	-	-
Net interest income			**911,548**			**898,570**			**932,619**			**932,447**	**3,675,184**
Total ATAs			**216,880,053**			**217,038,607**			**216,813,203**			**217,933,850**	**217,168,348**
Ratio (margin/ATA)			**1.70**			**1.66**			**1.71**			**1.70**	**1.69**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 3,235 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to €70,605 and €124,580 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II.

Thousand euro

	2017												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	verage balance	Rate %	Profit/(loss)	
Return on the investment	**211,690,107**	**2.33**	**1,217,554**	**219,081,800**	**2.19**	**1,195,386**	**212,629,774**	**2.15**	**1,149,302**	**214,016,641**	**2.08**	**1,125,723**	**4,687,965**
Cash and cash equivalents (*)	12,711,586	0.05	1,701	18,198,341	(0.01)	(536)	19,408,477	(0.03)	(1,320)	23,601,722	0.05	3,080	**2,925**
Loans and advances	138,670,199	3.02	1,033,973	139,175,529	3.02	1,048,683	135,288,462	2.98	1,015,144	134,679,510	2.96	1,004,312	**4,102,112**
Fixed-income portfolio (**)	29,762,880	2.15	158,055	31,800,063	1.59	126,279	28,417,288	1.59	113,717	25,309,784	1.51	96,265	**494,316**
Equity portfolio	982,684	-	-	911,215	-	-	1,327,913	-	-	1,091,195	-	-	-
Tangible and intangible assets	4,199,848	-	-	4,270,256	-	-	4,307,770	-	-	4,293,743	-	-	-
Rest of other assets	25,362,910	0.38	23,825	24,726,396	0.34	20,960	23,879,864	0.36	21,761	25,040,687	0.35	22,066	**88,612**
Cost of resources	**211,690,107**	**(0.49)**	**(255,129)**	**219,081,800**	**(0.41)**	**(220,914)**	**212,629,774**	**(0.39)**	**(208,434)**	**214,016,641**	**(0.37)**	**(201,118)**	**(885,595)**
Credit institutions	20,161,775	(0.29)	(14,207)	31,187,504	(0.06)	(4,617)	30,700,166	(0.05)	(3,887)	32,010,746	(0.08)	(6,847)	**(29,558)**
Customer deposits (***)	141,349,314	(0.23)	(80,212)	141,058,478	(0.20)	(71,461)	135,198,081	(0.17)	(58,634)	135,525,086	(0.16)	(56,008)	**(266,315)**
Capital markets	26,575,834	(1.74)	(113,822)	25,299,212	(1.44)	(91,001)	25,799,705	(1.44)	(93,663)	26,410,778	(1.33)	(88,399)	**(386,885)**
Other liabilities	10,656,159	(1.78)	(46,888)	8,488,318	(2.54)	(53,835)	7,799,188	(2.66)	(52,250)	6,857,577	(2.88)	(49,864)	**(202,837)**
Own funds	12,947,025	-	-	13,048,288	-	-	13,132,634	-	-	13,212,454	-	-	-
Net interest income			**962,425**			**974,472**			**940,868**			**924,605**	**3,802,370**
Total ATAs			**211,690,107**			**219,081,800**			**212,629,774**			**214,016,641**	**214,356,229**
Ratio (margin/ATA)			**1.84**			**1.78**			**1.76**			**1.71**	**1.77**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 4,802 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to €42,429 and €109,239 thousand, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II.

In terms of annual average, net interest margin on average total assets stood at 1.69% (1.57% without TSB), declining by 8 basis points in comparison with the previous year (1.77% in 2017). With regards to the evolution of quarterly net interest margin, net interest margin on average total assets in the fourth quarter of 2018 stood at 1.70% (1.56% excluding TSB). In the fourth quarter of 2017 this margin stood at 1.71%.

The contractual difference between the operations contracted in the different quarters of the years 2018 and 2017 (new entry) is shown for the investment positions and deposits corresponding to Spain business-network operations, without including subsidiaries operations, as well as the portfolio arising from each one of them (stock):

Basis point spread	Additions (quarterly average)				Stock			
	2018				2018			
	1T	2T	3T	4T	1T	2T	3T	4T
Credit	214	245	217	258	228	225	228	227
Loans	256	222	265	239	237	233	229	231
Home mortgage loans	120	124	124	135	115	115	115	115
Leasing	267	350	243	304	244	258	256	257
Renting	427	373	355	364	464	444	428	400
Discounting	240	225	226	218	250	236	242	232
Confirming	242	226	232	227	224	225	219	213
Forfaiting	251	331	355	331	304	261	224	232
Lending	**218**	**212**	**214**	**211**	**179**	**178**	**177**	**178**
1-month term deposit	15	11	12	4	14	14	13	4
3-month term deposit	11	4	(2)	1	10	5	(4)	4
6-month term deposit	5	(4)	(4)	(5)	14	1	3	-
12-month term deposit	10	7	8	10	15	13	12	11
+12 month term deposit	26	21	20	17	25	24	22	19
Deposits with agreed maturity	**18**	**11**	**10**	**10**	**20**	**18**	**16**	**14**

Basis point spread	Additions (quarterly average)				Stock			
	2017				2017			
	1T	2T	3T	4T	1T	2T	3T	4T
Credit	236	257	256	250	241	238	249	241
Loans	300	263	215	250	240	240	236	238
Home mortgage loans	155	164	153	136	113	114	114	115
Leasing	305	286	313	265	238	242	245	245
Renting	449	374	446	418	513	477	468	475
Discounting	266	249	243	241	284	259	258	252
Confirming	259	249	252	232	245	231	234	223
Forfaiting	547	529	481	396	407	408	409	392
Lending	**249**	**238**	**220**	**225**	**182**	**181**	**179**	**180**
1-month term deposit	32	27	22	30	30	22	21	26
3-month term deposit	37	17	10	24	34	19	11	21
6-month term deposit	16	24	17	25	17	22	20	23
12-month term deposit	15	14	11	20	18	15	14	16
+12 month term deposit	26	25	9	38	28	25	22	30
Deposits with agreed maturity	**25**	**22**	**13**	**32**	**23**	**20**	**18**	**24**

With regards to the existing home mortgages portfolio as at 31 December 2018, the breakdown for the period in which the interest rate applied to each operation is as follows:

Thousand euro

Mortgage repricing schedule	1Q 19	2Q 19	3Q 19	4Q 19	Total
Home mortgages	7,723,996	7,103,793	5,587,547	6,296,430	**26,711,766**

Corresponds to Business Spain – branch network operations.

New deposits until 31 December 2018 and 2017 as well as their breakdown by contractual maturity have been the following:

Million euro

Deposits by maturity	Additions 2018			
	1T	2T	3T	4T
Up to 3M	2,591	2,571	2,696	3,077
3 to 6M	715	966	712	826
6 to 12M	1,603	1,926	1,415	1,771
12 to 18M	905	1,198	992	931
More than 18M	2,964	1,847	1,279	3,964
Total deposits	**8,778**	**8,508**	**7,094**	**10,569**
%				
Up to 3M	29.5	30.2	38.0	29.1
3 to 6M	8.1	11.4	10.0	7.8
6 to 12M	18.3	22.6	19.9	16.8
12 to 18M	10.3	14.1	14.0	8.8
More than 18M	33.8	21.7	18.1	37.5
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business Spain – branch network operations.

Million euro

Deposits by maturity	Additions 2017			
	1T	2T	3T	4T
Up to 3M	3,042	3,121	2,391	2,343
3 to 6M	586	902	735	961
6 to 12M	2,923	3,241	1,988	2,024
12 to 18M	601	905	906	495
More than 18M	3,445	3,757	3,756	6,829
Total deposits	**10,597**	**11,926**	**9,776**	**12,652**
%				
Up to 3M	28.7	26.2	24.5	18.5
3 to 6M	5.5	7.6	7.5	7.6
6 to 12M	27.6	27.2	20.3	16.0
12 to 18M	5.7	7.6	9.3	3.9
More than 18M	32.5	31.4	38.4	54.0
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business Spain – branch network operations.

Note 29 – Fee and commission income and expenses

Fee income and expenses of financial operations and for the provision of services are as follows:

Thousand euro

	2018	2017
Fees from risk transactions	**240,612**	**304,801**
Lending operations	137,964	206,092
Sureties and other guarantees	102,648	98,709
Service fees	**722,297**	**580,016**
Payment cards	224,871	205,721
Payment orders	61,602	53,982
Securities	61,058	60,413
Sight accounts	220,962	130,783
Rest	153,804	129,117
Asset management fees	**372,393**	**338,619**
Mutual funds	157,740	158,409
Sale of pension funds and insurance products	185,463	152,826
Assets under management	29,190	27,384
Total	**1,335,302**	**1,223,436**
Memorandum item		
Fee and commission income	1,558,648	1,478,603
Fee and commission expenses	(223,347)	(255,167)
Net fees and commissions	**1,335,301**	**1,223,436**

Note 30 – Gains or (-) losses on financial assets and liabilities, net

Gains or (-) losses on financial assets and liabilities, net groups together a series of headings of the consolidated income statement for the years ended 31 December 2018 and 2017 which are shown below:

Thousand euro

	2018	2017
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	208,106	371,365
Financial assets at fair value through other comprehensive income	292,256	388,698
Financial assets at amortised cost	(75,870)	(12,268)
Financial liabilities at amortised cost	(8,280)	(5,065)
Gains or (-) losses on financial assets and liabilities held for trading, net	10,568	214,786
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(13,902)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	19	134
Gains or (-) losses from hedge accounting, net	21,918	27,819
Total	**226,709**	**614,104**
By type of financial instrument:		
Net gain/(loss) on debt securities	203,620	384,568
Net gain/(loss) other equity instruments	(1,174)	16,252
Net gain/(loss) on derivatives	29,896	230,622
Net gain/(loss) on other items (*)	(5,633)	(17,338)
Total	**226,709**	**614,104**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

During the years 2018 and 2017 the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets through other comprehensive income, generating profits of 292,249 thousand euros as at 31 December 2018 (388,698 thousand euros as at 31 December 2017). Of this profit, 289,366 thousand euros (348,709 thousand euros in 2017) of profit derive from the sale of debt securities maintained with general governments.

Additionally, in 2018 the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets at amortised cost with the purpose of managing the increase in credit risk (see Note 8).

Similarly, the item "Net gain/(loss) on derivatives" in the table above includes the change in fair value of hedging derivatives which have been discontinued from the date of discontinuation until their settlement for the amount of 38,513 thousand euros.

Note 31 –Other operating income

The composition of this item of the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Income from use of investment properties	84,907	104,724
Sales and other income from the provision of non-financial services	78,441	148,452
Other operating income	93,334	85,189
Total	**256,682**	**338,365**

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios of other institutions (SAREB).

The income recognised in other operating income mostly corresponds to income from Group entities engaging in non-financial activities (mostly operating leases).

Note 32 –Other operating expenses

The composition of this item of the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Contribution to deposit guarantee funds	(106,332)	(98,295)
Banco Sabadell	(103,317)	(95,751)
TSB	1,558	(355)
Sabadell United Bank	-	(497)
BS IBM México	(4,573)	(1,692)
Contribution to resolution fund	(49,744)	(50,639)
Other items	(390,989)	(397,389)
Monetisation taxes (*)	(44,996)	(54,668)
Rest	(345,993)	(342,721)
Total	**(547,065)**	**(546,323)**

(*) See Note 39.

The "Rest "subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 30,650 thousand euros in 2018 (28,146 thousand euros in 2017), as well as expenses associated with non-financial activities.

Note 33 –Administrative expenses

This heading in the consolidated income statement includes expenses incurred by the Group in respect of staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2018 and 2017 are as follows:

Thousand euro

	Note	2018	2017
Payrolls and bonuses for active staff		(1,159,614)	(1,181,796)
Social Security payments		(239,243)	(241,550)
Contributions to defined benefit pension plans	22	(1,775)	(2,002)
Contributions to defined contribution pension plans		(71,096)	(67,575)
Other staff expenses		(118,862)	(80,637)
Total		**(1,590,590)**	**(1,573,560)**

As at 31 December 2018 and 2017, the breakdown of the average workforce for all companies within the Group by category and by gender is as follows:

Average number of employees

	2018			2017		
	Men	Women	Total	Men	Women	Total
Management staff	507	173	680	482	154	636
Technical staff	10,015	10,812	20,827	10,065	10,930	20,995
Administrative staff	1,038	3,502	4,540	1,007	3,533	4,540
Total	**11,560**	**14,487**	**26,047**	**11,554**	**14,617**	**26,171**

The breakdown of the bank’s average workforce by category at 31 December 2018 and 2017 and with a disability of 33% or more is as follows:

Average number of employees

	Banco Sabadell Group	
	2018	2017
Management staff	6	14
Technical staff	189	178
Administrative staff	19	75
Total	**214**	**267**

As at 31 December 2018 and 2017, the breakdown of Group workforce by category and gender is as follows:

Number of employees

	2018			2017		
	Men	Women	Total	Men	Women	Total
Management staff	501	173	674	488	157	645
Technical staff	10,025	10,855	20,880	9,980	10,734	20,714
Administrative staff	1,079	3,548	4,627	999	3,487	4,486
Total	**11,605**	**14,576**	**26,181**	**11,467**	**14,378**	**25,845**

Of the total workforce as at 31 December 2018, 188 had some form of recognised disability (253 as at 31 December 2017).

Non-recurring staff expenses amounted to 61,009 thousand euros as at 31 December 2018. Expenses which do not form part of the institution’s ordinary activities are considered non-recurring. Non-recurring staff expenses are those linked to changes in the organisational structure, commercial transformation and the post-migration incidents described in Note 2.

Long-term share-based complementary incentives scheme

At the Annual General Meeting held on 27 March 2014, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for Executive Directors, 5 members of Senior Management and 419 Group management staff. This scheme expired in March 2017, and no bank shares were given as the exercise price of the option was of 2.015 euros.

The Group has three long-term share-based complementary incentive schemes currently in effect, the ICLP 2016, approved on 31 March 2016, the ICLP 2017, approved on 30 March 2017 and the ICLP 2018, approved on 19 April 2018.

- At the Annual General Meeting held on 31 March 2016, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for 3 Executive Directors, 7 members of Senior Management and 472 Group Management Staff (“ICLP 2016”). It consists of assigning a certain number of rights to the beneficiaries, including the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a period which began on 25 February 2016 and will end on the last day of the first twenty trading sessions of March 2019, using as a reference their share price, which shall be made effective by means of the delivery of the bank’s shares. A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance (i.e. level of achievement) of the individual target called “Professional Effectiveness Appraisal ”(’*Valoración de Eficacia Profesional*’) set by the bank’s Remuneration Committee.

- At the Annual General Meeting held on 30 March 2017, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for 3 Executive Directors, 7 members of Senior Management and 466 Group Management Staff (“ICLP 2017”). It consists of assigning a certain number of rights to the beneficiaries, including the right to receive the increase in value of the same number of Banco de Sabadell, S.A. shares over a period which began on 30 January 2017 and will end on the last day of the twenty trading sessions of March 2020, using as a reference their share price, which shall be made effective by means of the delivery of the bank’s shares. A necessary condition for the rights coming into effect will be that the beneficiary exceed the minimum compliance (i.e. level of achievement) of the individual target called “Professional Effectiveness Appraisal ”(‘*Valoración de Eficacia Profesional*’) set by the bank’s Remuneration Committee.

- At the Annual General Meeting held on 19 April 2018, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for Executive Directors, Senior Management and other management staff included in the Group’s Identified Staff (“ICLP 2018”). As at 31 December 2018, the beneficiaries of the Incentive are 4 Executive Directors, 8 Senior Management staff and 71 other management staff that form part of the Group's Identified Staff. It consists of assigning a specific number of rights to the beneficiaries of the ICLP 2018, which carry the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share’s market price, while also being tied to the Bank’s attainment of certain multi-year indicators over a given period of time, to be paid 55% in the form of shares of Banco de Sabadell, S.A. and the remaining 45% in cash. The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, Sociedad Anónima attains four indicators during the lifetime of the ICLP 2018. The period for evaluating compliance (i.e. achievement) will cover the years 2018, 2019 and 2020, for which targets are established for the following indicators and with the following weights: shareholder return (25%), for which the benchmark will be the share’s closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the bank’s return on risk-adjusted capital - RoRAC (25%). The last three indicators will be measured at the end of the multi-year period, taking the average of the last three months of the year 2020.

Their main characteristics are shown below:

Incentives Schemes in effect	End date	Exercise price	Maximum number of rights affected
ICLP 2016	30/04/2019	1.494	30,000,000
ICLP 2017	30/03/2020	1.353	35,000,000
ICLP 2018	18/04/2022	1.841	21,000,000

The fair value of services is calculated based on the fair value of pledged capital instruments, i.e. bank stock options, as indicated in Note 6, employing the Monte Carlo simulations valuation technique and the Black-Scholes valuation model.

Movements in rights associated with the aforementioned schemes were as follows:

Rights – ICLP 2016

Balance as at 31 December 2016	**28,495,000**
Granted	-
Cancelled	(1,606,666)
Balance as at 31 December 2017	**26,888,334**
Granted	-
Cancelled	(986,667)
Balance as at 31 December 2018	**25,901,667**

Rights - ICLP 2017

Balance as at 30 April 2017	**35,000,000**
Granted	-
Cancelled	(3,770,004)
Balance as at 31 December 2017	**31,229,996**
Granted	-
Cancelled	(1,158,003)
Balance as at 31 December 2018	**30,071,993**

Rights - ICLP 2018

Balance at 30 April 2018	**21,000,000**
Granted	-
Cancelled	(400,000)
Balance as at 31 December 2018	**20,600,000**

TSB Banking Group employees have a complementary incentive linked to a target achievement plan between 2016 and 2020, and this remuneration is paid in Banco de Sabadell, S.A. shares and in cash.

As regards the staff expenses associated with share-based incentives schemes (see Note 1.3.15), the counterpart for such expenses is recognised in equity in the case of rights settled using shares (see statement of equity –share-based payments), while those settled in cash are recognised in the “Other liabilities ”heading of the consolidated balance sheet.

Thousand euro

	2018	2017
Settled in Shares	3,004	17,784
Settled in Cash	49	-
Total	**3,053**	**17,784**

Other administrative expenses

The composition of this item in the consolidated income statement for the years 2018 and 2017 was as follows:

Thousand euro	2018	2017
Property, plant and equipment	(230,744)	(229,656)
Information technology	(439,292)	(394,582)
Communication	(46,820)	(43,477)
Publicity	(114,162)	(106,706)
Subcontracted administrative services	(109,533)	(95,436)
Contributions and taxes	(114,908)	(106,889)
Technical reports	(32,089)	(54,982)
Security services and fund transfers	(21,290)	(26,107)
Entertainment expenses and staff travel expenses	(23,531)	(20,111)
Membership fees	(31,181)	(22,593)
Other expenses	(166,210)	(48,873)
Total	**(1,329,760)**	**(1,149,412)**

Fees with Auditing Companies

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2018 for statutory auditing services and other audit-related services provided in Spain amounted to 1,839 and 659 thousand euros, respectively (1,920 and 321 thousand euros in 2017). Auditing services provided by other companies in the PwC network in relation to foreign branches and subsidiaries amounted to 4,649 thousand euros in 2018 (2,816 thousand euros in 2017).

Fees received by other auditors in 2018 for auditing and other audit-related services provided in Spain amounted to 31 and 0 thousand euros, respectively (52 and 0 thousand euros in 2017). Fees for audit and other audit-related services for foreign branches and subsidiaries amounted to 17 and 21 thousand euros in 2018 (8 and 16 thousand euros in 2017).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2018 amounted to 68 and 507 thousand euros. The amounts recognised for these services in 2017 amounted to 92 and 740 thousand euros, respectively.

Other information

As at 31 December 2018, non-recurring administrative expenses amounted to 230,506 thousand euros, including expenses associated with specific cost-cutting schemes and special projects associated with changes in the scope of consolidation and the post-migration incidents described in Note 2.

The cost-to-income ratio as at 2018 year-end (staff and general expenses/gross income) stood at 58.29% (50.15% in 2017).

Information about the Group's branches and offices is given below:

Number of branches	2018	2017
Branches	**2,457**	**2,473**
Spain	1,865	1,880
Outside Spain	592	593

Note 34 –Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or (-) losses, net

The composition of this item of the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

Thousand euro

	Note	2018	2017
Financial assets at fair value through other comprehensive income		(2,472)	(53,374)
Debt securities	8	(2,472)	(6,277)
Other equity instruments		-	(47,097)
Financial assets at amortised cost	11	(753,620)	(1,157,999)
Debt securities		3,381	1,823
Loans and advances		(757,001)	(1,159,822)
Total		(756,092)	(1,211,373)

Note 35 –Impairment or (-) reversal of impairment of non-financial assets

The breakdown of this heading in the consolidated balance sheets for the years ended 31 December 2018 and 2017 was as follows:

Thousand euro

	Note	2018	2017
Property, plant and equipment	15	907	(15,300)
Investment properties	15	(61,335)	(216,042)
Goodwill and other intangible assets	16	(286)	(2,601)
Inventories	17	(339,934)	(565,419)
Total		(400,648)	(799,362)

The total allowance for the impairment of investment properties in 2018 and 2017 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 602,004 and 1,746,296 thousand euros in 2018 and 2017, respectively.

Of the total inventory impairment allowances for 2018 and 2017, 54,296 and 135,890 thousand euros were allocated based on Level 2 valuations, respectively, and 285,637 and 429,529 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounts to 730,494 and 1,963,363 thousand euros as at the end of 2018 and 2017.

Note 36 –Gains or (-) losses on derecognition of non-financial assets, net

The composition of this item of the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

Thousand euro

	2018	2017
Property, plant and equipment	(2,398)	(3,726)
Investment properties	32,172	(15,024)
Intangible assets	(1,027)	-
Interests (*)	5,826	418,067
Other capital instruments	-	-
Other items	-	1,588
Total	**34,573**	**400,905**

(*) See Note 2 and Schedule I – Companies no longer consolidated.

Note 37 –Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this item of the consolidated income statement for the years ended 31 December 2018 and 2017 is as follows:

Thousand euro

	Note	2018	2017
Property, plant and equipment for own use and foreclosed		(22,793)	(155,636)
Gains/losses on sales		49,506	56,955
Impairment/Reversal	13	(72,299)	(212,591)
Investment properties		(12,353)	(409)
Intangible assets		100	-
Interests (*)		(194)	16,646
Other capital instruments		-	-
Other items		39	(48)
Total		**(35,201)**	**(139,447)**

(*) See Schedule I – Companies no longer consolidated.

The impairment of non-current assets held for sale excludes income from the increase in fair value less sale costs.

The total provision for the impairment of non-current assets held for sale in 2018 and 2017 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 3,449,290 and 1,769,557 thousand euros as at the end of 2018 and 2017.

Note 38 –Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

The criteria that Banco Sabadell Group uses to report on results for each segment are:

- There are four separate geographies: Banking Business Spain, Asset Transformation, Banking Business United Kingdom and Other Geographies.
- Each business is allocated 11% of the capital divided by its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.
- Banking Business United Kingdom includes TSB's contribution to the Group.
- Other Geographies mostly comprises Mexico, foreign branches and representative offices. For the purpose of comparison, changes have been calculated for investment, funds and the income statement, excluding Sabadell United Bank.

In terms of the other criteria applied, segment information is first structured with a breakdown by geography and then broken down based on the customers to which each segment is aimed.

Segmentation by geography and business units

As regards the basis of presentation and approach used, information for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expenses where particular business lines are allocated to one or more legal entities, which allows income and expenses to be allocated to each customer in line with the business to which they are assigned.

Each business unit is treated as an independent business, therefore flows of income and expenses take place between businesses for the provision of services involving the distribution of products, services and systems. The final impact on the Group's income statement is nil.

Each business unit bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of corporate units.

Capital is allocated in such a way that each business is assigned capital equivalent to the minimum regulatory capital requirements to cover its risk exposure. This regulatory minimum requirement depends on the body responsible for supervising each business.

Details of profit before tax and other key figures for each business unit for the years 2018 and 2017 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euro

	2018				
	Banking Business Spain	Real estate asset transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Net interest income	**2,445**	**(28)**	**1,000**	**259**	**3,675**
Profit or loss on entities valued using the equity method and on dividends	62	-	-	3	65
Net fees and commissions	1,202	1	85	47	1,335
Gains or (-) losses on financial assets and liabilities, net and exchange differences	193	5	18	10	225
Other operating income/expenses	(359)	119	(60)	10	(290)
Gross income	**3,543**	**97**	**1,042**	**328**	**5,010**
Administrative and depreciation expenses	(1,791)	(140)	(1,148)	(195)	(3,273)
Operating income	**1,752**	**(43)**	**(106)**	**133**	**1,737**
Provisions and impairments	(543)	(520)	(231)	(27)	(1,320)
Gains or losses on asset derecognition and others	1	-	1	-	2
Profit or loss before tax	**1,211**	**(563)**	**(335)**	**107**	**419**
Corporation tax	(253)	85	95	(11)	(84)
Profit or loss after tax	**957**	**(478)**	**(240)**	**96**	**335**
Profit or loss attributed to minority interests	2	-	-	5	7
Total profit or loss of reported Group segments	**955**	**(478)**	**(240)**	**91**	**328**
ROE (earnings divided by average equity)	10.9%	-	-	9.%	2.6%
Cost-to-income (administrative expenses divided by gross income)	44.4%	-	101.6%	56.%	58.3%
NPL ratio	5.2%	33.5%	1.3%	0.3%	4.2%
NPL coverage ratio (covering risks classified as Stage 3)	52.1%	83.4%	50.4%	292.9%	54.1%
Employees	15,847	1,073	8,353	908	26,181
Domestic and foreign branches	1,865	-	550	42	2,457

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to income statement: GBP 0.8945 (average).

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to income statement: GBP 0.8945, MXN 22.4921, USD 1.1450 and MAD 10.953 (average).

Million euro

	2018				
	Banking Business Spain	Real estate asset transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Assets	**146,411**	**11,907**	**46,182**	**17,822**	**222,322**
Customer lending (net) excluding repos	96,234	1,332	33,929	10,896	142,391
Real estate exposure	-	959	-	-	959
Liabilities	**138,029**	**10,791**	**44,596**	**16,789**	**210,205**
On-balance sheet customer funds	98,296	235	32,484	6,328	137,343
Wholesale Funding Capital Markets	19,833	-	1,688	-	21,520
Allocated capital	**8,382**	**1,116**	**1,586**	**1,033**	**12,117**
Off-balance sheet customer funds	**42,976**	**35**	**-**	**1,023**	**44,034**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.8873.

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.8873, MXN 22.6901, USD 1.1851 and MAD 10.8752.

Million euro

	2017				
	Banking Business Spain	Real estate asset transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Net interest income	**2,528**	**(52)**	**1,034**	**293**	**3,802**
Profit or loss on entities valued using the equity method and on dividends	313	(1)	-	3	316
Net fees and commissions	1,076	2	96	50	1,223
Gains or (-) losses on financial assets and liabilities, net and exchange differences	541	(37)	110	9	623
Other operating income/expenses	(332)	118	(16)	3	(227)
Gross income	**4,126**	**30**	**1,223**	**358**	**5,737**
Administrative and depreciation expenses	(1,756)	(163)	(1,002)	(205)	(3,125)
Operating income	**2,370**	**(133)**	**221**	**153**	**2,612**
Provisions and impairments	(867)	(1,216)	(89)	(24)	(2,196)
Gains or losses on asset derecognition and others	384	41	7	1	432
Profit or loss before tax	**1,887**	**(1,307)**	**139**	**130**	**848**
Corporation tax	(321)	364	(49)	(37)	(43)
Profit or loss after tax	**1,566**	**(943)**	**90**	**92**	**805**
Profit or loss attributed to minority interests	-	-	-	4	4
Total profit or loss of Group segments	**1,566**	**(943)**	**90**	**88**	**801**
ROE (earnings divided by average equity)	17.8%	-	5.8%	8.8%	6.1%
Cost-to-income (administrative expenses divided by gross income)	39.1%	-	79.5%	54.5%	50.2%
NPL ratio	5.7%	32.2%	0.4%	0.9%	5.1%
NPL coverage ratio (covering risks classified as Stage 3)	45.6%	49.9%	55.9%	113.0%	45.7%
Employees (***)	15,775	1,018	8,287	765	25,845
Domestic and foreign branches	1,880	-	551	42	2,473

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to income statement: GBP 0.875 (average).

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to income statement: GBP 0.875, MXN 21.303, USD 1.132 and MAD 11.597 (average).

(***) For the purpose of comparison with 2018, in 2017 113 Fonomed (call centre) employees need to be included.

Million euro

	2017				
	Banking Business Spain	Real estate asset transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Assets	**142,521**	**15,384**	**48,145**	**15,298**	**221,348**
Customer lending (net) excluding repos	93,394	3,865	35,501	8,836	141,596
Real estate exposure	-	3,372	-	23	3,395
Liabilities	**133,370**	**13,728**	**46,597**	**14,431**	**208,127**
On-balance sheet customer funds	92,558	104	34,410	5,024	132,096
Wholesale Funding Capital Markets	20,168	-	1,920	-	22,088
Allocated capital	**9,151**	**1,656**	**1,548**	**866**	**13,222**
Off-balance sheet customer funds	**44,265**	**27**	**-**	**1,033**	**45,325**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.887.

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.887, MXN 23.661, USD 1.199 and MAD 11.426.

Average total assets for the institution as a whole as at 31 December 2018 amounted to 217,168,348 thousand euros, compared with 214,356,229 thousand euros on the same date in the preceding year.

The types of products and services from which ordinary income is derived are described below for each business unit:

- Banking Business Spain includes the following customer-centric business units:

    - Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and revolving credit is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension plans.

      Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others.

    - Corporate Banking offers specialised lending services together with a comprehensive offering of solutions, from transactional banking services to more complex and tailored solutions relating to financing and treasury, amongst others.

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

- Asset Transformation: Comprehensively manages NPA risk and real estate exposures, and also sets out and implements the strategy of real estate investee companies. Almost all of the non-current assets held for sale not classed as financial assets or deferred tax assets are located in Spain and therefore pooled into this segment.

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

- Other geographies: Other Geographies mostly comprises Mexico, foreign branches and representative offices that offer all types of banking and financial services of Corporate Banking, Private Banking and Commercial Banking.

Ordinary income generated by each business unit for 2018 and 2017 is shown below:

Thousand euro

	Consolidated			
	Income from ordinary activities		Profit or loss before tax	
SEGMENTS	2018	2017	2018	2017
Banking Business Spain	3,969,437	3,888,107	1,210,794	1,886,643
Asset Transformation	279,547	387,749	(563,076)	(1,307,423)
Banking Business UK	1,290,125	1,424,935	(335,415)	139,110
Other geographies	544,632	486,779	106,562	129,923
(-) Adjustments and disposals of ordinary income between segments	(226,400)	(257,208)	-	-
Total	5,857,341	5,930,362	418,865	848,253

The table below shows the balance of net interest income and net fees and commissions income generated by each business unit as a percentage of the total for 2018 and 2017:

%

	2018				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from (*) services
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	65.9%	59.9%	71.6%	26.0%	84.2%
Asset Transformation	0.9%	0.8%	0.2%	0.1%	0.1%
Banking Business UK	25.0%	28.1%	23.7%	46.5%	10.4%
Other geographies	8.1%	11.2%	4.6%	27.5%	5.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(*) Percentage by segment of total fees and commissions.

%

	2017				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from (*) services
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	65.6%	58.6%	70.1%	31.5%	80.5%
Asset Transformation	2.2%	2.1%	0.1%	0.1%	0.1%
Banking Business UK	25.8%	29.3%	26.0%	50.7%	14.9%
Other geographies	6.4%	10.0%	3.8%	17.7%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(*) Percentage by segment of total fees and commissions.

Furthermore, the breakdown by geography of interest and similar income during 2018 and 2017 is shown below:

Thousand euro

	Breakdown of interest income by geography			
Geography	Individual		Consolidated	
	2018	2017	2018	2017
National market	3,168,683	3,178,663	3,138,138	3,160,953
International market	256,764	193,642	1,723,805	1,678,680
European Union	73,096	61,232	1,281,538	1,294,590
Euro zone	22,420	19,165	22,420	19,165
Non Euro zone	50,676	42,067	1,259,118	1,275,425
Other	183,668	132,410	442,267	384,090
Total	**3,425,447**	**3,372,305**	**4,861,943**	**4,839,633**

The Directors ’Report (see section 2 therein) gives a more detailed assessment of each of these business units.

Note 39 –Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, comprising all the Spanish companies in which Banco de Sabadell, S.A. holds an interest that meet the requirements of the Spanish Corporation Tax Law (see Schedule I).

The remaining Spanish companies in the accounting group pay corporation tax on an individual basis.

Companies in the accounting group that are not tax residents in Spain are taxed in accordance with the tax regulations applicable to them.

Reconciliation

The reconciliation of the difference between consolidated accounting results and income subject to corporation tax is as follows:

Thousand euro

	2018	2017
Profit or loss before tax	418,865	848,253
Increases in taxable income	982,757	1,218,295
From profits	982,757	1,218,295
From equity	-	-
Decreases in taxable income	(1,927,772)	(1,942,380)
From profits	(1,286,215)	(1,908,777)
From equity	(641,557)	(33,603)
Taxable income	**(526,150)**	**124,168**
Tax payable (30%)	**(157,845)**	**37,250**
Deductions for double taxation, training and other	(4,292)	(15,363)
Tax payable (less tax credits)	**(162,137)**	**21,887**
Due to timing differences (net)	247,407	15,330
Other adjustments (net)	(1,635)	5,858
Tax expense or (-) income related to profit or loss from continuing operations	**83,635**	**43,075**

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for this corporation tax in the consolidated income statements is as follows:

Thousand euro

	2018	2017
Profit or loss before tax	418,865	848,253
Domestic tax rate (30%)	125,660	254,476
Tax-exempt profit or loss on sales of equity interests	(3,741)	(137,903)
Income from associates	(16,966)	(92,606)
Difference in effective tax rate on companies outside Spain (*)	(15,273)	8,080
Generated deductions/Non-deductible expenses	(4,410)	5,170
Rest	(1,634)	5,858
Tax expense or (-) income related to profit or loss from continuing operations	**83,636**	**43,075**
Effective tax rate	*20%*	*5%*

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

Taxable income –increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences:

Thousand euro

	2018	2017
Permanent difference	-	44,167
Temporary difference arising during the year	913,561	931,595
Temporary difference arising in previous years	69,196	242,533
Increases	982,757	1,218,295
Permanent difference	(120,326)	(717,153)
Temporary difference arising during the year	(563,449)	-
Temporary difference arising in previous years	(1,243,997)	(1,225,227)
Decreases	(1,927,772)	(1,942,380)

Deferred tax assets and liabilities

Under current tax and accounting regulations certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Royal Decree-Law 14/2013 gave rise to assets guaranteed by the Spanish State, tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person as well as those pertaining to apportionments or contributions to social welfare systems and, where appropriate, early retirement (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit eligible for the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for Public Debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to maintain the guarantee offered by the Spanish State, these are subject to an annual contribution of 1.5% of their amount as of 2016 (see Note 32).

The sources of the deferred tax assets / liabilities recognised in the consolidated balance sheets as at 31 December 2018 and 2017 are as follows:

Thousand euro

Deferred tax assets	2018	2017
Monetisable	**5,185,285**	**5,336,979**
Due to credit impairment	3,491,405	3,524,948
Due to real estate asset impairment	1,569,466	1,674,955
Due to pension funds	124,414	137,076
Non-monetisable	**1,025,949**	**821,117**
Tax credits for losses carried forward	**317,932**	**350,927**
Deductions not applied	**17,967**	**22,825**
Total	**6,547,133**	**6,531,848**

Deferred tax liabilities	2018	2018
Property restatements	65,449	67,865
Adjustments to value of wholesale debt issuances arising in business combinations	43,394	59,511
Other financial asset value adjustments	40,714	278,182
Other	17,673	19,898
Total	**167,230**	**425,456**

The increase in non-monetisable assets for 2018 is largely explained by the tax effect of the first application of IFRS 9, explained in Note 1. In Spain, pursuant to that set forth in Royal Decree 27/2018 of 29 December, any income or expenses directly recognised in reserves as a consequence of the first application of IFRS 9 and which give rise to tax effects in accordance with current regulations shall be included within the fiscal group's taxable income for three years (starting in 2018).

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2018		2017	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,387,014	158,865	6,430,233	414,568
UK	123,433	8,365	78,182	9,449
US	59	-	1,491	1,439
Mexico	36,238	-	21,634	-
Other	389	-	307	-
Total	**6,547,133**	**167,230**	**6,531,847**	**425,456**

As indicated in Note 1.3.20, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 8 years.

Monetisable tax assets are guaranteed by the Spanish State, therefore their recoverability does not depend on the generation of future tax benefits.

The Group has no material deferred tax assets that have not been recognised in the balance sheet.

Years subject to tax inspections

In July 2016, the Tax Authority notified Banco de Sabadell, S.A. of the beginning of verification and investigation activities relating to the items and periods broken down below, having signed the relevant assessments containing the tax regularisation proposals on 9 January 2019:

Concept	Period	Assessment status
Withholding / Payment on account of work/Professional Remuneration	07/2012 to 12/2014	Accepted
Withholding / Payment on account of investment income	07/2012 to 12/2014	Accepted
Corporation Tax	01/2011 to 12/2014	Disputed
Value Added Tax	07/2012 to 12/2014	Accepted and Disputed

Currently, in relation to disputed tax assessments relating to Value Added Tax and Corporation Tax, the procedure is currently open for public comment, and no liabilities are expected to arise which could have a material impact on the Group's results, as the actions taken by the Group are considered to have been lawful and the possibility of a significant contingency materialising is remote. Furthermore, the regularisation proposals included in the accepted tax assessments shall result in settlements at the end of the legal one-month period, if no express administrative proceeding is initiated. At the end of the procedure described above, it is considered likely that the net amount receivable for all items will be 10,140 thousand euros.

The review of all taxes not verified and not legally required in accordance with tax regulations is still pending for other Group entities which are not taxed within the consolidated tax group in Spain.

The main tax litigations in progress as at the end of the year are listed below:

- Appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed tax assessment for the VAT between 2008-2010 for an amount of tax due of 1,792 thousand euros.

- Appeal against decision of the regional tax appeal board of Catalonia (*Tribunal Económico-Administrativo Regional de Cataluña*) filed by BanSabadell Renting, S.L. against the disputed tax assessment regarding the VAT for 2014-2015 for an amount of tax due of 3,496 thousand euros.

- Appeals against the decision of the regional tax appeal board of Murcia (Tribunal Económico-Administrativo Regional de Murcia) filed by Sabadell Real Estate Development, S.L. relating to property transfer tax (*impuesto de transferencia de propiedades*) and stamp duty (*actos jurídicos documentados*) for an amount of tax due of 3,635 thousand euros.

The Group has, in any event, made suitable provisions for any contingencies that may arise in relation to these tax settlements.

In relation to the remaining periods and tax items not legally required, due to potential interpretations in the banking industry, there could be certain contingent tax liabilities. However, the possibility of such liabilities materialising is remote, and if they did materialise the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

Note 40 –Related party transactions

There are no transactions with the company's administrators or directors that could be considered significant. Those that did take place were in the normal course of the company's business or were conducted at market prices or under the terms normally applicable to employees.

The bank is not aware of any transactions carried out at non-market prices with any persons or companies related to the bank's administrators or Senior Management staff.

The most significant balances recognised by the Group in its dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2018					2017
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	222,310	10,098	72,864	**305,272**	**362,803**
Liabilities:						
Customer deposits and other financial liabilities	-	491,166	8,597	165,205	**664,968**	**826,693**
Off-balance sheet exposures:						
Financial guarantees given	-	20,537	-	3,689	**24,226**	**35,780**
Loan commitments given	-	153	7,176	3,925	**11,254**	**28,745**
Other commitments given	-	16,478	15	7,141	**23,634**	**23,338**
Income statement:						
Interest and similar income	-	1,268	151	1,923	**3,342**	**6,642**
Interest and similar charges	-	(4,233)	(14)	(10)	**(4,257)**	**(4,588)**
Return on capital instruments	-	-	-	-	**-**	**-**
Net fees and commissions	-	122,958	54	397	**123,409**	**109,877**
Other operating income	-	7,202	-	27	**7,229**	**9,879**

(*) Includes employee pension schemes.

Note 41 –Remuneration of and balances with members of the Board of Directors and senior management

The following table shows, for the years ended 31 December 2018 and 2017, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2018	2017	2018	2017	2018	2017
José Oliu Creus (*)	234	214	35	32	269	246
José Javier Echenique Landiribar	205	175	-	-	205	175
Jaime Guardiola Romojaro (*)	100	92	-	-	100	92
Anthony Frank Elliott Ball	127	36	-	-	127	36
Aurora Catá Sala	160	138	-	-	160	138
Joaquín Folch-Rusiñol Corachán (1)	-	50	-	-	-	50
Pedro Fontana García (2)	127	8	-	-	127	8
María José García Beato (*) (3)	34	-	-	-	34	-
Maria Teresa Garcia-Milà Lloveras	192	158	-	-	192	158
George Donald Johnston (4)	137	21	-	-	137	21
José Manuel Lara García (5)	47	87	-	-	47	87
Joan Llonch Andreu (6)	-	56		-	-	56
David Martínez Guzmán	100	67	-	-	100	67
José Manuel Martínez Martínez	180	155	-	-	180	155
José Ramón Martínez Sufrategui	120	103	-	-	120	103
José Luis Negro Rodríguez (*)	100	92	18	16	118	108
Manuel Valls Morató	160	122	-	-	160	122
David Vegara Figueras	170	157	-	-	170	157
Total	**2,193**	**1,731**	**53**	**48**	**2,246**	**1,779**

(*) Perform executive functions.

(1) Submitted resignation from position as independent director effective from 27 July 2017.

(2) On 27 July 2017, the Board of Directors agreed to this appointment as a member of the Board of Directors, as an Independent Director. The Ordinary General Meeting of Shareholders held on 19 April 2018 ratified this appointment, by co-optation, by the Board of Directors. The position was accepted on 21 December 2017.

(3) On 24 May 2018, the Board of Directors agreed to this appointment as a member of the Board of Directors, as an executive director, and the position was accepted on 17 September 2018.

(4) On 25 May 2017, the Board of Directors agreed to this appointment as a member of the Board of Directors, as an Independent Director. The Ordinary General Meeting of Shareholders held on 19 April 2018 ratified this appointment, by co-optation, by the Board of Directors. The position was accepted on 5 October 2017.

(5) Submitted their withdrawal from the position of Director, effective on 24 May 2018.

(6) Submitted resignation from position as independent director effective from 25 May 2017.

Aside from the items mentioned above, members of the Board of Directors have received 46 thousand euros as fixed remuneration in 2018 (51 thousand euros in 2017) by reason of their membership of boards of directors of Banco Sabadell Group companies or to advisory boards (these amounts are included in the annual report on directors ’ remuneration).

Contributions for life insurance premiums covering pension commitments in respect of pension rights accruing in 2018 amounted to 1,516 thousand euros (3,605 thousand euros in 2017), of which 53 thousand euros are detailed in the table above and 1,463 thousand euros correspond to directors for their discharge of executive duties.

Remuneration earned by Directors for discharging their executive duties during 2018 amounted to 4.224 thousand euros (6,980 thousand euros in 2017).

Total risk transactions granted by the bank and consolidated companies to directors of the parent company amounted to 7,722 thousand euros as at 31 December 2018, of which 2,607 thousand euros corresponded to loans and receivables and 5,115 thousand euros related to guarantees and documentary credit (7,491 thousand euros in 2017, consisting of 5,231 thousand euros in loans and receivables and 2,260 thousand euros in guarantees and documentary credit). The average interest rate charged was 1.16% (0.71% in 2017). Liabilities balances amounted to 7,609 thousand euros in 2018 (6,966 thousand euros in 2017).

Total Senior Management remuneration earned during 2018 amounted to 6,326 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer.

Risk transactions granted by the bank and consolidated companies to Senior Management staff (with the exception of those who are also executive directors, for whom details are provided above) amounted to 10,028 thousand euros as at 31 December 2018 (6,723 thousand euros in 2017), comprising 7,917 thousand euros in loans and receivables and 2,111 thousand euros in guarantees and documentary credit (in 2017, 5,760 thousand euros relate to loans and receivables and 963 thousand euros to guarantees and documentary credit). Liabilities balances amounted to 987 thousand euros (1,243 thousand euros in 2017).

Stock appreciation rights conferred to members of Senior Management, including executive directors, under the 2018 remuneration incentive schemes (see Note 33) resulted in staff expenses of 2.0 million euros during the year (2.0 million euros in 2017).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Report on Corporate Governance, which forms part of the Directors ' Report.

The directors and management staff mentioned above are specified below with their positions held in the bank as at 31 December 2018:

Executive Directors	
José Oliu Creus	Chair
Jaime Guardiola Romojaro	CEO
José Luis Negro Rodríguez	Director - General Manager
María José García Beato	Director - General Secretary - Deputy Secretary to the Board
Senior Management	
Tomás Varela Muiña	General Manager
Miquel Montes Güell	General Manager
Carlos Ventura Santamans	General Manager
Rafael García Nauffal	Deputy General Manager
Ramón de la Riva Reina	Deputy General Manager
Enric Rovira Masachs	Deputy General Manager
Manuel Tresánchez Montaner	Deputy General Manager
José Nieto de la Cierva	Deputy General Manager

Other information relating to the Board

Pursuant to Article 229 of the Capital Companies Act, in accordance with the wording set out in Law 31/2014 of 3 December, amending the Spanish Capital Companies Act in order to improve corporate governance, and in order to strengthen transparency in public limited companies, the directors have notified the company that, during 2018, they or persons related to them, as defined in Article 231 of the Spanish Capital Companies Act:

a. Have not carried out transactions with the company, without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income.

b. They have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. They have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. They have not taken undue advantage of the company's business opportunities.

e. They have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

f. They have not carried out activities on their own behalf or on behalf of a third party involving competition with the company, whether on an isolated or potential basis, or which might otherwise place them in permanent conflict with the company's interests.

The bank has entered into a liability insurance policy for 2018 that covers the bank's administrators and senior officer positions. The total premium paid was 722 thousand euros (623 thousand euros in 2017).

Note 42 –Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2018 and 2017.

Information relating to the environment

All operations of the Group as a whole are subject to legal requirements on environmental protection and health and safety in the workplace. The Group considers that it substantially complies with these laws and it has procedures in place which have been designed to foster and guarantee such compliance.

The Group has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. During 2018, the Group has continued to implement a number of Group-wide waste treatment, consumables recycling and energy saving schemes. It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details on the policies and activities adopted by the bank relating to the environment, see the non-financial disclosures report, which is included as part of the Directors 'Report.

Customer Care Service

The Customer Care Service is located on the control line of the organisational structure of Banco Sabadell Group and its leader, who is appointed by the Board of Directors, reports directly to the Compliance Division of the bank. Its functions are to handle and resolve complaints and claims brought forward by customers and users of the Group's financial services, when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good banking practices.

Cases handled

During 2018, the Customer Care Service received 44,713 complaints and claims (76,505 in 2017), of which 32,849 (67,532 in 2017) were accepted for processing, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. The number of cases handled, however, was 35,445 (65,964 in 2017) due to the resolution of issues pending from the previous year (2,596 cases, against 1,593 in 2018). By type, 5.9% were complaints (3.5% in 2017) and 94.1% were claims (96.5% in 2017).

Of the total complaints and claims examined by the Customer Care Service, 40.6% resulted in a decision that was favourable to the customer or user (17.6% in 2017), in 0.1% of cases the customer withdrew the claim (0.1% in 2017) and 40.0% were resolved in favour of the institution (63.7% in 2017). As at 31 December 2018, 0.6% of cases had yet to be ruled on by the regulatory bodies and the Customer and Stakeholder Ombudsman. Lastly, the Customer Care Service declared itself not to be authorised to resolve 18.7% of the cases.

In addition to its main activity, the Customer Care Service also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Finance Ministry Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell Group. In this respect, the Service has handled 2,848 requests for assistance and information during 2018, compared to 1,917 in 2017.

The average response time to complaints and claims was as follows: 12,090 cases were resolved within 15 days (14,308 cases in 2017), 18,575 cases were resolved between 15 and 30 days (15,962 cases in 2017) and 4,780 cases were resolved in a period of over 30 days (35,694 cases in 2017). The Finance Ministry Order and the company's Regulations for the Protection of Customers and Users of Financial Services sets forth a maximum response period of two months.

Ombudsman

In the Group, the role of Customer Ombudsman is assumed by Mr José Luís Gómez-Dégano y Ceballos-Zúniga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco Sabadell Group, both in the first and second instances, and for settling issues that are passed on to him by the Customer Care Service.

The Customer Ombudsman received 1,358 complaints and claims in 2018 (1,044 in 2017), of which 1,251 were accepted for processing. During the year, the Ombudsman has processed and resolved 1,252 claims (852 in 2017), as certain matters had remained unresolved from the previous year. As at 31 December 2018, 105 claims remained to be resolved by the Ombudsman (86 in 2017). In 18 cases, the Customer Care Service had yet to submit the corresponding complaints and claims.

Of the total complaints and claims resolved by the Ombudsman, 19.5% were resolved in favour of the institution (24.2% in 2017) and 0.9% in favour of the customer (0.7% in 2017). Of the remaining cases processed and resolved, the bank acquiesced to customer requests in 39.1% of the cases (34.9% in 2017). In 40.3% of the cases (39.5% in 2017) the Ombudsman did not issue any judgements due to a lack of authority (without prejudice to the claimants ' option to pursue their claims elsewhere) and in 0.2% of the cases the customer withdrew the complaint (0.7% in 2017).

Bank of Spain, the Spanish National Securities Market Commission and the General Board of Insurance and Pension Plans

Under current legislation, customers and users can submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the Spanish National Market Commission and to the General Board of Insurance and Pension Plans. In any event, it is a mandatory prerequisite that the parties concerned first address their complaints to the institution concerned in order to attempt to resolve the conflict.

Note 43 –Subsequent events

Since 31 December 2018, there have been no significant events worthy of mention.

Schedule I –Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
AC Dos Lerida, S.L.U.	Real estate development	Barcelona - Spain	-	100.00	Yes	2,793	486	4	-	3,284	2,408	874	4	12/18
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	100	10,146	96	-	10,410	20,038	(9,487)	(156)	12/18
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra	-	50.97	No	602	230	189	-	39,534	602	199	96	12/18
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS management company	Barcelona - Spain	100.00	-	Yes	3,601	1,577	1,438	-	7,623	4,445	732	1,438	12/18
Aurica Coinvestments S.L.	Holding	Barcelona - Spain	-	61.76	Yes	50,594	(11)	1,909	-	52,494	31,247	(7)	(2,496)	12/18
Aurica Xxi, S.C.R. De R.S., S.A.U.	Other regulated companies	Barcelona - Spain	100.00	-	Yes	14,200	21,055	1,292	-	36,668	17,492	29,801	1,218	12/18
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Bahamas	99.99	0.01	No	1,598	852	(34)	-	3,127	2,439	(204)	(40)	12/18
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	Yes	703,371	9,295,348	539,867	-	178,987,816	-	10,367,453	739,733	12/18
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico	99.99	0.01	No	554,267	(38,016)	(14,551)	-	2,416,644	568,446	(35,923)	(16,526)	12/18
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra	50.97	-	No	30,069	41,972	9,953	1,594	753,867	15,326	22,232	4,040	12/18
Bansabadell Factura, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	100	(1,951)	687	-	2,678	299	(2,150)	687	12/18
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Barcelona - Spain	100.00	-	Yes	24,040	29,190	5	-	739,561	24,040	29,190	5	12/18
Bansabadell Inversió Desenvolupament, S.A.U.	SPE	Barcelona - Spain	100.00	-	Yes	16,975	122,317	2,441	-	184,716	108,828	39,200	1,237	12/18
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del	Other regulated companies	Alicante - Spain	-	100.00	Yes	301	60	4,306	44,437	47,307	524	(164)	4,306	12/18
Bansabadell Renting, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	2,000	42,140	10,146	-	606,530	3,861	40,279	10,146	12/18
Bansabadell Securities Services, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	2,500	40,031	5,362	-	50,863	2,500	39,483	5,910	12/18
Bitarte, S.A.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	6,506	2,742	(1,252)	-	31,879	9,272	250	(1,437)	12/18
Bstartup 10, S.L.U.	SPE	Barcelona - Spain	-	100.00	Yes	1,000	(184)	(29)	-	5,357	1,000	(1,370)	(25)	12/18
Business Services For Operational Support, S.A.U.	Services	Barcelona - Spain	80.00	-	Yes	530	(1,872)	2,625	-	34,316	3,259	(3,949)	2,213	12/18
Cam Global Finance, S.A. en liquidación (1)	Other regulated companies	Alicante - Spain	100.00	-	No	-	-	-	154	16	-	-	(16)	12/18
Caminsa Urbanismo, S.A.U.	Real estate	Alicante - Spain	-	100.00	Yes	2,000	(1,657)	(55)	-	1,315	800	(435)	18	12/18
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	República Dominicana	-	100.00	No	5,016	(4,288)	-	-	745	-	18	-	12/18
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Alicante - Spain	-	100.00	No	1,942	(90,357)	(493)	-	10	1,919	(78,648)	(493)	12/18
Duncan 2016 -1 Holdings Limited	Holding	UK	-	100.00	No	1	-	-	-	1	1	1	-	12/18
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	87.35	-	No	7,842	1,084	(46)	-	2,701	2,560	(167)	(40)	12/18
Duncan Holdings 2015-1 Limited	Fund	UK	-	100.00	No	1	-	-	-	1	1	1	-	12/18
Ederra, S.A.	Real estate	Guipúzcoa - Spain	97.85	-	No	2,036	30,590	928	-	33,823	36,062	(4,121)	891	12/18
Sabadell Asset Management Luxembourg, S.A.	Other regulated companies	Luxembourg	22.00	78.00	No	125	563	86	-	951	51	352	86	12/18
Subtotal									**46,185**		**857,420**	**10,433,440**	**750,799**	

Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Europea Pall Mall Ltd.	Real estate	UK	100.00	-	No	20,843	(1,519)	(2,765)	-	19,003	20,843	(2,346)	(852)	12/18
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante - Spain	100.00	-	Yes	1,232	2,075	855	-	6,601	2,870	437	1,132	12/18
Fuerza Eólica de San Matias, S de RL de CV	Wind energy	Mexico	-	99.99	No	4,617	-	(1,153)	-	7,627	-	-	-	11/18
Galeban 21 Comercial, S.L.U.	SPE	A Coruña - Spain	100.00	-	Yes	10,000	(4,289)	(1)	-	5,711	14,477	(8,765)	(1)	12/18
Gazteluberri S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	53	(20,423)	(19)	-	6,413	23,890	(44,261)	(19)	12/18
Gest 21 Inmobiliaria, S.L.U	SPE	Barcelona - Spain	100.00	-	Yes	7,810	9	8	-	7,835	80,516	(63,293)	27,734	12/18
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación (2)	Real estate	Barcelona - Spain	-	100.00	No	33,850	(31,370)	(79)	-	10,342	32,832	(17,509)	(79)	12/18
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante - Spain	100.00	-	Yes	13,000	2,628	93,002	33,273	60,233	123,492	(63,533)	162	12/18
Guipuzcoano Promoción Empresarial, S.L.	SPE	Guipúzcoa - Spain	-	100.00	No	53	(75,349)	(691)	-	7,450	7,160	(77,671)	(337)	12/18
Guipuzcoano Valores, S.A.	Real estate	Barcelona - Spain	99.99	0.01	Yes	4,514	2,754	189	-	7,721	10,833	(3,566)	189	12/18
Hotel Management 6 Holdco, S.L.U.(4)	Real estate	Barcelona - Spain	-	100.00	Yes	29,074	(24,190)	(4,922)	-	56,856	27,611	(10,188)	(650)	12/18
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	Yes	60	690	6	-	757	414	690	6	12/18
Hondarriberri, S.L.	SPE	Guipúzcoa - Spain	99.99	0.01	No	41	(6,991)	(4,562)	-	65,025	120,655	122,355	136	12/18
Hotel Calle de Los Molinos 10, S.L.U	Real estate development	Barcelona - Spain	-	100.00	No	2,077	(1,798)	(176)	-	132	2,837	(1,946)	(195)	12/18
Hotel Calle Mayor 34, S.L.U	Real estate development	Barcelona - Spain	-	100.00	No	2,124	(1,300)	(157)	-	673	2,499	(1,214)	(209)	12/18
Hotel Management 6 Gestión Activa, S.L.U.(5)	Real estate	Barcelona - Spain	100.00	-	Yes	135,730	22,529	9,107	-	174,219	136,335	35,550	3,608	12/18
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona - Spain	-	100.00	No	4,482	(3,571)	(198)	-	733	5,418	(2,648)	(971)	12/18
Hotel Value Added Primera, S.L.U.	Real estate development	Barcelona - Spain	-	100.00	Yes	3	21,411	(588)	-	20,858	27,527	(6,113)	(588)	12/18
Interstate Property Holdings, Llc.	SPE	United States	100.00	-	No	7,293	(3,053)	33	-	6,160	3,804	6,256	33	12/18
Inverán Gestión, S.L.	Real estate	Barcelona - Spain	44.83	55.17	Yes	90	(11,747)	(147)	-	23,584	20,214	(56,747)	(147)	12/18
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante - Spain	100.00	-	Yes	308,000	189,884	2,693	-	501,716	589,523	(91,279)	2,693	12/18
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Murcia - Spain	-	55.06	No	299,090	(300,569)	-	-	94	175,124	-	-	12/18
LSP Finance, S.L.	Provision of technology services	Barcelona - Spain	-	100.00	No	252	12	(565)	-	1,165	6,150	-	(565)	12/18
Malbrouck, S.I.C.A.V.	UCITS, funds and similar financial corporations	Madrid - Spain	99.94	-	No	14,554	2,405	(126)	-	16,703	-	-	-	12/18
Manston Invest, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	33,357	(12,843)	83	-	20,808	33,357	(14,593)	(837)	12/18
Mariñamendi, S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	62	(48,026)	(3,248)	-	49,383	55,013	(102,977)	(3,248)	12/18
Mediterráneo Sabadell, S.L.	SPE	Alicante - Spain	50.00	50.00	Yes	85,000	17,052	241	48,638	102,422	506,342	(449,864)	241	12/18
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	795	(2,971)	(78)	-	5,203	986	(4,143)	904	12/18
Orión Energía 1, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(151)	16	-	84	36	(89)	16	12/18
Orión Energía 10, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	17	-	84	36	(95)	17	12/18
Orión Energía 11, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(96)	16	12/18
Orión Energía 12, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	87	36	(95)	17	12/18
Orión Energía 13, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(160)	17	-	88	36	(98)	17	12/18
Orión Energía 14, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	17	-	86	36	(95)	17	12/18
Orión Energía 15, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 16, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	15	-	86	36	(97)	15	12/18
Orión Energía 17, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	87	36	(95)	17	12/18
Orión Energía 18, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	86	36	(96)	16	12/18
Orión Energía 19, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	16	-	85	36	(95)	16	12/18
Subtotal									**81,911**		**2,031,118**	**(858,415)**	**28,320**	

Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation						Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Orión Energía 2, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(154)	17	-	84	36	(92)	17	12/18
Orión Energía 20, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 21, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(96)	16	12/18
Orión Energía 22, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 23, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	93	36	(96)	16	12/18
Orión Energía 24, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(95)	16	12/18
Orión Energía 25, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	86	36	(96)	16	12/18
Orión Energía 26, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	92	36	(95)	20	12/18
Orión Energía 27, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	92	36	(96)	20	12/18
Orión Energía 28, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	19	-	95	36	(97)	19	12/18
Orión Energía 29, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	93	36	(96)	20	12/18
Orión Energía 3, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	86	36	(96)	17	12/18
Orión Energía 30, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	19	-	95	36	(97)	19	12/18
Orión Energía 4, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	16	-	87	36	(95)	16	12/18
Orión Energía 5, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(95)	16	12/18
Orión Energía 6, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	89	36	(95)	17	12/18
Orión Energía 7, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	85	36	(95)	16	12/18
Orión Energía 8, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	14	-	86	36	(95)	14	12/18
Orión Energía 9, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Parque Eólico Jaufil, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(2,835)	136	-	5,604	163	(2,901)	202	12/18
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	83	(1,340)	104	-	2,671	83	(1,330)	94	12/18
Parque Eólico Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	4,003	(9,171)	740	-	15,069	4,003	(9,079)	648	12/18
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(2,371)	219	-	5,658	163	(2,360)	208	12/18
Parque Eólico Tahuna, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	3	(10,447)	273	-	13,790	-	(8,737)	(1,414)	12/18
Parque Eólico Zorreras, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	3	(9,545)	433	-	12,242	-	(8,405)	(684)	12/18
PayTPV On Line Entidad de Pago, S.L.	Other financial services	Bilbao- Spain	-	100.00	No	150	57	-	-	663	36	-	-	12/18
Placements Immobiliers France, S.A.S.	Real estate	France	-	100.00	No	30,002	1,183	(13)	-	31,181	42,887	(11,694)	(21)	12/18
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	20	(2)	-	-	18	20	(2)	-	12/18
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	3	(6)	(4)	-	329,005	3	(6)	(4)	12/18
Sabadell Asset Management, S.A., S.G.I.I.C.	Other regulated companies	Madrid - Spain	100.00	-	Yes	601	71,563	45,927	40,000	201,326	607	79,960	37,524	12/18
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	Brazil	99.99	0.01	No	905	(820)	-	-	106	250	393	-	12/18
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico	49.00	51.00	No	257,208	(43,138)	28,609	40,480	1,707,828	138,272	10,691	28,784	12/18
Sabadell Consumer Finance, S.A.U	Credit institution	Barcelona - Spain	100.00	-	Yes	35,720	79,674	13,938	-	1,319,058	72,232	48,084	13,938	12/18
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid - Spain	100.00	-	Yes	70	1,201	811	-	3,165	9,373	(243)	811	12/18
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra	-	50.97	No	300	999	191	-	2,065	300	596	98	12/18
Sabadell Information Systems Limited	Provision of technology services	UK	100.00	-	No	12,036	26,508	(6,138)	-	124,340	41,296	(2,204)	(6,138)	12/18
Sabadell Information Systems, S.A.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	40,243	186,186	(131,537)	-	1,596,846	143,695	79,617	(36,051)	12/18
Sabadell Innovation Capital, S.L.U.	Holding	Barcelona - Spain	-	100.00	Yes	1,000	(17)	(365)	-	26,175	1,000	(18)	(364)	12/18
Subtotal									**80,480**		**455,067**	**170,547**	**37,954**	

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Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Sabadell Innovation Cells, S.L.U.	Other business management consulting activities	Barcelona - Spain	100.00	-	Yes	3	(269)	(1,854)	-	3,366	3	(269)	(1,854)	12/18
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Barcelona - Spain	100.00	-	Yes	30,116	802,096	25,465	-	938,616	863,895	(19,489)	37,119	12/18
Sabadell Real Estate Activos, S.A.U.	Real estate	Barcelona - Spain	100.00	-	Yes	100,060	235,312	(562)	-	336,982	500,622	(156,688)	(4,432)	12/18
Sabadell Real Estate Development, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	15,807	(1,882,623)	(351,397)	-	3,465,424	2,147,442	(3,711,160)	(279,826)	12/18
Sabadell Real Estate Housing, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	2,073	(61)	1,145	-	30,672	14,292	(12,280)	1,145	12/18
Sabadell Securities Usa, Inc.	Other investees with their own business	United States	100.00	-	No	551	3,170	247	-	4,112	551	2,844	252	12/18
Sabadell Strategic Consulting, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	3	504	153	-	1,316	3	504	153	12/18
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	Yes	3	1,535	774	-	24,700	3	159	465	12/18
Sinia Capital S.A. De C.V.	Holding	Mexico	-	100.00	No	20,830	(1,309)	3,686	-	42,019	18,675	1,118	751	12/18
Sinia Renovables, S.A.U.	Other regulated companies	Barcelona - Spain	100.00	-	Yes	15,000	(14,825)	5,569	-	22,393	15,000	(8,956)	4,032	12/18
Solvia Desarrollos Inmobiliarios S.L.	Real estate	Madrid - Spain	100.00	-	Yes	25	772	1,026	-	4,020	15	783	1,026	12/18
Solvia Gestora de Vivienda Social, S.L.U.	Real estate	Alicante - Spain	100.00	-	Yes	3	4,766	3,201	-	10,228	7,980	4,766	3,201	12/18
Solvia Pacific, S.A. De C.V.	Real estate	México - Spain	-	100.00	No	28,947	(16,633)	325	-	12,642	29,164	(11,827)	325	12/18
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante - Spain	100.00	-	Yes	660	92,100	21,398	-	125,678	14,008	84,208	13,424	12/18
Stonington Spain, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	60,729	(9,880)	167	-	51,319	60,729	(15,619)	249	12/18
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante - Spain	99.88	0.12	Yes	1,000	1,387	-	-	2,393	5,266	(2,879)	-	12/18
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante - Spain	100.00	-	Yes	296,092	(391,121)	(124,845)	-	1,788,476	2,564,914	(2,516,082)	(89,462)	12/18
Tierras Vega Alta Del Segura, S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	4,550	(13,136)	(813)	-	6,121	3,250	(25,296)	(926)	12/18
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante - Spain	100.00	-	Yes	3,003	(353)	-	-	2,655	4,654	(2,004)	-	12/18
TSB Bank Plc	Credit institution	UK	-	100.00	No	90,710	2,077,450	(73,254)	-	45,489,008	1,814,636	385,789	(180,183)	12/18
TSB Banking Group Plc	Holding	UK	100.00	-	No	7,028	1,755,605	(1,840)	-	2,211,972	2,168,320	(66,114)	(41,287)	12/18
TSB Banking Group plc Employee Share Trust	Other regulated companies	UK	-	100.00	No	1	(5,902)	(2,624)	-	1,247	-	(6,136)	(1,659)	12/18
TSB Coverd Bonds Holdings Limited	Holding	UK	-	100.00	No	1	-	-	-	1	1	-	-	12/18
TSB Covered Bonds (LM Limited)	Other regulated companies	UK	-	100.00	No	1	-	-	-	1	1	-	-	12/18
TSB Covered Bonds LLP	Other regulated companies	UK	-	100.00	No	1	-	-	-	1	1	3	-	12/18
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid - Spain	-	100.00	Yes	3,606	3,022	2,000	4,500	15,823	3,084	3,916	1,628	12/18
Urumea Gestión, S.L. (en liquidación)	Other investees with their own business	Guipúzcoa - Spain	-	100.00	No	9	(7)	(2)	-	1	9	(7)	(2)	12/18
VeA Rental Homes , S.A (3)	Letting of own property	Barcelona - Spain	100.00	-	Yes	5,000	(2,169)	(7,862)	-	66,540	5,000	(2,158)	(7,872)	12/18
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Barcelona - Spain	-	97.20	Yes	12,000	(43,502)	(800)	-	16,536	11,664	(43,149)	(817)	12/18
Vitigudina Fv, S.L.	Engineering technical services	Barcelona - Spain	-	100.00	Yes	-	1,629	(880)	(275)	-	18,032	1,777	(228)	12/18
Xunqueira Eolica, S.L.	Other types of electricity production	Barcelona - Spain	-	100.00	Yes	3	(5,179)	134	-	11,751	400	(4,540)	(903)	12/18
Total									**212,801**		**13,615,219**	**3,626,786**	**271,392**	

(1) Formerly, Cam Global Finance S.A.U.

(2) Formerly, Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.

(3) Formerly, VeA Rental Homes SOCIMI, S.A.

(4) Formerly, HI Partners Holdco Gestión Activa, S.L.

(5) Formerly, Hotel Investment Partners, S.L.

Banco Sabadell Group companies as at 31 December 2018 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Company data (a) Reserves	Company data (a) Profit/(loss) (b)	Company data (a) Dividends paid (c)	Company data (a) Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Aurica III, Fondo De Capital Riesgo	Other regulated companies	Barcelona - Spain	-	48.15	48,855	(1,951)	(1,086)	-	46,101	1,272	(940)	(523)	12/18
Aurica IIIB, Soc. De Capital Riesgo, S.A.	Other regulated companies	Barcelona - Spain	-	43.43	33,020	(853)	(1,222)	-	31,135	776	(383)	(531)	12/18
Atrian Bakers, S.L.	Other associates	Barcelona - Spain	-	22.41	26,249	(6,966)	622	-	35,633	2,000	-	140	09/18
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,402	(225)	-	48,733	40,378	(18,771)	(113)	12/18
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	54,649	16,101	12,293	238,897	45,000	(12,676)	8,050	12/18
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	540,903	68,591	68,500	10,072,813	27,106	244,745	35,599	12/18
Emte Renovables, S.L.	SPE	Barcelona - Spain	-	62.11	7,050	(7,050)	161	-	347	4,379	(4,379)	215	10/18
Esus Energía Renovable, S.L.	Services	Pontevedra - Spain	-	45.00	50	(539)	(134)	-	2,133	23	(23)	-	11/18
Financiera Iberoamericana, S.A.	Credit institution	República de Cuba	50.00	-	38,288	5,040	3,288	984	89,308	19,144	2,518	1,644	12/18
Flex Equipos De Descanso, S.A.	Manufacturing	Madrid - Spain	-	19.16	66,071	14,096	22,357	1,915	228,709	50,930	-	6,515	10/18
Gate Solar Gestión, S.L.	Services	Álava - Spain	50.00	-	300	3,096	(3)	-	3,490	1,860	(629)	3	09/18
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante - Spain	-	40.00	1,000	(9,600)	-	-	2,823	7,675	(7,675)	-	11/18
Grupo Luxiona, S.L.	Other investees	Barcelona - Spain	-	20.00	2,561	4,732	(1,976)	-	60,312	10,835	(10,835)	-	09/18
Hydrophytic, S.L.	Real estate	Álava - Spain	-	50.00	186	124	18	-	469	93	62	9	09/18
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia - Spain	28.70	-	6,800	(2,651)	(101)	-	4,079	2,026	(1,527)	(39)	09/18
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra - Spain	24.06	-	147,614	(38,191)	5,448	-	974,487	420	-	891	12/18
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,255)	(3)	-	31,991	2,898	(2,898)	-	10/18
Redes 2 Promotoro Unica S.L.	Holding	Madrid - Spain	-	20.00	10,328	90,874	(620)	-	106,572	20,191	50	(124)	12/18
Ribera Salud, S.A.	Services	Valencia - Spain	-	50.00	9,518	113,473	20,093	-	407,535	30,203	16,843	4,704	12/18
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg	44.64	-	12,900	(55)	(25)	-	12,931	4,926	3,052	-	10/18
Sabadell Asabys Health Innovation Investment, S.A.	Holding	Barcelona - Spain	-	49.92	4,587	-	(175)	-	4,412	2,260	30	(87)	11/18
Sbd Creixent, S.A.	Real estate	Barcelona - Spain	23.05	-	5,965	(208)	619	-	6,520	3,524	(2,197)	143	10/18
Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A.	Other associates	Barcelona - Spain	48.43	-	4,818	170	(523)	80	4,494	422	1,994	(253)	12/18
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona - Spain	-	35.78	2,555	(590)	(218)	-	1,756	915	(212)	(78)	09/18
Termosolar Borges S.L.	Engineering technical services	Barcelona - Spain	47.50	-	14,700	(34,853)	609	-	133,841	11,800	-	-	10/18
Villoldo Solar S.L.	Engineering technical services	Barcelona - Spain	50.00	-	3	49	(5)	-	98	-	-	-	10/18
Otros												545	
Total								**83,772**		**291,056**	**206,149**	**56,710**	

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Companies outside Spain have been translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 1,807,552 thousand euros as at 31 December 2018. The liabilities balance as at the end of 2018 totalled 1,779,922 thousand euros. See the key figures as at 2018 year-end for BanSabadell Vida in Note 14.

Changes in the Group's scope of consolidation in 2018

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Solvia Desarrollos Inmobiliarios, S.L.	Subsidiary	4/13/2018	15	0.00	100.00%	100.00%	Direct	Full consolidation	a
LSP Finance , S.L.	Subsidiary	6/14/2018	6,150	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Termosolar Borges. S.L.	Associate	6/28/2018	11,800	0.00	47.50%	47.50%	Direct	Equity method	c
Villoldo Solar, S.L.	Associate	6/28/2018	-	0.00	50.00%	50.00%	Direct	Equity method	c
Redes 2 Promotora Unica, S.L.	Associate	7/3/2018	20,191	0.00	20.00%	20.00%	Indirect	Equity method	c
PayTPV On Line Entidad de Pago, S.L.	Subsidiary	7/26/2018	7,500	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Sabadell Asabys Health Innovation Investments S.A.	Associate	11/14/2018	2,260	0.00	49.92%	49.92%	Indirect	Equity method	c
Fuerza Eólica de San Matías, S de RL de CV	Subsidiary	11/15/2018	2,597	0.00	99.99%	99.99%	Indirect	Full consolidation	b
Total newly consolidated subsidiaries			**16,262**						
Total newly consolidated associates			**34,251**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or Incorporation of associates

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Cape Funding No.1 PLC	Subsidiary	4/30/2018	100.00%	-	-	Indirect	Full consolidation	b
Cape Holdings No.1 Limited	Subsidiary	4/30/2018	100.00%	-	-	Indirect	Full consolidation	b
TSB Scotland (Investment) Nominees Limited	Subsidiary	4/30/2018	100.00%	-	-	Indirect	Full consolidation	b
TSB Scotland Nominees Limited	Subsidiary	4/30/2018	100.00%	-	-	Indirect	Full consolidation	b
Parque Eólico Los Ausines, S.L	Associate	6/30/2018	50.00%	-	5,574	Indirect	Equity method	a
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Associate	1/31/2018	30.00%	-	-	Indirect	Equity method	b
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.	Subsidiary	1/31/2018	100.00%	-	13	Direct	Full consolidation	b
CAM International Issues, S.A.U.	Subsidiary	9/27/2018	100.00%	-	8	Direct	Full consolidation	b
HIP Francia 184, S.L.U. en liquidación	Subsidiary	12/28/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel María Tarrida 6, S.L.U. en liquidación	Subsidiary	12/28/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Autovía del Mediterráneo 165, S.L.U. en liquidación	Subsidiary	12/28/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Carretera de Taull, S.L.U. en liquidación	Subsidiary	12/28/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Cavall de Mar 25, S.L.U. en liquidación	Subsidiary	12/28/2018	100.00%	-	-	Indirect	Full consolidation	b
Gala Domus, S.A. (en concurso de acreedores)	Subsidiary	10/17/2018	100.00%	-	(23)	Indirect	Full consolidation	b
Rest					60			
Total					**5,632**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

Banco Sabadell Group companies as at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
AC Dos Lerida, S.L.U.	Real estate development	Barcelona - Spain	-	100.00	Yes	2,793	(220)	(27)	-	2,641	2,408	-	-	12/17
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	100	10,173	(28)	-	10,270	20,038	(9,123)	(101)	12/17
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra	-	50.97	No	602	264	126	115	40,573	602	193	64	12/17
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS management company	Barcelona - Spain	100.00	-	Yes	3,601	176	1,401	-	6,051	4,445	(669)	1,401	12/17
Aurica Coinvestments S.L.	Holding	Barcelona - Spain	-	61.76	Yes	52,972	(3)	(6)	-	52,967	52,972	(2)	(4)	12/17
Aurica XXI, S.C.R. De R.S., S.A.U.	Other regulated companies	Barcelona - Spain	100.00	-	Yes	14,200	20,768	361	-	35,350	17,492	33,755	(5,301)	12/17
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Bahamas	99.99	0.01	No	1,598	838	(90)	-	3,025	2,439	710	(90)	12/17
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	Yes	703,371	10,038,186	517,895	-	177,572,987	-	9,888,689	738,334	12/17
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico	99.99	0.01	No	190,281	(46,080)	(16,269)	-	839,364	178,270	(19,850)	(16,780)	12/17
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra	50.97	-	No	30,069	40,792	10,400	1,466	734,992	16,108	21,865	3,881	12/17
Bansabadell Factura, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	100	(2,469)	519	-	2,022	299	(2,668)	519	12/17
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Barcelona - Spain	100.00	-	Yes	24,040	28,983	207	-	700,359	24,040	28,983	207	12/17
Bansabadell Inversió Desenvolupament, S.A.U.	SPE	Barcelona - Spain	100.00	-	Yes	16,975	101,781	19,882	-	181,990	108,828	29,982	16,795	12/17
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del	Other regulated companies	Barcelona - Spain	-	100.00	Yes	301	11,973	32,524	30,683	79,544	524	10,401	32,443	12/17
Bansabadell Renting, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	2,000	30,921	11,219	-	524,872	3,861	29,789	11,219	12/17
Bansabadell Securities Services, S.L.U	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	2,500	32,027	7,456	-	45,813	2,500	31,700	7,456	12/17
Bitarte, S.A.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	6,506	2,635	227	-	10,514	9,272	(4,095)	348	12/17
Bstartup 10, S.L.U.	SPE	Barcelona - Spain	-	100.00	Yes	1,000	(1,507)	298	-	2,875	1,000	(2,349)	325	12/17
Business Services For Operational Support, S.A.U.	Services	Barcelona - Spain	80.00	-	Yes	530	(4,114)	2,242	-	39,867	3,259	(6,027)	2,077	12/17
Cam Global Finance, S.A.U.	Other regulated companies	Alicante - Spain	100.00	-	Yes	61	138	29	-	100,979	2,059	125	29	12/17
Cam International Issues, S.A.U.	Other regulated companies	Alicante - Spain	100.00	-	Yes	61	12	(3)	360	70	114,079	(50,206)	(8,189)	12/17
Caminsa Urbanismo, S.A.U.	Real estate	Alicante - Spain	-	100.00	Yes	2,000	(1,658)	1	-	1,365	800	(254)	(8)	12/17
Cape Holdings No.1 Limited	Fund	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	República Dominicana	-	100.00	No	5,016	(4,321)	-	-	711	-	18	-	12/17
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Alicante - Spain	-	100.00	No	1,942	(89,597)	(760)	-	37	1,919	(77,454)	(760)	12/17
Duncan 2016 -1 Holdings Limited	Holding	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	87.35	-	No	7,842	1,131	(47)	-	2,747	2,560	(126)	(41)	12/17
Duncan Holdings 2015-1 Limited	Fund	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Subtotal									**32,624**		**569,777**	**9,903,387**	**783,824**	

Banco Sabadell Group companies as at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Ederra, S.A.	Real estate	Guipúzcoa - Spain	97.85	-	No	2,036	30,975	(340)	-	32,897	36,062	(3,284)	(809)	12/17
Sabadell Asset Management Luxembourg, S.A. (2)	Other regulated companies	Luxembourg	22.00	78.00	No	125	492	71	-	776	336	276	74	12/17
Europea Pall Mall Ltd.	Real estate	London - UK	100.00	-	No	20,843	(1,125)	(297)	-	19,529	20,843	(5,735)	(805)	12/17
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante - Spain	100.00	-	Yes	2,810	401	97	-	3,745	2,870	344	97	12/17
Gala Domus, S.A.	Real estate	A Coruña - Spain	-	100.00	No	4,000	(31,767)	124	-	1,266	2,000	(22,703)	124	12/17
Galeban 21 Comercial, S.L.U.	SPE	A Coruña - Spain	100.00	-	Yes	10,000	(4,288)	-	-	5,711	14,477	(8,765)	-	12/17
Gazteluberri S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	53	(20,765)	342	-	7,588	23,891	(62,415)	342	12/17
Gest 21 Inmobiliaria, S.L.U	SPE	Barcelona - Spain	100.00	-	Yes	7,810	21	(12)	-	7,827	80,516	(68,140)	5	12/17
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L.	Real estate	Barcelona - Spain	-	100.00	No	33,850	(31,308)	(62)	-	10,373	32,832	(12,318)	(62)	12/17
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante - Spain	100.00	-	Yes	13,000	119,340	108,358	36,269	132,494	255,398	55,478	471	12/17
Guipuzcoano Promoción Empresarial, S.L.	SPE	Guipúzcoa - Spain	-	100.00	No	53	(77,255)	1,906	-	7,960	7,160	(104,488)	(1,201)	12/17
Guipuzcoano Valores, S.A.	Real estate	Barcelona - Spain	99.99	0.01	Yes	4,514	2,880	(126)	-	7,346	10,833	(3,494)	(70)	12/17
Hi Partners Holdco Gestión Activa, S.L.U.	Real estate	Barcelona - Spain	-	100.00	Yes	29,074	56,106	(8,381)	-	84,062	85,805	-	-	12/17
Hip Francia 184, S.L.U.	Real estate	Barcelona - Spain	-	100.00	Yes	3	(94)	(16)	-	124	3	-	-	12/17
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	Yes	60	672	18	-	756	414	672	18	12/17
Hondarriberri, S.L.	SPE	Guipúzcoa - Spain	99.99	0.01	No	41	(13,465)	6,475	-	66,301	120,669	(64,784)	(2,243)	12/17
Hotel Autovia del Mediterraneo 165, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	7,568	367	(1,697)	-	7,839	7,945	-	-	12/17
Hotel Calle de Los Molinos 10, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	2,077	461	(1,543)	-	2,367	2,837	-	-	12/17
Hotel Calle Mayor 34, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	2,124	345	(1,557)	-	2,381	2,499	-	-	12/17
Hotel Carretera de Taull, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	3,294	109	(1,781)	-	3,277	3,414	-	-	12/17
Hotel Cavall del Mar 25, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	3	10,859	(24)	-	11,001	10,875	-	-	12/17
Hotel Investment Partners S.L.	Real estate	Barcelona - Spain	100.00	-	Yes	135,730	108,193	1,153	-	638,363	136,335	(4,324)	18,637	12/17
Hotel Maria Tarrida 6, S.L.U	Real estate development	Barcelona - Spain	-	100.00	Yes	9,544	316	(3,525)	-	10,007	9,848	-	-	12/17
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona - Spain	-	100.00	Yes	4,482	629	(2,420)	-	4,668	5,418	-	-	12/17
Hotel Value Added Primera, S.L.U.	Real estate development	Barcelona - Spain	-	100.00	Yes	3	22,175	(683)	-	21,593	27,527	-	-	12/17
Interstate Property Holdings, Llc.	SPE	Miami	100.00	-	No	7,293	(7,995)	4,750	-	7,287	3,804	(11,309)	3,137	12/17
Inverán Gestión, S.L.	Real estate	Barcelona - Spain	44.83	55.17	Yes	45,090	(55,908)	(839)	-	24,000	45,090	(35,164)	(915)	12/17
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante - Spain	100.00	-	Yes	308,000	180,882	10,207	-	502,080	589,523	(116,858)	9,533	12/17
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Murcia - Spain	-	55.06	No	299,090	(302,156)	-	-	881	175,124	-	-	12/17
Malbrouck, S.I.C.A.V.	UCITS, funds and similar financial corporations	Madrid - Spain	99.99	-	No	14,554	2,405	(126)	-	16,703	16,679	-	-	12/17
Manston Invest, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	33,357	(9,635)	(3,208)	-	20,617	33,357	(11,665)	(2,929)	12/17
Mariñamendi, S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	55,013	(97,062)	(5,915)	-	56,588	55,013	(93,074)	(5,915)	12/17
Mediterráneo Sabadell, S.L.	SPE	Alicante - Spain	50.00	50.00	Yes	85,000	114,150	146,754	82,034	199,264	559,347	(503,072)	20,416	12/17
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	98.29	-	Yes	795	(557)	(3,395)	-	4,201	983	(672)	(3,458)	12/17
Orión Energía 1, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(6)	-	96	-	-	-	12/17
Orión Energía 10, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	98	-	-	-	12/17
Orión Energía 11, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	120	-	-	-	12/17
Orión Energía 12, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	118	-	-	-	12/17
Subtotal									**118,303**		**2,379,727**	**(1,075,494)**	**34,447**	

Banco Sabadell Group companies as at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Consolidated taxation	Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Orión Energía 13, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(16)	-	114	-	-	-	12/17
Orión Energía 14, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	98	-	-	-	12/17
Orión Energía 15, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 16, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(15)	-	116	-	-	-	12/17
Orión Energía 17, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	116	-	-	-	12/17
Orión Energía 18, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	116	-	-	-	12/17
Orión Energía 19, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 2, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(10)	-	97	-	-	-	12/17
Orión Energía 20, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	116	-	-	-	12/17
Orión Energía 21, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	119	-	-	-	12/17
Orión Energía 22, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	117	-	-	-	12/17
Orión Energía 23, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	118	-	-	-	12/17
Orión Energía 24, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	117	-	-	-	12/17
Orión Energía 25, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(145)	(13)	-	116	-	-	-	12/17
Orión Energía 26, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	117	-	-	-	12/17
Orión Energía 27, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	122	-	-	-	12/17
Orión Energía 28, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(15)	-	123	-	-	-	12/17
Orión Energía 29, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	117	-	-	-	12/17
Orión Energía 3, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	112	-	-	-	12/17
Orión Energía 30, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(14)	-	119	-	-	-	12/17
Orión Energía 4, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	122	-	-	-	12/17
Orión Energía 5, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	99	-	-	-	12/17
Orión Energía 6, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	118	-	-	-	12/17
Orión Energía 7, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	97	-	-	-	12/17
Orión Energía 8, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	97	-	-	-	12/17
Orión Energía 9, S.L.	Wind energy	Madrid - Spain	-	100.00	Yes	98	(144)	(13)	-	117	-	-	-	12/17
Parque Eólico Jaufil, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(3,068)	159	-	5,719	163	(2,603)	159	12/17
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	83	(1,498)	117	-	2,989	83	(1,256)	117	12/17
Parque Eólico Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	4,003	(9,999)	557	-	15,135	4,003	(8,220)	557	12/17
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(2,704)	246	-	5,652	163	(2,212)	246	12/17
Parque Eólico Tahuna, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	No	3	(8,144)	(595)	-	15,786	-	(7,324)	(595)	12/17
Parque Eólico Zorreras, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	No	3	(8,328)	(79)	-	13,857	-	(7,609)	(79)	12/17
Subtotal									-		**4,412**	**(29,224)**	**405**	

Banco Sabadell Group companies as at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Placements Immobiliers France, S.A.S.	Real estate	Paris - France	-	100.00	No	30,002	1,238	(47)	5,321	31,204	31,225	(3,675)	(57)	12/17
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	20	-	-	-	-	20	-	-	12/17
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	3	(3)	(3)	-	167,694	3	1,915	(1,921)	12/17
Sabadell Asset Management, S.A., S.G.I.I.C.	Other regulated companies	Madrid - Spain	100.00	-	Yes	601	74,365	41,101	100,000	203,887	607	82,111	33,350	12/17
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	São Paulo - Brasil	99.99	0.01	No	905	(810)	-	-	118	250	(262)	-	12/17
Sabacapital S.A De C.V. Sofom E.R.	Credit institution	Mexico	97.50	2.50	No	306,617	(46,255)	28,941	-	1,628,125	290,004	22,211	28,960	12/17
Sabadell Consumer Finance, S.A.U (1)	Credit institution	Barcelona - Spain	100.00	-	Yes	35,720	56,905	17,512	-	1,095,561	72,232	25,315	17,512	12/17
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid - Spain	100.00	-	Yes	70	1,510	(310)	892	1,546	9,373	67	(310)	12/17
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra	-	50.97	No	300	905	264	244	2,136	300	586	135	12/17
Sabadell Information Systems Limited	Provision of technology services	London - UK	100.00	-	No	332	(166)	(1,991)	-	41,371	332	(185)	(2,020)	12/17
Sabadell Information Systems, S.A.	Provision of technology services	Barcelona - Spain	100.00	-	Yes	240	78,980	18,785	-	1,245,506	3,687	66,072	12,618	12/17
Sabadell Innovation Capital, S.L.U.	Holding	Barcelona - Spain	-	100.00	Yes	1,000	(1)	(16)	-	1,002	1,000	(1)	(16)	12/17
Sabadell Innovation Cells, S.L.U.	Other business management consulting activities	Barcelona - Spain	100.00	-	Yes	3	-	(269)	-	366	3	-	(269)	12/17
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Barcelona - Spain	100.00	-	Yes	30,116	788,349	13,962	-	915,208	863,895	(37,234)	9,466	12/17
Sabadell Real Estate Activos, S.A.U.	Real estate	Barcelona - Spain	100.00	-	Yes	100,060	257,957	(22,644)	-	337,885	500,622	(138,016)	(18,672)	12/17
Sabadell Real Estate Development, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	15,807	(1,267,894)	(614,730)	-	4,717,460	2,147,442	(3,145,212)	(506,830)	12/17
Sabadell Real Estate Housing, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	2,073	525	(586)	-	37,159	14,292	(11,694)	(586)	12/17
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	-	No	551	2,286	702	-	3,681	551	2,146	698	12/17
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados,	Real estate	Barcelona - Spain	100.00	-	Yes	-	(473)	473	-	143	84	(557)	473	12/17
Sabadell Strategic Consulting, S.L.U.	Other investees with their own business	Barcelona - Spain	100.00	-	Yes	3	394	110	-	1,037	3	394	110	12/17
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	Yes	3	880	1	-	15,113	3	(150)	1	12/17
Sinia Capital S.A. De C.V.	Holding	Mexico	99.99	0.01	No	20,830	(3,189)	1,118	-	19,096	17,753	-	1,118	12/17
Sinia Renovables, S.A.U.	Other regulated companies	Barcelona - Spain	100.00	-	Yes	15,000	(14,370)	(455)	-	25,287	15,000	(10,476)	640	12/17
Solvia Gestora de Vivienda Social, S.L.U.	Real estate	Alicante - Spain	-	100.00	Yes	3	1,988	2,779	-	6,677	3	1,988	2,779	12/17
Solvia Pacific, S.A. De C.V.	Real estate	Mexico	-	100.00	No	28,947	(17,513)	268	-	11,721	29,164	(11,879)	268	12/17
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante - Spain	100.00	-	Yes	660	54,381	29,516	-	146,358	5,023	56,537	31,876	12/17
Stonington Spain, S.L.U.	Real estate	Barcelona - Spain	100.00	-	Yes	60,729	(6,333)	(3,547)	-	51,029	60,729	(12,566)	(3,052)	12/17
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante - Spain	99.88	0.12	Yes	1,000	1,387	-	-	2,394	5,266	(514)	7	12/17
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante - Spain	100.00	-	Yes	296,092	(320,127)	(70,993)	-	1,997,413	2,564,914	(1,710,292)	(23,834)	12/17
Tierras Vega Alta Del Segura, S.L.	Real estate	Barcelona - Spain	-	100.00	Yes	4,550	(15,122)	2,099	-	8,599	16,823	(19,826)	2,099	12/17
Tratamientos Y Aplicaciones, S.L.U. En Liquidación	Services	Alicante - Spain	100.00	-	Yes	3,003	(353)	-	-	2,656	4,654	2,285	-	12/17
TSB Bank Plc	Credit institution	Edinburgh	-	100.00	No	90,710	2,040,091	131,460	-	51,711,022	1,814,636	327,540	130,284	12/17
TSB Banking Group Plc	Holding	London - UK	100.00	-	No	7,028	1,770,152	(63)	-	2,228,368	2,156,507	(26,191)	(39,923)	12/17
Tsb Banking Group Plc Employee Share Trust	Other regulated companies	London - UK	-	100.00	No	1	-	-	-	-	-	(5,274)	-	12/17
Subtotal									**106,457**		**10,626,400**	**(4,544,837)**	**(325,096)**	

Banco Sabadell Group companies as at 31 December 2017 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
			Direct	Indirect		Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets				
TSB Coverd Bonds Holdings Limited	Holding	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Coverd Bonds (LM Limited)	Other regulated companies	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Covered Bonds LLP	Other regulated companies	London - UK	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Scotland (Investment) Nominees Limited	Other regulated companies	Scotland	-	100.00	No	1	-	-	-	1	1	-	-	12/17
TSB Scotland Nominees Limited	Other regulated companies	Scotland	-	100.00	No	1	-	-	-	1	1	-	-	12/17
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid - Spain	-	100.00	Yes	3,606	3,383	4,510	7,798	19,809	3,084	3,835	4,580	12/17
Urumea Gestión, S.L. (en liquidación)	Other investees with their own business	Guipúzcoa - Spain	-	100.00	No	9	(5)	(3)	-	2	9	(12)	(3)	12/17
VeA Rental Homes SOCIMI, S.A	Letting of own property	Barcelona - Spain	100.00	-	No	5,000	(5)	(2,163)	-	56,414	5,000	(5)	(2,153)	12/17
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Barcelona - Spain	-	97.20	Yes	12,000	(43,171)	(314)	-	17,123	11,664	(34,678)	(314)	12/17
Vitigudina Fv, S.L.	Engineering technical services	Madrid - Spain	-	100.00	Yes	-	-	-	-	-	-	-	-	12/17
Xunqueira Eolica, S.L.	Other types of electricity production	Barcelona - Spain	-	100.00	No	1,548	(3,477)	(2,258)	-	13,073	400	(1,999)	(2,541)	12/17
Total									**265,182**		**13,600,478**	**4,220,973**	**493,149**	

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

(2) Formerly, Europa Invest, S.A.

Banco Sabadell Group companies as at 31 December 2017 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data (a) Capital	Reserves	Profit/(loss) (b)	Dividends paid (c)	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Aurica III, Fondo De Capital Riesgo	Other regulated companies	Barcelona - Spain	-	48.15	35,179	(630)	(1,321)	-	33,232	16,940	(303)	(636)	12/17
Aurica IIIB, Soc. De Capital Riesgo, S.A.	Other regulated companies	Barcelona - Spain	-	41.67	22,687	(215)	(633)	-	21,844	9,465	(102)	(264)	12/17
Atrian Bakers, S.L.	Other associates	Barcelona - Spain	-	22.41	26,249	(6,396)	-	-	35,348	2,000	-	-	12/16
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	43,406	(7,986)	-	49,350	40,378	(14,490)	(3,993)	12/17
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	67,278	12,582	6,393	233,524	45,000	(6,674)	6,291	12/17
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	96,756	601,466	167,000	9,485,336	27,106	12,301	302,037	12/17
Emte Renovables, S.L.	SPE	Barcelona - Spain	-	62.11	7,050	(7,050)	(411)	-	42,386	4,379	(4,379)	-	09/17
Esus Energía Renovable, S.L.	Services	Pontevedra - Spain	-	45.00	50	(50)	(65)	-	2,024	23	(23)	-	12/17
Financiera Iberoamericana, S.A.	Credit institution	La Habana - República de Cuba	50.00	-	38,288	6,308	3,064	747	81,416	19,144	1,970	1,532	12/17
Flex Equipos De Descanso, S.A.	Manufacturing	Madrid - Spain	-	19.16	66,071	(3,291)	12,048	-	222,702	-	-	-	10/17
Gate Solar Gestión, S.L.	Services	Álava - Spain	50.00	-	300	3,096	-	-	3,750	1,860	414	-	06/17
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante - Spain	-	40.00	1,000	(1,000)	-	-	27,425	7,675	(2,012)	-	12/16
Grupo Luxiona, S.L.	Other investees	Barcelona - Spain	-	20.00	2,561	(2,561)	(2,853)	-	58,637	10,835	(10,835)	-	09/17
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Real estate development	Barcelona - Spain	-	30.00	127	11	-	-	165	117	-	-	12/16
Hydrophytic, S.L.	Real estate	Álava - Spain	-	50.00	186	111	13	-	450	93	55	7	09/17
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia - Spain	28.70	-	6,800	(2,020)	(631)	-	4,175	2,026	(17)	(165)	09/17
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra - Spain	23.76	-	147,614	(12,214)	(11,819)	-	987,107	-	-	-	10/17
Parque Eólico Los Ausines, S.L.	Alternative energy production	León - Spain	-	50.00	4,465	(728)	2,631	-	45,354	2,282	(303)	1,316	12/17
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	115	(118)	-	31,994	2,845	(6,918)	(53)	10/17
Ribera Salud, S.A.	Services	Valencia - Spain	-	50.00	9,518	80,482	4,085	-	416,311	30,203	14,797	2,043	12/17
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg	47.24	-	37,738	6,896	(70)	-	44,715	16,400	3,052	-	11/17
Sbd Creixent, S.A.	Real estate	Barcelona - Spain	23.05	-	5,965	229	(159)	-	16,388	3,524	(1,938)	(37)	09/17
Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A.	Other associates	Barcelona - Spain	47.75	-	4,818	4,517	417	-	5,413	422	1,935	202	12/17
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona - Spain	-	35.78	2,555	(792)	102	-	1,873	915	(163)	37	09/17
Total								**174,140**		**243,632**	**(13,633)**	**308,317**	

Balance sheet date includes last available date.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Companies outside Spain have been translated to euros applying historical exchange rate and the average exchange rate for profit/(loss) during the year.

(b) Results pending approval at Annual General Meeting.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method amounted to 1,776,022 thousand euros as at 31 December 2017. The liabilities balance of associates as at the end of 2017 totalled 1,795,729 thousand euros.

Changes in the Group's scope of consolidation in 2017

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Aurica Coinvestments S.L.	Subsidiary	3/17/2017	52,972	0.00	82.48%	82.48%	Indirect	Full consolidation	a
Xunqueira Eolica, S.L.	Subsidiary	3/31/2017	400	0.00	98.55%	98.55%	Indirect	Full consolidation	b
Vitigudina Fv, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Orión Energía 1 - Orion Energía 30, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Flex Equipos De Descanso, S.A.	Associate	4/30/2017	50,930	0.00	19.16%	19.16%	Indirect	Equity method	c
Sabadell Innovation Cells, S.L.U.	Subsidiary	4/30/2017	3	0.00	100.00%	100.00%	Direct	Full consolidation	a
IFA Beach Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Continental Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Hotel Dunamar, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Tropical Partners, S.L.	Associate	6/30/2017	-	0.00	49.99%	49.99%	Indirect	Equity method	c
Parque Eólico Tahuna, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Parque Eólico Zorreras, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Sinia Capital S.A. De C.V.	Subsidiary	7/31/2017	17,753	0.00	99.99%	99.99%	Direct	Full consolidation	a
Sabadell Innovation Capital, S.L.U.	Subsidiary	7/31/2017	1,000	0.00	100.00%	100.00%	Indirect	Full consolidation	a
Ripollet Gestión, S.L.U.	Subsidiary	8/31/2017	20	0.00	100.00%	100.00%	Direct	Full consolidation	a
Notario Alemany 26 Properties, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Hotel Notario Alemany 26, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Atrian Bakers, S.L.	Associate	12/28/2017	2,000	0.00	22.41%	22.41%	Indirect	Equity method	c
Aurica III, Fondo De Capital Riesgo	Associate	12/31/2017	16,940	0.00	-	48.15%	Indirect	Equity method	d
Aurica IIIB, Soc. De Capital Riesgo, S.A	Associate	12/31/2017	9,465	0.00	-	41.67%	Indirect	Equity method	d
Total newly consolidated subsidiaries			**72,148**						
Total newly consolidated associates			**79,335**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition of associates

(d) Additions due to change in method of consolidation.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Empire Properties Spain, S.L.	Subsidiary	3/31/2017	100.00%	-	(127)	Direct	Full consolidation	a
Eólica De Cuesta Roya, S.L.	Subsidiary	3/31/2017	50.97%	-	(2)	Direct	Full consolidation	b
Exel Broker De Seguros, S.A.	Subsidiary	5/31/2017	100.00%	-	3,010	Direct	Full consolidation	a
Puerto De Tamariu, Aie	Subsidiary	1/31/2017	100.00%	10.00%	-	Direct	Full consolidation	a
Serveis D´Assessorament Bsa, S.A.U.	Subsidiary	2/28/2017	50.97%	-	-	Indirect	Full consolidation	d
Diana Capital, S.G.E.C.R., S.A.	Associate	6/30/2017	-	20.66%	-	Direct	Equity method	e
Gesta Aparcamientos, S.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Guisain, S.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Mediterráneo Vida, S.A.U. De Seguros Y Reaseguros	Subsidiary	6/30/2017	100.00%	-	16,634	Indirect	Full consolidation	c
Parque Tecnológico Fuente Álamo, S.A.	Associate	6/30/2017	-	22.54%	-	Direct	Equity method	e
Planificació Tgn2004, S.L. En Liquidación	Associate	6/30/2017	-	25.00%	-	Indirect	Equity method	e
Tremon Maroc Mediterraneo Services Immobiliers, S.A.R.L.	Associate	6/30/2017	-	40.00%	-	Indirect	Equity method	e
Visualmark Internacional, S.L.	Associate	6/30/2017	-	20.00%	-	Indirect	Equity method	e
Alfonso XII, 16 Inversiones, S.L.	Subsidiary	7/12/2017	100.00%	-	(28)	Indirect	Full consolidation	b
Sabadell United Bank, N.A.	Subsidiary	7/31/2017	100.00%	-	369,818	Direct	Full consolidation	a
Galeban Control y Asesoramiento, S.L.U.	Subsidiary	10/1/2017	100.00%	-	12	Direct	Full consolidation	c
Ac Dos Malaga S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Acteón Siglo XXI, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Aviación Regional Cántabra, A.I.E.	Associate	12/15/2017	26.42%	-	(5)	Direct	Equity method	b
Aviones Alfambra Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(2)	Direct	Equity method	b
Aviones Cabriel Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(2)	Direct	Equity method	b
Subtotal					**389,308**			

(a) Subsidiaries no longer included in the scope of consolidation due to the sale of the equity interest held. The total net cash flow arising from this removal of subsidiaries amounts to €1,100,869 thousand. See cash flow statement.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Removal from scope of consolidation of subsidiaries classified as non-current assets held for safe.

(d) Disposals due to merger.

(e) Derecognised due to loss of significant influence

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Aviones Gorgos Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	(1)	Direct	Equity method	b
Aviones Sella Crj-900, A.I.E.	Associate	12/15/2017	25.00%	-	-	Direct	Equity method	b
Bansabadell Holding, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Direct	Full consolidation	b
Creativ Hotel Catarina, Sa.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hi Partners Holdco Value Added, S.A.U.	Subsidiary	12/22/2017	100.00%	-	50,655	Indirect	Full consolidation	a
Hotel Atocha 49, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Avenida Rhode 28, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Carretera N 632, S.L.U.	Subsidiary	12/20/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Héroe De Sostoa 17, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Jardín Tropical, Slu	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Notario Alemany 26, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Paseo Marítimo 80, S.L.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Hotel Sa Torre Mallorca, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Beach Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Continental Hotel, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Ifa Hotel Dunamar, S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Notario Alemany 26 Properties, S.L.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Tropical Partners, S.L.	Associate	12/31/2017	49.99%	-	-	Indirect	Equity method	a
Viacarla Inversiones, S.A.U.	Subsidiary	12/27/2017	100.00%	-	(4,483)	Indirect	Full consolidation	a
Xeresa Golf, Sa	Subsidiary	12/31/2017	80.00%	-	-	Indirect	Full consolidation	a
Hotel Malaga Palacio S.A.U.	Subsidiary	12/31/2017	100.00%	-	-	Indirect	Full consolidation	a
Aurica III, Fondo De Capital Riesgo	Subsidiary	12/31/2017	-	48.15%	-	Indirect	Full consolidation	f
Aurica IIIB, Soc. De Capital Riesgo, S.A	Subsidiary	12/31/2017	-	41.67%	-	Indirect	Full consolidation	f
Rest					(767)			
Total					**51,036**			

(a) Subsidiaries no longer included in the scope of consolidation due to the sale of the equity interest held. The total net cash flow arising from this removal of subsidiaries amounts to €1,100,869 thousand. See cash flow statement.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Removal from scope of consolidation of subsidiaries classified as non-current assets held for safe.

(d) Disposals due to merger.

(e) Derecognised due to loss of significant influence

(f) Removals due to change in method of consolidation.

Schedule II - Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2018
2004	GC SABADELL 1, F.T.H	Banc Sabadell	117,271
2005	TDA 23, F.T.A	Banco Guipuzcoano	32,510
2005	TDA CAM 4 F.T.A	Banco CAM	273,575
2005	TDA CAM 5 F.T.A	Banco CAM	483,285
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	87,806
2006	TDA CAM 6 F.T.A	Banco CAM	334,116
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	136,181
2006	TDA CAM 7 F.T.A	Banco CAM	510,076
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	230,842
2007	TDA 29, F.T.A	Banco Guipuzcoano	107,519
2007	TDA CAM 8 F.T.A	Banco CAM	494,406
2007	TDA CAM 9 F.T.A	Banco CAM	471,038
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	53,176
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	185,425
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	74,145
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	8,273
2015	DUNCAN FUNDING 2015-1 PLC	TSB	1,532,545
2016	DUNCAN FUNDING 2016-1 PLC	TSB	2,667,406
2016	IM SABADELL PYME 10	Banc Sabadell	627,066
2017	TDA SABADELL RMBS 4, FT	Banc Sabadell	5,451,534
2017	IM SABADELL PYME 11, FT	Banc Sabadell	1,213,915
Total			**15,092,110**

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2018
2001	TDA 14-MIXTO, F.T.A	Banco Guipuzcoano	2,693
2001	TDA 14-MIXTO, F.T.A	BMN- Penedés	15,776
2002	TDA 15-MIXTO, F.T.A	Banco Guipuzcoano	7,962
2006	TDA 25, FTA (*)	Banco Gallego	5,725
2010	FTPYMES 1 LIMITED	Banco CAM	170,865
Total			**203,021**

(*) Securitisation fund in process of early liquidation.

Schedule III - Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Lending operations

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2018 and 2017 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)

	2018	2017
Total mortgage loan and credit portfolio	**53,708,998**	**55,956,292**
Participation mortgages issued	**2,737,340**	**3,370,130**
Of which: Loans held on balance sheet	*2,652,901*	*3,174,791*
Mortgage transfer certificates	**7,126,535**	**7,860,991**
Of which: Loans held on balance sheet	*7,024,075*	*7,734,256*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**43,845,123**	**44,725,171**
Ineligible loans	13,712,492	15,943,345
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	12,694,995	13,965,022
Rest	1,017,497	1,978,323
Eligible loans	30,132,631	28,781,826
Non-qualifying portions	80,012	83,249
Qualifying portions	30,052,619	28,698,577
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	30,052,619	28,698,577
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues

	2018		2017	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Origin of operations	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Originated by the institution	43,165,526	*29,696,214*	43,999,139	*28,398,509*
Subrogated from other entities	312,754	*257,131*	237,588	*180,011*
Rest	366,843	*179,286*	488,444	*203,306*
Currency	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Euro	43,758,869	*30,083,348*	44,619,869	*28,702,376*
Other currencies	86,254	*49,283*	105,302	*79,450*
Payment status	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Satisfactory payment	39,344,180	*28,875,322*	38,240,207	*27,002,079*
Other situations	4,500,943	*1,257,309*	6,484,964	*1,779,747*
Average residual maturity	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Up to 10 years	11,749,774	*8,416,923*	12,566,865	*8,170,011*
10 to 20 years	17,276,398	*12,762,148*	17,416,966	*12,343,583*
20 to 30 years	12,633,196	*8,286,463*	12,156,652	*7,425,285*
More than 30 years	2,185,755	*667,097*	2,584,688	*842,947*
Interest rate	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Fixed	12,871,219	*9,796,935*	10,240,956	*7,418,574*
Variable	30,973,904	*20,335,696*	34,484,215	*21,363,252*
Mixed	-	-	-	-
Borrowers	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Legal entities and individual entrepreneurs	14,750,289	*8,641,999*	16,428,024	*8,882,296*
Of which: Real estate developments	*3,602,883*	*1,393,704*	*4,555,082*	*1,546,541*
Other individuals and NPISHs	29,094,834	*21,490,632*	28,297,147	*19,899,530*
Type of guarantee	43,845,123	*30,132,631*	44,725,171	*28,781,826*
Assets /finished buildings	41,816,188	*29,375,324*	42,086,553	*27,930,395*
Residential	*33,588,699*	*23,944,284*	*33,344,659*	*22,390,471*
Of which: Subsidised housing	*1,670,994*	*1,306,243*	*1,500,528*	*1,153,703*
Commercial	*8,038,216*	*5,298,139*	*8,559,381*	*5,421,465*
Other	*189,273*	*132,901*	*182,513*	*118,459*
Assets/ buildings under construction	254,599	*180,336*	277,855	*149,543*
Residential	*216,051*	*146,706*	*262,645*	*139,681*
Of which: Subsidised housing	*180*	*180*	*62*	*1*
Commercial	*37,945*	*33,027*	*14,247*	*8,899*
Other	*603*	*603*	*963*	*963*
Land	1,774,336	*576,971*	2,360,763	*701,888*
Developed	*738,779*	*121,329*	*1,210,598*	*220,792*
Rest	*1,035,557*	*455,642*	*1,150,165*	*481,096*

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds

	2018	2017
Potentially eligible	1,083,230	925,789
Ineligible	2,816,709	2,506,240

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds

	2018	2017
Secured on residential property	**24,114,006**	**22,613,853**
Of which LTV <= 40%	*7,235,411*	*7,075,581*
Of which LTV 40%-60%	*8,690,528*	*8,353,242*
Of which LTV 60%-80%	*8,188,067*	*7,185,030*
Of which LTV > 80%	-	-
Secured on other property	**6,018,625**	**6,167,973**
Of which LTV <= 40%	*3,568,263*	*3,754,551*
Of which LTV 40%-60%	*2,450,362*	*2,413,422*
Of which LTV > 60%	-	-

Changes during 2018 and 2017 in the nominal values of mortgage loans that secure issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans

	Eligible	Ineligible
Balance as at 31 December 2016	**35,765,385**	**15,411,370**
Derecognised during the year	**(13,588,188)**	**(7,315,145)**
Terminations at maturity	(2,593,920)	(852,488)
Early terminations	(1,171,986)	(803,018)
Subrogations by other entities	(13,996)	(3,085)
Derecognised due to securitisations	(3,105,737)	-
Rest	(6,702,549)	(5,656,554)
Additions during the year	**6,604,629**	**7,847,120**
Originated by the institution	3,447,310	1,337,231
Subrogations by other entities	22,465	3,632
Rest	3,134,854	6,506,257
Balance as at 31 December 2017	**28,781,826**	**15,943,345**

B) Borrowing operations

Information on issuances carried out and collateralised with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, analysed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2018	2017
Covered bonds issued	**22,353,833**	**20,727,543**
Of which: Not reflected under liabilities on the balance sheet	*10,727,900*	*7,913,800*
Debt securities. Issued through public offering	**6,200,000**	**7,200,000**
Time to maturity up to one year	-	1,000,000
Time to maturity from one to two years	1,750,000	-
Time to maturity from two to three years	1,350,000	1,750,000
Time to maturity from three to five years	1,000,000	1,350,000
Time to maturity from five to ten years	2,100,000	3,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**14,053,000**	**10,813,000**
Time to maturity up to one year	3,150,000	150,000
Time to maturity from one to two years	5,380,000	3,150,000
Time to maturity from two to three years	3,000,000	4,380,000
Time to maturity from three to five years	783,000	1,445,000
Time to maturity from five to ten years	1,740,000	1,688,000
Time to maturity more than ten years	-	-
Deposits	**2,100,833**	**2,714,543**
Time to maturity up to one year	524,146	593,710
Time to maturity from one to two years	145,833	524,146
Time to maturity from two to three years	300,000	145,833
Time to maturity from three to five years	794,444	994,444
Time to maturity from five to ten years	336,410	436,410
Time to maturity more than ten years	-	20,000

	2018		2017	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**7,126,535**	**23**	**7,860,991**	**23**
Issued through public offering	-	-	-	-
Other issues	7,126,535	23	7,860,991	23
Participation mortgages	**2,737,340**	**13**	**3,370,130**	**13**
Issued through public offering	-	-	-	-
Other issues	2,737,340	13	3,370,130	13

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of covered bonds, divided by the nominal value of issued covered bonds) stood at 196% as at 31 December 2018 (216% as at 31 December 2017).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 4.3 on financial risk management). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to its Executive Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending and particularly those secured by mortgages, which back the Group's covered bond issues, are described in detail below for each type of loan applicant.

Retail customers

Loans to retail customers are approved and decided on using the credit scoring tools described in Note 4.4.1.2 on financial risk management. Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well their requested products match their repayment possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the institution's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the assessed value of the assets pledged as guarantees (hereinafter, loan-to-value, or LTV) as well as the purchase value, if that is the purpose of the loan. As a general rule, under internal Group policies the lower of the maximum LTV and the purchase value is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges and liens associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 4.4.1.2 on financial risk management, the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Corporates unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "basic risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4.4.1.2 on financial risk management. A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels at which decisions may be taken. In each such level there is a “basic management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

Corporates engaging in construction and/or real estate development

Real estate assets and real estate developer loans are handled by the bank's Asset Transformation and Industrial and Real Estate Investees division. This division is organisationally structured to focus on the specialised management of assets of this type based on knowledge of the situation and the evolution of the real estate market. Managing the risks in this portfolio is the responsibility of the bank's Assets Risk Division, part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Investment Divisions to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include the rating of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth technical study of the project, carried out by the Real Estate Analysis unit.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in internal rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, monitoring will focus on sales or rental figures; for developments under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with non-real estate businesses, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see Note 4.4.2.4). As one element of the Group's funding strategy, Banco de Sabadell, S.A. is an issuer of covered bonds. Covered bond issues are backed by the bank's portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves maintaining special accounting records of all mortgage loans and credit –and any assets that replace them –used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans and other assets meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV - Information on issuers of public sector covered bonds and on the special accounting record of public sector covered bonds

Details of the data from the special accounting record of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below:

A) Lending operations

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2018 which are used as collateral for issuances, their eligibility and the extent to which they qualify as such for public sector covered bonds are presented in the following table:

Thousand euro

	2018		
	Total	Residents in Spain	Residents in other countries of the Economic Area
Central governments	142,683	142,683	-
Regional governments or governments in autonomous communities	1,436,589	1,436,589	-
Local governments	1,036,998	1,036,998	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**2,616,270**	**2,616,270**	**-**

Thousand euro

	2017		
	Total	Residents in Spain	Residents in other countries of the Economic Area
Central governments	167,305	167,305	-
Regional governments or governments in autonomous communities	1,182,839	1,182,839	-
Local governments	557,573	557,573	-
Social Security Trust Funds	44	44	-
Total loans and credit portfolio	**1,907,761**	**1,907,761**	**-**

B) Borrowing operations

Information on issuances carried out and collateralised using the bank's portfolio of loans and credit with general governments is provided in the following table, disclosed by residual maturity and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	2018	2017
Public sector covered bonds issued	**1,200,000**	**900,000**
Of which: Not reflected under liabilities on the balance sheet	*-*	*900,000*
Issued through public offering	**-**	**-**
Time to maturity up to one year	-	-
Time to maturity from one to two years	-	-
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	-	-
Time to maturity more than ten years	-	-
Other issues	**1,200,000**	**900,000**
Time to maturity up to one year	400,000	-
Time to maturity from one to two years	-	900,000
Time to maturity from two to three years	-	-
Time to maturity from three to five years	-	-
Time to maturity from five to ten years	800,000	-
Time to maturity more than ten years	-	-

The overcollateralisation ratio (the aggregate nominal value of the portfolio of loans and credit to general governments backing the issue of public sector covered bonds divided by the nominal value of issued public sector covered bonds) for Banco de Sabadell, S.A. stood at 218% as at 31 December 2018 (212% as at 31 December 2017).

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 on financial risk management).

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to its Executive Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group's loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

Schedule V - Details of outstanding issues and subordinate liabilities of the Group

Debt securities issued

The breakdown of the Group's issues at 31 December 2018 and 2017 is as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2018	Maturity date	Issue currency	Target of offering
		31/12/2018	31/12/2017				
Banco Gallego, S.A. (*)	28/10/2013	186	186	2.00%	29/12/2019	Euros	Retail
Banco de Sabadell, S.A.	10/03/2014	-	409	EURIBOR 6M + 3,50	10/03/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/03/2014	1,049	1,833	EURIBOR 6M + 3,50	10/03/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/03/2014	5,000	5,000	EURIBOR 3M + 1,35	18/03/2019	Euros	Institutional
Banco de Sabadell, S.A.	18/03/2014	11,500	11,500	EURIBOR 3M + 1,65	18/03,2019	Euros	Institutional
Banco de Sabadell, S.A.	10/04/2014	-	348	0.00%	10/04/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/04/2014	-	563	0.00%	10/04/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	388	0.00%	10/05/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	445	0.00%	10/05/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	-	1,128	00/01/1900	10/05/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	1,354	2,268	4.42%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	1,828	3,046	EURIBOR 6M + 3,50	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	13/05/2014	20,000	20,000	EURIBOR 3M + 0,90	13/05/2019	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	444	0.00%	10/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	875	0.00%	10/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	428	0.00%	10/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	-	592	0.00%	10/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	871	1,545	EURIBOR 6M + 2,75	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	940	2,103	EURIBOR 6M + 3,00	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	27/06/2014	20,000	20,000	EURIBOR 3M + 0,85	27/06/2019	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	-	836	0.00%	10/07/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	-	1,330	0.00%	10/07/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	-	2,276	0.00%	10/07/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	802	3,051	EURIBOR 6M + 2,75	10/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	-	1,607	0.00%	10/08/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	-	884	0.00%	10/08/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	-	2,029	0.00%	10/08/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	1,572	2,710	EURIBOR 6M + 2,75	10/08/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/09/2014	-	944	0.00%	10/09/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/09/2014	-	1,088	0.00%	10/09/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/10/2014	924	1,441	EURIBOR 6M + 2,35	10/10/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	-	762	0.00%	10/11/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	-	2,494	0.00%	10/11/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	1,684	2,652	EURIBOR 6M + 2,35	10/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	-	2,743	0.00%	10/12/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	-	982	0.00%	10/12/2018	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	1,940	3,031	EURIBOR 6M + 2,35	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	14/06/2016	-	300,000	0.00%	14/06/2018	Euros	Retail
Banco de Sabadell, S.A.	26/07/2016	-	316,371	0.00%	26/07/2018	Euros	Retail
Banco de Sabadell, S.A.	20/09/2018	-	256,479	0.00%	20/09/2018	Euros	Retail
Banco de Sabadell, S.A.	05/12/2016	500,000	500,000	0.65%	05/03/2020	Euros	Retail
Banco de Sabadell, S.A.	12/12/2016	15,000	15,000	MAX(EURIBOR 3M; 0,5%)	12/12/2019	Euros	Retail
Banco de Sabadell, S.A.	29/12/2016	-	500,000	0.00%	29/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	07/03/2017	591,066	591,066	0.40%	07/03/2019	Euros	Retail
Banco de Sabadell, S.A.	24/04/2017	342,017	342,017	0.40%	24/04/2019	Euros	Retail
Banco de Sabadell, S.A.	21/06/2017	464,764	464,764	0.40%	21/06/2019	Euros	Retail
Banco de Sabadell, S.A.	03/07/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	04/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/07/2017	26,800	26,800	MAX(EURIBOR 3M; 0,60%)	28/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/09/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	28/09/2022	Euros	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	1,000,000	0.88%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	-	MAX(EURIBOR 3M; 0,4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	-	MAX(EURIBOR 3M; 0,67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	-	MAX(EURIBOR 3M; 0,4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	-	MAX(EURIBOR 3M; 0,3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	-	1.63%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	-	MAX(EURIBOR 3M; 1,1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	-	MAX(EURIBOR 3M; 1,5%)	14/11/2025	Euros	Retail
Subscribed by Group companies		(42,700)	(27,952)				
Total straight bonds		**3,759,097**	**4,408,506**				

(*) Companies merged with Banco Sabadell.

En miles de euros

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2018	Maturity date	Issue currency	Target of offering
		31/12/2018	31/12/2017				
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euros	Institutional
CAM Global Finance, S.A.U.	04/06/2008	-	100,000	ref . underlying assets	04/06/2018	Euros	Institutional
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	ref . underlying assets	25/07/2022	Euros	Retail
Banco de Sabadell, S.A.	20/12/2012	3,000	3,000	ref . underlying assets	20/12/2019	Euros	Retail
Banco de Sabadell, S.A.	16/05/2013	-	5,000	ref . underlying assets	16/05/2018	Euros	Retail
Banco de Sabadell, S.A.	27/05/2014	5,000	5,000	ref . underlying assets	27/05/2019	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	ref . underlying assets	15/07/2024	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	3,000	3,000	ref . underlying assets	14/07/2021	Euros	Retail
Banco de Sabadell, S.A.	16/07/2014	5,000	5,000	ref . underlying assets	16/07/2019	Euros	Retail
Banco de Sabadell, S.A.	24/07/2014	4,000	4,000	ref . underlying assets	24/07/2019	Euros	Retail
Banco de Sabadell, S.A.	03/02/2015	-	7,000	ref . underlying assets	03/02/2020	Euros	Retail
Banco de Sabadell, S.A.	15/04/2015	4,000	4,000	ref . underlying assets	15/04/2020	Euros	Retail
Banco de Sabadell, S.A.	15/04/2015	-	8,000	ref . underlying assets	15/04/2020	Euros	Retail
Banco de Sabadell, S.A.	06/07/2015	1,800	1,800	ref . underlying assets	06/07/2020	Euros	Retail
Banco de Sabadell, S.A.	24/07/2015	-	39,998	ref . underlying assets	24/07/2018	Euros	Retail
Banco de Sabadell, S.A.	12/02/2016	-	13,500	ref . underlying assets	12/02/2021	Euros	Retail
Banco de Sabadell, S.A.	15/03/2016	-	10,500	ref . underlying assets	15/03/2021	Euros	Retail
Banco de Sabadell, S.A.	01/04/2016	-	13,200	ref . underlying assets	01/04/2022	Euros	Retail
Banco de Sabadell, S.A.	01/04/2016	-	10,000	ref . underlying assets	01/04/2022	Euros	Retail
Banco de Sabadell, S.A.	13/05/2016	-	11,600	ref . underlying assets	13/05/2021	Euros	Retail
Banco de Sabadell, S.A.	01/06/2016	6,000	6,000	ref . underlying assets	03/06/2019	Euros	Retail
Banco de Sabadell, S.A.	17/06/2016	75,000	75,000	ref . underlying assets	17/06/2019	Euros	Retail
Banco de Sabadell, S.A.	21/06/2016	8,500	8,500	ref . underlying assets	21/06/2019	Euros	Retail
Banco de Sabadell, S.A.	23/06/2016	-	19,000	ref . underlying assets	23/06/2021	Euros	Retail
Banco de Sabadell, S.A.	30/11/2016	45,000	45,000	ref . underlying assets	30/11/2021	Euros	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	-	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	13,200	-	ref . underlying assets	01/04/2025	Euros	Retail
Subscribed by Group companies		(1,286)	(1,031)				
Total structured bonds		220,214	435,067				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount		Average interest rate		Maturity date	Issue currency	Target of offering
		31/12/2018	31/12/2017	31/12/2018	31/12/2017			
Banco de Sabadell, S.A. (London Office) (*)	18/12/2015	695,373	346,500	-0.07%	0.12%	Multiple dates	Euros	Institutional
Banco de Sabadell, S.A. (**)	15/03/2018	5,111,812	5,075,495	0.04%	0.18%	Multiple dates	Euros	Institutional
Subscribed by Group companies		(2,530,849)	(2,242,895)					
Total commercial paper		3,276,336	3,179,100					

(*) Commercial paper (ECP).

(**) Prospectus for 7,000,000 thousand euros, eligible for extension up to 9,000,000 thousand euros, filed with the National Securities Market Commission .

Thousand euro

Issuer	Date of issue	Amount 31/12/2018	Amount 31/12/2017	Interest rate ruling as at 31/12/2018	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	08/05/2009	100,000	100,000	EURIBOR 3M + 1	08/05/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/09/2009	-	150,000	-	18/09/2018	Euros	Institutional
Banco CAM, S.A. (*)	27/04/2010	30,000	30,000	4.600%	31/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2010	150,000	150,000	EURIBOR 3M + 2.35	10/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	11/01/2011	100,000	100,000	EURIBOR 3M + 2.60	11/01/2019	Euros	Institutional
Banco Guipuzcoano, S.A. (*)	19/01/2011	100,000	100,000	EURIBOR 3M + 2.75	19/01/2019	Euros	Institutional
Banco de Sabadell, S.A.	07/06/2011	200,000	200,000	EURIBOR 3M + 2.25	07/06/2019	Euros	Institutional
Banco de Sabadell, S.A.	13/07/2011	50,000	50,000	EURIBOR 3M + 2.60	13/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2011	150,000	150,000	EURIBOR 3M + 3.10	12/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/10/2012	95,000	95,000	EURIBOR 3M + 4.80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	28/12/2012	200,000	200,000	EURIBOR 3M + 4.15	28/12/2020	Euros	Institutional
Banco de Sabadell, S.A.	23/01/2013	-	1,000,000	-	23/01/2018	Euros	Institutional
Banco de Sabadell, S.A.	09/12/2013	200,000	200,000	EURIBOR 3M+ 1.60	09/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0.70	26/09/2022	Euros	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0.68	03/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	12/11/2014	1,350,000	1,350,000	0.88%	12/11/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0.40	05/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	29/01/2015	1,250,000	1,250,000	EURIBOR 12 M + 0.232	29/01/2019	Euros	Institutional
Banco de Sabadell, S.A.	23/04/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.08	23/04/2019	Euros	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0.13	04/05/2023	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2015	750,000	750,000	0.38%	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/06/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.05	18/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0.20	03/07/2023	Euros	Institutional
Banco de Sabadell, S.A.	20/07/2015	1,500,000	1,500,000	EURIBOR 12 M + 0.05	20/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	16/09/2015	1,000,000	1,000,000	EURIBOR 12 M + 0.07	16/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	03/11/2015	1,000,000	1,000,000	0.00625	03/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0.80	26/01/2024	Euros	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0.535	24/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.625%	10/06/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2016	500,000	500,000	EURIBOR 12M + 0.27	21/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.00969	27/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	-	EURIBOR 12M + 0.027	18/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	-	EURIBOR 12M + 0.085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	-	EURIBOR 12M + 0.086	18/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	-	1.086%	21/12/2026	Euros	Institutional
Subscribed by Group companies		(10,727,900)	(7,913,800)				
Total covered bonds		**9,525,100**	**10,099,200**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2018	Amount 31/12/2017	Interest rate ruling as at 31/12/2018	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	23/04/2015	-	500,000	EURIBOR 12M + 0.13	23/04/2019	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2015	400,000	400,000	EURIBOR 12M + 0.33	16/12/2019	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	800,000	-	EURIBOR 12M + 0.242	18/12/2024	Euros	Institutional
Subscribed by Group companies		(1,200,000)	(900,000)				
Total public sector covered bonds		**-**	**-**				

Thousand euro

Issuer	Date of issue	Amount 31/12/2018	Amount 31/12/2017	Interest rate ruling as at 31/12/2018	Maturity date	Issue currency	Target of offering
TSB Banking Group Plc	07/12/2017	558,953	563,552	LIBOR 3M + 0.24	07/12/2022	Pound sterling	Institutional
Subscribed by Group companies		-	-				
Total Covered Bonds		**558,953**	**563,552**				

(*) Companies merged with Banco Sabadell.

Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2018 and 2017, respectively:

Thousand euro

			Issue		Outstanding balance of liabilities		
Year	Type of assets securitised	Quotation	Number of securities	Amount	2018	2017	Yield
2004	TDA CAM 3,FTA (C) (*)	RMBS	12,000	1,200,000	-	92,354	EURIBOR 3M + (between 0.23% and 0.70%)
2004	GC SABADELL 1, F.T.H. (A)	RMBS	12,000	1,200,000	80,501	101,069	EURIBOR 3M + (between 0.06% and 0.78%)
2005	TDA CAM 4,FTA (A)	RMBS	20,000	2,000,000	167,845	208,778	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5,FTA (A)	RMBS	20,000	2,000,000	194,632	222,355	EURIBOR 3M + (between 0.12% and 0.35%)
2005	TDA 23, FTA (A)	RMBS	8,557	289,500	-	-	EURIBOR 3M + (between 0.09% and 0.75%)
2006	TDA CAM 6 F.T.A (A)	RMBS	13,000	1,300,000	132,076	150,333	EURIBOR 3M + (between 0.13% and 0.27%)
2006	TDA CAM 7 F.T.A (A)	RMBS	15,000	1,500,000	157,718	178,462	EURIBOR 3M + (between 0.14% and 0.30%)
2006	CAIXA PENEDES 1 TDA, FTA (A)	RMBS	10,000	1,000,000	61,021	71,738	EURIBOR 3M + (between 0.14% and 0.55%)
2006	TDA 26-MIXTO, FTA (A)	RMBS	6,783	435,500	-	-	EURIBOR 3M + (between 0.14% and 3.50%)
2006	FTPYME TDA CAM 4 F.T.A (A)	PYMES	11,918	1,191,800	61,996	79,910	EURIBOR 3M + (between 0.02% and 4%)
2007	TDA CAM 8 F.T.A (A)	RMBS	17,128	1,712,800	129,892	166,212	EURIBOR 3M + (between 0.13% and 3.50%)
2007	CAIXA PENEDES PYMES 1 TDA, FTA (A)	PYMES	7,900	790,000	300	300	EURIBOR 3M + (between 0.19% and 0.80%)
2007	TDA CAM 9 F.T.A (A)	RMBS	15,150	1,515,000	175,861	197,550	EURIBOR 3M + (between 0.12% and 3.50%)
2007	TDA 29, FTA (A)	RMBS	8,128	452,173	-	-	EURIBOR 3M + (between 0.20% and 3.50%)
2007	CAIXA PENEDES 2 TDA, FTA (A)	RMBS	7,500	750,000	-	-	EURIBOR 3M + (between 0.30% and 1.75%)
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA (A)	PYMES	5,700	570,000	-	-	EURIBOR 3M + (between 0.35% and 1.75%)
2015	DUNCAN FUNDING 2015-1 PLC (B) (*)	RMBS	20,912	2,940,691	468,627	527,817	EURIBOR 3M +0.48% and £ LIBOR 3M + (between 0% and 1.5%)
2016	DUNCAN FUNDING 2016-1 PLC (B) (*)	RMBS	30,120	4,354,356	229,603	397,295	EURIBOR 3 M +0.40% and £ LIBOR 3 M + (between 0.77% and 2.5%)
2016	IM SABADELL PYME 10, F.T. (A)	PYMES	17,500	1,750,000	-	-	EURIBOR 3M + (between 0.75% and 0.90%)
2017	TDA SABADELL RMBS4, F.T. (A)	RMBS	60,000	6,000,000	-	-	EURIBOR 3M + (between 0.50% and 0.65%)
2017	IM SABADELL PYME 11, F.T. (A)	PYMES	19,000	1,900,000	387,881	150,000	EURIBOR 3M + (between 0.75% and 0.90%)
Total					2,247,953	2,544,173	

(*) TSB securitisation funds in effect. The funds held in Cape Funding 2014-1 PLC were drawn in full in November.

(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.

(B) Issues quoted on the LSE market.

(C) Securitisation funds liquidated during 2018.

Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2018 and 2017 are as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2018	Maturity / termination date	Issue currency	Target of offering
		31/12/2018	31/12/2017				
Banco de Sabadell, S.A.	26/04/2010	424,600	424,600	6.250%	26/04/2020	Euros	Institutional
TSB Banking Group Plc	01/05/2014	430,394	433,935	5.750%	06/05/2021	Pound sterling	Institutional
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	06/05/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	-	5.375%	12/12/2023	Euros	Institutional
Subscribed by Group companies		(18,650)	(26,700)				
Total subordinated bonds		1,836,344	1,331,835				

(*) 10-year subordinated issuance. Reported as date of maturity/cancellation of the call option.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2018	Maturity / termination date	Issue currency	Target of offering
		31/12/2018	31/12/2017				
Banco de Sabadell, S.A. (*)	18/05/2017	750,000	750,000	6.500%	18/05/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.125%	23/11/2022	Euros	Institutional
Subscribed by Group companies		-	-				
Total preference shares		1,150,000	1,150,000				

(*) Perpetual issuance. Reported as date of maturity/termination of first call option.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's unsecured creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components that have entailed their movements:

Thousand euro

Total subordinated liabilities as at 31 December 2017	2,481,835
New issuances (*)	500,000
Amortised (*)	-
Capitalisation	-
Exchange rate	(3,541)
Change in those subscribed by Group companies	8,050
Total subordinated liabilities as at 31 December 2018	2,986,344

(*) See cash flow statement.

Schedule VI - Other risk information

Credit risk exposure

Loans and advances to customers broken down by activity and type of guarantee

The breakdown of the heading "*Loans and advances - Customers*" by activity and guarantee, excluding advances not classed as loans, as at 31 December 2018 and 2017, respectively, is as follows:

Thousand euro

	2018							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,903,834**	**45,647**	**17,374**	**12,359**	**19,416**	**8,266**	**8,258**	**14,722**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,597,758**	**279,988**	**146,188**	**190,183**	**159,381**	**36,699**	**11,123**	**28,790**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**57,469,976**	**17,679,836**	**5,555,498**	**6,903,485**	**6,280,354**	**4,633,367**	**2,236,242**	**3,181,887**
Construction and real estate development (including land)	3,380,958	2,333,946	422,026	721,940	937,901	438,002	349,448	308,679
Civil engineering construction	850,109	47,429	62,543	24,707	20,692	16,772	10,922	36,879
Other purposes	53,238,909	15,298,461	5,070,929	6,156,838	5,321,761	4,178,593	1,875,872	2,836,329
Large enterprises	22,916,723	1,482,325	1,416,768	1,381,940	417,286	314,422	217,564	567,882
SMES and individual entrepreneurs	30,322,186	13,816,136	3,654,161	4,774,898	4,904,475	3,864,171	1,658,308	2,268,447
Rest of households	**71,896,180**	**64,207,775**	**767,342**	**13,606,407**	**18,329,928**	**19,994,463**	**8,001,532**	**5,042,788**
Home loans	62,603,085	60,863,231	51,973	12,401,217	17,347,302	19,252,969	7,555,695	4,358,022
For consumption	7,310,960	2,767,377	385,572	934,965	807,386	600,809	335,308	474,481
Other purposes	1,982,135	577,167	329,797	270,225	175,240	140,685	110,529	210,285
TOTAL	**141,867,748**	**82,213,246**	**6,486,402**	**20,712,434**	**24,789,079**	**24,672,795**	**10,257,155**	**8,268,187**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	4,636,003	2,428,753	387,203	453,285	478,979	524,743	434,534	924,416

Thousand euro

	2017							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,802,135**	**50,981**	**8,963**	**9,554**	**26,553**	**19,800**	**24**	**4,013**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,355,667**	**304,495**	**11,125**	**43,973**	**151,308**	**78,950**	**12,425**	**28,964**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**55,758,816**	**18,632,862**	**5,868,346**	**6,198,454**	**6,112,944**	**4,512,975**	**2,354,041**	**5,322,794**
Construction and real estate development (including land)	5,505,009	3,205,020	1,319,307	833,687	1,049,651	604,155	473,793	1,563,041
Civil engineering construction	805,568	63,450	51,238	28,783	24,464	13,459	8,189	39,793
Other purposes	49,448,239	15,364,392	4,497,801	5,335,984	5,038,829	3,895,361	1,872,059	3,719,960
Large enterprises	19,185,085	1,429,726	1,190,354	570,409	499,501	406,639	242,561	900,970
SMES and individual entrepreneurs	30,263,154	13,934,666	3,307,447	4,765,575	4,539,328	3,488,722	1,629,498	2,818,990
Rest of households	**73,307,725**	**65,061,087**	**480,952**	**13,432,034**	**18,429,515**	**19,880,861**	**7,980,464**	**5,819,165**
Home loans	61,796,990	60,893,612	48,967	12,158,321	17,353,196	19,028,824	7,454,909	4,947,329
For consumption	9,142,389	3,913,943	183,563	1,168,729	988,946	762,093	464,122	713,616
Other purposes	2,368,346	253,532	248,422	104,984	87,373	89,944	61,433	158,220
TOTAL	**142,224,343**	**84,049,425**	**6,369,386**	**19,684,015**	**24,720,320**	**24,492,586**	**10,346,954**	**11,174,936**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	5,598,948	3,556,115	536,656	657,191	818,657	791,768	662,169	1,162,986

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available to cover that operation. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

Forbearance

The outstanding balance of forborne and restructured loans as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Not secured with collateral							
Number of transactions	-	15	59	19,739	*503*	52,181	**71,994**
Gross carrying amount	-	10,731	30,704	1,434,558	*208,114*	332,025	**1,808,018**
Secured with collateral							
Number of transactions	-	4	17	9,341	*1,135*	24,253	**33,615**
Gross carrying amount	-	9,670	23,069	1,655,532	*347,100*	1,777,845	**3,466,116**
Impairment allowances	-	5,179	10,713	784,522	*192,023*	335,938	**1,136,352**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*14*	*28*	*10,013*	*358*	*28,043*	***38,098***
Gross carrying amount	-	*10,634*	*735*	*840,717*	*167,339*	*196,096*	***1,048,182***
Secured with collateral							
Number of transactions	-	*4*	*11*	*4,991*	*805*	*13,154*	***18,160***
Gross carrying amount	-	*9,670*	*13,945*	*954,811*	*237,438*	*1,012,903*	***1,991,329***
Impairment allowances	-	*5,179*	*10,647*	*670,765*	*182,133*	*305,415*	***992,006***
TOTAL							
Number of transactions	-	19	76	29,080	*1,638*	76,434	**105,609**
Gross amount	-	20,401	53,773	3,090,090	*555,214*	2,109,870	**5,274,134**
Impairment allowances	-	5,179	10,713	784,522	*192,023*	335,938	**1,136,352**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

Thousand euro

	2017						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Not secured with collateral							
Number of transactions	-	17	1,485	18,579	*2,208*	50,332	**70,413**
Gross carrying amount	-	11,694	66,256	2,320,530	*502,404*	456,378	**2,854,858**
Secured with collateral							
Number of transactions	-	5	70	12,464	*3,104*	25,731	**38,270**
Gross carrying amount	-	439	15,361	1,848,443	*402,286*	2,123,692	**3,987,935**
Impairment allowances	-	2,613	13,739	900,329	*301,944*	327,166	**1,243,847**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*13*	*25*	*9,706*	*2,016*	*27,361*	***37,105***
Gross carrying amount	-	*9,170*	*14,263*	*1,335,529*	*427,225*	*276,460*	***1,635,422***
Secured with collateral							
Number of transactions	-	*4*	*9*	*7,494*	*2,615*	*14,270*	***21,777***
Gross carrying amount	-	*440*	*14,692*	*1,047,340*	*300,708*	*1,162,091*	***2,224,563***
Impairment allowances	-	*2,613*	*13,575*	*861,480*	*298,760*	*303,457*	***1,181,125***
TOTAL							
Number of transactions	-	22	1,555	31,043	*5,312*	76,063	**108,683**
Gross amount	-	12,133	81,617	4,168,973	*904,690*	2,580,070	**6,842,793**
Impairment allowances	-	2,613	13,739	900,329	*301,944*	327,166	**1,243,847**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

The values of the collateral received to ensure collection associated with forborne and restructured loans, broken down into collateral and other guarantees, as at 31 December 2018 and 2017 year-end, are as follows:

Thousand euro

Guarantees received	2018	2017
Value of collateral	2,970,068	3,884,087
Of which: securing non-performing loans	*1,566,700*	*2,040,788*
Value of other guarantees	461,294	650,696
Of which: securing non-performing loans	*223,528*	*205,177*
Total value of guarantees received	3,431,362	4,534,783

Detailed movements of the balance of forborne and restructured loans during 2018 and 2017 are as follows:

Thousand euro

	2018	2017
Opening balance	6,842,793	9,263,705
(+) Forbearance (refinancing and restructuring) in the period	1,158,444	1,179,598
Memorandum item: impact recognised on the income statement for the period	*162,060*	*96,622*
(-) Debt amortisations	(1,272,884)	(1,529,500)
(-) Foreclosures	(159,046)	(295,542)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(314,447)	(161,109)
(+)/(-) Other changes (*)	(980,726)	(1,614,359)
Balance at the end of the year	**5,274,134**	**6,842,793**

(*) Includes transactions no longer classified as forborne (refinanced or restructured) transactions, as they meet the requirements for their reclassification from underperforming (Stage 2) to performing (Stage 1) (see Note 1.3.4).

The table below shows the value of transactions which, after forbearance, have been classified as non-performing exposures during 2018 and 2017:

Thousand euro

	2018	2017
General governments	-	**394**
Other legal entities and individual entrepreneurs	**183,345**	**244,101**
Of which: Lending for construction and real estate development	*12,419*	*52,155*
Other natural persons	**250,686**	**205,198**
Total	**434,031**	**449,693**

The average probability of default on current forborne and restructured loans broken down by activity as at 31 December 2018 and 2017 is as follows:

%

	2018	2017
General governments (*)	-	-
Other legal entities and individual entrepreneurs	**8**	**8**
Of which: Lending for construction and real estate development	*7*	*7*
Other natural persons	**10**	**10**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated as at September 2018.

The PD of forborne exposures is the same as in December 2017.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration by activity and at global level as at 31 December 2018 and 2017 is as follows:

Thousand euro

	2018				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**32,994,694**	**16,025,194**	**15,610,804**	**1,040,379**	**318,317**
General governments	**35,006,761**	**23,278,571**	**10,544,893**	**1,084,237**	**99,060**
Central governments	8,425,792	8,368,772	8	6	57,006
Rest	26,580,969	14,909,799	10,544,885	1,084,231	42,054
Other financial corporations and individual entrepreneurs	**4,224,633**	**2,315,023**	**1,326,271**	**546,351**	**36,988**
Non-financial corporations and individual entrepreneurs	**60,687,187**	**48,152,718**	**4,327,533**	**7,530,599**	**676,337**
Construction and real estate	3,519,279	3,203,245	32,231	199,746	84,057
Civil engineering construction	985,364	939,397	35,508	8,218	2,241
Other purposes	56,182,544	44,010,076	4,259,794	7,322,635	590,039
Large enterprises	25,240,548	14,585,539	3,425,975	6,863,018	366,016
SMEs and individual entrepreneurs	30,941,996	29,424,537	833,819	459,617	224,023
Rest of households	**72,533,041**	**35,540,676**	**35,569,469**	**509,518**	**913,378**
Home loans	62,803,725	28,247,027	33,202,053	491,900	862,745
For consumption	7,459,329	5,487,623	1,932,427	8,937	30,342
Other purposes	2,269,987	1,806,026	434,989	8,681	20,291
TOTAL	**205,446,316**	**125,312,182**	**67,378,970**	**10,711,084**	**2,044,080**

Thousand euro

	2017				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**33,301,907**	**18,525,878**	**13,118,641**	**1,121,174**	**536,214**
General governments	**32,278,166**	**17,848,223**	**13,076,483**	**1,265,606**	**87,854**
Central governments	26,641,501	12,574,456	13,076,483	932,383	58,179
Rest	5,636,665	5,273,767	-	333,223	29,675
Other financial corporations and individual entrepreneurs	**5,809,643**	**4,875,460**	**463,407**	**419,712**	**51,064**
Non-financial corporations and individual entrepreneurs	**65,104,090**	**54,883,648**	**3,657,830**	**5,966,646**	**595,966**
Construction and real estate	6,341,800	5,688,532	17,564	548,302	87,402
Civil engineering construction	1,592,291	1,567,467	14,798	7,762	2,264
Other purposes	57,169,999	47,627,649	3,625,468	5,410,582	506,300
Large enterprises	24,907,996	17,064,563	2,873,635	4,730,518	239,280
SMEs and individual entrepreneurs	32,262,003	30,563,086	751,833	680,064	267,020
Rest of households	**74,328,108**	**35,872,277**	**36,993,336**	**468,275**	**994,220**
Home loans	61,810,885	27,296,622	33,519,587	154,087	840,589
For consumption	9,142,390	6,511,751	2,482,036	9,656	138,947
Other purposes	3,374,833	2,063,904	991,713	304,532	14,684
TOTAL	**210,821,914**	**132,005,486**	**67,309,697**	**9,241,413**	**2,265,318**

By autonomous communities

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2018 and 31 December 2017, respectively, is as follows:

Thousand euro

	2018									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**16,025,194**	**6,015**	**11**	**1**	**36**	**64**	**443,267**	**-**	**54**	**337,657**
General governments	**23,278,571**	**60,252**	**22,708**	**183,956**	**98,193**	**2,752**	**31,596**	**16,613**	**244,184**	**1,150,231**
Central governments	8,368,772	-	-	-	-	-	-	-	-	-
Rest	14,909,799	60,252	22,708	183,956	98,193	2,752	31,596	16,613	244,184	1,150,231
Other financial corporations and individual entrepreneurs	**2,315,023**	**7,756**	**2,548**	**3,798**	**4,104**	**1,258**	**279**	**851**	**15,314**	**595,288**
Non-financial corporations and individual entrepreneurs	**48,152,718**	**2,647,863**	**874,640**	**1,464,077**	**1,882,084**	**1,252,206**	**274,665**	**575,319**	**1,228,307**	**15,292,810**
Construction and real estate	3,203,245	233,374	60,335	82,101	94,507	39,880	12,186	15,623	28,690	991,358
Civil engineering construction	939,397	27,928	28,329	15,005	5,251	2,585	3,444	4,419	14,770	192,573
Other purposes	44,010,076	2,386,561	785,976	1,366,971	1,782,326	1,209,741	259,035	555,277	1,184,847	14,108,879
Large enterprises	14,585,539	578,995	206,195	258,383	546,298	328,910	109,970	99,958	310,718	4,374,253
SMEs and individual entrepreneurs	29,424,537	1,807,566	579,781	1,108,588	1,236,028	880,831	149,065	455,319	874,129	9,734,626
Rest of households	**35,540,676**	**2,366,184**	**451,786**	**1,051,021**	**1,281,762**	**534,405**	**98,539**	**495,894**	**676,314**	**12,771,464**
Home loans	28,247,027	1,880,689	348,426	828,593	1,028,198	368,644	81,231	396,628	520,316	10,310,806
For consumption	5,487,623	387,937	75,944	161,597	190,288	150,252	12,639	81,578	98,075	1,879,456
Other purposes	1,806,026	97,558	27,416	60,831	63,276	15,509	4,669	17,688	57,923	581,202
TOTAL	**125,312,182**	**5,088,070**	**1,351,693**	**2,702,853**	**3,266,179**	**1,790,685**	**848,346**	**1,088,677**	**2,164,173**	**30,147,450**

Thousand euro

	2018								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**-**	**15,326**	**14,648,856**	**221**	**254**	**62,826**	**510,593**	**13**	**-**
General governments	**50,837**	**64,378**	**11,233,725**	**36,416**	**176,446**	**803,112**	**629,295**	**79,055**	**26,050**
Central governments	-	-	-	-	-	-	-	-	-
Rest	50,837	64,378	11,233,725	36,416	176,446	803,112	629,295	79,055	26,050
Other financial corporations and individual entrepreneurs	**282**	**7,330**	**1,578,460**	**6,705**	**745**	**67,233**	**22,987**	**85**	**-**
Non-financial corporations and individual entrepreneurs	**146,379**	**1,988,457**	**11,251,384**	**1,112,784**	**478,617**	**4,482,876**	**2,993,479**	**184,948**	**21,823**
Construction and real estate	1,884	55,150	1,169,418	69,375	21,973	220,033	99,827	7,270	261
Civil engineering construction	2,289	49,598	438,775	6,793	5,204	27,899	114,091	444	-
Other purposes	142,206	1,883,709	9,643,191	1,036,616	451,440	4,234,944	2,779,561	177,234	21,562
Large enterprises	30,262	570,156	4,431,533	213,688	147,935	1,000,097	1,337,847	40,161	180
SMEs and individual entrepreneurs	111,944	1,313,553	5,211,658	822,928	303,505	3,234,847	1,441,714	137,073	21,382
Rest of households	**119,173**	**718,139**	**4,561,312**	**2,218,653**	**149,681**	**6,865,175**	**1,041,766**	**78,115**	**61,293**
Home loans	87,129	507,507	3,631,472	1,717,740	106,476	5,475,652	853,351	50,246	53,923
For consumption	28,274	149,276	623,086	422,506	23,593	1,066,320	120,943	10,092	5,767
Other purposes	3,770	61,356	306,754	78,407	19,612	323,203	67,472	17,777	1,603
TOTAL	**316,671**	**2,793,630**	**43,273,737**	**3,374,779**	**805,743**	**12,281,222**	**5,198,120**	**342,216**	**109,166**

Thousand euro

	2017									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**18,525,878**	**13,607**	**698**	**13,551**	**601**	**652**	**644,705**	**346**	**840**	**558,932**
General governments	**17,848,223**	**204,913**	**104,168**	**202,122**	**81,582**	**41,909**	**27,476**	**41,709**	**430,272**	**1,001,741**
Central governments	12,574,456	-	-	-	-	-	-	-	-	-
Rest	5,273,767	204,913	104,168	202,122	81,582	41,909	27,476	41,709	430,272	1,001,741
Other financial corporations and individual entrepreneurs	**4,875,460**	**10,586**	**1,990**	**3,808**	**4,008**	**1,285**	**304**	**861**	**10,595**	**1,122,616**
Non-financial corporations and individual entrepreneurs	**54,883,647**	**3,201,444**	**965,477**	**1,833,539**	**1,835,267**	**1,171,970**	**274,862**	**619,751**	**1,386,714**	**16,582,974**
Construction and real estate development	5,688,532	603,106	88,607	111,348	139,393	109,371	18,292	63,792	64,207	1,269,409
Civil engineering construction	1,567,467	40,495	30,975	43,360	8,607	2,804	4,325	9,498	25,817	375,306
Other purposes	47,627,648	2,557,843	845,895	1,678,831	1,687,267	1,059,795	252,245	546,461	1,296,690	14,938,259
Large enterprises	17,064,564	648,422	234,025	512,258	445,844	285,272	93,835	118,329	361,321	4,576,115
SMEs and individual entrepreneurs	30,563,084	1,909,421	611,870	1,166,573	1,241,423	774,523	158,410	428,132	935,369	10,362,144
Rest of households	**35,872,277**	**2,371,057**	**445,479**	**1,058,701**	**1,319,844**	**544,694**	**99,246**	**514,987**	**625,214**	**12,750,609**
For house purchase	27,296,623	1,836,418	336,096	763,179	1,037,603	371,942	77,197	408,945	480,145	9,711,535
For consumption	6,511,750	425,922	81,904	187,509	236,245	157,934	16,710	87,866	101,356	2,273,210
Other purposes	2,063,904	108,717	27,479	108,013	45,996	14,818	5,339	18,176	43,713	765,864
TOTAL	**132,005,485**	**5,801,607**	**1,517,812**	**3,111,721**	**3,241,302**	**1,760,510**	**1,046,593**	**1,177,654**	**2,453,635**	**32,016,872**

Thousand euro

	2017								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**50**	**17,170**	**16,726,676**	**3,722**	**71**	**101,015**	**442,922**	**269**	**51**
General governments	**50,349**	**114,106**	**1,290,498**	**41,876**	**129,386**	**844,593**	**581,604**	**78,558**	**6,905**
Central governments	-	-	-	-	-	-	-	-	-
Rest	50,349	114,106	1,290,498	41,876	129,386	844,593	581,604	78,558	6,905
Other financial corporations and individual entrepreneurs	**260**	**7,513**	**3,606,420**	**8,607**	**729**	**64,586**	**31,134**	**59**	**99**
Non-financial corporations and individual entrepreneurs	**161,729**	**2,084,177**	**13,138,398**	**1,632,755**	**614,826**	**5,647,605**	**3,513,689**	**195,109**	**23,361**
Construction and real estate development	9,234	99,479	1,517,101	463,061	23,695	917,968	164,449	25,285	735
Civil engineering construction	3,858	92,607	716,017	9,219	9,993	53,199	140,757	628	2
Other purposes	148,637	1,892,091	10,905,280	1,160,475	581,138	4,676,438	3,208,483	169,196	22,624
Large enterprises	27,419	498,402	5,920,809	226,734	271,971	1,192,448	1,612,952	37,775	633
SMEs and individual entrepreneurs	121,218	1,393,689	4,984,471	933,741	309,167	3,483,990	1,595,531	131,421	21,991
Rest of households	**116,225**	**683,072**	**4,465,374**	**2,385,954**	**141,651**	**7,282,267**	**937,428**	**75,018**	**55,457**
For house purchase	86,124	461,221	3,469,657	1,740,296	99,734	5,572,368	748,039	47,619	48,505
For consumption	26,178	162,080	706,136	525,344	30,862	1,342,273	129,682	14,475	6,064
Other purposes	3,923	59,771	289,581	120,314	11,055	367,626	59,707	12,924	888
TOTAL	**328,613**	**2,906,038**	**39,227,366**	**4,072,914**	**886,663**	**13,940,066**	**5,506,777**	**349,013**	**85,873**

Sovereign risk exposure

The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), as at 31 December 2018 and 31 December 2017, is as follows:

Thousand euro

	2018										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (**)	%
Spain	153,473	(32,639)	-	6,323,332	5,899,614	11,531,751	13,587	(113)	23,889,006	557,375	67.6%
Italy	12,455	-	-	-	5,823,441	-	-	-	5,835,896	-	16.1%
United States	-	-	-	359,312	-	1	-	-	359,313	-	1.0%
United Kingdom	23	-	-	2,219,051	107,580	3	-	-	2,326,657	-	6.4%
Portugal	-	-	-	1,268,579	753,943	-	-	-	2,022,522	-	5.6%
Mexico	-	-	-	582,081	-	-	-	-	582,081	-	1.6%
Rest of the world	-	-	-	498,873	27,626	87,015	-	-	613,513	-	1.7%
Total	**165,951**	**(32,639)**	**-**	**11,251,228**	**12,612,205**	**11,618,770**	**13,587**	**(113)**	**35,628,989**	**557,375**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (667 million euros at 31 December 2018).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2017										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (**)	%
Spain	43,319	(69,854)	-	5,026,477	2,595,434	10,504,135	-	274	18,099,785	(4,199)	55.9%
Italy	-	-	-	2,832,605	6,793,888	-	-	18,930	9,645,423	-	29.8%
United States	-	-	-	170,746	-	3	-	-	170,749	-	0.5%
United Kingdom	-	-	-	1,940,311	-	13	-	-	1,940,324	-	6.0%
Portugal	-	-	-	55,254	1,074,046	-	-	(502)	1,128,798	-	3.5%
Mexico	-	-	-	175,375	480,532	-	-	-	655,907	-	2.0%
Rest of the world	-	-	-	529,086	135,566	68,400	-	-	733,052	-	2.3%
Total	**43,319**	**(69,854)**	**-**	**10,729,854**	**11,079,466**	**10,572,551**	**-**	**18,702**	**32,374,038**	**(4,199)**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (544 million euros at 31 December 2017).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The loans and credits shown have been classified in terms of their intended purpose, and not by the debtor's statistical classification of economic activities in the European Community (NACE). This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2018		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	3,493	898	380
Of which: non-performing	*719*	*291*	*354*

(*) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

	2017				
	Gross carrying amount	*Of which: APS (*)*	Excess value of the collateral	*Of which: APS (*)*	Adjustments due to impairment (**)
Lending for construction and real estate development (including land) (business in Spain)	5,694	*1,855*	1,809	*882*	660
Of which: non-performing	*1,363*	*-*	*579*	*-*	*641*

(*) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.

(**) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

	Gross carrying amount	
Memorandum item	2018	2017
Write-offs (*)	251	208

Million euro

	Amount	Amount
Memorandum item:	2018	2017
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	87,296	89,686
Total assets (total business) (carrying amount)	222,322	221,348
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	373	525

(*) Refers to lending for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending for construction and real estate development for transactions registered by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 2018	Gross carrying amount 2017	*Of which: APS*
Not secured with real estate	**645**	**1,124**	***286***
Secured with real estate	**2,848**	**4,571**	***1,570***
Buildings and other finished constructions	1,467	2,451	*860*
Housing	942	1,715	*646*
Rest	524	736	*214*
Buildings and other construction in progress	988	891	*116*
Housing	877	785	*100*
Rest	111	106	*15*
Land	393	1,229	*594*
Consolidated urban land	373	1,061	*475*
Other land	20	169	*119*
Total	**3,493**	**5,694**	***1,855***

The figures shown do not show the total value of guarantees received, but rather the net carrying value of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

Guarantees received	2018	2017
Value of collateral	2,584	3,638
Of which: securing Stage 3 loans	*307*	*632*
Value of other guarantees	208	1,245
Of which: securing Stage 3 loans	*22*	*38*
Total value of guarantees received	**2,792**	**4,883**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2018	
	Gross carrying amount	*Of which: non-performing*
Lending for house purchase	**32,461**	***1,481***
Not secured with real estate	1,032	*145*
Secured with real estate	31,429	*1,336*

Million euro

	2017		
	Gross carrying amount	*Of which: APS*	*Of which: non-performing*
Lending for house purchase	**32,609**	***619***	***1,786***
Not secured with real estate	1,147	*42*	*234*
Secured with real estate	31,462	*577*	*1,552*

The tables below show mortgage-secured lending to households for house purchase broken down by the loan to value of transactions recorded by credit institutions (business in Spain):

Million euro

	2018	
	Gross amount	*Of which: non-performing*
LTV ranges	**31,429**	***1,336***
LTV <= 40%	6,091	*112*
40% < LTV <= 60%	7,757	*171*
60% < LTV <= 80%	8,056	*241*
80% < LTV <= 100%	4,342	*279*
LTV > 100%	5,183	*533*

Million euro

	2017		
	Gross amount	*Of which: APS*	*Of which: non-performing*
LTV ranges	**31,462**	***577***	***1,552***
LTV <= 40%	5,613	*48*	*116*
40% < LTV <= 60%	7,491	*106*	*192*
60% < LTV <= 80%	7,944	*123*	*301*
80% < LTV <= 100%	4,718	*106*	*324*
LTV > 100%	5,696	*194*	*619*

Lastly, the table below gives details of foreclosed assets of the consolidated group entities for transactions recorded by credit institutions within Spain:

Million euro

	2018			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**6,694**	**3,258**	***1,210***	***582***
Finished buildings	2,934	794	*650*	*201*
Housing	1,609	273	*397*	*120*
Rest	1,325	521	*253*	*80*
Buildings under construction	503	201	*24*	*14*
Housing	476	183	*21*	*12*
Rest	27	18	*3*	*2*
Land	3,257	2,263	*536*	*368*
Building land	1,062	638	*142*	*82*
Other land	2,195	1,625	*394*	*286*
Real estate assets acquired through mortgage lending to households for house purchase	**2,028**	**379**	***515***	***185***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**5**	**5**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Total real estate portfolio	**8,727**	**3,642**	**1,726**	**767**

(*) Non-performing real estate assets including properties outside the national territory, considering the provision allocated in the original loan and the credit risk transferred upon application of the APS.

Million euro

	2017			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**7,319**	**3,309**	***5,479***	***3,127***
Finished buildings	3,063	892	*2,681*	*1,119*
Housing	1,596	360	*1,302*	*505*
Rest	1,467	533	*1,379*	*614*
Buildings under construction	568	197	*289*	*165*
Housing	514	173	*245*	*137*
Rest	54	24	*44*	*28*
Land	3,688	2,221	*2,509*	*1,843*
Building land	1,332	692	*832*	*603*
Other land	2,356	1,529	*1,677*	*1,240*
Real estate assets acquired through mortgage lending to households for house purchase	**1,961**	**584**	***1,914***	***872***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**5**	**5**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Total real estate portfolio	**9,285**	**3,898**	**7,393**	**3,999**

(*) Non-performing real estate assets including properties outside the national territory, considering the provision allocated in the original loan and the credit risk transferred upon application of the APS.

Given that in July 2018 an agreement was reached to transfer practically all of the problematic real estate exposures to a subsidiary of Cerberus Capital Management L.P., the table below shows the reconciliation against the value of foreclosed assets subsequent to the signing of the transaction, incorporating amounts from outside Spain.

Million euro

	2018		
	Gross Value	Allowances	Net carrying value
Total operations national territory	**8,723**	**3,637**	**5,086**
Solvia Desarrollos Inmobiliarios business line	**(1,303)**	**(602)**	**(701)**
Total operations outside the national territory and others	57	28	29
Provision allocated in original loan	1,317	1,317	-
Credit risk transferred in portfolio sales	(7,068)	(3,613)	(3,455)
Total	**1,726**	**767**	**959**

Schedule VII - Annual banking report

INFORMATION REQUIRED UNDER ARTILE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and Directive 2006/49/EC, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the management, supervision and solvency of credit institutions published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations the following information is presented on a consolidated basis and corresponds to the end of the 2018 financial year:

Thousand euro

	Turnover	No. full time equivalents	Gross income before tax	Corporation tax
Spain	3,911,885	16,743	533,006	(147,058)
United Kingdom	772,078	7,569	(282,137)	85,150
United States	179,048	240	135,101	(24,746)
Rest	147,217	702	32,895	3,019
Total	**5,010,227**	**25,253**	**418,865**	**(83,635)**

As at 31 December 2018, income from the Group's assets calculated by dividing the consolidated gains/(losses) during the year by total assets amounts to 0.15%.

This information is available in Schedule I to these Group consolidated annual financial statements for the year ended 31 December 2018, in which the companies operating in each jurisdiction are listed, including among other details their corporate names, geographical location and line of business.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, retailers and self-employed, professional groups, other individuals and Bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement for December 2018. Data on full-time equivalent staff have been obtained from the workforce of each company/country as at the end of 2018.

The amount of public subsidies and aid received is not material.

CONSOLIDATED DIRECTORS 'REPORT FOR 2018

This report has been prepared in line with the recommendations contained in the Guidelines for the preparation of directors 'reports by listed companies (*Guía para la elaboración del informe de gestión de las entidades cotizadas*), published by the Spanish National Securities Market Commission in July 2013.

CONTENTS

GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisational structure

Banco de Sabadell, S.A., with registered office in Alicante, Avenida Óscar Esplá 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a group of entities whose activity it controls directly and indirectly and which comprise, together with the bank, Banco Sabadell Group. Banco Sabadell is comprised of different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business, and it operates mainly in Spain, the United Kingdom, Mexico and Andorra.

The Group is organised into the following business units:

- Banking Business Spain includes the following customer-centric business units:

    - 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 self-employed, 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 corporations and financial institutions, both national and international. Its activities includes 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, foreign 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 as at 31 December 2018 numbered a total of 162, of which 136 are considered part of the group and 26 are associates (as at 31 December 2017, they numbered 167, of which 143 were considered Group companies and 24 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:

a) approving the company's general strategies;

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 2018 is as follows:

Composition of the Board

	Position
José Oliu Creus	Chair
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	CEO
Anthony Frank Elliott Ball	Director
Aurora Catá Sala	Director
Pedro Fontana García	Director
María José García Beato	Director - General Secretary
Maria Teresa Garcia-Milà Lloveras	Director
George Donald Johnston	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

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 (11 of 15) are non-executive directors, including 10 independent directors.

Banco Sabadell has an internal governance framework which was updated by the Board of Directors in its January 2019 meeting and which sets out, among other aspects, the shareholder structure, the governing bodies, the Group's structure, the composition and operation of corporate governance, the internal control functions, key governance matters, the risk management framework and the Group's policies.

At present, there are five committees in operation, the meetings of which are also attended by members of the General Management.

The Board Committees are:

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

The composition of these Committees as at 31 December 2018 is shown in the table below:

Composition of Committees

Position	Executive	Audit and Control	Appointments	Remuneration	Risk
Chair	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	Pedro Fontana García	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston
Member	José Manuel Martínez Martínez	José Ramón Martínez Sufrategui	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston	Manuel Valls Morató
Member	José Luis Negro Rodríguez	-	-	-	-
Secretary non-member	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2018	35	12	12	12	15

Executive Committee

The Executive Committee has the same duties as the Board of Directors. It is also 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, and 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 duties 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, Internal Audits and risk management systems, including tax risk management systems, and discussing with statutory 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 statutory 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 relating to 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 appointment by co-optation or for their submission for decision at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

b) submit proposals for the appointment of the remaining directors for their appointment by co-optation or for their submission for decision 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 proposals for the appointment and discharge of officers and of the Identified Staff;

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 duties 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 or impartiality of external consultants;

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

Risks Committee

The Risks 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) oversee the implementation of the Risk Appetite Framework;

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

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

d) make 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) monitor and detect any ruptures of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect;

f) report 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 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 the various stakeholders.

The bank's management model is focused on long-term customer retention, through ongoing 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 gain scale, 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 increase the size of its balance sheet. In 2013 Banco Sabadell was able to undertake further corporate actions under 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, Valencian Community 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 8.0% in loans and 7.0% in deposits (October 2018). Furthermore, Banco Sabadell stands out in products such as trade credit, with a market share of 10.0% (October 2018), business loans with a market share of 11.6% (September 2018), mutual funds with a market share of 6.2% (December 2018), securities trading with a market share of 10.6% (December 2018) and POS turnover with a market share of 16.5% (September 2018).

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 2018 and Sabadell has continued being present in strategic areas and has helped companies in their international activity, reaching a market share of 15.2% in Swift transfers (in quarterly accumulated terms) (December 2018). Over the past 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. As a result, as at December 2018, 31% of the Group's loans and credit was generated overseas (23% in the United Kingdom and 8% in the Americas and other geographies).

TSB has focused, on one hand, on its IT migration and integration and, on the other hand, on resolving the incidents which occurred during migration. Going forward, the high market share of Banco Sabadell in the SMEs sector in Spain, together with its international experience, will be a sound value-added tool to support TSB in the provision of efficient and high-quality services for SMEs in the United Kingdom.

In 2018, Banco Sabadell Group went to great lengths to reduce its problematic exposures and its efforts have resulted in two corporate transactions which improve the Group's risk profile. On one hand, there has been a significant divestment from the portfolio of non-performing assets (non-performing assets sold amounted to a gross total of €12.2M), reducing the exposure to these types of assets and achieving an NPA coverage ratio of 52.1%. On the other hand, the Group has sold its real estate servicer, as this is not considered a core business line.

Banco Sabadell carries out its business in an ethical and responsible manner, managing its commitment to society in such a way as to ensure 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 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, and which address all of the Group's activity.

In accordance with 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 and counter-terrorist financing regulations and the control of international sanctions.

The mission of the Compliance Division is to promote and endeavour to reach the highest levels 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 Secretary General, 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, the 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

In 2018, political and geopolitical events have once again been in the media spotlight. These events have increasingly affected financial markets throughout the year, in a context in which major central banks have continued with their withdrawal of monetary stimulus measures.

Some key political events include the negotiations regarding the withdrawal of the United Kingdom (UK) from the European Union (EU), the actions taken by the new Italian government in relation to European tax rules, Trump's protectionist policies and electoral results in certain emerging countries.

In the UK, the political environment has been marked by the complexity of Brexit, both in terms of the negotiations with the EU and in terms of domestic politics, as a result of divisions that this aspect has generated in the government and within the main political parties. The main obstacle encountered during negotiations with the EU has been the search for a solution to avoid a hard border in Ireland. T. May's government and the EU reached an agreement for a transition period which is due to run until the end of 2020, although it could be extended to the end of 2022, during which to negotiate the new bilateral relationship. The vote on this deal in the UK Parliament was postponed until January 2019.

In Italy, the elections that took place on 4 March were a blow for traditional parties, leaving a fragmented Parliament. After several months of complex negotiations, which almost triggered an institutional crisis, the Five Star Movement and La Liga reached an agreement to form a coalition. The new government submitted its budget, whose public deficit targets were above those prescribed by Europe. This led the European Commission to reject national budgets for the first time in history. The discipline imposed by financial markets and the negative impact that the political situation has had on economic activity resulted in the Italian government adopting a more conciliatory tone with the European Commission and reducing its deficit target for 2019.

In the United States (US), Trump has adopted an increasingly aggressive tone in relation to foreign policy. The US has applied tariffs to over half of its Chinese imports, and has threatened to increase these tariffs and apply them to all imports. The technology sector has also attracted a lot of attention in terms of the relationship between the two countries. The truce reached in May with EU has successfully prevented the adoption of protectionist measures. In terms of NAFTA, the relevant countries have finally agreed to renegotiate (and rename) the agreement to make it more favourable to the US.

The assertive tone of the US in terms of foreign policy has also resulted in: (i) the declaration of the EU being a "strategic competitor", in sharp contrast to decades of transatlantic cooperation, (ii) the imposition of sanctions on Iran, despite the opposition of other major powers and (iii) tensions with countries such as Turkey and North Korea.

The mid-term elections that took place in the US in November led to the Democrats taking back the House, although the Republicans (Trump's party) retained control in the Senate. The Democrats have shown their intention of using their majority to exert further legal pressure on Trump and limit some of his domestic policies.

In Latin America, the political shift that has taken place in countries such as Mexico and Brazil in the elections that took place this year has been the focus of much attention. In Mexico, the victory of López Obrador in July's presidential and parliamentary elections stoked the uncertainty surrounding the country's economic and institutional environment. The use of illegal public consultations in order to make major economic decisions has negatively affected investor confidence. Meanwhile, in Brazil, the victory of the former military officer Bolsonaro has been interpreted as a clear rejection by the population of the violence and corruption that has been taking place in the country.

In terms of economic activity, global GDP has continued to record relatively high growth rates, supported by factors such as the expansionary nature of the tax policy of countries such as the United States and China, and a monetary policy which is still accommodating in areas such as the Eurozone.

In developed economies, the expansionary trend of activity in the euro area has continued, although the growth rate has been slightly lower than in the previous year, which was exceptionally good. Growth has been hindered by a worse performance of foreign demand, in a context of slightly weaker international trade. Certain one-off factors have also negatively affected activity, including new issuing standards, which have affected the automotive industry. In the United Kingdom, activity has recorded moderate growth, affected by the uncertainty surrounding Brexit. This uncertainty has particularly affected investment and some sectors including real estate. In the United States, the economy has performed well, supported by the expansionary nature of the tax policy, which has particularly benefited private consumption. Against this backdrop, unemployment rates have continued to fall, and remain at historic lows. In Japan, the economy has continued to gradually expand, supported by more lax funding conditions and by government spending.

In emerging economies, China's economic growth, though still fast, has slowed slightly, affected by regulatory tightening implemented by financial authorities. This effect has been made more pronounced by the trade war waged by the United States. However, the country's economic expansion measures have helped to offset these negative effects. In other countries, the main focus has been on the more vulnerable economies, such as Argentina and Turkey, whose financial markets have slumped in a context of tightening international funding conditions. Lastly, in Mexico, the economy has maintained its moderate and relatively stable growth, which has been hindered by uncertainty regarding the NAFTA negotiations and domestic policy.

Regarding inflation, in the euro area, the underlying component, which excludes energy and food, has remained at low levels, with no clear trend in any direction. Inflation in the UK has slowed as the effects of the pound's devaluation following the Brexit referendum have dissipated, and at the end of the year it was close to the target set out in its monetary policy. Underlying inflation in the United States has grown to levels close to the target set by the Federal Reserve. Salaries have also increased and are practically back to normal. In Japan, inflation has been contained.

Crude oil prices reached their highest levels since 2014, influenced by the OPEC's production cuts, bottlenecks in US production and the announcement that the US would be reinstating sanctions on crude oil exports from Iran. Oil prices then dipped as a result of financial tensions, the temporary authorisations granted by the United States to import Iranian crude oil and the increase in production in Saudi Arabia, Russia and the United States.

The Spanish economy has maintained its robust growth rates, exceeding the euro area average once more in 2018, although figures have been slightly lower than in previous years. The economy is still being supported by lower interest rates and the improved financial situation of the private sector. With respect to the labour market, the unemployment rate has continued to fall, and has remained at the historic lows of the end of 2008. The tourism industry has run out of steam, in a context in which tourists are starting to return to other countries in the Mediterranean. This, along with higher oil prices in the year, has resulted in a current account surplus for the sixth consecutive year, although it is slightly lower than in the preceding year. In terms of the real estate market, both housing prices and the volume of sales have continued to record substantial growth. New lending has recorded significant growth rates, in terms of both lending to enterprises and lending to households. As regards the evolution of public accounts, the published data suggest that the deficit will have stood below 3% of GDP. In political aspects, there was a change in government following the vote of no confidence tabled by PSOE.

Financial markets have experienced a period of increasing volatility. Losses have been recorded on practically all risky assets worldwide, although the declines have been more pronounced for assets that benefited the most from the search for yield, such as corporate debt. Financial conditions have therefore become tighter, particularly at the end of the year, and market liquidity difficulties have become more pronounced. As a result, major international organisations have continued to warn of the growing risks in financial markets in terms of financial stability.

Central banks have continued to take further steps in the normalisation of their monetary policies. The ECB, after reducing its rate of monthly asset purchases, ended its asset purchase programme at the end of the year, although it indicated that it would continue to reinvest assets maturing over a longer period of time. The ECB also indicated that its benchmark interest rates will remain unchanged until at least summer 2019. In the United Kingdom, the Bank of England raised its base rate to 0.75% in its August meeting, confirming the process of gradual and limited monetary normalisation that it had announced previously. Meanwhile, the Fed has continued with its gradual interest rate increases, against a backdrop of strong economic activity, inflation levels that are close to the target of its monetary policy and the normalisation of the labour market. The Fed funds rate ended the year at 2.25-2.50%, compared to 1.25-1.50% at the end of 2017. Lastly, the Bank of Japan has kept its benchmark interest rate at -0.10%, whilst at the same time gradually reducing its purchases of public debt. In July it introduced greater flexibility in its public debt purchases, allowing larger deviations from the target yield on 10-year bonds (from 0.00% to 0.20%).

Yields on long-term government bonds have performed differently in the US and in Germany. The yield on US government bonds ended the year above 2017 year-end levels. This evolution is due to factors such as the Fed's interest rate increases, the expansionary nature of the tax policy, the positive activity figures and the strong labour market. Yields were forced downwards in the final quarter of the year, affected by the poor performance of risky assets and the decline in crude oil prices. In the case of German government debt, yields declined from 2017 to very low levels. The political situation in Italy and the situation of financial markets at the end of the year have also been an influencing factor. The spread between the yield on both bonds reached the highest levels ever recorded in the history of the European Monetary Union.

Sovereign risk premiums in Spain and Portugal ended the year at similar levels to the previous year. Credit rating upgrades and the expansionary cycle of both economies have exerted downward pressure on the risk premiums. Conversely, trade tensions and significant political uncertainty in Italy have worked to push them up. In Italy, the political environment led to a sharp upturn in the risk premium, which reached maximum levels last seen in 2013. This has been despite its reduction in the final quarter of the year as a result of the country's greater commitment to fiscal rigour.

In terms of foreign currencies, the dollar appreciated against the euro, after falling at the beginning of the year to levels not seen since 2014. The dollar was supported by widening interest rate spreads, political noise in Italy and uncertainty surrounding Brexit, as well as greater levels of risk aversion in light of trade disputes. The pound sterling did not follow any clear trend in its currency pair with the euro, and has mostly remained in the range of 0.87-0.90. In addition to Brexit, the pound has proven to be sensitive to expectations regarding the Bank of England's base rate, as well as the instability of domestic politics. The yen ended the year at higher levels than at the end of the previous year in its quotation against the dollar. In the final quarter of the year, growing volatility and instability in financial markets have represented a supporting factor of the Japanese currency.

Equity has been negatively affected, not only by tightening global funding conditions, but also by the trade war, particularly in the sectors most exposed to the latter, such as the automotive industry and the technology sector. A number of international companies have lowered their corporate earnings forecasts as a result of these trade tensions. In the euro area, political instability in Italy and a sharp upturn in this country's risk premium have hindered the evolution of the banking sector. The IBEX 35 and the Italian MIB recorded the worst performance, together with the German DAX, which was affected given the size of its automotive industry.

Financial markets in emerging economies have been particularly sensitive to episodes of risk aversion related to Argentina and Turkey. In the case of Turkey, the pronounced devaluation of the Turkish lira and the sharp increase in the corporate risk premium which took place in August even impacted, albeit temporarily, the financial assets of developed countries. In addition to the foregoing, other factors that have hindered emerging markets include: (i) domestic political instability in certain economies, (ii) the shift in approach of central banks in developed economies and (iii) the protectionism promoted by Trump. In this context, the aggregate risk premium for emerging countries has reached its highest levels since early 2016. In the particular case of Mexico, the peso has been subjected to high volatility and downward pressures as a result of political uncertainty. In this context, and with inflation figures above the target set out in its monetary policy, the central bank has continued to raise its official interest rate.

2.2. Key financial and non-financial indicators

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

		2018	2017	Change (%) year-on-year
Income statement (million euro)	(A)			
Net interest income		3,675.2	3,802.4	(3.3)
Gross income		5,010.2	5,737.3	(12.7)
Pre-provisions income		1,736.8	2,612.1	(33.5)
Profit attributed to the Group		328.1	801.5	(59.1)
Balance sheet (million euro)	(B)			
Total assets		222,322	221,348	0.4
Gross performing loans		139,366	137,522	1.3
Gross lending loans to customers		146,420	147,325	(0.6)
On-balance sheet funds		161,678	159,095	1.6
Of which: on-balance sheet customer funds		*137,343*	*132,096*	*4.0*
Mutual funds		26,379	27,375	(3.6)
Pension funds and insurance products sold by the Group		14,059	13,951	0.8
Funds under management		205,711	204,420	0.6
Equity		12,117	13,222	(8.4)
Own funds		12,545	13,426	(6.6)
Profitability and efficiency (%)	(C)			
ROA		0.15	0.38	
RORWA		0.41	1.03	
ROE		2.60	6.10	
ROTE		3.18	7.27	
Cost-to-income		58.29	50.15	
Risk management	(D)			
Non-performing loans (thousand euro)		6,554	7,925	
Total non-performing assets (million euro)		8,279	15,318	
NPL ratio (%)		4.22	5.14	
NPL coverage ratio (covering risks classified as Stage 3 and excl. floor clauses)		54.1	45.7	
NPA coverage ratio (%) (excl. floor clauses)		52.1	49.8	
Capital management	(E)			
Risk-weighted assets (RWAs) (million euro)		80,279	77,505	
Phase-in Common Equity Tier 1 (%)	(1)	12.0	13.4	
Phase-in Tier 1 (%)	(2)	13.4	14.3	
Phase-in total capital ratio (%)	(3)	15.5	16.1	
Phase-in leverage ratio (%)		4.87	4.97	
Liquidity management	(F)			
Loan to deposit ratio (%)		101.6	104.3	
Shareholders and shares (as at reporting date)	(G)			
Number of shareholders		235,523	235,130	
Average number of shares (million)		5,565	5,570	
Share price (euro)		1.001	1.656	
Market capitalisation (million euro)		5,568	9,224	
Net attributed earnings per share (EPS) (euro)		0.05	0.14	
Book value per share (euro)		2.25	2.41	
Price/book value		0.45	0.69	
PER (share price / EPS)		20.11	11.85	
Other data				
Branches		2,457	2,473	
Employees		26,181	25,845	

(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 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 solvency in the last two years.
(F) The aim of this section is 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 indicators and ratios.

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

2.3. Financial review

Balance sheet and income statement

There have been certain one-off items in 2018 which have affected the results for the year, including: (1) extraordinary costs associated with TSB's IT migration, (2) costs related to TSB post-migration incidents and (3) institutional portfolio sales.

In 2017, the Group reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, and it also reached an agreement to sell shares representing 100% of the share capital of the subsidiary Sabadell United Bank, N.A. to the US entity Iberiabank Corporation. 2017 also saw the early call of the mortgage enhancement portfolio (a segmented portfolio of mortgage assets that was assigned to TSB to drive profits), which was returned to Lloyds having served its purpose, as the success of TSB's business model allowed it to terminate the deal one year earlier than agreed. These impacts have been excluded from 2017 figures to calculate changes in the income statement on a like-for-like basis.

Banco Sabadell and its group ended 2018 with net attributed profit of 328.1 million euros (568.0 million euros excluding TSB), due to the impact of the one-offs.

The positive performance of the ordinary business, together with the significant reduction of problematic assets, are the main factors behind Banco Sabadell's business performance in 2018.

Balance sheet

As at the end of 2018, total assets for Banco Sabadell and its group amounted to 222,322 million euros (176,140 million euros excluding TSB), compared with the 2017 year-end figures of 221,348 million euros (173,203 million euros excluding TSB).

Million euro

	2018	2017	Change (%) year-on-year
Cash, cash balances at central banks and other demand deposits	23,494	26,363	(10.9)
Financial assets held for trading	2,045	1,573	30.0
Non-trading financial assets mandatorily at fair value through profit or loss	141	40	257.5
Financial assets designated at fair value through profit or loss	-	-	--
Financial assets at fair value through other comprehensive income	13,247	13,181	0.5
Financial assets at amortised cost	164,416	160,724	2.3
Debt securities	13,132	11,747	11.8
Loans and advances	151,284	148,977	1.5
Investments in joint ventures and associates	575	576	(0.1)
Tangible assets	2,498	3,827	(34.7)
Intangible assets	2,461	2,246	9.6
Other assets	13,445	12,821	4.9
Total assets	**222,322**	**221,348**	**0.4**
Financial liabilities held for trading	1,738	1,431	21.5
Financial liabilities designated at fair value through profit or loss	-	40	(100.0)
Financial liabilities at amortised cost	206,077	204,045	1.0
Deposits	179,878	177,326	1.4
Central banks	28,799	27,848	3.4
Credit institutions	12,000	14,171	(15.3)
Customers	139,079	135,307	2.8
Debt securities issued	22,599	23,788	(5.0)
Other financial liabilities	3,601	2,932	22.8
Provisions	466	318	46.9
Other liabilities	1,924	2,293	(16.1)
Total liabilities	**210,205**	**208,127**	**1.0**
Own funds	12,545	13,426	(6.6)
Accumulated other comprehensive income	(491)	(265)	85.2
Minority interests (non-controlling interests)	64	61	3.9
Equity	**12,117**	**13,222**	**(8.4)**
Total equity and total liabilities	**222,322**	**221,348**	**0.4**
Financial guarantees given	2,041	1,983	2.9
Loan commitments given	22,646	20,906	8.3
Other commitments given	8,233	9,917	(17.0)
Total memorandum accounts	**32,920**	**32,806**	**0.3**

Gross performing loans amounted to 139,366 million euros as at 2018 year-end (105,732 million euros excluding TSB), representing a 1.3% growth year-on-year (3.5% excluding TSB). Mortgage-secured loans formed the largest single component of gross loans and receivables, amounting to 80,872 million euros as at 31 December 2018, representing over 58% of total gross performing loans.

Million euro

	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
Loans and credit secured with mortgages	80,872	84,267	(4.0)	49,833	52,259	(4.6)
Loans and credit secured with other collateral	2,767	2,315	19.5	2,766	2,315	19.5
Trade credit	6,186	5,802	6.6	6,186	5,802	6.6
Finance leases	2,565	2,316	10.7	2,565	2,316	10.7
On-demand loans and other	46,976	42,822	9.7	44,383	39,427	12.6
Gross performing loans	**139,366**	**137,522**	**1.3**	**105,732**	**102,119**	**3.5**
Non-performing loans (customers)	6,472	7,867	(17.7)	6,024	7,723	(22.0)
Accrual adjustments	(13)	(66)	(79.7)	(83)	(100)	(16.9)
Gross lending to customers excluding repos	**145,824**	**145,323**	**0.3**	**111,673**	**109,742**	**1.8**
Assets acquired under repurchase agreements	596	2,001	(70.2)	596	2,001	(70.2)
Gross lending loans to customers	**146,420**	**147,325**	**(0.6)**	**112,269**	**111,743**	**0.5**
Allowances for loan losses and country risk	(3,433)	(3,727)	(7.9)	(3,211)	(3,646)	(11.9)
Loans and advances to customers	**142,987**	**143,598**	**(0.4)**	**109,058**	**108,097**	**0.9**

The evolution of non-performing assets has shown improvement throughout 2018. Quarter-on-quarter changes in these assets excl. TSB (assets classified as Stage 3 plus foreclosed assets not covered by the Asset Protection Scheme) were as follows:

Million euro

	2018				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Ordinary net inflows	(58)	(243)	(14)	(699)	(261)	(541)	(203)	(339)
Change in real estate assets	23	(244)	(136)	(5,497)	(67)	(51)	(154)	(1,370)
Ordinary net inflows + properties	**(35)**	**(487)**	**(150)**	**(6,196)**	**(328)**	**(592)**	**(357)**	**(1,709)**
Write-offs	216	268	187	106	178	61	152	66
QoQ ordinary change in balance of NPLs and foreclosed assets	**(251)**	**(755)**	**(337)**	**(6,302)**	**(506)**	**(653)**	**(509)**	**(1,775)**

Net variance that considers the 20% exposure retained as it has not been transferred to the DGF as non-performing

The reduction in loans classified as Stage 3 was reflected in an NPL ratio of 4.22% as at the end of 2018, compared with 5.14% as at the end of 2017, representing a fall of -92 basis points. The NPL coverage ratio (covering risks classified as Stage 3) as at 31 December 2018 was 54.1%, compared with 48.3% one year earlier.

As at 2018 year-end, on-balance sheet customer funds amounted to 137,343 million euros (104,859 million euros excluding TSB), compared with 132,096 million euros as at the end of 2017 (97,686 million euros excluding TSB), representing a 4.0% growth (7.3% excluding TSB).

Total off-balance sheet customer funds amounted to 44,034 million euros, a -2.8% decrease year-on-year. Within this heading, particularly worthy of note was the decline in assets in UCITS, which as at 31 December 2018 stood at 26,379 million euros, a -3.6% decrease compared to 2017 year-end, offset by the growth in insurance products sold, which amounted to 10,465 million euros, representing a 5.0% increase compared to 2017 year-end.

Issued debt securities (borrowing operations and other marketable securities and subordinated liabilities) amounted to 22,599 million euros as at 2018 year-end (20,889 million euros excluding TSB), compared with 23,787 million euros (21,845 million euros excluding TSB) as at 31 December 2017.

Total funds under management as at 31 December 2018 amounted to 205,711 million euros (170,285 million euros excluding TSB), compared with 204,420 million euros as at 31 December 2017 (166,447 million euros excluding TSB), representing an increase during 2018 of 0.6% (2.3% excluding TSB).

Million euro

	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
On-balance sheet customer funds (*)	**137,343**	**132,096**	**4.0**	**104,859**	**97,686**	**7.3**
Customer deposits	139,079	135,307	2.8	105,353	99,277	6.1
Current and savings accounts	107,665	98,020	9.8	77,736	68,039	14.3
Deposits with agreed maturity	28,709	32,425	(11.5)	26,154	27,996	(6.6)
Assets sold under repurchase agreements	2,533	4,750	(46.7)	1,321	3,119	(57.7)
Accrual adjustments and derivatives hedging	172	113	52.3	142	123	15.7
Borrowing operations and other marketable securities	19,568	21,250	(7.9)	18,313	19,764	(7.3)
Subordinated liabilities (**)	3,031	2,537	19.4	2,586	2,081	24.3
On-balance sheet funds	**161,678**	**159,095**	**1.6**	**126,251**	**121,122**	**4.2**
Mutual funds	26,379	27,375	(3.6)	26,379	27,375	(3.6)
Equity investment funds	1,681	1,929	(12.9)	1,681	1,929	(12.9)
Mixed investment funds	6,469	6,490	(0.3)	6,469	6,490	(0.3)
Fixed income investment funds	4,027	4,488	(10.3)	4,027	4,488	(10.3)
Guaranteed investment funds	4,074	3,829	6.4	4,074	3,829	6.4
Real estate investment funds	115	125	(8.3)	115	125	(8.3)
Venture capital investment funds	46	38	21.1	46	38	21.1
Investment firms	1,886	2,192	(13.9)	1,886	2,192	(13.9)
UCITS sold but not managed	8,081	8,283	(2.4)	8,081	8,283	(2.4)
Assets under management	3,595	3,999	(10.1)	3,595	3,999	(10.1)
Pension funds	3,594	3,987	(9.8)	3,594	3,987	(9.8)
Private	2,168	2,476	(12.4)	2,168	2,476	(12.4)
Corporates	1,416	1,498	(5.5)	1,416	1,498	(5.5)
Funded by unions or other associations	11	13	(14.6)	11	13	(14.6)
Insurance products sold	10,465	9,965	5.0	10,465	9,965	5.0
Off-balance sheet funds	**44,034**	**45,325**	**(2.8)**	**44,034**	**45,325**	**(2.8)**
Funds under management	**205,711**	**204,420**	**0.6**	**170,285**	**166,447**	**2.3**

(*) Includes customer deposits (ex-repos) and other liabilities sold by the branch network: mandatory convertible bonds, Banco Sabadell straight bonds, commercial paper and others.

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

Income statement

Million euro

	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
Interest and similar income	4,861.9	4,839.6	0.5	3,652.7	3,605.9	1.3
Interest and similar charges	(1,186.8)	(1,037.3)	14.4	(977.3)	(837.1)	16.7
Net interest income	**3,675.2**	**3,802.4**	**(3.3)**	**2,675.5**	**2,768.8**	**(3.4)**
Return on capital instruments	8.2	7.3	12.8	8.0	7.1	13.8
Income and expense of entities accounted for using the equity method	56.6	308.7	(81.7)	56.6	308.7	(81.7)
Net fees and commissions	1,335.3	1,223.4	9.1	1,250.1	1,127.8	10.8
Gains or (-) losses on financial assets and liabilities, net	226.7	614.1	(63.1)	209.3	504.5	(58.5)
Exchange differences (net)	(1.3)	8.4	--	(1.6)	8.4	--
Other operating income and expenses	(290.4)	(227.0)	27.9	(230.1)	(211.3)	8.9
Gross income	**5,010.2**	**5,737.3**	**(12.7)**	**3,967.7**	**4,514.0**	**(12.1)**
Staff expenses	(1,590.6)	(1,573.6)	1.1	(1,208.3)	(1,178.9)	2.5
Recurring	(1,529.6)	(1,546.9)	(1.1)	(1,168.1)	(1,163.0)	0.4
Non-recurring	(61.0)	(26.6)	129.2	(40.2)	(15.8)	154.1
Other general administrative expenses	(1,329.8)	(1,149.4)	15.7	(652.6)	(614.8)	6.1
Recurring	(1,099.3)	(1,116.7)	(1.6)	(652.6)	(614.8)	6.1
Non-recurring	(230.5)	(32.7)	--	-	-	--
Depreciation	(353.1)	(402.2)	(12.2)	(264.5)	(329.6)	(19.7)
Pre-provisions income	**1,736.8**	**2,612.1**	**(33.5)**	**1,842.3**	**2,390.8**	**(22.9)**
Provisions for loan losses and other impairments	(916.8)	(1,225.2)	(25.2)	(685.8)	(1,136.4)	(39.7)
Other provisions and impairments	(403.6)	(971.1)	(58.4)	(403.6)	(971.1)	(58.4)
Capital gains on asset sales and other revenue	2.5	432.6	(99.4)	1.2	425.9	(99.7)
Negative goodwill	-	-	--	-	-	--
Profit or loss before tax	**418.9**	**848.3**	**(50.6)**	**754.1**	**709.1**	**6.3**
Corporation tax	(83.6)	(43.1)	94.2	(179.0)	5.8	--
Consolidated profit or loss for the year	**335.2**	**805.2**	**(58.4)**	**575.2**	**714.9**	**(19.5)**
Profit or loss attributed to minority interests	7.1	3.7	92.0	7.1	3.7	92.0
Profit attributed to the Group	**328.1**	**801.5**	**(59.1)**	**568.0**	**711.2**	**(20.1)**
Memorandum item:						
Average total assets	217,168	214,356	1.3	170,502	168,418	1.2
Earnings per share (euro)	0.05	0.14		0.09	0.12	

Net interest income in 2018 totalled 3,675.2 million euros, -3.3% below the net interest income obtained in the preceding year, which included Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, Sabadell United Bank, N.A. and the mortgage enhancement portfolio. 2018 was also affected by TSB's remediation activities. Excluding TSB, net interest income amounted to 2,675.5 million euros as at 2018 year-end, a -3.4% decrease compared with the previous year. On a like-for-like basis, and excluding TSB's remediation activities, net interest income increased year-on-year by 1.5% (1.1% excluding TSB).

The net interest margin as a percentage of average total assets declined due to the reduction in the customer spread following TSB's remediation activities, the lower returns on the fixed-income portfolio due to asset rotations and an enhanced liquidity position. Consequently, the net interest margin as a percentage of average total assets stood at 1.69% in 2018 (1.77% in 2017).

Thousand euro

	2018			2017			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	28,583,832	23,299	0.08	18,512,411	2,925	0.02	10,071,421	20,374	22,012	(1,638)	-
Lending to customers	135,903,483	4,016,686	2.96	136,937,930	4,102,112	3.00	(1,034,447)	(85,426)	(70,169)	(15,257)	-
Fixed-income portfolio	25,950,163	352,466	1.36	28,809,194	494,316	1.72	(2,859,031)	(141,850)	(98,278)	(43,572)	-
Subtotal	**190,437,478**	**4,392,451**	**2.31**	**184,259,535**	**4,599,353**	**2.50**	**6,177,943**	**(206,902)**	**(146,435)**	**(60,467)**	**-**
Equity portfolio	933,848	-	-	1,079,233	-	-	(145,385)	-	-	-	-
Tangible and intangible assets	4,084,833	-	-	4,268,271	-	-	(183,438)	-	-	-	-
Other assets	21,712,189	274,307	1.26	24,749,190	88,612	0.36	(3,037,001)	185,695	-	185,695	-
Total lending	**217,168,348**	**4,666,758**	**2.15**	**214,356,229**	**4,687,965**	**2.18**	**2,812,119**	**(21,207)**	**(146,435)**	**125,228**	**-**
Credit institutions	32,033,556	(35,690)	(0.11)	28,553,497	(29,558)	(0.10)	3,480,059	(6,132)	(39,265)	33,133	-
Customer deposits	141,060,307	(309,436)	(0.22)	138,258,332	(266,315)	(0.19)	2,801,975	(43,121)	(52,330)	9,209	-
Capital markets	24,614,108	(323,015)	(1.31)	26,020,323	(386,885)	(1.49)	(1,406,215)	63,870	50,044	13,826	-
Subtotal	**197,707,971**	**(668,141)**	**(0.34)**	**192,832,152**	**(682,758)**	**(0.35)**	**4,875,819**	**14,617**	**(41,551)**	**56,168**	**-**
Other liabilities	7,134,507	(323,433)	(4.53)	8,438,119	(202,837)	(2.40)	(1,303,612)	(120,596)	-	(120,596)	-
Own funds	12,325,870	-	-	13,085,958	-	-	(760,088)	-	-	-	-
Total funds	**217,168,348**	**(991,574)**	**(0.46)**	**214,356,229**	**(885,595)**	**(0.41)**	**2,812,119**	**(105,979)**	**(41,551)**	**(64,428)**	**-**
Total ATAs	**217,168,348**	**3,675,184**	**1.69**	**214,356,229**	**3,802,370**	**1.77**	**2,812,119**	**(127,186)**	**(187,986)**	**60,800**	**-**

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 amounted to 64.7 million euros, compared to 315.9 million euros in 2017, which include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe. These revenues are due mainly to income from the insurance and pension fund business.

Income from net fees and commissions amounted to 1,335.3 million euros (1,250.1 million euros excluding TSB), increasing by 9.1% year-on-year (10.8% excluding TSB). On a like-for-like basis and excluding the impact of TSB's overdraft fee waivers, fees and commissions income grew by 10.1% (11.3% excluding TSB) year-on-year. This growth was the consequence of the good performance of both service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 225.4 million euros (207.7 million euros excluding TSB), including the impairment of SAREB subordinated debt in the second quarter. In 2017, gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 622.5 million euros (512.9 million euros excluding TSB) and included the early call of TSB's Mortgage Enhancement portfolio, as well as sales of fixed-income portfolios.

Other operating income and expenses amounted to -290.4 million euros (-230.1 million euros excluding TSB), compared with -227.0 million euros (-211.3 million euros excluding TSB) in 2017. Particularly worthy of note in this heading are the contributions to the Deposit Guarantee Fund of -106.3 million euros (-98.3 million euros in the previous year), fraud losses in TSB amounting to -55.8 million euros, the contribution to the Single Resolution Fund of -49.7 million euros (-50.6 million euros in the previous year), the capital contributions associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority of -45.0 million euros (-54.7 million euros in the previous year) and the payment of the Tax on Deposits of Credit Institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, or IDEC) of -30.7 million euros (-28.1 million euros in the previous year).

Operating expenses (staff and general) during 2018 amounted to -2,920.4 million euros (-1,860.9 million euros excluding TSB), of which -291.5 million euros are attributable to non-recurrent items (-40.2 million euros excluding TSB). During 2017, operating expenses amounted to -2,723.0 million euros (-1,793.6 million euros excluding TSB), and included -59.3 million euros in non-recurrent items (-15.8 million euros excluding TSB). This year-on-year increase mainly corresponds to the extraordinary migration and post-migration costs in TSB.

The cost-to-income ratio in 2018 stood at 58.29% (46.90% excluding TSB), compared with 50.15% (42.10% excluding TSB) in 2017. This increase is due to the extraordinary costs incurred in TSB in 2018.

As a result of the foregoing, pre-provisions income as at 2018 year-end amounted to 1,736.8 million euros (1,842.3 million euros excluding TSB), compared with 2,612.1 million euros in 2017 (2,390.8 million euros excluding TSB), representing a decline of -33.5% (-22.9% excluding TSB), mainly due to extraordinary gains or (-) losses on financial assets and liabilities, net and the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe in the preceding year, as well as the extraordinary impacts related to TSB's migration and post-migration incurred during 2018.

Total provisions and impairments amounted to -1,320.4 million euros (-1,089.4 million euros excluding TSB), compared with -2,196.4 million euros in 2017 (-2,107.6 million euros excluding TSB). It should be noted that this year includes the provision for customer remedies in TSB and the allowance for institutional portfolio sales.

Gains on asset sales amounted to 2.5 million euros, compared to 432.6 million euros in the preceding year, as they 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).

After deducting corporation tax and minority interests, net profit attributed to the Group amounted to 328.1 million euros as at the end of 2018, representing a -59.1% decrease compared with the previous year due to extraordinary impacts. Excluding TSB, net profit attributed to the Group amounted to 568.0 million euros as at 2018 year-end, a -20.1% decrease compared 2017 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 38 to these consolidated annual financial statements.

Banking Business Spain

Net profit as at the end of 2018 amounted to 955 million euros, representing a year-on-year decline of -39%, due to the smaller contribution of gains or (-) losses on financial assets and liabilities, net compared to the previous year. Excluding Mediterráneo Vida in the previous year and the capital gains generated on the sales of Sabadell United Bank and Mediterráneo Vida, the decline is 19.5%.

Net interest income amounted to 2,445 million euros, a -3.3% decrease compared to 2017 year-end. Excluding Mediterráneo Vida, net interest income declined by -2.0%.

Net fees and commissions income amounted to 1,202 million euros, 11.7% higher than in the previous year, driven by the positive performance of service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 193 million euros, representing a decline due to lower gains or (-) losses on financial assets and liabilities, net and the SAREB impairment in the year.

Administrative and depreciation expenses amounted to -1,791 million euros, 2.0% higher than in the same period in the previous year, mainly explained by the increase in expenses associated with the transformation and digitalisation of the business and by new regulatory developments.

Provisions and impairments amounted to -543 million euros, significantly less than in the previous year.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**2,445**	**2,528**	**(3.3)**
Profit or loss on entities valued using the equity method and on dividends	62	313	(80.2)
Net fees and commissions	1,202	1,076	11.7
Gains or (-) losses on financial assets and liabilities, net and exchange differences	193	541	(64.4)
Other operating income/expenses	(359)	(332)	8.0
Gross income	**3,543**	**4,126**	**(14.1)**
Administrative and depreciation expenses	(1,791)	(1,756)	2.0
Operating income	**1,752**	**2,370**	**(26.1)**
Provisions and impairments	(543)	(867)	(37.4)
Gains or losses on asset derecognition and others	1	384	(99.7)
Profit or loss before tax	**1,211**	**1,887**	**(35.8)**
Corporation tax	(253)	(321)	(21.1)
Profit or loss after tax	**957**	**1,566**	**(38.9)**
Profit or loss attributed to minority interests	2	-	-
Profit or loss attributed to the Group	**955**	**1,566**	**(39.0)**
ROE (earnings divided by average equity)	10.9%	17.8%	
Cost-to-income (administrative expenses divided by gross income)	44.4%	39.1%	
NPL ratio	5.2%	5.7%	
NPL coverage ratio (covering risks classified as Stage 3)	52.1%	45.6%	

Loans and advances to customers (excluding ATAs) amounted to 96,234 million euros, representing a 3.0% growth year-on-year.

On-balance sheet customer funds increased by 6.2% year-on-year, with a significant growth in sight accounts. Off-balance sheet funds fell by -2.9%, due to the decline in mutual funds and pension plans.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**146,411**	**142,521**	**2.7**
Customer lending (net) excluding repos	96,234	93,394	3.0
Liabilities	**138,029**	**133,370**	**3.5**
On-balance sheet customer funds	98,296	92,558	6.2
Wholesale Funding Capital Markets	19,833	20,168	(1.7)
Allocated capital	**8,382**	**9,151**	**(8.4)**
Off-balance sheet customer funds	**42,976**	**44,265**	**(2.9)**
Other indicators			
Employees	15,847	15,775	0.5
Branches	1,865	1,880	(0.8)

Within the banking business in Spain, the most significant businesses should be noted, on which information is shown regarding changes in income 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, individuals (including private banking, personal banking and mass markets), non-residents and professional groups, with a degree of specialisation that enables 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 2018 amounted to 866 million euros, representing a -4.0% decrease year-on-year. Excluding the sales of Mediterráneo Vida and Exel Broker, and excluding the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe, the increase would be 34.7%.

Gross income, standing at 3,054 million euros, declined by -5.3% and excluding the effects mentioned above, gross income increased by 3.1%.

Core revenue of 3,166 million euros increased by 0.7%, and by 1.8% on a like-for-like basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income stood at 2,227 million euros, a -3.1% decline compared to 2017 year-end. On a like-for-like basis, this item decreased by -1.7%.

Results on the equity method and dividends in 2017 include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Net fees and commissions stood at 939 million euros, 11.3% higher than in the previous year due to the positive performance of service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences in 2017 include the impacts of the sales of bad debt portfolios.

Administrative and depreciation expenses amounted to 1,473 million euros, and remained in line with the same period in the previous year.

Provisions and impairments amounted to -389 million euros, less than in the previous year due to the extraordinary provisions allocated this year.

The gains and losses on derecognised assets and others heading in 2017 includes the capital gains on the sales of of Mediterráneo Vida and Exel Broker.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**2,227**	**2,299**	**(3.1)**
Profit or loss on entities valued using the equity method and on dividends	44	304	(85.5)
Net fees and commissions	939	844	11.3
Gains or (-) losses on financial assets and liabilities, net and exchange differences	6	(37)	(116.2)
Other operating income/expenses	(162)	(185)	(12.4)
Gross income	**3,054**	**3,225**	**(5.3)**
Administrative and depreciation expenses	(1,473)	(1,468)	0.3
Operating income	**1,581**	**1,757**	**(10.0)**
Provisions and impairments	(389)	(632)	(38.4)
Gains or losses on asset derecognition and others	-	22	-
Profit or loss before tax	**1,192**	**1,147**	**3.9**
Corporation tax	(326)	(245)	33.1
Profit or loss after tax	**866**	**902**	**(4.0)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**866**	**902**	**(4.0)**
ROE (earnings divided by average equity)	17.1%	19.2%	
Cost-to-income (administrative expenses divided by gross income)	47.4%	45.0%	
NPL ratio	5.5%	6.4%	
NPL coverage ratio (covering risks classified as Stage 3)	48.4%	40.5%	

Net lending increased by 6.5%, on-balance sheet funds grew by 5.7% and off-balance sheet funds increased by 1.8%, mainly due to the increase in mutual funds.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**170,249**	**162,618**	**4.7**
Customer lending (net) excluding repos	81,319	76,346	6.5
Liabilities	**165,355**	**157,994**	**4.7**
On-balance sheet customer funds	86,822	82,172	5.7
Allocated capital	**4,894**	**4,624**	**5.8**
Off-balance sheet customer funds	**24,223**	**23,797**	**1.8**
Other indicators			
Employees	11,336	11,427	-
Branches	1,852	1,868	-

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large corporations and financial institutions, both national and international. Its activities includes corporate banking, structured finance, and trade finance & IFI.

Net profit as at December 2018 amounted to 84 million euros, representing a -32.3% decrease year-on-year. Gross income, which stood at 240 million euros, recorded a decrease of -14%. Core revenue, which stood at 254 million euros, recorded a decrease of -11.2%.

Net interest income, which stood at 145 million euros, declined year-on-year by -15.7%.

Net fees and commissions income amounted to 109 million euros, -4.4% less than in the previous year.

Gains or (-) losses on financial assets and liabilities, net and exchange differences declined, as extraordinary gains/(losses) on sales of loan portfolios were recognised in 2018.

Administrative and depreciation expenses amounted to 41 million euros, increasing by 24.2% compared to the same period in the previous year.

Provisions and impairments amounted to 79 million euros, representing an increase of 14.5%.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**145**	**172**	**(15.7)**
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	109	114	(4.4)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	(8)	3	(366.7)
Other operating income/expenses	(6)	(10)	(40.0)
Gross income	**240**	**279**	**(14.0)**
Administrative and depreciation expenses	(41)	(33)	24.2
Operating income	**199**	**246**	**(19.1)**
Provisions and impairments	(79)	(69)	14.5
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**120**	**177**	**(32.2)**
Corporation tax	(36)	(53)	(32.1)
Profit or loss after tax	**84**	**124**	**(32.3)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**84**	**124**	**(32.3)**
ROE (earnings divided by average equity)	10.9%	14.0%	
Cost-to-income (administrative expenses divided by gross income)	17.2%	12.0%	
NPL ratio	4.1%	4.7%	
NPL coverage ratio (covering risks classified as Stage 3)	91.2%	94.0%	

Net lending declined by 7.5%, and on-balance sheet funds increased by 15.7% due to sight accounts and fixed-term deposits, while off-balance sheet funds decreased by 8.7%, mainly due to workplace pension plans.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**11,020**	**11,958**	**(7.8)**
Customer lending (net) excluding repos	6,981	7,548	(7.5)
Liabilities	**10,289**	**11,239**	**(8.5)**
On-balance sheet customer funds	3,306	2,857	15.7
Allocated capital	**732**	**720**	**1.7**
Off-balance sheet customer funds	**472**	**517**	**(8.7)**
Other indicators			
Employees	155	140	-
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 good rate of return for customers, increasing and diversifying the customer base and ensuring the consistency of investment processes through an in-depth analysis and with good-quality management, while taking the customer relationship model towards a multichannel level.

Net profit as at December 2018 amounted to 98 million euros, representing a 2.1% increase year-on-year. Gross income, standing at 257 million euros, increased by 4.9% and core revenue, standing at 269 million euros, increased by 9.3%.

Net interest income amounted to 74 million euros, and increased year-on-year by 27.6%, due to the good results obtained in Treasury and Capital Markets.

Net fees and commissions income amounted to 195 million euros, 3.7% higher than in the previous year due to higher fees and commissions on mutual funds and securities.

Administrative and depreciation expenses amounted to 113 million euros, increasing by 7.6%.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**74**	**58**	**27.6**
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	195	188	3.7
Gains or (-) losses on financial assets and liabilities, net and exchange differences	4	1	300.0
Other operating income/expenses	(16)	(2)	700.0
Gross income	**257**	**245**	**4.9**
Administrative and depreciation expenses	(113)	(105)	7.6
Operating income	**144**	**140**	**2.9**
Provisions and impairments	(1)	(3)	-
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**143**	**137**	**4.4**
Corporation tax	(45)	(41)	9.8
Profit or loss after tax	**98**	**96**	**2.1**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**98**	**96**	**2.1**
ROE (earnings divided by average equity)	55.6%	31.6%	
Cost-to-income (administrative expenses divided by gross income)	43.5%	42.5%	
NPL ratio	0.1%	0.5%	
NPL coverage ratio (covering risks classified as Stage 3)	435.8%	71.0%	

Net lending increased by 31.4%, concentrated in private banking customers jointly managed by commercial banking and private banking (hereinafter, jointly managed customers), while on-balance sheet customer funds grew by 30.2% and earnings on off-balance sheet funds declined by -5.2%, mainly due to the increase in Investment Funds.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**11,523**	**8,858**	**30.1**
Customer lending (net) excluding repos	2,859	2,175	31.4
Liabilities	**11,347**	**8,578**	**32.3**
On-balance sheet customer funds	8,293	6,367	30.2
Allocated capital	**176**	**280**	**(37.1)**
Off-balance sheet customer funds	**16,324**	**17,213**	**(5.2)**
Other indicators			
Employees	504	531	-
Branches	10	10	-

Banking Business United Kingdom

Net profit in December 2018 amounted to -240 million euros, mainly due to -460 million euros in migration and post-migration extraordinary costs.

Net interest income amounted to 1,000 million euros, declining by -3.3% year-on-year, impacted by TSB's post-migration remediation activities.

Net fees and commissions income fell by -10.9% year-on-year, mainly due to lower service commissions and remediation activities in TSB post-migration.

Gains or (-) losses on financial assets and liabilities, net includes results of fixed-income sales.

Administrative and depreciation expenses increased by 14.6% year-on-year to -1,148 million euros, including -195 million euros in non-recurrent costs related to migration and post-migration.

Provisions and impairments amounted to -231 million euros and include a provision of -142.1 million euros for the total estimated amount of customer redress, including extraordinary costs of the process for managing complaints associated with the migration.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**1,000**	**1,034**	**(3.3)**
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	85	96	(10.9)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	18	110	(83.8)
Other operating income/expenses	(60)	(16)	283.2
Gross income	**1,042**	**1,223**	**(14.8)**
Administrative and depreciation expenses	(1,148)	(1,002)	14.6
Operating income	**(106)**	**221**	**(147.8)**
Provisions and impairments	(231)	(89)	-
Gains or losses on asset derecognition and others	1	7	-
Profit or loss before tax	**(335)**	**139**	**(341.5)**
Corporation tax	95	(49)	(295.2)
Profit or loss after tax	**(240)**	**90**	**(366.5)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**(240)**	**90**	**(366.5)**
ROE (earnings divided by average equity)	-	5.8%	
Cost-to-income (administrative expenses divided by gross income)	101.6%	79.5%	
NPL ratio	1.3%	0.4%	
NPL coverage ratio (covering risks classified as Stage 3)	50.4%	55.9%	

Loans and advances to customers (excluding ATAs) amounted to 33,929 million euros, declining year-on-year by -4.4%. Considering a constant exchange rate, this item declined by -2.7% compared with the previous year.

On-balance sheet customer funds amounted to 32,484 million euros, declining by -5.6% year-on-year (-4.7% considering a constant exchange rate). In the year, they mainly declined due to the maturity of fixed rate cash ISAs (FRISA) while personal current accounts (PCAs) increased.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**46,182**	**48,145**	**(4.1)**
Customer lending (net) excluding repos	33,929	35,501	(4.4)
Liabilities	**44,596**	**46,597**	**(4.3)**
On-balance sheet customer funds	32,484	34,410	(5.6)
Wholesale Funding Capital Markets	1,688	1,920	(12.1)
Allocated capital	**1,586**	**1,548**	**-**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	8,353	8,287	0.8
Branches	550	551	(0.2)

<u>TSB Migration Project</u>

On 23 April 2018, TSB migrated to its new IT platform. Although the customer data transfer went according to plan, and the account management functionality, operating processes and processes to generate information on the new platform all began operating correctly, immediately after the migration some customers experienced problems in accessing digital channels, delays on the telephone helpline and slower transaction processing. The high repercussion of this situation saw an increase in fraud attempts against TSB customers.

Following this, the bank immediately focused on resolving the service issues that were affecting customers and on identifying their causes. Initial analyses indicated that the platform design was robust and that the majority of errors had arisen when deploying the platform in the technology infrastructure. The institution launched a remediation programme, supervised by its Audit Committee. Under the framework of this plan, TSB's Audit Committee has been notified of the pre and post-migration situation in relation to the financial reporting processes and the control framework, concluding that the financial reporting control framework provides guarantees as to its effectiveness both before and after the migration of TSB's platform. The Group's three lines of defence are involved in monitoring the situation of TSB's financial reporting control framework, and the Audit Committee is informed of any relevant aspects.

TSB's Board of Directors also requested an independent investigation to be launched, which is being carried out by Slaughter and May. The investigation is currently ongoing and Slaughter and May will issue their report as soon as possible. UK regulators are also conducting their own investigation.

Furthermore, TSB has undertaken a firm commitment to ensure that each customer affected is adequately compensated. To this end, a team has been set up dedicated specifically to resolving customer complaints, which has involved significant efforts in hiring and relocating staff. TSB intends to compensate all customers who experienced any financial losses, also taking into account situations in which customers were inconvenienced in any way by the events. This process is being carried out with a view to combining the speedy processing of complaints received with the need to ensure that each complaint is analysed and dealt with in line with regulatory requirements.

At present, all major IT issues have been resolved, and the number of incidents has declined significantly to business-as-usual levels in the sector. Customers are therefore starting to see the benefits of the new technology that has been implemented, which provides an integrated platform that can be accessed faster by both employees and customers and which enables products to be acquired more quickly. Mortgage applications can be submitted in half the time compared with the old system, and the platform allows information to be attached in real time. At the end of 2018, TSB began its first post-migration launch of new products in the online channel and the number of calls received from customers in relation to the operation of the mobile app has fallen significantly, as it is now easier to use. Customers can also now open current accounts in TSB branches in half the time compared to before migration.

Other geographies

Net profit as at December 2018 amounted to 91 million euros, representing a 2.3% increase year-on-year. Excluding Sabadell United Bank, net profit increased by 47.9%.

Net interest income stood at 259 million euros, declining by -11.6% year-on-year. Excluding Sabadell United Bank, this item has grown by 26.1%, mainly due to growth in Mexico and foreign branches in EMEA (Paris, London and Casablanca).

Net fees and commissions income during the year declined by -6.6% year-on-year, mainly as Sabadell United Bank is no longer making any contributions. Excluding SUB, net fees and commissions income grew by 3.3%.

Gross income amounted to 328 million euros, declining by -8.4% year-on-year. Excluding Sabadell United Bank, gross income grew by 24.5% due to the positive performance of Mexico, Miami and foreign branches in EMEA.

Administrative and depreciation expenses declined by -4.9% year-on-year. Excluding the sale of Sabadell United Bank, they increased by 21.4%, due to expenses associated with expansion in Mexico.

Provisions and impairments increased in relation to the previous year due to provisions associated with the increased investment in Mexico and Miami, and due to higher levels of provisions, mainly associated with one-offs.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**259**	**293**	**(11.6)**
Profit or loss on entities valued using the equity method and on dividends	3	3	(17.6)
Net fees and commissions	47	50	(6.6)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	10	9	8.7
Other operating income/expenses	10	3	-
Gross income	**328**	**358**	**(8.4)**
Administrative and depreciation expenses	(195)	(205)	(4.9)
Operating income	**133**	**153**	**(13.0)**
Provisions and impairments	(27)	(24)	9.4
Gains or losses on asset derecognition and others	-	1	-
Profit or loss before tax	**107**	**130**	**(17.9)**
Corporation tax	(11)	(37)	(70.4)
Profit or loss after tax	**96**	**92**	**3.3**
Profit or loss attributed to minority interests	5	4	-
Profit or loss attributed to the Group	**91**	**88**	**2.3**
ROE (earnings divided by average equity)	9.0%	8.8%	
Cost-to-income (administrative expenses divided by gross income)	56.0%	54.5%	
NPL ratio	0.3%	0.9%	
NPL coverage ratio (covering risks classified as Stage 3)	292.9%	113.0%	

Net lending amounted to 10,896 million euros, 23.3% higher than in the preceding year, mainly due to the growth of the business in Mexico and Miami.

On-balance sheet customer funds amounted to 6,328 million euros and increased by 26.0% year-on-year. Off-balance sheet funds amounted to 1,023 million euros and remained in line with the previous year.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**17,822**	**15,298**	**16.5**
Customer lending (net) excluding repos	10,896	8,836	23.3
Real estate exposure (net)	-	23	(100.0)
Liabilities	**16,789**	**14,431**	**16.3**
On-balance sheet customer funds	6,328	5,024	26.0
Allocated capital	**1,033**	**866**	**19.2**
Off-balance sheet customer funds	**1,023**	**1,033**	**(1.0)**
Other indicators			
Employees	908	765	18.7
Branches	42	42	-

Real Estate Asset Transformation

Net profit as at December 2018 amounted to -478 million euros, increasing by 49.4% year-on-year, mainly due to the reduction of provisions and the positive results on real estate sales.

Gains or (-) losses on financial assets and liabilities, net includes sales of real estate companies.

Gross income amounted to 97 million euros, a far higher figure than in the previous year.

Administrative and depreciation expenses declined by -14.1% year-on-year to -140 million euros.

Provisions and impairments amounted to -520 million euros, 57.2% less than in the previous year due to the extraordinary provisions allocated in 2017. In the year, they include -177.1 million euros in provisions for institutional portfolio sales.

Results on sales amounted to 95.6 million euros as at December 2018.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	**(28)**	**(52)**	**(45.4)**
Profit or loss on entities valued using the equity method and on dividends	-	(1)	(100.0)
Net fees and commissions	1	2	(30.4)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	5	(37)	-
Other operating income/expenses	119	118	0.7
Gross income	**97**	**30**	**220.9**
Administrative and depreciation expenses	(140)	(163)	(14.1)
Operating income	**(43)**	**(133)**	**(67.5)**
Provisions and impairments	(520)	(1,216)	(57.2)
Profit or loss on sales	*96*	*(14)*	-
Gains or losses on asset derecognition and others	-	41	(100.0)
Profit or loss before tax	**(563)**	**(1,307)**	**(56.9)**
Corporation tax	85	364	(76.5)
Profit or loss after tax	**(478)**	**(943)**	**(49.4)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**(478)**	**(943)**	**(49.4)**
ROE (earnings divided by average equity)	-	-	
Cost-to-income (administrative expenses divided by gross income)	-	-	
NPL ratio	33.5%	32.2%	
NPL coverage ratio (covering risks classified as Stage 3)	83.4%	49.9%	

The good management of real estate assets continues, net lending declined by -65.5% year-on-year and net real estate exposures declined by -71.6%, due to the reclassification of institutional portfolios as non-current assets held for sale.

Intra-group funding amounted to 10,281 million euros, -18.6% less than in the previous year.

Million euro

	2018	2017	Change (%) year-on-year
Assets	**11,907**	**15,384**	**(22.6)**
Customer lending (net) excluding repos	1,332	3,865	(65.5)
Real estate exposure (net)	959	3,372	(71.6)
Liabilities	**10,791**	**13,728**	**(21.4)**
On-balance sheet customer funds	235	104	126.8
Intragroup financing	10,315	12,627	(18.3)
Allocated capital	**1,116**	**1,656**	**(32.6)**
Off-balance sheet customer funds	**35**	**27**	**32.0**
Other indicators			
Employees	1,073	1,018	5.4
Branches	-	-	-

3 –LIQUIDITY AND CAPITAL RESOURCES

3.1 Liquidity

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

- The institution has continued to generate a liquidity gap in its commercial business, reducing total funding in wholesale markets. The Loan to Deposit (LtD) ratio of the Group at the end of December 2018 stood at 101.6%.

- The institution has made the most of its issuance windows in a market whose evolution in 2018 has been determined by volatility and widening spreads. 2,165 million euros in capital market funding matured in the year. Banco Sabadell carried out public issues under the Fixed-Income Scheme in force amounting to a total of 436 million euros. Specifically, it carried out one issue of eight-year covered bonds in December of 390 million euros, which was fully subscribed by the European Investment Bank (EIB), 6 issues of preferred senior debt maturing between five and seven years and amounting to a total of 23 million euros and two issues of structured bonds, also amounting to 23 million euros. Under the EMTN Programme, on 7 September 2018 Banco Sabadell carried out one 5.5-year issue of preferred senior debt of 750 million euros, and on 12 December it carried out one subordinated Tier 2 issue of 500 million euros, maturing after 10 years, with an early call option in favour of Banco Sabadell in the fifth year.

- Banco Sabadell sold a total of 455 million euros from tranche A of the asset securitisation IM Sabadell PYME 11 to the EIB for the funding of two new lines.

- The positive trend in terms of rating upgrades has continued in 2018. On 19 September 2018 S&P Global Ratings affirmed Banco Sabadell’s long-term credit rating of BBB, after raising it to BBB from BBB- on 6 April. In the same vein, both Moody’s and DBRS confirmed the long-term rating of Baa2 and BBB (high) respectively, raising the outlook to positive from stable in April and July 2018. Furthermore, with the bank’s rating upgrade, the rating of its covered bonds has also improved. Specifically, in April, Moody’s upgraded the rating to Aa1 from Aa2 and DBRS raised its rating to AAA from AA in July 2018.

- The institution has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs.

- In terms of the LCR, as of 1 January 2018 the regulatory minimum LCR requirement is 100%. All of the institution’s Liquidity Management Units (UGLs, for their acronym in Spanish) have comfortably surpassed this minimum. At Group level, the institution’s LCR has consistently been substantially above 100% throughout the year. As at December 2018, the LCR stood at 168% for the Group (excl. TSB) and at 298% in TSB. As regards the Net Stable Funding Ratio (NSFR), which is still pending its final definition, the institution has continued to maintain stable levels above 100%.

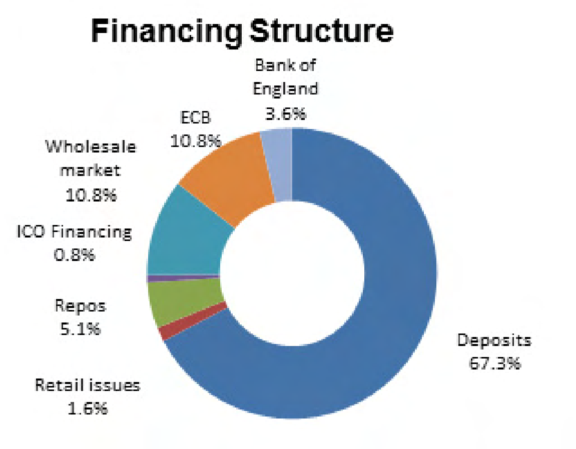
Key figures and basic liquidity ratios as at year-end were as follows:

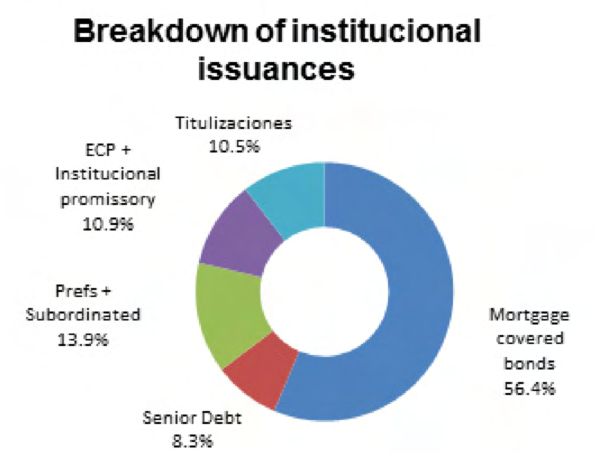
Million euro

	2018	2017	Ex TSB 2018	Ex TSB 2017
Gross lending to customers excluding repos	145,824	145,323	111,673	109,742
Allowances for loan losses and country risk	(3,433)	(3,727)	(3,211)	(3,646)
Brokered loans	(2,808)	(3,835)	(2,426)	(3,110)
Adjusted net loans	**139,583**	**137,761**	**106,036**	**102,986**
On-balance sheet customer funds	137,343	132,096	104,859	97,686
Adjusted loan to deposit ratio (%)	**101.6**	**104.3**	**101.1**	**105.4**

The EUR/GBP exchange rate used for the balance sheet is 0.8945 at 31/12/18 and 0.8872 at 31/12/17.

The main sources of funding as at the end of 2018 are shown below 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 financial statements.

3.2. Capital resources

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

The main figures related to capital management are shown below:

Percentage / million euro	2018	2017
CET1	12.0	13.4
Tier 1	13.4	14.3
Tier 2	2.1	1.7
BIS ratio	15.5	16.1
Capital base	12,434	12,459
Minimum capital requirements	6,422	6,258
Risk weighted assets	80,279	77,505

Note 5 of the annual report explains the main changes compared with the previous year in terms of regulations, the 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 institution's growth. In the past few years, the bank has increased its capital base through issues classed as core tier one capital, as shown in the table below:

Million euro		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 bp of core tier I
February 2012	Preference share swap for ordinary shares	785	+131 bp of core tier I
March 2012	Capital increase	903	+161 bp of core tier I
July 2012	Swap of Banco CAM preferred debt instruments and subordinated debt instruments for shares	1,404	+186 bp of core tier I
September 2013	Accelerated bookbuilding and capital increase with rights	1,383	+178 bp of core tier I
October 2013	Issue of Mandatory Convertible Subordinated Bonds for B. Gallego hybrid swap	122	+17 bp of core tier I
April 2015	Capital increase with pre-emptive subscription rights – TSB	1,607	+181 bp of core tier I

Note: The impact on capital (in basis points) is calculated using figures at each year-end reporting date; these figures have changed significantly due to the increase in the Group's consolidation scope in recent years.

4 –RISKS

During 2018, 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, the risk appetite framework and the overall organisation of the risks function, as well as the main financial and non-financial risks, see Note 4 on Financial Risk Management in the consolidated annual financial statements for 2018.

This year's main milestones in terms of the Group's risk management have been the improvement of the Group's risk profile, with highlights including the Group's reduction of its non-performing assets as a result of its institutional portfolio sales in the second quarter of 2018, the strengthening of the risk management and control environment, as well as the improvement in the monitoring environment and the management of non-performing assets, as explained in greater detail in Note 4 of the annual report.

5 –POST-BALANCE SHEET EVENTS

Since 31 December 2018, there have been no significant events worthy of mention.

6 – EXPECTED FUTURE DEVELOPMENTS

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

Following the success of the Triple strategic plan, which covered the period between 2014 and 2016, Banco Sabadell began 2017 with a one-year strategic plan, as this year represented a year of transition, in which TSB's IT platform was constructed, banking business was strengthened, the pace of NPAs reduction was increased, with a reduction of over 3.4 billion euros, and a number of corporate transactions were successfully closed (Sabadell United Bank, Hotel Investment Partners, etc.), which contributed to strengthening provisions and increasing capital.

In 2018 Banco Sabadell presented its new three-year Strategic Business Plan, which sets the strategic pillars with which to take on the new economic cycle. The aims of this Plan are consistent with the values and objectives that have characterised the institution since its inception. Profitability, sustainability and the creation of value are the objectives based on which this Strategic Business Plan has been formulated. 2018 has also been a particularly important year for Banco Sabadell, as during the year it has achieved two major milestones, allowing it to begin a new chapter in which it will focus on improving profitability by growing the business, improving efficiency and normalising the cost of risk. These two milestones include the sale of foreclosed assets amounting to a gross value of 12 billion euros, along with the sale of 80% of the company managing such assets, Solvia Servicios Inmobiliarios, and the migration of TSB to a new IT platform, which will allow the institution to achieve operational independence and to become a bank with one of the most cutting-edge technological platforms in the United Kingdom, which is fully adapted to the challenges of the digital age. Similarly, during the year, the credit rating agency S&P Global Ratings upgraded the credit rating of Banco Sabadell from BBB- to BBB with a stable outlook.

In 2019, Banco Sabadell will focus on improving its profitability and on continuing to grow and consolidate its position in the main markets in which it operates, improving efficiency whilst simultaneously continuing to reduce its problematic exposures and increase its level of solvency and liquidity. Banco Sabadell will also focus on continuing to develop the technological capabilities required to offer a value proposition, and to promote the attraction of all-round talent in order to undertake the institution's commercial and digital transformation and its adaptation to a changing environment like the one that exists at present. Lastly, Banco Sabadell will continue to create value for all of its stakeholders, by distributing an attractive dividend among its shareholders, whilst offering a wide range of high-quality products and services to its customers and strengthening its human capital, addressing the professional concerns and expectations in terms of the motivation and recognition of its employees. The foregoing will be achieved without losing sight of Banco Sabadell's commitment to society and the environment in all of the regions in which it operates, through the ethical and responsible performance of its business activity.

7 – RESEARCH, DEVELOPMENT AND INNOVATION

In domestic terms:

In Commercial Banking, the primary aspects of the transformation that has taken place in 2018 have been the consolidation of capabilities developed under the direct management model and the progress made in the new retail model, which focuses on management through a multi-channel vision of customers and the use of a single customer portfolio. This model has been coupled with a set of actions intended to simplify and centralise activities carried out by the portfolio manager together with an assessment of the model used for assigning incentives and for management control. During the year, the assisted management capabilities have been deployed to the branch network, providing managers with new tools, improving their usability and complementing the available product offering. The roll-out of the new portfolio (CRM) for direct management began in the final quarter of the year, and the plan is to launch the portfolio in Commercial Banking branches in the first half of 2019.

Activity in relation to digital capabilities has achieved the challenges set out in the digital sales plan, with notable milestones including the 67% growth of online loans, the 27% increase in activations of the Expansión line, the 55% growth in instalment transactions paid for using credit cards and the 3.7% increase in instalment transactions paid for using debit cards. 35 new commercial events have also been launched. Within Sabadell Wallet, the number of connections has increased by 1.4x and downloads are up 55%. The roll-out of the insurance transformation plan has been completed, with a personalised fee for households and merchants, and new products and capital reduction simulations have also been included.

Customer data systems have been adapted to the General Data Protection Regulation (GDPR), to enable the continuity of the model for commercial actions which was subject to the regulation. The initiatives envisaged in the Profit Margin Plan ('*Plan de Margen*') have been activated, and progress is being made in the direct debits management model.

In terms of regulatory matters, we have been preparing ourselves for the first commitments of the Payment Services Directive (PSD2), achieving the milestones set for 2018 and preparing ourselves for its roll-out in 2019; we have completed our project to adjust to the new Insurance Distribution Directive (IDD) in order to ensure our business continuity.

Within the area of Financial Markets and Private Banking, particularly in the area of Sabadell Inversor, we have launched an online reporting system, deploying a significant number of reports through BSOnline.The roll-out of Sabadell Móvil is scheduled for the first quarter of 2019.

In Asset Management, we have completed the IT adjustment stage for the funds management firm in Luxembourg, and Sabadell Forex has been rolled out.

In MiFID II, the areas of improvement detected following its launch have been implemented, and all of the regulatory requirements arising from the Securities Market reform have been deployed.

In Treasury, we will end the year with the roll-out of MUREX VaR, which provides with a far simpler, more scalable and multi-entity solution with the integration of TSB’s activity, allowing us to prepare for the FRTB. In the opening of the FOREX books, the technological foundation for the sale of the FX products which will be launched in 2019 has been deployed.

In terms of our foreign branches, we have opened a new branch in Lisbon, gradually and continuously deploying the resources required to operate the branch in order of priority. BSOnline Lisboa is scheduled to open in the first quarter of 2019.

In terms of TSB:

2018 has been a year closely linked to the project to migrate TSB to the Proteo4UK platform. We have managed to develop a platform based on state-of-the-art architecture, offering multi-channel features across a shared environment and infrastructure. This functionality has been vital in providing online, mobile and telephone banking services and even in CRM, under a common layer made up of business components, thereby reducing the complexity of creating each new channel.

Proteo4UK is built on an architecture that is clearly aimed at distributed services, and entails a renovation of IT systems, contributing greater scalability, cloud capabilities and making it easier to integrate external systems without coupling. Thus, the platform has an internal and external back-end layer, which adapts easily and quickly to the business needs of each unit involved. Systems such as payments, cards and fraud have benefited from strategic partnerships, contributing added value in a simpler and more direct way.

The various channels, in addition to being fully integrated within internal systems, have benefited from a high level of personalisation. The web channel, which provides TSB with best-in-class digital capabilities and tools, also offers classic online banking options and new and much more automated application processes: any new TSB customer may apply for and acquire products and operate with them in just a few minutes, in a fully remote process. Mobile banking, which has traditionally included the most cutting-edge developments, has been consolidated in TSB as the main operating channel, as it is user-friendly and can be accessed at any time of day. Telephone banking has benefited from the integration with internal systems and can provide customers with a more personalised experience, and it has thus established itself as an alternative channel. It is also integrated with CRM which, based on one of the main market products, facilitates the work of TSB’s customer care services by offering a 360° vision of customers. Thanks to all of the developments that have taken place in the various areas, TSB has been able to consolidate its position in the digital world.

8 –ACQUISITION AND DISPOSAL OF TREASURY SHARES

For information on the acquisition and disposal of treasury shares, see Note 23 to the consolidated annual financial statements.

9 –OTHER RELEVANT INFORMATION

a) Shares and share price information

A series of indicators relating to the bank's share price performance are shown in the following table:

	2018	2017	Change (%) year-on-year
Shareholders and buybacks			
Number of shareholders	235,523	235,130	0.2
Average number of shares (million)	5,565	5,570	(0.1)
Average daily buybacks (millions of shares)	27	27	(0.1)
Share price (euro)			
Start date	1.656	1.323	-
Maximum	1.945	1.960	-
Minimum	0.950	1.295	-
End date	1.001	1.656	-
Market capitalisation (million euro)	5,568	9,224	-
Market ratios			
Net attributed earnings per share (EPS) (euro)	0.05	0.14	-
Book value per share (euro)	2.25	2.41	-
Price/book value	0.45	0.69	-
PER (share price / EPS)	20.11	11.85	-

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 2017, the bank compensated shareholders with 0.07 euros per share through 100% cash remuneration. This distribution was carried out through an interim dividend of 0.02 euros per share and a supplementary dividend of 0.05 euros per share. This amount represented returns on the quoted share price of 4.2%.

On 25 October 2018, the Board of Directors agreed to distribute an interim dividend of 2018 earnings amounting to a total of 110,953 thousand euros (0.02 euros (gross) per share), paid on 28 December 2018.

Furthermore, the Board of Directors will submit a proposal at the Annual General Meeting on the distribution of a gross dividend of 0.03 euros per share for 2018.

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

c) Credit ratings management

In 2018 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)	Positive	16/07/2018
S&P Global Rating	BBB	A-2	Stable	19/09/2018
Moody´s Investors Service (*)	Baa3 / Baa2	P-3 / P-2	Stable / Stable	19/09/2018

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

On 6 April 2018 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB from BBB- and its short-term rating to A-2 from A-3. The outlook is stable. This credit rating upgrade is based on the improvement in Banco Sabadell's credit quality in a context of lower risk in the Spanish banking system, mainly due to its deleveraging, as well as improved investor confidence.

On 19 September 2018, S&P Global Ratings affirmed Banco Sabadell's long-term credit rating of BBB, its short-term rating of A-2 and its stable outlook.

On 19 September 2018, Moody's Investors Service (Moody's) confirmed the Banco Sabadell long-term deposits rating of Baa2 and the senior debt rating of Baa3, as well as the short-term rating of deposits of P-2 and of senior debt of P-3, and it announced the change of outlook to stable from positive.

On 16 July 2018, DBRS Ratings Limited raised the outlook for Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in trend to positive and the confirmation of the rating reflect the positive perception of the solid capitalisation of Banco Sabadell Group and the ongoing improvement in both asset quality and the profitability of core business in Spain.

Banco Sabadell has been in touch with the three agencies in 2018, and has addressed subjects such as the bank's strategy, TSB's performance, results, capital, liquidity, risks and credit quality, and problematic asset management.

d) Branch network

At the end of 2018, Banco Sabadell was operating 2,457 branches (including 550 TSB branches), representing a net decrease of -16 branches compared with 31 December 2017 (15 fewer branches excluding TSB).

Of the total number of Banco Sabadell Group branches, 1,395 were operating under the Sabadell brand (including 28 business banking and 2 corporate banking branches); 108 were operating as Sabadell Gallego (including 3 business banking branches); 140 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; 100 were Solbank branches; and there were 592 international branches, including 7 operated by BancSabadell d'Andorra, 550 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	130	Valencia	325
Aragón	31	Extremadura	6
Asturias	109	Galicia	108
Balearic Islands	56	La Rioja	8
Canary Islands	31	Madrid	183
Cantabria	5	Murcia	126
Castilla-La Mancha	23	Navarre	15
Castilla y Leon	59	Basque Country	92
Catalonia	556	Ceuta and Melilla	2

The Group is present in the following countries:

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

Non-financial disclosures report

Pursuant to that set forth in Law 11/2018 of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has prepared its non-financial disclosures report for 2018, which forms part of this report, pursuant to Article 44 of the Spanish Code of Commerce, and is included herein as a separate document.

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 2018, 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 indicator		Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
ROA	(*) (**)	Consolidated profit/(loss) for 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.	Average total assets	217,168	214,356
			Consolidated profit/(loss) for the year	335	805
			ROA (%)	**0.15**	**0.38**
ROE	(*) (***)	Profit/(loss) attributable 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	12,643	13,143
			Profit/(loss) attributable to the Group	328	801
			ROE (%)	**2.60**	**6.10**
RORWA	(*)	Profit/(loss) attributable to the Group / risk-weighted assets (RWAs). 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.	Risk-weighted assets (RWAs)	80,279	77,505
			Profit/(loss) attributable to the Group	328	801
			RORWA (%)	**0.41**	**1.03**
ROTE	(*) (***)	Profit/(loss) 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. intangible assets)	10,309	11,025
			Profit/(loss) attributable to the Group	328	801
			ROTE (%)	**3.18**	**7.27**
Efficiency ratio	(*)	Administrative expenses/gross income. To calculate this ratio, recurring net trading income based on the Group's best estimates, except at year-end reporting date, 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.	Gross income	5,010	5,430
			Administrative expenses	(2,920)	(2,723)
			Efficiency ratio (%)	**58.29**	**50.15**

(*) The linear accrual of the contribution to deposit guarantee and resolution funds has been made based on the Group's best estimates.

(**) Average calculated based on average daily balances.

(**) Average calculated using the last positions at the end of December of the previous year.

Performance indicator	Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
Other operating income and operating expenses	Comprised of accounting entries: other operating income and other operating expenses, as well as income from assets and expenses on liabilities under insurance and reinsurance contracts.	Other operating income	257	338
		Other operating expenses	(547)	(546)
		Income from assets under insurance or reinsurance contracts	-	67
		Expenses on liabilities under insurance or reinsurance contracts	-	(86)
		Other operating income and operating expenses	**(290)**	**(227)**
Capital gains from the sale of assets and other gains/(losses)	Comprised of the following accounting items: gains or losses on derecognition of non financial assets and gains on the sale of 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, net	35	401
		Gains on the sale of equity interests	0	17
		Profit/(loss) on sales of investment property	(32)	15
		Capital gains from the sale of assets and other gains/(losses)	**2**	**433**
Total 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 profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding equity interests), provisions or reversal of provisions and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains.	Impairment or reversal of impairment of investments in joint ventures and associates	0	(1)
		Impairment or reversal of impairment on non-financial assets	(401)	(799)
		Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(35)	(139)
		Gains on the sale of equity interests	(0)	(17)
		Profit/(loss) on the sale of investment property	32	(15)
		Other provisions and impairments	**(404)**	**(971)**
		Provisions or reversal of provisions	(161)	(14)
		Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains	(756)	(1,211)
		Provisions for impairment and financial assets	**(917)**	**(1,225)**
		Total provisions and impairments	**(1,320)**	**(2,196)**

Performance indicator	Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
Pre-provisions income	Comprised of accounting entries: gross income plus administrative expenses and depreciation.	Gross income	5,010	5,737
		Administrative expenses	(2,920)	(2,723)
		Staff expenses	(1,591)	(1,574)
		Other administrative expenses	(1,330)	(1,149)
		Depreciation	(353)	(402)
		Pre-provisions income	**1,737**	**2,612**
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	135,903	136,938
		Profit/ (loss)	4,017	4,102
		Interest rate (%)	2.96	3.00
		Customer deposits		
		Average balance	141,060	138,258
		Profit/(loss)	(309)	(266)
		Interest rate (%)	(0.22)	(0.19)
		Customer spread	**2.74**	**2.81**
Other assets	Comprised of accounting entries: derivatives- hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Derivatives - hedge accounting	302	374
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	57	48
		Tax assets	6,859	6,861
		Other assets	1,640	2,976
		Non-current assets and disposal groups classified as held for sale	4,587	2,562
		Other assets	**13,445**	**12,821**
Other liabilities	Comprised of accounting entries: derivatives- hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities, liabilities included in disposal groups classified as held for sale.	Derivatives - hedge accounting	634	1,004
		Fair value changes of the hedged items in portfolio hedge of interest rate risk	37	(5)
		Tax liabilities	176	532
		Other liabilities	995	741
		Liabilities included in disposal groups classified as held for sale	83	21
		Other liabilities	**1,924**	**2,293**

(*) Average calculated based on average daily balances.

Performance indicator	Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
Gross performing loans	Also known as performing loans. Includes gross customer lending excluding repos, other valuation adjustments and non-performing assets (loans classified as Stage 3).	Loans and credit secured with mortgages	80,872	84,267
		Loans and credit secured with other collateral	2,767	2,315
		Trade credit	6,186	5,802
		Finance leases	2,565	2,316
		On-demand loans and other term loans	46,976	42,822
		Gross performing loans	**139,366**	**137,522**
Gross customer lending	Includes loans and advances to customers excluding impairment allowances.	Non-performing loans (customers on Stage 3)	6,472	7,867
		Other valuation adjustments	(13)	(66)
		Gross lending excluding repos	**145,824**	**145,323**
		Assets acquired under repurchase agreements	596	2,001
		Gross customer lending	**146,420**	**147,325**
		Impairment allowances	(3,433)	(3,727)
		Net customer loans and advances	**142,987**	**143,598**
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others); i.e. financial liabilities at amortised cost excluded financial liabilities without a retail nature.	Financial liabilities at amortised cost	206,077	204,045
		Financial liabilities without a retail nature	68,734	71,949
		Deposits with central banks	28,799	27,848
		Deposits with credit institutions	12,000	14,171
		Institutional issues	24,334	26,999
		Other financial liabilities	3,601	2,932
		On-balance sheet customer funds	**137,343**	**132,096**
On-balance sheet funds	Includes accounting sub-headings of customer deposits, debt securities issued (borrowing operations and other marketable securities and subordinated liabilites).	Customer deposits	139,079	135,307
		Demand deposits	107,665	98,020
		Deposits with agreed maturity, including redeemable deposits and hybrid financial liabilities	28,709	32,425
		Assets sold under repurchase agreements	2,533	4,750
		Other valuation adjustments	172	113
		Borrowing operations and other marketable securities	19,568	21,250
		Subordinated liabilities (*)	3,031	2,537
		On-balance sheet funds	**161,678**	**159,095**
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold by the Group.	Mutual funds	26,379	27,375
		Asset management	3,595	3,999
		Pension funds	3,594	3,987
		Insurance products sold	10,465	9,965
		Off-balance sheet customer funds	**44,034**	**45,325**
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	**Funds under management**	**205,711**	**204,420**

(*) Subordinated liabilities of debt securities.

Performance indicator	Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
Stage 3 risks	The sum of accounting headings of stage 3 assets of loans and advances to customers, not classified as non current assets held for sale, together with guarantees given classified as stage 3.	Customer loans and advances	6,472	7,867
		Guarantees given classified as stage 3	81	58
		Stage 3 risks	**6,554**	**7,925**
NPL coverage ratio (risks classified as stage 3)	Gives the percentage of non-performing loans covered by allowances and provisions. Its calculation gives the ratio of impairment allowances for loans and advances to customers not classified as non-current assets held for sale (including guarantees given)/ total stage 3 risks (including guarantees given classified as stage 3). 2017 excludes allowances relating to floor clauses.	Stage 3 risks	6,554	7,925
		Impairment allowances plus provisions of guarantees given	3,544	3,625
		NPL coverage ratio	**54.1%**	**45.7%**
Real estate assets coverage ratio	This calculation gives the ratio between impairment allowances for foreclosed real estate assets divided by 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.	Foreclosed real estate assets	1,726	7,393
		Impairment allowances	767	3,998
		Real estate assets coverage ratio	**44.5%**	**54.1%**
Non-performing assets (NPA)	The sum of non-performing loans and guarantees given classified as stage 3 and foreclosed real estate assets. 2017 excludes allowances related to floor clauses.	Stage 3 risks	6,554	7,925
		Foreclosed real estate assets	1,726	7,393
		Non-performing assets	**8,279**	**15,318**
		Non-performing asset provisions	4,311	7,623
		Non-performing assets coverage ratio	**52.1%**	**49.8%**
NPL ratio	Expresses Stage 3 risks as a percentage of total customer lending not classified as non-current assets held for sale. All of the items included in the calculation correspond to headings or sub-headings of the financial accounting statements. It is calculated as the ratio of Stage 3 risks (including guarantees given)/customer loans not classified as non-current assets held for sale (excl. assets acquired under repurchase agreement) and guarantees given. This table shows the definition of Stage 3 risks.	Stage 3 risks	6,554	7,925
		Loans to customers and guarantees given	155,206	154,050
		NPL ratio	**4.2%**	**5.1%**

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2018	31/12/2017
Loan to deposit ratio	Net loans and receivables divided by retail funding. Calculated by subtrating assets acquried under repurchase agreements (ATA) and brokerage loans from the numerator. Retail funding or on-balance sheet customer funds, defined in this table, are used as the denominator.	Net loans (excl.ATA and adjusted by brokered loans)	139,583	137,761
		On-balance sheet customer funds	137,343	132,096
		Loan to deposit ratio	**101.6%**	**104.3%**
Market capitalisation	Value obtained by multiplying the share price by the number of shares outstanding as at the reporting date.	Average number of shares (million)	5,565	5,570
		Share price	1.001	1.656
		Market capitalisation (million euro)	**5,568**	**9,224**
Earnings per share (EPS)	This divides profit/(loss) attributed to the Group by the number of shares outstanding as at the reporting date. The numerator uses the linear annualisation of profits obtained to date adjusted by the the amount of the Additional Tier 1 coupon (AT1) and relative accrual of contributions to deposit guarantee and resolution funds except at year-end.	Adjusted profit/(loss) attributable to the Group	277	778
		Profit/(loss) attributable to the Group	328	801
		AT1 adjustment accrued	(51)	(23)
		Average number of shares (million)	5,565	5,570
		Earnings per share (EPS) (euro)	**0.05**	**0.14**
Book value per share	Calculated by dividing book value by the number of average shares as 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 amount of the Additional Tier 1 coupon (AT1) and the relative accrual of contributions to deposit guarantee and resolution funds, except at year-end.	Share price	1.001	1.656
		Adjusted own funds	12,494	13,403
		Own funds	12,545	13,426
		AT1 adjustment accrued	(51)	(23)
		Average number of shares (million)	5,565	5,570
		Book value per share (euro)	**2.25**	**2.41**
TBV per share	Calculated by dividing tangible value by the number of average shares as at the reporting date. Tangible value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by intangible assets and the amount of the Additional Tier 1 coupon, as well as by the relative accrual of contributions to deposit guarantee and resolution funds, except at year-end.	Intangible assets	2,461	2,246
		Adjusted own funds (excluding intangible assets)	10,033	11,157
		TBV per share (euro)	**1.80**	**2.00**
		Price / book value (share price divided by book value)	**0.45**	**0.69**
		PER (share price / EPS)	**20.11**	**11.85**
Price / Book value (share price divided by book value)	Calculated by dividing the share price by book value.			
PER (share price / EPS)	Calculated by dividing the share price by earnings per share.			

BANCO SABADELL

NON-FINANCIAL DISCLOSURES REPORT

2018

CONTENTS

Banco Sabadell S.A. (hereinafter, Banco Sabadell, the bank or the Group) is a financial institution which primarily carries out its activities in the Spanish market. It has a significant subsidiary in the United Kingdom, TSB, which is a British retail bank, as well as a banking institution in Mexico. The corporate information and subsidiaries forming part of the Group, as well as its business model, are listed in the Directors Report.

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 the various stakeholders.

The management model is focused on long-term customer retention, through ongoing activities intended to build customer loyalty based on taking initiatives and being proactive in the relationship with customers. The bank has a comprehensive offering of products and services, a qualified workforce, an IT platform that supports growth and a constant focus on the pursuit for quality.

Banco Sabadell has an internal governance framework, which has been updated by the Board of Directors in its meeting in January 2019. This framework describes, amongst other aspects, the shareholder structure, governance bodies, the Group's structure, the composition and functioning of corporate governance, internal control functions, key governance matters, the risk management framework and Group policies.

Information on the organisation, markets, objectives and strategies, as well as the principal factors and trends which can impact the evolution of the business are described in detail in the Directors' Report for the year.

Banco Sabadell carries out its business in an ethical and responsible manner, managing its commitment to society in such a way as to ensure that its activity has a positive impact on people and the environment. Each and every person in the organisation has a part to play in applying the principles and policies of corporate social responsibility, thus also guaranteeing quality and transparency in customer service.

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

The bank has the necessary instruments in place to measure the outcome of these policies, the principal risks and the establishment of corrective measures, if necessary. Banco Sabadell has a Corporate Ethics Committee, to which the matters relating to Corporate Social Responsibility are reported, as well as a cross-cutting Corporate Social Responsibility Committee, which covers all matters related to corporate social responsibility throughout the organisation. It is formed of the various units responsible for such matters and coordinates all of the actions taken by the organisation in this regard.

Since 2003, Banco Sabadell has published a report indicating all of the actions, policies and initiatives which, aside from its core mission to be a provider of financial products and services, constitute the responsible performance of its business activities, its commitment to its various stakeholders, to the environment and to society in all of the regions in which it operates.

In 2018, this Non-Financial Disclosures Report, which forms part of the consolidated Directors' Report for 2018 of Banco Sabadell Group, and which is annexed to this consolidated report as a separate document, complies with the general provisions published in Law 11/2018 of 28 December, amending Articles 44 and 49 of the Code of Commerce in relation to non-financial and diversity disclosures, using this Non-Financial Disclosures Report as a framework.

1. INFORMATION REGARDING ENVIRONMENTAL MATTERS

As part of its Corporate Social Responsibility Policy, approved by the Board of Directors in 2003, and specifically, in its Environmental Policy approved by the Board of Directors in 2009, Banco Sabadell defines the framework of its commitment to environmental sustainability and to combat climate change. This framework focuses on minimising the environmental impacts of the processes, facilities and services inherent to the business, managing business-related risks and opportunities appropriately, and fostering the commitment to the environment of the people with whom the bank comes into contact. In this regard, the Bank is a signatory of the Equator Principles, the Carbon Disclosure Project (CDP) and its Water Disclosure programme. Nonetheless, it is worth highlighting that the activities carried out by the bank do not have a major negative impact on the environment.

In terms of environmental training and awareness, the entire workforce has access to an online course, completion of which is compulsory for all employees in certified corporate buildings. Using the internal platform “BS Idea” employees can submit their proposals for the improvement of environmental aspects and of the organisation's actions to combat climate change.

TSB follows an independent environmental management system which is in line with legislation in the United Kingdom. In this regard, the bank is committed to the responsible use of resources and implements measures to improve their environmental impact, such as, for example, a reduced use of vehicles, waste collection and a post service. All of this is reflected in the bank's Directors’ Report. It is also worth highlighting that the IT Migration Project carried out in 2018 shall lead to substantial energy consumption savings, and it will also facilitate the measurement and reporting of consumption. Furthermore, in new branch openings all of the computer systems comply with high energy efficiency standards.

1.1 Pollution

Banco Sabadell is a signatory of the Carbon Disclosure Project, thus undertaking a commitment to actively combat climate change. In 2015, a new CO_2 emissions reduction target of 3% was set for the 2015-2020 period in Spain. To do so, each year the bank implements energy efficiency measures in its installations, as well as in its services. These measures become particularly relevant with regards to the contracting of energy with a renewable source guarantee, which has enabled the bank to achieve a 99.85% reduction in scope 2 emissions in comparison to 2014.

With regards to the impact related to business trips and travel, environmental and expenditure rationalisation criteria are applied, favouring the use of transport with the lowest level of CO_2 emissions and for “in itinere” travel, the use of the internal car-pooling platform is encouraged. This information is shown in the table below.

CO_2 tn	2018	2017	2016	2015	2014
Scope 1 / Direct activities: emissions generated by company facilities and vehicles	1,151	763	648	600	552
Scope 2/Indirect activities: emissions due to electricity consumption in Spain	20	22	54	3,321	12,890
Scope 3/ Other indirect activities: emissions derived from business trips (plane, train and car)	3,940	3,337	3,477	3,862	3,143
Total CO_2 emissions generated by the Group in Spain	**5,111**	**4,122**	**4,179**	**7,783**	**16,585**
Total CO_2 emissions generated per employee	**0.3**	**0.2**	**0.2**	**0.5**	**1.0**

1.2 Circular economy and waste prevention and management

In all of the Group’s facilities in Spain, paper waste is treated as confidential documentation to be destroyed, and 100% of the waste is recycled by authorised waste managers. The corporate centres and branches are equipped with facilities for the collection of packaging, organic matter and batteries. Together with Ricoh and the HP Planet Partners programme, the collection and reuse of used toner cartridges is carried out, together with the management of electronic waste through authorised waste managers.

Specific control mechanisms exist for waste management in branches due to be closed or merged. Surplus computer equipment and furniture in good condition at branches or work centres due to be closed or merged are donated by the bank to NGOs and local non-profit organisations.

1.3. Sustainable use of resources

As regards the bank's own infrastructure, Banco Sabadell has an environmental management system (EMS) that follows the international ISO 14001 standard and six certified corporate buildings in Spain. 16.22% of the Bank's national workforce work in one of these certified buildings. In parallel, the environmental management system is being progressively rolled out in the rest of the work centres.

1.3.1. Energy consumption

In 2018, Banco Sabadell's total energy consumption in Spain amounted to 86,398 MWh.

In 2018, electrical consumption in Spain reached 81,962MWh (compared to 82,824 MWh in the previous year) with 99.96% of energy deriving from renewable sources, mainly through Nexus Renovables, an energy supplier with 100% renewable source guarantee. Using 2014 as a baseline year, a reduction of 99.85% has been achieved in terms of CO_2 emissions in electrical consumption (scope 2).

With the objective of reducing its energy consumption, Banco Sabadell continuously develops measures to improve the eco-efficiency of its facilities and processes:

- The majority of the branch network is equipped with a centralised low energy consumption HVAC and lighting system, and light activation systems for billboard advertising adapted to daylight hours. Additionally, the majority of branches are equipped with Thin Client computers (central branch network infrastructure, whereby applications and software are virtually linked to servers) which consume 90% less energy. Since 2015 the implementation of these computers has also been initiated in corporate buildings.

- Additionally, the corporate buildings are equipped with motion sensitive lighting systems and LED (Light Emitting Diode) lamps. In these corporate buildings and larger offices, HVAC installations are equipped with energy recovery systems.

Total electrical energy consumption	2018	2017	2016
Total energy consumption (MWh)	81,962	82,824	89,809
Electrical energy supplied by Nexus Renovables (100% renewable source guarantee) (% of supply of total electrical energy)	99.94%	99.93%	99.84%

1.3.2. Water consumption

Group water consumption in Spain is limited to sanitary use and for the watering of certain landscaped areas. 100% of the water consumed comes from the supply network. The Group's headquarters are located in urban areas where the water collected and discharged is done so through the urban network.

With regard to eco-efficiency, bathroom facilities and taps are fitted with water-saving mechanisms. In this regard, the Bank's headquarters in Sant Cugat are fitted with a device that collects rainwater and greywater to reuse it as irrigation water. At the same time, the landscaped areas are comprised of native plants with low irrigation requirements.

Paper consumption in Spain in 2018 amounted to 1,047 tonnes. During the previous year, the bank has carried out the following actions to reduce the consumption of paper:

- 24 hour service for customers through remote channels and digital platforms.
- The use of tablets and digital systems in the branch network enables customers' signatures to be captured, and eliminates the use of pre-printed paper.
- All of the Group's printers are configured to print on both sides of paper by default.
- The conventional paper used by the bank is certified by the quality and environmental management system ISO 9001/ISO 14001, and its production is chlorine-free under the criteria of the FSC (Forest Stewardship Council). It is worth highlighting that since July 2018 the exclusive use of recycled DINA4 paper has been extended to the entire branch network.
- Elimination of the automatic printing of a customer copy, unless a customer specifically requests a copy.

Paper consumption:	2018	2017	2016
Volume of paper (DIN4 format) used during the year (tonnes)	1,047	988	1,062
Use of recycled paper in branches and corporate buildings in relation to total paper consumption (white and recycled) in Spain (%)	52%	9%	9%
Use of recycled paper in 13 corporate buildings with a post service in relation to total paper consumption (white and recycled) in Spain (%)	87%	80%	84%

1.4. Climate Change

In 2018 a Climate Change Task Force has been created and it is responsible for preparing the implementation of the TCFD (Task Force on Climate-related Financial Disclosures).

Furthermore, the use of videoconferencing for meetings and one-to-one meetings, teleworking pilots as well as the use of virtual communities for areas such as learning and continuous training is also encouraged.

Teleworking pilot schemes lay the foundations for the future availability of teleworking to a larger section of the workforce. There are multiple objectives and impacts of doing so, ranging from an enhanced work-life balance, to an obvious saving in time, energy and emissions.

The bank has adopted measures to improve the reduction of CO_2 emissions via its commercial offering of products. In terms of renting, the range of sustainable vehicles has been increased (with emissions equal to or less than 120gr CO_2/km), and these currently make up 78% of the current fleet of vehicles, with a permanent offering of ECO vehicles. Additionally, Banco Sabadell has contributed to the sustainable movement of employees by encouraging rentals of 100% electrical vehicles by staff through its offering of 60 vehicles of this type.

In order to provide a solution to traffic restrictions in the centre of large cities such as Madrid, a specific offering of low emission vehicles has been developed to guarantee access to this capital city, which will be extended in January to the rest of large Spanish cities.

With regards to research, the Banco Sabadell Foundation Award for Economic Research has been awarded to Dr Díaz Anadón for her work in the area of climate change, which combines research with the development of public policies, quantifying the role that new energy technologies (solar, wind or nuclear) could play in reducing CO_2 emissions and sector costs.

1.5. Other information regarding environmental matters

Beyond the responsible management of environmental sustainability with regard to the bank's own infrastructures, consumption and emissions, certain business activities with regards to financing and investment also impact the environment, therefore the bank maintains a range of initiatives and commitments in the interest of sustainability.

1.5.1. Environmental risk assessment

Since 2011, Banco Sabadell is a signatory of the Equator Principles, a voluntary international framework of policies, standards and guidelines coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to determine, assess and manage environmental and social risks relating to structured finance projects for the amount of 10 million dollars or more, and corporate loans from 100 million dollars onwards. Under these standards, a social and environmental risk assessment of the possible impacts is carried out, addressing in some cases minimisation, mitigation and adequate offsetting, which is reviewed by an independent expert. Banco Sabadell publishes an annual report on its corporate website which includes detailed information of each one of the projects related to the Equator Principles.

In 2018, Banco Sabadell signed 20 projects which incorporate the Equator Principles, 85% of which relate to renewable energy projects.

Sector	Number of projects	Category	Country	Region	Designated country	Independent review
Renewable energies	10	B	Spain	Europe	YES	YES
	2	B	U.S.	Americas	YES	YES
	1	B	Canada	Americas	YES	YES
	1	B	United Kingdom	Europe	YES	YES
	3	B	Mexico	Americas	NO	YES
Oil and gas	1	B	U.S.	Americas	YES	YES
	1	B	Mexico	Americas	NO	YES
	1	B	Peru	Americas	NO	YES

The entire branch network has access to information to assist them in assessing any environmental risk associated with the sector or activity of the companies analysed. This assessment is also included in the risk management record in which the credit risk of the transactions is assessed, and which influences the decision-making process.

1.5.2. Financing and investment in renewable energies

With regards to the business, Banco Sabadell encourages the development of a more sustainable energy model through direct investment in projects and renewable energy financing.

Thus, Banco Sabadell, through its subsidiary Sinia Renovables, has commenced a new investment round (2016-2019) in which it will allocate 150 million euros in capital to this type of asset. In line with the Bank's internationalisation strategy, which considers investments in Spain, Mexico, the United Kingdom and a number of Latin American countries, the first capital investments in Mexico have been carried out, which is where Sinia is present in 247MW wind farms, of which 99MW are in use and 148MW are under construction for 2019. Sinia has an additional portfolio in Spain, comprised of its presence in 70MW in wind, 3MW in photovoltaic and 22.5MW in a hybrid thermosolar biomass plant. Based on these projects, renewable energy generation in Spain that is attributable to Sinia in 2018 totals 152 GWh, exceeding the electrical consumption of Banco Sabadell's branches and corporate buildings. This renewable energy avoids the annual emission of almost 58 thousand tonnes of CO_2.

Equally, on a national scale, Banco Sabadell contributes to and participates in the Solar Forum ('*Foro Solar*'), in which new developments and leadership in the Spanish photovoltaic industry are discussed.

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

2. INFORMATION REGARDING CORPORATE AND STAFF RELATED MATTERS

Banco Sabadell's Human Resources policy aims to support the transformation of the organisation, and focuses on the people forming part of the day-to-day business and its growth. The key objective is to maximise the value creation of the professionals who form part of Banco Sabadell through the development of their talent, the management of their expectations and making the most of their skills and abilities.

During 2018 the management of Human Resources has been transformed, in order to strengthen its activity and ensure that such activity focuses on the significant challenges in the management of human capital as part of the next strategic plan:

- Greater focus on talent development
- Enhanced alignment between staff policies and business requirements
- Focus on employee satisfaction

Within the scope of TSB, actions related to supporting people and teams, before, during and after migration, particularly stand out. Furthermore, TSB's effort to create an inclusive culture is also noteworthy, in which all TSB employees, independently of their gender, ethnicity, disability, sexual orientation, age or personal circumstances, can fulfil their potential.

2.1. Employment

2.1.1. Banco Sabadell workforce information

Total number and distribution of Group employees by:

Gender	2018	2017
M	11,605	11,467
F	14,576	14,378
Total	**26,181**	**25,845**

Country	2018	2017
Algeria	3	3
Brazil	2	2
Colombia	6	6
Cuba	7	7
Arab Emirates	2	3
Spain	16,851	16,765
United States	240	229
France	20	22
India	4	4
Morocco	21	20
Mexico	462	312
Peru	6	5
Poland	3	3
Portugal	12	1
United Kingdom	8,388	8,319
Dominican Republic	4	2
Singapore	2	1
Turkey	3	3
China	6	6
Andorra	139	132
Total	**26,181**	**25,845**

Professional classification	2018	2017
Management	674	645
Middle Management	3,889	4,013
Specialists	16,991	16,701
Administrative staff	4,627	4,486
Total	**26,181**	**25,845**

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors.
'Middle Management' includes directors not included in the definition of 'Management Staff'.

Age range	2018	2017
Younger than 31	3,255	2,986
Between 31 - 49	15,132	15,461
Older than 49	7,794	7,398
Total	**26,181**	**25,845**

Types of contracts held by the workforce in Spain:

	2018	2017
Indefinite	16,681	16,621
Temporary	170	143
Total	**16,851**	**16,764**

Type of Contract - Average contracts	2018	2017
Indefinite	16,706	16,622
Temporary	175	157
Total	**16,881**	**16,779**

	2018			2017		
Average Contracts - Gender	M	F	Total	M	F	Total
Indefinite	8,221	8,485	16,706	8,203	8,419	16,622
Temporary	82	93	175	84	72	157
Total	**8,303**	**8,578**	**16,881**	**8,287**	**8,492**	**16,779**

	2018		2017	
Average Contracts - Age range	Indefinite	Temporary	Indefinite	Temporary
Younger than 31	484	83	407	95
Between 31 - 49	10,869	80	11,272	54
Older than 49	5,353	12	4,943	7
Total	**16,706**	**175**	**16,622**	**157**

	2018		2017	
Average Contracts - Professional category	Indefinite	Temporary	Indefinite	Temporary
Management	474	-	441	-
Middle Management	3,274	-	3,249	-
Specialists	12,645	147	12,676	147
Administrative staff	313	28	256	10
Total	**16,706**	**175**	**16,622**	**157**

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors.
'Middle Management' includes directors not included in the definition of 'Management Staff'.

The breakdown of part-time contracts is not provided, given that total part-time contracts in Spain in December 2018 amount to 20 (representing 0.12% of national contracts).

Types of contracts held by TSB workforce:

	2018	2017
Indefinite	8,320	8,231
Temporary	33	56
Total	**8,353**	**8,287**

Type of contract - Average contracts	2018	2017
Indefinite	8,198	8,335
Temporary	49	57
Total	**8,247**	**8,392**

	2018			2017		
Average contracts - Gender	M	F	Total	M	F	Total
Indefinite	2,737	5,461	8,198	2,760	5,575	8,335
Temporary	21	28	49	27	30	57
Total	**2,758**	**5,489**	**8,247**	**2,787**	**5,605**	**8,392**

Average Contracts - Age range	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Younger than 31	2,107	19	2,195	28
Between 31 - 49	3,977	28	4,049	26
Older than 49	2,114	2	2,091	4
Total	**8,198**	**49**	**8,335**	**57**

Average contracts - Professional category	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Management	181	-	174	-
Middle Management	297	8	295	5
Specialists	3,574	30	3,656	32
Administrative staff	4,146	11	4,210	21
Total	**8,198**	**49**	**8,335**	**57**

At TSB, there are currently no employees with part-time contracts.

Number of employee dismissals in Spain by:

Professional category	2018	2017
Management	5	3
Middle Management	25	22
Specialists	136	80
Administrative staff	4	22
Total	**170**	**127**

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors.
‘Middle Management’ includes directors not included in the definition of ‘Management Staff’.

Gender	2018	2017
M	102	74
F	68	53
Total	**170**	**127**

Age range	2018	2017
Younger than 31	5	4
Between 31 - 49	102	87
Older than 49	63	36
Total	**170**	**127**

Number of employee dismissals at TSB by:

Professional category	2018	2017
Management	4	
Middle Management	7	
Specialists	21	
Administrative staff	56	
Total	**88**	**94**

This information is not available by category in 2017 due to the change of system

Gender	2018	2017
M	28	40
F	60	54
Total	**88**	**94**

Age range	2018	2017
Younger than 31	19	22
Between 31 - 49	35	33
Older than 49	34	39
Total	**88**	**94**

Employees with some form of disability in the Group by gender and professional classification:

	2018		2017	
	M	F	M	F
Management	3	-	10	3
Middle Management	13	3	18	12
Specialists	83	69	95	115
Administrative staff	4	13	-	-
Total	**103**	**85**	**123**	**130**

Group data as at 31/12/2018
'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.
'Middle Management' includes directors not included in the definition of 'Management Staff'.

2.1.2. Recruitment

Banco Sabadell has a staff selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and in relation to their potential career path at the entity. 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 and the internal mobility and recruitment policy.

Throughout 2018, a number of actions and projects have been initiated 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, capabilities and technologies used to attract the best candidates and provide them with a professionally rewarding experience.

In terms of external recruitment, digital capacities to attract talented persons have been reinforced through a new employment website (www.sabadellcareers.com) which has already received more than 38,000 visitors in the 5 months since it was launched, with the average visit time exceeding one and a half minutes, and with users visiting the site from Spain (+70%), USA (+13%) and Mexico (+4%). Furthermore, the editorial content and the reinforcement of digital capacities in our LinkedIn profile led to 20,000 new followers in the online community during 2018, ending the year with a total of 78,540 users.

This year the Data&Analytics Programme has been launched, which aims to incorporate professionals who have advanced data knowledge, to explore and analyse the information included in data, extracting maximum value for the purpose of personalising our products and services and to make strategic business decisions. 12 participants have joined through this Talent Incubator, with the bank ensuring the integration, participation and training of employees from this group of professionals, through systematic and continuous monitoring by their tutors and mentors.

These actions have also led to a consolidation of our position as an employer in external reputation indicators. One notable achievement includes the attainment, once again, of a place in the Mercopersonas Top 25 (ranked number 21), a renowned Spanish corporate reputation monitor, which measures how attractive companies are as employers.

The unique nature of the TSB project, TSB's mission and the innovative nature of its employee initiatives have propelled TSB to be included in the Top 25 Best Places to Work in the United Kingdom, a ranking published in the prestigious Sunday Times. Specifically, it was included in the Top 5 in 2018.

2.1.3. Remuneration

Banco Sabadell's remuneration policies are consistent with the risk and business strategy objectives, corporate culture, the protection of shareholders, investors and customers, the Group's long term interests and values, as well as with customer satisfaction and the measures implemented to prevent conflicts of interest without incentivising excessive risk taking.

In this regard, the Banco Sabadell Group Remuneration Policy is based on the following principles:

- Foster medium-long term business sustainability, as well as alignment with Group values. This entails:
    - Aligning remuneration with shareholder interests and with the creation of long-term value.
    - Implementing rigorous risk management, considering measures to prevent conflicts of interest.
    - Aligning the Group's long-term business strategy, objectives, values and interests.

- Ensure the existence of a competitive and fair remuneration system (external competitiveness and internal fairness):
    - With the capacity to attract and retain best talent.
    - Which compensates professional experience and responsibility, independently of the employee's gender.
    - That it is aligned with market standards, ensuring it is flexible to adapt to changes in the environment and in the sector's requirements.

- With regards to the Gender pay Gap, Banco Sabadell, when dealing with the same functions, responsibilities and seniority does not make any type of wage discrimination between genders when recruiting staff nor in its employees' salary reviews.

In spite of this, in Spain, data has been analysed in an objective manner, carrying out a calculation of the total number of men and women, managing the different groups, managers, specialists and administrative staff without establishing any additional criteria, which results in a gap of 11.95%. During 2018 this gap has been reduced by 5.41%. This difference is primarily explained due to the lower seniority of females at the organisation. Additional measures have been specifically developed in addition to the measures mentioned earlier, in order to eliminate this gap:

- Increase in the representation of women in senior management roles.
- 50% of promotions have been allocated to women (26% at management level) through a focus/monitoring in the Performance Evaluation Committees, and unbiased candidate selection achieved through selection panels of 3 people in candidate shortlists.
- Equal salary action for women as well as for men and equal increase in total payroll.
- Strict gender equality in the High Potential Development Scheme planned for 2019, which will provide a pool of future managerial talent.

These measures have resulted in the Bank receiving the Equality in the Workplace Seal of Distinction ("Distintivo de Igualdad en la Empresa"), awarded by the Ministry of the Presidency, Relations with the Cortes and Equality (Ministerio de Presidencia, relaciones con las cortes e Igualdad) of the Spanish Government. The Seal of Distinction recognises companies and other Spanish institutions which stand out in the development of Equality of Opportunities between women and men in the labour environment, through the implementation of equality plans and measures. The granting of this distinction is carried out through annual calls in which any company or entity can participate in, private as well as public, which stand out due to the application and results of equality between men and women in their organisation with regards to: working conditions, organisation models in other areas such as services, products and corporate publicity.

The gender pay gap at TSB is reported by following the methodologies and the calculations established by the Government of the United Kingdom at all times. The most recent study reflected a gender pay gap of 31%, based on the fixed remuneration of all employees as at 5 April 2018, and the variable remuneration of all employees in the previous year.

- Rewarding performance by aligning remuneration with individual results, and the level of risk assumed.
  - Adequate balance between the various components of remuneration.
  - Consideration of risks and current and future results, whilst not incentivising risk taking that surpasses the risk threshold tolerated by the Group.
  - Simple, transparent and clear remuneration scheme. This Policy shall be understandable and easily communicated to all staff.

All of these principles on which the Group Remuneration Policy comply with European Directives and Regulations and other regulations currently in force, particularly Law 10/2014 of 26 June, on the Regulation, Supervision and Solvency of Credit Institutions, Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the Regulation, Supervision and Solvency of Credit Institutions, EBA Guidelines EBA/GL/2015/22 of 27 June 2016, Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and the disclosure of information in virtue of Article 450 of Regulation (EU) 575/2013 (hereinafter, " EBA/GL/2015/22 Guidelines"), EBA Guidelines on internal governance (GL 2017/11) of 26 September 2017, Bank of Spain Circular 2/2016 of 2 February, for Credit Institutions, on Regulation and Solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) no. 575/2013, Delegated Regulation (EU) 604/2014 of the Commission of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regards to technical regulatory standards relating to suitable qualitative and quantitative criteria to determine staff categories whose professional activities have a significant impact on the risk profile of an entity and the Senior Managers and Certification Regime (SMR) in the United Kingdom.

Total average remuneration at Banco Sabadell Spain by:

Gender	2018	2017
M	€ 59,561	€ 58,859
F	€ 44,932	€ 44,390
Average	**€ 52,098**	**€ 51,532**

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Professional classification	2018	2017
Management	€ 180,930	€ 177,599
Middle Management	€ 68,379	€ 66,228
Specialists	€ 43,948	€ 43,492
Administrative staff	€ 22,544	€ 22,467
Average	**€ 52,098**	**€ 51,532**

'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.
'Middle Management' includes directors not included in the definition of 'Management Staff'.
The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Age range	2018	2017
Younger than 31	€ 33,402	€ 33,316
Between 31 - 49	€ 48,110	€ 47,418
Older than 49	€ 62,187	€ 62,171
Average	**€ 52,098**	**€ 51,532**

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits

Average remuneration of Managers in Spain:

	2018	2017
M	€ 192,770	€ 188,757
F	€ 140,984	€ 139,142
Average	**€ 180,930**	**€ 177,599**

'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.
The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Average remuneration of Directors at Banco Sabadell:

	2018	2017
M	€ 150,493	€ 131,974
F	€ 176,000	€ 148,019
Average	**€ 154,137**	**€ 134,891**

* Calculation carried out for Directors who have remained at the entity during the full year. Only remuneration received for functions carried out in the role of director have been reported, excluding the amounts received for managerial functions which are included in the categories shown in the table above.

In 2018 access to flexible remuneration has been extended to 100% of the workforce, as a measure to ensure that each member of staff can optimise their remuneration in accordance with their requirements and personal circumstances.

The bank also offers its employees other types of social benefits, which include the granting of loans with zero interest rates, training scholarships and schooling grants for their children.

Total average remuneration at TSB by:

Gender	2018	2017
M	€ 50,427	€ 56,860
F	€ 31,936	€ 33,855
Average	**€ 41,214**	**€ 41,542**

Exchange rate 1GBP=0.885EUR

Age range	2018	2017
Younger than 31	€ 32,877	€ 29,437
Between 31 - 49	€ 39,017	€ 48,846
Older than 49	€ 41,251	€ 41,755
Average	**€ 41,214**	**€ 41,542**

Exchange rate 1GBP=0.885EUR

Professional classification	2018	2017
Management	€ 201,968	€ 293,804
Middle Management	€ 99,341	€ 66,228
Specialists	€ 44,046	€ 43,492
Administrative staff	€ 21,827	€ 22,467
Average	**€ 41,214**	**€41,542**

Exchange rate 1GBP=0.885EUR

Average remuneration of Managers at TSB:

Average Management remuneration	2018	2017
M	€ 213,495	€ 313,195
F	€ 180,689	€ 250,633
Average	**€ 201,968**	**€ 293,804**

Exchange rate 1GBP=0.885EUR

2.2 Work organisation, health and safety

2.2.1 Leadership management

At Banco Sabadell it has always been people who have marked the difference throughout the history of the bank, and they will continue doing so in the future, with the aim of ensuring that Banco Sabadell is the best place in which to develop a professional career. The key element to achieve this is the people management model, which is based on meritocracy and on the development of talent.

This model is based on 3 key pillars: the annual performance evaluation, accompaniment by managers and development actions in accordance with the requirements and potential of each person.

During the year all of the bank's staff undergo a performance evaluation. This evaluation takes into account what they have achieved and how they have achieved it. The evaluation is used to encourage meritocracy, for which reason it is critical to emphasise this in the evaluation. This year, the objectivity of the model has been improved, by including the possibility of comparing previous and functional managers.

Just as important as the performance evaluation in the year is the evaluation of potential in the following year, to make the best decisions in terms of professional development (internal mobility, promotion, development programmes), align aspirations with professional opportunities and design the development agenda.

Potential includes whether the person wants to, and can, assume more cross-cutting functions and/or responsibility and their readiness to take on the next level of responsibility.

For this reason, a specific section has been included to highlight professional goals, and to enable the manager to evaluate these goals. Furthermore, managers have the responsibility of continuously providing feedback, thereby giving the necessary assistance for team-building. Their aptitude as team managers can be assessed through the evaluation.

Based on the foregoing, Banco Sabadell makes tools and specific training programmes available to employees, always under an approach based on joint responsibility of the employee in the development of their career.

In particular, a Programme for Management Development is available for Managers when they reach the role of Top Management or Corporate Director, with the objective of accompanying them during periods of transition within their careers and to prepare them for the changing environment of the business, with a special focus on the challenges of the new leadership role. The programme is presented within a 'learning by doing' model, and aims to create networks in the management group, offering networking and visibility opportunities.

Additionally, Banco Sabadell has continued to develop the model in order to ensure it has the most up-to-date information on current talent, and their potential, to ensure appropriate decision making in terms of people, well as well as effective and efficient management of the development of directors and pre-directors.

This has ensured the continued use of the Personnel Evaluation Committee model by each General Management Committee (17 in total), which addresses the following matters:

- Current (and forecast) evolution of the workforce (profile and costs) and management results (remuneration, performance management - high and low performances-, environment).
- Update of the talent map (directors and pre-directors) and pool of potential talent.
- Appointment of candidates to new management positions, and proposals for employees with high potential.
- Proposals for workforce actions.

2.2.2. Work/Life balance

The bank's workforce has access to a pool of social benefits, agreed by the Group and union representatives in the agreement on measures to improve the balance between family and personal life with working life. All of these benefits have been communicated to the entire workforce, and they are published on the employee intranet, for which reason they are well-known by all employees, who have been requesting and enjoying these benefits for a considerable period of time.

The benefits include: a reduction in working hours (remunerated, not remunerated, for breastfeeding), extended leaves of absence (for maternity leave, to care for family members), special permissions (for studies, personal reasons or international adoption), increase in leave for the birth of a child and flexible working hours.

Furthermore, the Group offers a wide range of measures aimed at improving the work/life balance of its workforce, enabling them to contract services and purchase products via the employee portal, which does not only offer them economic savings, but also allows them to save time, as they receive these products at their workplace and save the time that would be spent on the journey, or having to run the errand outside of their working hours. In addition to these benefits, it is also worth mentioning the services offered to enable staff who work in central services to carry out personal errands.

In 2018, new measures to promote flexibility and an improved work-life balance have also been implemented, which include the possibility of buying additional holidays and the gradual roll-out of teleworking. This last measure has had a very good reception in terms of satisfaction and productivity, and as at the end of 2018, 320 employees were making use of this measure.

Lastly, a new position of work/life balance manager has been included, with the aim of managing and analysing requests and applications by employees relating to work/life balance, proposing creative and personalised solutions outside standard practices, in order to achieve a satisfactory balance between the requirements of the employee and those of the manager.

2.2.3. Health and safety

The Group applies a preventive policy in order to continuously improve the working and health conditions of Group employees.

In accordance with current legislation, the bank has a prevention plan which includes all of the preventative activities carried out in the company, which are published annually in a report that is available on the employee intranet and on the corporate website.

It also carries out an initial workplace hazard assessment for each new work centre, and in the event of reforms or modifications. Equally, when a certain period has elapsed since the assessment, individual work stations, as well as common areas, are assessed in all of the installations, as well as aspects such as temperature, lighting etc.

The entire Group workforce and all new employees receive information on the prevention of occupational hazards and complete mandatory training relating to health and safety in the via an online course. The training is carried out through the use of publications, ergonomic guidelines and computer terminals and other equipment, all relating to the risks inherent to the bank's activity.

Absenteeism indicators:

Absenteeism indicators in Spain	2018	2017
Total hours (accidents and non-work related illnesses)	836,153	807,752

Absenteeism indicators at TSB	2018	2017
Total hours (non-work related illnesses)	399,409	433,412

Workplace accidents:

Types of accident in Spain	2018 M	2018 F	2018 Total	2017 M	2017 F	2017 Total
Work centre	44	75	119	28	52	80
In itinere	48	86	134	41	74	115
Travel during the work day	14	26	40	9	16	25
Other work centres	1	1	2	2	2	4
TOTAL	107	188	295	80	144	224

*2018 figures are provisional and do not include Solvia.

Work related accidents in Spain	2018	2017
Total hours	22,170	19,590
Frequency index	5.61	3.82
Severity index	0.08	0.07

Figures are for Spain and do not include Solvia. The severity index refers to the severity of absenteeism (work days lost/ existing work days * 100).

TSB, in compliance with the legal framework in the United Kingdom, does not maintain a record of accidents.

Social Security does not define any occupational illnesses in the banking sector.

2.3. Workplace Relations

2.3.1. Communication

Banco Sabadell has multiple channels for dialogue between different hierarchical levels of the organisation, with the aim of facilitating internal communication and involving employees in the bank's projects and activities.

The “BS Idea” platform enables employees to submit improvement proposals relating to all areas of the organisation. This platform constitutes an excellent communication channel in which employees can share their concerns and experiences regarding processes or products. Ideas which receive the most votes, as well as the ideas which contribute the most value to the entity, are analysed by the persons responsible for the processes concerned, as well as by the Decision Committee of the entity, which decides on the implementation of such proposals. The ideas which receive the highest number of votes also receive an economic reward.

Banco Sabadell also has a whistle-blowing channel for employees, through which employees can anonymously submit their queries, complaints and suggestions. The information gathered through this channel is reported to the entity's Corporate Ethics Committee.

At TSB, the launch of a new digital work environment stands out, which includes a new extranet and the use of the collaboration platform ‘Yammer’, in addition to the enhancement of the TSB Careers website. This work environment shall continue to be developed, as it is one of the key digitalisation initiatives for employees.

2.3.2. Participation

Banco Sabadell respects and guarantees the basic rights of employees in relation to freedom of association and collective bargaining, in accordance with Spanish law. These principles are set out in the human resources policy, specifically, Recursos Humanos 7305 – Normativa Laboral Básica Aplicable (Human Resources 7305 – Basic Applicable Labour Regulations), which refers to the Convenio Colectivo de Banca vigente (current Collective Banking Agreement). These rights are set forth in chapter twelve of this agreement, Union Rights, Articles 58, 59 and 60.

The bank currently has 11 trade union sections, including the State and regional sections. The selection of the workers' representatives is carried out via a vote every 4 years, in accordance with the guidelines set forth by the Spanish Banking Association (AEB, for its acronym in Spanish), together with the major State union sections in the Spanish banking sector. The results of the union elections determine the composition of the different Works Councils, as well as staff delegates who are the interlocutors representing the entity and the agents who participate in collective bargaining. In the absence of specific negotiations, they meet as and when required. The trade union representatives selected are allocated hours from their normal working hours to engage in their trade union activities. The Collective State Banking agreement covers the entire workforce forming part of Banco Sabadell in Spain.

During 2018 multiple actions have been developed as a result of employees responses to the work environment survey carried out in 2017.

100% of employees are covered by agreement in Spain. In the rest of countries, the applicable legislation in each country is applied.

Representation of employees in formal work-company health and safety committees in Spain (same data 2017 and 2018):

- State Health and Safety committees created in companies:
    - Banco de Sabadell S.A.
    - Sabadell Asset Management., S.A.
    - BS Securities Serv., S.L.
    - FONOMED Gest.Tel.Med.S.A.
- Workers prevention delegates (role envisaged in legislation that can be held by a maximum of 8 persons per company or work area)

	Workers Prevention Delegates	On the Committee
Banco de Sabadell S.A.	24	6
Sabadell Asset Management., S.A.	3	3
BS Securities Serv., S.L.	2	2
FONOMED Gest.Tel.Med.S.A.	3	3

At TSB there is a fluid and direct relationship with employee representatives (24 meetings a year, equivalent to 2 meetings a month). There are currently 2 recognised unions (Unite the Union and Accord) and one which is not recognised (TBU) which are chosen in the participatory elections. From 2019 onwards, the elections process shall be managed by TSB. With regards to the unions, the guidelines set forth by ACAS (Advisory, Conciliation and Arbitration Association, a public government body in the United Kingdom) are followed.

2.4. Training

Consolidation of Sabadell Campus

In 2018, the Group has continued to promote the bank's learning model, which was launched in 2016, with the consolidation of Sabadell Campus and its various schools and spaces. This is a project which embodies the pillars of the Banco Sabadell training model based on innovation, personalised training, business alignment and efficiency.

Commercial School

Training activities that focus on increasing the impact of key figures in the creation of business value have been prioritised, particularly for Managers of small and medium-sized enterprises and Business Banking Directors.

MIFID. Trusted advisors

In accordance with the guidelines set forth in MIFID regulations, and specifically, technical guidelines 4/2017 for the evaluation of the knowledge and skills of staff who inform and advise, published by the CNMV, intensive certification activity has been carried out and yielded excellent results, above the established targets. In this regard, 2,157 employees have been certified, 54.4% more than the 1,400 employees expected for 2018. As a result, a total of 4,061 managers were certified as at December 2018.

Creation of the Digital School

More than 3,500 employees already develop their digital potential in the 8 subjects offered by the Digital School (information management, networking, digital expertise, digital vision, digital communication, digital identity, continuous learning and security).

Those employees who complete the "+ Digital" programme, can receive the *Curso Superior de Digitalización en Banca* qualification from EADA (Advanced Digitalisation Course in Banking), based on Blockchain technology, which will be awarded in June next year.

Growth of the in-house tutoring team

One of the main pillars of Banco Sabadell's new training model is the group of in-house tutors. Tutors facilitate the management of knowledge and internal talent and they make it possible for training to be available in all regions where it is required.

In 2018 this group has grown considerably, in terms of both size (470 members) and impact, offering support to critical processes, such as the aforementioned MIFID. These professionals have completed more than 50,000 hours of training, with each tutor dedicating an average of more than 19 hours per employee receiving training, to share their knowledge with the rest of the workforce.

Training in Spain	2018	2017
Employees who have received training (%)	94.1%	88.9%

Total hours of training and average per professional category in Spain	2018		2017	
	Training hours	Average hours	Training hours	Average hours
Management	22,180	52.31	23,864	58.04
Middle Management	150,306	48.11	137,345	41.98
Specialists	469,966	38.83	329,136	29.56
Administrative staff	6,864	34.67	2,386	20.93
Total	**649,316**	**40.97**	**492,730**	**32.98**

At TSB, the training plan related to the IT migration stands out, as it has included key groups in the migration process with the aim of preparing and aligning all capacities for the launch. This process forms part of wider monitoring, Human Factors, which measures the progress of training as well as other aspects of employees' occupational health during the entire process.

Training at TSB	2018	2017
Employees who have received training (%)	77.71%	99.59%

Total and average hours of training per professional category at TSB	2018		2017	
	Training hours	Average hours	Training hours	Average hours
Management	6,869	38.59	6,429	37.60
Middle Management	13,571	44.49	9,704	32.03
Specialists	258,701	72.36	510,926	140.06
Administrative staff	335,386	78.22	826,363	198.41
Total	**614,527**	**73.63**	**1,353,422**	**163.32**

2.5 Equality

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

One of the aims set out in Section E. Work-Life Balance of the Equality Pact signed in 2016 is to establish a flexi-time framework to enable employees to achieve a work/life balance, which is enforced equally between men and women. The key principles of this Pact therefore pursue:

- The execution of a better alignment between people and the company, i.e. between the development of the company's staff and the company's objectives.
- The provision of assistance to the workforce to enable them to achieve a healthy work/life balance.
- An increase in the organisational flexibility of the company, and its adaptation to changes in society, in relation to family, social indicators, habits and behaviour.
- Maternity protection, childcare protection and the protection of dependent people, favouring the full and smooth integration of men and women within the company.

In terms of diversity, Banco Sabadell has a solid track record when it comes to designing and implementing gender equality measures, focusing particularly on fostering female talent as a source of corporate wealth. To this end, it has carried out an in-depth assessment of indicators, broken down by gender, and it has also held workshops with management staff in order to better understand the current situation in terms of female talent within the bank. As a result of its efforts, a specific plan has been defined in order to continue making progress in terms of diversity and equality.

The measures that have been adopted with a view to fostering equal treatment and opportunities between men and women relate to a number of areas of activity: staff selection and recruitment (gender-neutral language in in internal job postings, standardised interview scripts, communication of the principle of equality to consultancy firms); training (equal participation between men and women in training activities, respecting the scheduled start and end times for such training, and conducting training activities during working hours whenever possible, creation of the "Equal Opportunities" course); promotions and career development (objective criteria relating to the suitability for the role and meritocracy, improvement and development of skills, promotion of at least 300 women to Level VII and 150 women to Level V); salary (100% of the annual salary paid to women on leave for pregnancy, breast-feeding, maternity and paternity leave, individual targets adjusted to the time worked, maintenance of targets); work/life balance (flexi-time, unpaid leave options, paid and unpaid short-time working, extended leaves of absence, holidays, internal transfers, etc.); gender violence (restructuring of working hours, preference in requests for internal transfers, contract suspensions, etc.); sexual abuse or sexual harassment (action protocol).

Banco Sabadell has had an Equality Plan, signed with the representatives of male and female employees, in place since 2010. The Plan was renewed in 2016 and it was published in the Official State Gazette, no. 191 of 11 August 2017. The main purpose of the Equality Plan is to prevent any type of labour discrimination between women and men at the company, as well as to prevent and penalise discriminatory behaviour due to gender, increasing the use of work/life balance measures, guaranteeing a balance between women and men at all levels, strengthening internal promotion and preventing and penalising sexual harassment and gender-based harassment. To do so, it establishes certain lines of action in different areas with specific objectives and commitments for each one of them: recruitment, training, development, wage, work/life balance, gender violence, sexual or gender-based harassment. The Equality Plan sets forth an action protocol for cases of sexual abuse, sexual harassment and workplace bullying. Through this protocol, when any such conduct is reported, a case file will be opened by an Investigation Committee in order to objectively assess the reported events. The Equality Plan Monitoring Committee meets twice a year to monitor the Plan.

In 2017 Banco Sabadell fulfilled and even went beyond the commitment it made in 2014 when it signed a Cooperation Agreement with the Spanish Ministry of Health, Social Services and Equality that set a target that women should account for 18% of senior management roles by 2018.

Furthermore the bank has a Board Members Recruiting Policy, approved by the Board of Directors in 2016, the aim of which is to establish the criteria which must be taken into account in the selection process of new members of the Board of Directors, as well as the re-appointment of the same.

This Policy promotes compliance with the gender diversity target, under which the gender with the lowest representation must represent at least 30% of the total members of the Board of Directors in 2020.

The Appointments Committee pays special attention to gender diversity in the Board of Directors, and in the assessment of the candidates selected, seeking to ensure the inclusion of women who comply with the requirements of the role sought.

The next steps will be to continue promoting gender diversity in order to strengthen the bank's commitment to this aspect, and to anticipate new regulatory disclosure requirements:

- Establish specific objectives and monitoring processes (incorporated into the Corporate Dashboard)
- Active management of female talent: maintain policies whereby candidates to positions are selected/promoted by a majority vote between three people and carry out forward-looking talent management (50% of women in the High Potential Development Scheme)
- Strengthen work/life balance measures
- Communicate and promote a corporate culture that encourages diversity (role models and awareness-raising sessions aimed at management staff)

Distribution of Group employees by gender

Gender	2018	2017
M	11,605	11,467
F	14,576	14,378
Total	26,181	25,845

%	2018	2017
Women in senior management positions	25.67%	24.34%
Women in line management positions.	33.50%	34.61%
Women in management positions	32.35%	33.19%
% of promotions who are women	49.55%	50.35%

Data calculated for the Group's total workforce
'Senior Management' includes executive directors, senior management, general management, corporate directors and TOP directors.
'Line Management' includes directors not included in the definition of 'Management Positions'.

2.6 Universal accessibility for people with disabilities

The Group fosters all forms of diversity and seeks to ensure the integration of all of its employees in the workplace, through its application of non-discriminatory recruitment and career development processes.

The Group establishes measures for the adjustment of roles where required in cases of functional diversity, which are in line with the occupational health and safety service's procedures relating to sensitive risk groups. The institution also assists employees with paperwork and formalities at municipality, autonomous community and state level that help to improve these employees' well-being beyond a strictly professional sense. Pursuant to the General Law on Persons with Disabilities (*Ley General de Discapacidad*), the bank implements the alternative supported employment measures set out in the aforementioned law by contracting services and supplies from special employment centres and by donating money to organisations that support people with disabilities; in 2018 it donated a total 600,000 euros to three such organisations (ONCE Foundation, Adecco Foundation and Cáritas).

As at December 2018, the Group had 188 employees with some form of disability (253 as at the end of 2017). The decline in the number of disabled employees, both in average terms and as at year-end, is due mainly to the reduction of staff in TSB (-62 employees YoY).

An in-depth study has been conducted of the distribution of the workforce by generation, identifying the variety and complexity of experience, skills, abilities and training in each of the generations in the workforce and formulating proposals for improvement that take into account their main interests, needs, expectations and concerns.

3. INFORMATION REGARDING HUMAN RIGHTS

Banco Sabadell has a Code of Conduct and an Ethics and Human Rights Policy in place, both of which were approved by the Board of Directors in 2003. The bank has also implemented a Code of Conduct for Suppliers, through which it ensures that its own commitment to safeguarding human rights is also applied throughout its supply chain.

Furthermore, the Group is a signatory a number of major national and international agreements relating to Human Rights:

- The United Nations Global Compact, of which it became a signatory in 2005, officially undertaking to commit to the ten principles, including the first and second principles on human rights and labour.
- The Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk, which considers a number of aspects including the responsibility to respect human rights by undertaking due diligence in order to prevent, mitigate and manage adverse impacts.

These commitments aim to eliminate discrimination in respect of employment and occupation, uphold the freedom of association and recognise the right to collective bargaining pursuant to the legislation of the country in which the institution's employees work (ILO Convention No. 87 on freedom of association and the right to organise and ILO Convention No. 98 on the right to organise and collective bargaining). They also aim to foster measures for improving the well-being of staff and helping them to achieve a work/life balance.

The bank also encourages and maintains an environment in which all employees are treated with dignity and respect and where they are treated fairly, without any form of discrimination by reason of gender, race, skin colour, age, social background, religion, nationality, sexual orientation, political opinion, physical or psychological disability or membership of labour unions.

It also prohibits all forms of forced and compulsory labour, servitude and labour under indentured labour contracts. It also does not hire any minors under the legal working age and in no case under the age of 15.

Regarding customers and society in general, the bank offers products and services that contribute to generating a positive impact on people's lives through responsible business practices: risk prevention through assessments of the risk of human rights violations in Project Finance, social housing management and financial inclusion.

In 2017, the bank reiterated its commitment to the Code of Good Banking Practice, in order to limit the effects of over-indebtedness of people and families and thus enable the financial inclusion of debtors at risk of social exclusion.

Regarding procurement management, the bank has procedures in place which guarantee that human rights are respected throughout the end-to-end supplier accreditation, selection and evaluation process, as described in the relevant section of this report.

4. INFORMATION REGARDING THE FIGHT AGAINST CORRUPTION AND BRIBERY

Banco Sabadell views ethics as one of its core corporate values, and it works to actively fight against corrupt practices. Banco Sabadell has been a signatory of the United Nations Global Compact since 2005, and as such it applies its Principles, thereby undertaking the express commitment to fight against all forms of corruption.

In this respect, it has a Code of Conduct and a Conflicts of Interest Policy in place to which all Group employees are subject.

As a financial institution, one of the pillars of Banco Sabadell's activity relates to anti-money laundering and counter-terrorist financing. Both the bank and its subsidiaries have in place due diligence measures, rules and procedures for each type of risk to which they are exposed, and which they apply in both pre-onboarding processes and in the continuous monitoring of onboarded customers. They include the recommendations issued by international bodies and by the Financial Action Task Force (FATF). In each foreign branch and representative office, as well as in each domestic and international subsidiary, a person has been designated to be responsible for these matters, and a procedure has been established for reporting incidents related to corruption and money laundering. A training plan is in place for all Banco Sabadell employees in relation to anti-money laundering and counter-terrorist financing.

The bank also pays particular attention to the supervision of loans and accounts held by political parties by following a rigorous customer onboarding procedure. Similarly, the bank does not make any contributions of any kind to political parties, politically exposed persons or related institutions.

In terms of transparency, all donations to NGOs and foundations are analysed and assessed by the bank's Sponsorship Committee or the Board of Trustees of the Foundation, in accordance with the principles laid down in the bank's Social Action Policy. The accounts of the Banco Sabadell Foundation are also duly audited.

It is also worth noting that Banco Sabadell's Code of Conduct regulates the acceptance of gifts and inducements, expressly setting forth that staff must reject all such items, as well as any contributions from a counterparty or any personal benefit offered by a customer or supplier which may limit or otherwise affect their decision-making capacity.

Lastly, as indicated in the section on Communication, the bank also has a whistle-blowing channel available to employees which they can use to anonymously submit queries, complaints and suggestions. Information received through this channel is reported to the institution's Corporate Ethics Committee.

5. INFORMATION REGARDING SOCIETY

Banco Sabadell enforces this commitment through transparency and accessibility, using specific products and management models which address different social matters. The bank also maintains a permanent dialogue to determine the concerns that it shares with society, based on which it takes part and promotes multiple initiatives relating to financial education, solidarity and other activities and partnerships with a social impact. The bank's commitment to society is channelled through its corporate volunteer scheme, the initiatives pursued by the bank's various divisions and through the Banco Sabadell Foundation.

5.1. Commitment to sustainable development

Banco Sabadell contributes to sustainable development through the following initiatives:

5.1.1 Transparency, simplification and accessibility

The bank has established mechanisms and arrangements to guarantee that all information provided to customers is transparent and that all of the products and services which it offers satisfy their requirements at all times.

In 2018, the online savings and investment platform “Sabadell Inversor” was implemented in the branch network. This platform is used to offer an expanded advisory service to all of the institution’s customers, addressing their specific needs and characteristics, whilst also complying with the legal requirements of the mandatory MiFID II regulation. This platform also centralises other ranges of products and services which complement the savings and investment offering.

Before selling a product or service, the products approval committee verifies that it meets the required transparency standards.

The branch network is also given information about products and services through pre-contractual information sheets, which make it easier for relationship managers to give the necessary explanations to help customers and consumers understand the characteristics of the products which they acquire. At the same time, when advising customers on investments, relationship managers also carry out the necessary tests to ensure that the financial products are in line with their needs and requirements, and assess customers’ knowledge and experience in this regard.

The bank has been a member of the *Asociación para la Autorregulación de la Comunicación Comercial* (the independent advertising self-regulatory organisation in Spain), more commonly known as “Autocontrol”, and through this membership it undertakes the commitment to offer responsible advertising that guarantees the accuracy of the information, acquisition process and operational characteristics of the advertised products.

In 2018, Banco Sabadell has expanded its range of distance banking services, thereby enabling customers to carry out certain transactions without having to visit their local branch. Its new distance banking services include obtaining frequently used bank certificates and digitally signing for certain financial products. A system has also been launched which allows new accounts to be opened via video call or using a mobile app, and a feature has been enabled which allows individual customers who do not require any notarial intervention to apply for loans using distance banking.

Banco Sabadell also offers the option to consult the prices of securities listed on Spain’s electronic market (*mercado continuo*) using Amazon’s voice service, Alexa, and it has expanded its voice services for the bank’s customers with iOS devices, allowing them to check their account balance and send or request money using a voice command.

In order to help customers carry out more banking transactions, a pilot programme has been launched under which branches can assist customers (subject to receiving prior notification) in the evenings.

5.1.2 Sustainable finance

Ethical and charitable investing

Banco Sabadell encourages responsible investing by offering customers a number of savings and investment products which also contribute to humanitarian projects. Products in this area include Fondo de Inversión Sabadell Inversión Ética y Solidaria F.I., (a mutual fund), Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A., (an investment company), Plan de Pensiones BS Ético y Solidario, P.P. and Plan de Pensiones BanSabadell 21 F.P. (pension plans), as well as Fondo de Pensiones G.M. PENSIONES, F.P. (a pension plan for Group employees).

In 2018 the Corporate Ethics Committees of Sabadell Urquijo Cooperación, Sicav, SA and Sabadell Inversión Ética y Solidaria, FI selected 35 humanitarian projects mostly aimed at addressing social exclusion risks, improving the living conditions of people with disabilities and meeting basic food and healthcare needs. Over €390,000 were granted to charitable organisations and projects in 2018.

In the area of investment, both pension funds manager BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the Principles for Responsible Investment in the “investment manager” category. These principles include social, environmental and good governance criteria in management policies and practices.

Sustainable bonds

Green, social and sustainable bonds are debt securities which support environmental and/or social improvement projects by meeting certain eligibility criteria.

The funds obtained from issuing these bonds are used to fund green/social projects (renewable energy, energy efficiency, water pollution and management, waste management, healthcare, social inclusion, etc.). They are rated by an external agency that verifies that the bonds identified as sustainable bonds qualify as such and also verifies that the funds obtained from issuing these bonds are used to fund environmental and/or social projects.

Banco Sabadell has taken part in the placement of Iberdrola and Gas Natural green bonds, and has acted as the sole placement agent of 150 million euros of sustainable bonds issued by the Autonomous Community of Madrid in 2018. This role has enabled it to acquire investors interested in purchasing these products.

5.1.3 Social housing management

Banco Sabadell manages social housing through Sogeviso, an institution wholly owned by the bank, in order to responsibly address situations of social exclusion faced by its vulnerable mortgage borrowers.

As at 31 December 2018, Sogeviso managed 10,178 properties under social and affordable rent arrangements specifically aimed at these vulnerable customers. In 53% of these cases the “Social Contract” has been incorporated. The Social Contract is a service under which social workers offer specific assistance and which is based on three pillars: (i) putting these customers in touch with public services, (ii) implementing employment and labour market insertion actions, by managing a service which aims to increase customers’ employability through training, coaching and job interview practice, and (iii) cooperating with public and private institutions, particularly those involved in the Third Sector. Comprehensive rent management, together with the Social Contract (which currently provides services to 5,344 families and has been consolidated as an innovative model with which to manage vulnerable customers), has enabled 3,501 families, all of which had members who are Banco Sabadell customers, to overcome their situation of social exclusion. 2018 has also seen the consolidation of the JOBS programme (for employment and labour market insertion), which ended the year with 2,688 participants. 1,483 people have found employment under this programme since it began in 2016. It is important to note that over 33% of these were hired for over 100 days and more than 6% were hired for long-term positions, which will improve their long-term employability.

Also during 2018, 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 167 mortgage loan restructuring operations.

Since 2013, Banco Sabadell has been a participant of the Social Housing Fund (*Convenio del Fondo Social de la Vivienda*, or 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 had to surrender their properties to settle their debt or who have lost their properties through foreclosure proceedings since January 2008. 90% of the bank’s housing stock is covered by social rent agreements currently in effect.

Furthermore, the bank has assigned 92 properties to 46 non-profit institutions and foundations, intended to lend support to disadvantaged social groups.

5.1.4 Financial education

Banco Sabadell continues to promote and take part in a number of financial education initiatives. From the institution’s perspective, this type of activity involves not only meeting the different training requirements of consumers and society in general, but also being by the side of consumers and society to help them develop their skills and decision-making abilities.

For children (up to age 13)

The drawing competition "What is money for? (*¿Para qué sirve el dinero?*), at http://paraquesirveeldinero.com/ has been running since 2010 and includes a series of educational activities and educational materials, prepared in cooperation with teachers and educators, to encourage the development of creativity and the understanding of the importance of saving, the value of money and solidarity.

This year, it includes a children's economic dictionary that is linked to an educational guide, which helps children to become more familiar, word by word, with the uses of money and provides answers to their questions and concerns. Additionally, for each drawing submitted, Banco Sabadell makes a donation to a charitable cause. The drawings that receive the most votes on social media are also awarded a prize. More than 7,300 drawings were submitted in 2018.

For adolescents

Since its creation six years ago, Banco Sabadell has taken part in the annual Catalan Schools Financial Education programme (*Educación Financiera de Escuelas de Cataluña*, or EFEC). The programme is taught in over 350 academic centres, and more than 87,600 students take part. This is equivalent to approximately 30% of students in their final year of compulsory education (4º ESO) in Catalonia.

The bank also participates in the "Your finances, Your future" programme ("*Tus Finanzas, Tu Futuro*"), in partnership with the Spanish Banking Association (Asociación Española de Banca, or AEB) and the Junior Achievement (JA) Foundation, which is offered at over 100 centres throughout Spain.

Financial education imparted by volunteers		2018	2017	2016
Number of volunteers	EFEC	87	179	164
	JA	32	32	34
Number of beneficiaries	EFEC	17,200	9,082	4,736
	JA	387	430	426

Banco Sabadell is also a signatory of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and Bank of Spain within the framework of the National Plan for Financial Education. This Plan, which was renewed in 2018 and which follows the recommendations of the European Commission and the OECD, is designed to improve public understanding of financial matters by providing citizens with basic knowledge and tools to enable them to manage their finances in a well-informed and responsible way.

For SMEs

For the last six years Banco Sabadell has worked in collaboration with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, and is the sponsor of the "Export to Grow" programme (*"Exportar para crecer"*) designed to help small and medium-sized enterprises to expand into foreign markets. It does this by offering them online tools and specialised information services and by arranging round table discussions throughout the country, in which close to 5,000 companies have already taken part.

As part of its commitment to supporting and advising corporate customers, Banco Sabadell has launched the second edition of the Sabadell International Business Programme, a training programme organised together with the University of Barcelona (UB) which can be completed either in person or digitally by following the live streaming of training sessions held in cities including Barcelona, Madrid, Valencia, Bilbao, Vigo and Seville.

In terms of the digitalisation of companies and the assistance given to them, the bank has launched a new programme and created a new role within the branch network: the *Director de Digitalización de Empresas* (Companies Digitalisation Director), who combines the duties of a professional consultant equipped with a good understanding of the unique characteristics of each customer together with the provision of personalised advice in relation to streamlining and transforming each business in areas such as e-commerce, data mining, digital marketing and cybersecurity.

Another initiative designed to support and assist companies is Sabadell Link, an audiovisual channel which, among other features, facilitates contact with key management staff at the representative offices in Europe, Asia, Africa and America. The exporter kit, which is available on the International Business website, is a set of tools for engaging in foreign trade activities with the maximum guarantees, and it is therefore another frequently used resource when it comes to firms' internationalisation processes.

Under BStartup, Banco Sabadell's entrepreneurship programme, the bank has organised around 40 informative chats for entrepreneurs about start-up funding. The topics addressed included both public and private funding options.

For families/society

In 2018 Banco Sabadell launched a new live debating programme, 'Futuros', under which it held debates on the Facebook Live platform regarding the day-to-day concerns of families as well as aspects that affect their household finances.

These debates, led by influential people from the worlds of culture, engineering, education and sport, make it clear that there are as many possibilities for the future as there are people in the world, and Banco Sabadell explains its role as a guide to support and assist families and offer them solutions at key moments in their lives.

This initiative offers families and society a chance to become involved by contributing to the debate and sharing a variety of opinions on matters such as: 'Are we meant to live together?' and 'How should your children study?'.

5.1.5 Corporate Volunteer Scheme

Banco Sabadell encourages employees to engage in community and volunteer work by providing them with the necessary means and resources.

Through Sabadell Life, a consolidated internal portal in place since 2016 and which has over 11,000 users, more than 500 charitable initiatives and corporate volunteer activities have been proposed by the bank and its employees and registered on the portal. The more community-minded employees either donated directly or exchanged their prizes for donations, using gamification, to one of the charitable causes sponsored by Sabadell Life through the Actitud Solidaria platform: school meals grants ('*Becas Comedor*') provided by Educo (this campaign was selected through a majority vote by employees in a survey) and educational supplies for children at risk of social exclusion under Ayuda en Acción, among others. The institution has also sent aid to those in need following natural disasters, such as the 2018 tsunami in Indonesia.
In addition to the financial education programmes mentioned above, some of the most popular volunteer initiatives included:

- Programmes to leverage the knowledge and experience of current and former employees to favour disadvantaged sectors and people at risk of social exclusion:

  - The Exit Foundation's "Coach" project, which mentors young people in vulnerable situations to help them find work. In 2018, 36 employees volunteered for a total of 1260 hours mentoring teenagers aged between 16 and 18 to help them improve their employability in the cities of Madrid, Barcelona, Valencia, Granada, Alicante and Palma.

  - Transpirinenca Social Solidària (TSS) is a social and educational project in which the Banco Sabadell Foundation is a collaborating partner and which aims to promote social inclusion. 300 young people and 200 volunteers from a number of companies, including Banco Sabadell, take part in a hike over the Pyrenees to support social inclusion, walking 800km in different stages over 42 days.

  - The second edition of BValue, a programme provided by the Banco Sabadell Foundation and the Ship2B Foundation which is designed to help non-profit organisations develop professionalisation and sustainability models. Under the programme, 20 employees act as mentors for various social entities, assisting and advising them.

- Contributions and participation in fundraising campaigns:

  - Trailwalker hike, in which over 40 teams took part with more than 100 volunteers, raising €65,000 for Intermon Oxfam in support of a world without poverty.

  - Inspiring Games, an online competition between companies in which the points earned by over 400 employees who took part in a number of different sports and activities led to the company being named the healthiest company of 2018. The bank donated the 1000 euro award to the 5p- Syndrome Foundation. 5p-Syndrome is a rare condition that affects 1 in 50,000 children.

  - Over 230 employees gave blood in Barcelona, Valencia and Madrid.

  - Collaboration with the 'Reyes Magos' Christmas campaign organised by the Magone Foundation. Over 470 Christmas presents were donated in response to letters to the Three Wise Men written by boys and girls at risk of social exclusion in regions such as Alicante, Barcelona, Bilbao, Madrid, Malaga, Oviedo, Galicia, Zaragoza and Valencia.

    - Other activities included charitable gift-giving on Saint George's Day (an event known as *Diada de Sant Jordi Solidario*) and the Charity Christmas Market in the Sant Cugat corporate centre, working together with various third sector organisations, including Obra Social San Juan de Dios, Proactiva Open Arms, Espigoladors, Sonrisas de Bombay and Mua Solidaris, among others.

- Projects aimed at labour integration and improving employability:

    - Partnership with Cáritas in the "Feina amb Cor" programme, aimed at people who are unemployed, have family burdens and/or are over 40 and receive no financial income. Banco Sabadell is the only financial institution associated with the project, and it offers such persons an opportunity to work in its branches, carrying out administrative duties and working with Customer Services on a temporary basis, particularly during the holidays.

      Of the 25 people who have taken part in the Feina amb Cor programme since 2015, 5 continue to work in branches in the province of Barcelona, 6 have worked more than the 3000 hours established as the maximum hours in the programme and 5 have found stable employment, which is the primary aim of the programme.

It is also worth mentioning TSB's extensive charitable work carried out in 2018 as part of the TSB Local Pride initiative, which pursues two objectives:

- Donate time, money and expertise, through the TSB Local Charity Partner programme, in which every branch supports a local cause that matters to their community. Also, help local sports clubs across the UK use the power of sport to make a positive difference to young people and their communities through its partnership with Sported, one of the leading Sport for Development charities in the UK.

- Share the stories of the unsung heroes helping people in their local communities.

5.1.6 Social action and sponsorship

Banco Sabadell's social action policy is based on the Group's commitment to social development and the creation of value. The bank carries out most of its activities in this area through the Banco Sabadell Foundation, the Sponsorship Committee and the work carried out with the joint cooperation of all of its divisions. In 2018, the Banco Sabadell Foundation received 5 million euros from the bank to carry out its activities.

Awards and recognition

The activities of the Banco Sabadell Foundation are organised around talent, science, culture and social entrepreneurship. Some of the key initiatives undertaken by the Foundation include the Award for Biomedical Research, the Award for Science and Engineering, which was created in 2017 in partnership with the Barcelona Institute of Science and Technology (BIST), and the Award for Economic Research, all of which aim to recognise and support the achievements of Spanish researchers in these fields. Another testament to the Banco Sabadell Foundation's commitment to science is its Scientific Research Grants, which it has been awarding for the past 24 years to pre-doctoral students, and its involvement in the Boards of Trustees of institutions such as the Pasqual Maragall Foundation.

In terms of supporting young talent, the Sabadell Foundation has also cooperated with Celera this year, a programme that identifies young people in Spain with a wide range of profiles and who have outstanding talent in research, entrepreneurship and engineering. The programme gives the selected candidates the tools that they need to fully tap into their potential.

Social innovation projects for social entities

In 2018, the Ship2B Foundation, together with the Banco Sabadell Foundation, launched the second edition of the BValue programme, which aims to help professionalise, transform and improve the value proposition of non-profit organisations in all areas of activity. 10 finalist proposals are selected after the first stage, which then receive support to launch a crowdfunding campaign through which their proposals and shared and validated. The projects are then presented during a Demo Day, during which the Banco Sabadell Foundation grants a number of financial support packages.

In 2017 a total of 40 social entities were selected to take part in the first edition of B-Value. 100 mentors specialising in different sectors took part in the programme. Thirty of them were Banco Sabadell employees who also participated in 4 face-to-face workshops held in Barcelona and Madrid.

Young talent programme

Since 2016, the Banco Sabadell Foundation and the Ship2B Foundation have worked together to detect and reward innovative projects which help to improve the coaching and employability of young people. With the B-Challenge programme, 20 groups of young people submit their projects to a selection, training and support process, at the end of which the 4 projects considered to have the most potential for success are selected.

The crowdfunding campaign #YoCreoTalento is used to support the talent of the 4 winning projects of the B-Challenge programme. These are social projects which propose innovative solutions using self-sustainable business models.

Community-minded attitude

In 2018, through the IT platform provided by Worldcoo, a start-up partly owned by the bank thanks to the BStartup10 programme, Sabadell has been able to effectively respond to a number of emergency appeals, including the appeal to raise funds following the tsunami in Indonesia, with over 300 donations being made in less than 24 hours in order to help over 700 people in need, by providing medicine, specialised care, hygiene facilities, as well as clean water and food.

5.2 Consumers, outsourcing and suppliers

5.2.1 Consumers

Banco Sabadell has a Customer Care Service which deals with complaints and claims.

In 2018, 44,713 complaints and claims were received, 32,849 of which were accepted for processing. The number of cases handled, however, was 35,445, due to the resolution of issues pending from the previous year. By type, 5.9% were complaints and 94.1% were claims.

The Group has a Customer Ombudsman, who is responsible for resolving the claims brought forward by the customers and users of the bank, both in the first and second instances, and for settling issues that are passed on to him by the Customer Care Service.

TSB's Customer Relations division received a total of 200,000 complaints and claims in 2018 (provisional data pending TSB's official year-end figures).

5.2.2 Outsourcing and suppliers

The challenges of competitiveness require the adoption of cooperative behaviour between Banco Sabadell and its suppliers and for suppliers to be viewed as strategic partners. Based on this principle, the bank established a series of protocols and standards in order to extend its commitment to socially responsible practices to the supply chain.
The protocols and mechanisms indicated above cover the end-to-end relationship with the bank's suppliers, from the supplier accreditation and evaluation process until the procurement process.

Banco Sabadell also requires its suppliers to adhere to the Group's environmental policy, thereby integrating environmental and social responsibility into its supply chain. The basic contracts with suppliers include clauses on respecting human rights and the ten principles of the United Nations Global Compact. Where required due to the activity involved, contracts also include environmental clauses.

Supplier accreditation

The Procurement Division has a portal in which suppliers, prior to registering, must accept the Code of Conduct for Suppliers, which includes:

- The United Nations Universal Declaration of Human Rights.
- International Labour Organisation agreements.
- United Nations Convention on the Rights of the Child.
- The principles of the United Nations Global Compact, of which the bank became a signatory in February 2005.

The documentation requested in the supplier accreditation form includes the ISO Certifications (such as ISO 9001, ISO 14001 and other quality certificates), documents related to governance matters and the published information on the company's CSR. Details of the characteristics of the products made available to the bank by the supplier (recycled, ecological and reusable products) may also be requested.

Before the accreditation process, suppliers are required to accept the general contractual terms and conditions and the code of conduct, which gives details about the bank's environmental policies.

In order to proceed with the accreditation process, suppliers must provide their legal documentation, financial information, quality certificates, proof that they are up to date with their social security payments and tax obligations, as well as their CSR policy.

After reviewing the documentation submitted through the monitoring tool, Banco de Sabadell proceeds with the supplier accreditation process.

Thereafter, when the documents provided by the supplier near the end of their validity period, the bank sends that supplier a reminder to update them. Once the updated documents have been submitted, they are reviewed and the accreditation status is updated.

Supplier evaluations

The Group's major suppliers (i.e. those with a turnover of more than 250,000 euros) and those classed as critical (i.e. those engaging in areas in which there are limited market players) are assessed on an annual basis on environmental and quality matters, as well as labour criteria and the status of their Social Security payments.

Banco Sabadell regularly checks that the documentation submitted by suppliers is fully up to date in order to guarantee compliance with accreditation criteria, and establishes mechanisms for sending periodic alerts.

Unit managers are given discretions in certain services unrelated to the Procurement Division, as these services do not represent a risk and involve financial service firms and consultancies. All of these exceptions are included in a transparent manner in the organisation's Procurement Manual.

International network

Supplier recruitment in the international network is decentralised, hiring only local suppliers and affecting only products for the sole use by the relevant branch or office in its daily activities.

5.3 Tax Information

Banco Sabadell Group is firmly committed to promoting responsible taxation, maintaining a cooperative relationship with the Tax Authority and fostering transparency in communications relating to tax information sent to the various stakeholders.

These commitments are embedded in the Group's Tax Strategy, published on its corporate website, which lists and describes the Group's principles of action in matters relating to taxation. These principles include the principle of efficiency, prudence, transparency and the mitigation of tax risk. The Group applies these principles in order to ensure that its overall tax contributions are in accordance with the law and the relevant international guidelines and principles established by the OECD.

Consolidated profit after tax in each country as well as the taxes and public subsidies received, all of which correspond to Training activities, are shown below.

Data in thousand euro

	Consolidated profit earned		Corporation tax paid	
Country	2018	2017	2018	2017
SPAIN	385,948	603,649	23,139	53,899
UNITED STATES	110,355	71,439	15,546	6,881
FRANCE	13,864	5,573	1,779	1,779
MEXICO	12,584	12,447	5,452	5,275
ANDORRA	8,307	8,005	357	1,072
CUBA	1,644	1,532	-	-
MOROCCO	1,256	1,965	896	1,484
LUXEMBOURG	86	74	-	76
BAHAMAS	-40	-90	-	-
PORTUGAL	-1,787	-	-	-
UNITED KINGDOM	-196,987	100,584	11,211	32,519
Total	335,230	805,178	58,380	102,985

Subsidies received in Spain in 2018 (Training): 2 million euros.

ANNEX 1. CORPORATE STANDARDS AND INSTITUTIONAL COMMITMENTS

Beyond the actions and initiatives summarised in this Non-Financial Disclosures Report, Banco Sabadell has a series of codes, policies and standards in place which determine its commitment to the Group's corporate purpose, and it is also a signatory of various national and international agreements which also enshrine this commitment. The policies and commitments listed below are those corresponding to the institution's non-financial areas.

Non-Financial Principles and Policies

- Code of conduct: this applies to all persons who directly form part of the Group, whether through a professional association or through their membership of its governing bodies.
- Internal Code of Conduct relating to the securities market.
- Code of Conduct for Suppliers.
- Corporate Social Responsibility Policy.
- Banco Sabadell Group policy on restrictions on financing and investment in activities associated with the arms industry.
- Ethics and Human Rights Policy.
- Shareholders and Investors Policy.
- Customers Policy.
- Human Resources Policy.
- Environmental Policy.
- Suppliers Policy.
- Social Action Policy.
- Banco Sabadell Group Remuneration Policy.
- Banco Sabadell Equality Plan.
- Guidance for the use of social media.
- Membership of AUTOCONTROL (the independent advertising self-regulatory organisation in Spain).
- Signatory of the Code of Banking Practice.
- Tax Strategy and Good Taxation Practices:
    - Tax Strategy.
    - Tax Liability and Good Taxation Practices.

Pacts, Agreements and Commitments

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti- corruption.
- Signatory of the Equator Principles, which incorporate social and environmental criteria in the funding of large-scale projects and corporate loans.
- Integration of CSR into corporate practices following the ISO 26000 guidelines.
- Signatory of the United Nations Principles for Responsible Investment in the “investment manager” category.
- Renewal of its membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Inclusion in sustainable indices FTSE4Good and FTSE4Good IBEX
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- ISO 9001 certification in effect for 100% of the Group’s processes and activities in Spain.
- ISO 14001 certification for the six corporate buildings.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change and its Water Disclosure programme.
- Awarded the Workplace Seal of Distinction (“*Distintivo de Igualdad en la Empresa*”) by the Ministry of the Presidency, Relations with the Cortes and Equality (Ministerio de Presidencia, relaciones con las cortes e Igualdad).

ANNEX 2. TABLE OF CONTENTS LAW 11/2018

Reference: Directors' Report (DR)

AREA	Content	Response / section	GRI Standards	GRI Description
BUSINESS MODEL	Brief description of the Group's business model, which shall include: 1.) its business environment, 2.) its organisation, 3.) its geographical presence, 4.) its targets, objectives and strategies, 5.) key factors and trends that could affect its future performance.	DR 1.1. Organisational structure	102-1	Company Name
		DR 1.1. Organisational structure	102-2	Activities, brands, products and services
		DR 1.1. Organisational structure	102-3	Location of headquarters
		DR 1.1. Organisational structure; DR 1.2 Business model, main objectives achieved and actions implemented; DR 9.c Credit ratings management	102-4	Location of operations
		DR 6. Expected future developments	102-6	Markets served
		DR 6. Expected future developments	102-7	Size of the organisation
		DR 1.1. Organisational structure	102-6	Markets served
POLICIES	A description of the policies applied by the Group in relation to such matters, which shall include: 1.) due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and significant impacts 2.) verification and control procedures, including the measures that have been adopted.	2. Information regarding corporate and staff-related matters (introduction); 3. Information regarding human rights; Annex 1 - Principles and Policies	103	Management approach disclosures for each area, it will be necessary to highlight what internal policies are in place
RESULTS OF KPI POLICIES	The results of these policies, which must include the relevant non-financial key performance indicators to enable: 1.) monitoring and assessment of progress made, and 2.) the comparability between companies and sectors, in accordance with national, European and international frameworks of reference used for each subject matter.	5.1.3 Social housing management; 2.1. Employment; 2.2.3. Health and safety; 2.4 Training; 1.5.1. Environmental risk assessment; 1.1. Pollution; 1.3. Sustainable use of resources; 5. Information regarding society	103	Management approach disclosures for each area

AREA	Content	Response / section	GRI Standards	GRI Description
SHORT TERM, MEDIUM TERM AND LONG TERM RISKS	The main risks related to these matters linked to the Group's activities, including, where relevant and proportionate, their business relationships, products and services which could have negative effects on these areas, as well as * the way in which the Group manages these risks, * explaining the procedures used to detect and assess such risks in accordance with national, European and international frameworks of reference applicable to each subject matter. * Information must be included on any impacts detected, providing a breakdown of such impacts, particularly in relation to the main short term, medium term and long term risks.	1.5.1 Environmental risk assessment; DR 4. Risks	102-15	Key impacts, risks and opportunities
NON-FINANCIAL KEY PERFORMANCE INDICATORS	Relevant indicators in relation to the existing corporate diversity and which meet comparability, materiality, significance and reliability criteria.	5.1.3. Social housing management; 5.1.2 Sustainable finance (Ethical and charitable investing); 1.5.2 Financing and investment in renewal energies; 5.1.4 Financial education; 1.4. Climate change	FS1,FS2	Financial services sector supplements: (FS1) Policies with specific environmental and social components applied to business lines; (FS2) Procedures for assessing and controlling social and environmental risks in business lines (FS2)

AREA	Content	Response / section	GRI Standards	GRI Description
ENVIRONMENTAL MATTERS	GENERAL ENVIRONMENT			
	1.) Detailed information about the current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety, environmental assessment or certification procedures; 2.) Resources dedicated to environmental risk prevention; 3.) Application of the precautionary principle, the amount of provisions and guarantees for environmental risks.	1. Information regarding environmental matters (Introduction)	103	Management approach disclosures for each area
		1. Information regarding environmental matters (Introduction)	102-11	Precautionary principle or approach
CUESTIONES MEDIO-AMBIENTALES	POLLUTION			
	1.) Measures to prevent, reduce or be mindful of carbon emissions that **severely** affect the environment; 2.) Taking into account any form of atmospheric pollution caused by a specific activity, including noise and light pollution.	1.1. Pollution	103	Management approach disclosures – Emissions
	CIRCULAR ECONOMY AND WASTE PREVENTION AND MANAGEMENT			
	Waste: Measures on the prevention, recycling, reuse and other forms of recovery and removal of waste;	1.2. Circular economy and waste prevention and management	103	Management approach disclosures – Effluents and waste
	Actions to combat food waste.	At the headquarters, which include a restaurant, the bank has a protocol in place designed to reduce food waste	103	Management approach disclosures – Effluents and waste
	SUSTAINABLE USE OF RESOURCES			
	Water consumption and water supply in accordance with local restrictions;	1.3.2 Water consumption	303-1	Water withdrawal by source
		1.3.2 Water consumption	303-2	Water sources significantly affected by water withdrawal
		1.3.2 Water consumption	303-3	Recycled and reused water
	Consumption of raw materials and measures adopted to make their use more efficient;	1.3.3 Paper consumption	103	Management approach disclosures – Materials
		1.3.3 Paper consumption	301-1	Materials used by weight or volume
		1.3.3 Paper consumption	301-2	Recycled consumables
	Direct and indirect energy consumption, measures taken to improve energy efficiency and the use of renewable energy.	1.3.1. Energy consumption	103	Management approach disclosures – Energy
		1.3.1. Energy consumption	302-1	Energy consumption within the organisation
		1.3.1. Energy consumption	302-4	Reduction of energy consumption

AREA	Content	Response / section	GRI Standards	GRI Description
ENVIRONMENTAL MATTERS	CLIMATE CHANGE			
	Key aspects of greenhouse gas emissions generated as a result of the company's activity, including the use of the goods it produces and the services it provides;	1.1. Pollution	103	Management approach disclosures – Emissions
		1.1. Pollution	305-1	Direct GHG emissions (scope 1)
		1.1. Pollution	305-2	Energy indirect GHG emissions (scope 2)
		1.1. Pollution	305-3	Other indirect GHG emissions (scope 3)
		1.1. Pollution	305-4	GHG emissions intensity
		1.1. Pollution	305-5	Reduction of GHG emissions
	The measures adopted to adapt the consequences of climate change;	1.4. Climate change	103	Management approach disclosures – Emissions
	The voluntary reduction targets established for the medium and long term to reduce greenhouse gas emissions and the measures implemented for such purposes.	1.4. Climate change	103	Management approach disclosures – Emissions
	PROTECTION OF BIODIVERSITY			
	Measures taken to preserve or restore biodiversity;	Banco Sabadell's activity does not have any significant impacts on biodiversity or on protected areas.	103	Management approach – Biodiversity
	Impacts caused by activities or operations in protected areas.	Not applicable. Banco Sabadell's activity does not have any significant impacts on biodiversity or on protected areas.	304-2	Significant impacts of activities, products and services on biodiversity

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	EMPLOYMENT			
	Total number and breakdown of employees by gender, age, country and professional classification;	2.1.1. Banco Sabadell workforce information	103	Management approach disclosures – Employment
		2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
		2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Total number and breakdown of types of employment contract;	2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
	Annual average of indefinite contracts, temporary contracts and contracts for part-time work by gender, age and professional category;	2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
		2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Number and breakdown of dismissals by gender, age and professional classification;	2.1.1. Banco Sabadell workforce information	401-1	New employee hires and employee turnover
	Average remuneration and its evolution, broken down by gender, age and professional classification or its equivalent;	2.1.3. Remuneration	405-2	Ratio of basic salary and remuneration between men and women
	Gender pay gap, remuneration for equal positions or average remuneration within the company;	2.1.3. Remuneration	103	Employment + Diversity and equal opportunity
		2.1.3. Remuneration	405-2	Ratio of basic salary and remuneration between men and women
	Average remuneration of directors and management staff, including variable pay, subsistence allowances, severance pay, payments into long-term retirement plans or any other amounts received, broken down by gender;	2.1.3. Remuneration	102-35	Governance; Remuneration policies

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	Implementation of **policies safeguarding employees' right to disconnect**.	No specific policies on safeguarding employees' right to disconnect are defined at corporate level.	103	Management approach disclosures – Employment
	Employees with disabilities.	2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Organisation of working hours	2.2. Work organisation, health and safety	103	Management approach disclosures – Employment
	Number of hours of employee absence	2.2.3. Health and safety	403-2	Types of accident and incidence rates of accidents, occupational illnesses, days not worked, **absenteeism** and number of deaths per workplace accident and occupational illnesses
	Measures aimed at facilitating the achievement of a work/life balance and encouraging the equal enjoyment of such measures by both parents.	2.2.2 Work/life balance	103	Management approach disclosures – Employment
	HEALTH AND SAFETY			
	Health and safety conditions in the workplace;	2.2.3. Health and safety	103	Management approach disclosures – Health and Safety management in the workplace
	Workplace **accidents**, in particular their frequency and severity;	2.2.3. Health and safety	403-2	Types of accident and incidence rates of accidents, occupational illnesses, days not worked, absenteeism and number of deaths per workplace accident and occupational illnesses
	Occupational illnesses; broken down by gender.	2.2.3. Health and safety	403-3	Workers with a high incidence rate or at high risk of illnesses related to their activity
	SOCIAL MATTERS			
	Organisation of social dialogue, including procedures for informing and consulting with staff and for negotiating with them;	2.3. Workplace relations	103	Management approach disclosures – Relationships between workers and the company
	Percentage of **employees covered by a collective bargaining agreement**, by country;	2.3. Workplace relations	102-41	Collective bargaining agreements
	Status of collective bargaining agreements, particularly in relation to occupational health and safety.	2.3. Workplace relations	403-1	Representation of workers in formal committees between employees and employers on health and safety

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	TRAINING			
	Policies implemented in relation to training;	2.4. Training	103	Management approach disclosures – Training and education
	Total hours of training, broken down by professional category.	2.4. Training	404-1	Average hours of training per year per employee
	Universal accessibility for people with disabilities	2.6. Universal accessibility for people with disabilities	103	Management approach
	EQUALITY			
	Measures adopted to promote equal treatment and opportunities between men and women;	2.5. Equality	103	Management approach disclosures – Diversity and equal opportunity + Non-discrimination
	Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality between men and women), measures adopted to promote employment, protocols against sexual abuse and sexual harassment, integration and universal accessibility for people with disabilities;	2.5. Equality		
	Policy against all forms of discrimination and, where applicable, gender diversity management.	2.5. Equality		

AREA	Content	Response / section	GRI Standards	GRI Description
HUMAN RIGHTS	Application of due diligence procedures in relation to human rights;	3. Information regarding human rights	103	Management approach disclosures – Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour
		3. Information regarding human rights	102-16	Values, principles, standards and codes of conduct
		3. Information regarding human rights	102-17	Mechanisms for advice and concerns about ethics
	Prevention of risks of human rights violations and, where applicable, measures to mitigate, manage and redress any such violations;	3. Information regarding human rights	103	Management approach disclosures – Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour
	Reported human rights violations;	No human rights violations were reported in 2018	406-1	Cases of discrimination and corrective actions taken
	Advocacy of and compliance with the provisions of fundamental conventions of the International Labour Organisation related to safeguarding the freedom of association and the right to collective bargaining;	3. Information regarding human rights	407-1	Transactions and suppliers whose freedom of association and right to collective bargaining could be at risk
	The elimination of workplace discrimination and job discrimination;	3. Information regarding human rights	103	Management approach disclosures – Non-discrimination
	The elimination of forced or compulsory labour;	3. Information regarding human rights	409-1	Activities and suppliers at significant risk of forced or compulsory labour
	Effective abolition of child labour.	3. Information regarding human rights	408-1	Activities and suppliers at significant risk of child labour

AREA	Content	Response / section	GRI Standards	GRI Description
CORRUPTION AND BRIBERY	Measures adopted to prevent corruption and bribery;	4. Information regarding the fight against corruption and bribery	103	Management approach – Anti-corruption
		4. Information regarding the fight against corruption and bribery	102-16	Values, principles, standards and codes of conduct
		4. Information regarding the fight against corruption and bribery	102-17	Mechanisms for advice and concerns about ethics
		4. Information regarding the fight against corruption and bribery	205-2	Communication and training about anti-corruption policies and procedures
	Measures to combat money laundering;	4. Information regarding the fight against corruption and bribery	205-2	Communication and training about anti-corruption policies and procedures
	Contributions to foundations and non-profit organisations.	5.1.6. Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes

AREA	Content	Response / section	GRI Standards	GRI Description
SOCIETY	**The company's commitments to sustainable development**			
	The impact of the company's activities on local employment and development;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	103	Management approach disclosures – Local communities + Indirect economic impacts
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-1	Infrastructure investments and services supported
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-2	Significant indirect economic impacts
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	The impact of the company's activities on local communities and in the area;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-1	Infrastructure investments and services supported
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	The relationships with key members of local communities and the different forms of dialogue with the same;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	102-43	Approaches to encourage the involvement of stakeholders
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	Association and sponsorship activities.	5.1.6. Social action and sponsorship	102-12	External initiatives
		5.1.6. Social action and sponsorship	102-13	Membership of associations

AREA	Content	Response / section	GRI Standards	GRI Description
SOCIETY	OUTSOURCING AND SUPPLIERS			
	* Inclusion in the procurement policy of social, gender equality and environmental matters; * Consideration in relationships with suppliers and subcontractors of their social and environmental responsibilities;	5.2.2. Outsourcing and suppliers	102-9	Supply chain
		5.2.2. Outsourcing and suppliers	103	Environmental assessment of suppliers + Evaluation of suppliers' social matters
		5.2.2. Outsourcing and suppliers	308-1	Environmental assessment of suppliers
		5.2.2. Outsourcing and suppliers	414-1	Evaluation of suppliers' social matters
	Supervision and audit systems and their results.	5.2.2. Outsourcing and suppliers	103	Management approach disclosures – procurement practices
	Consumers			
	Consumer health and safety measures;	5.1.1 Transparency, simplification and accessibility; 5.1.4 Financial education	103	Management approach disclosures – Customer health and safety + Marketing and labelling + Client privacy
	Whistle-blowing systems, complaints received and their resolution.	5.2.1. Consumers	103	Management approach disclosures – Customer health and safety + Marketing and labelling + Client privacy
	Tax information			
	Country-by-country earnings obtained	5.3. Tax information	103	Management approach disclosures – Economic performance + Quantitative data on taxes and earnings
	Corporation tax paid	5.3. Tax information	103	Management approach disclosures – Economic performance + Quantitative data on taxes and earnings
	Public subsidies received	5.3. Tax information	201-4	Financial assistance received from government

GLOSSARY

The glossary includes a definition of the indicators included in the Non-Financial Disclosures Report and which have no equivalent GRI standard.

Social housing management

- Properties used as social housing: number of properties available for rent as social housing as at year-end for customers at risk of being in vulnerable circumstances, based on the bank's internal criteria and obtained through foreclosure orders, payment in kind (*datio in solutum*) or occupied by illegal occupants who have entered into a rental agreement.

- Social contracts entered into over total properties available for social housing: number of social contracts entered into as a percentage of the total number of properties available for social housing as at year-end.

- Mortgage debt restructuring operations: total mortgage debt restructuring (change in repayment terms on an existing mortgage) operations carried out during the year.

- Payment in kind (*datio in solutum*): total number of payments in kind (where debtors surrender a property to the bank in repayment of their mortgage debt) carried out during the year.

- Indicators of contributions made to the Social Housing Fund (*Fondo Social de la Vivienda*, or FSV) under the framework of the latter's Agreement, as a result of Royal Decree-Law 27/2012 of 15 November on urgent measures to strengthen the protection of mortgage debtors; or Number of properties: total properties made available to the FSV by the bank.

- Occupancy rate: number of rental agreement entered into as a percentage of the total properties made available to the FSV by the bank.

- Social contracts (JoBS programme) from the start of the programme in October 2016: number of participants in the employment and labour market insertion programme (JoBS) under the framework of the bank's social contracts (rental agreements for social housing which include clauses on employment and labour market insertion programmes in which the signatory commits to take part), from the start of the programme in October 2016 and for the rental agreements in effect as at year-end.

- Employment contracts: total employment contracts (employment contracts signed under the framework of the employment and labour market insertion programmes indicated in social contracts) entered into as a result of the insertion programme (in cumulative terms since the start of the programme in October 2016 and for the rental agreements in effect as at year-end).

- Employment and labour insertion agreements signed: number of agreements in effect as at year-end signed with companies from different sectors under the framework of the JoBS employment and labour insertion programme.

ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER IDENTIFICATION DATA

REPORTING YEAR ENDED	31/12/2018

TAX ID NUMBER:	A-08000143

CORPORATE NAME
BANCO DE SABADELL, S.A.

DOMICILE
AVENIDA ÓSCAR ESPLÁ, 37 - ALICANTE

ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the next table about the company's ownership structure:

Date of last change	Share capital (€)	No. of shares	No. of voting rights
16/11/2017	703,370,587.63	5,626,964,701	5,626,964

Comments

Indicate whether there are different classes of shares, with different associated rights:

Yes ☐ No ☒

A.2 Detail direct and indirect owners of significant stakes at year-end, excluding directors:

Name of shareholder	Voting rights attributed to the shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)
	Direct	Indirect	Direct	Indirect	
BLACKROCK INC.	0	5.12%	0	0.20%	5.32%
FINTECH EUROPE S.A.R.L.	3.10%		0	0	3.10%
NORGES BANK	3.06%	0	0.11%	0	3.17%
COLTRANE MASTER FUND, L.P.	0	0	1.07%	0	1.07%

Comments

Detail the indirect holding:

Full name/corporate name of indirect owner	Full name/corporate name of direct owner	Voting rights attributed to the shares (%)	Voting rights through financial instruments (%)	Total voting rights (%)
BLACKROCK INC.	SUBSIDIARIES OF BLACKROCK, INC.	5.12%	0.20%	5.32%

Comments
Mr David Martínez Guzmán is the indirect holder of the voting rights attributed to the shares of Fintech Europe, S.À.R.L.”

Indicate significant changes in the ownership structure in the year:

BLACKROCK INC.	23/03/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	27/04/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	01/05/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	03/05/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	04/05/2018	The stake fell below 5% of capital stock
NORGES BANK.	25/05/2018	Acquisition of 3.149% of capital
BLACKROCK INC.	31/05/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	01/06/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	04/06/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	15/06/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	25/07/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	27/07/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	30/07/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	31/07/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	03/08/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	08/08/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	09/08/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	10/08/2018	The stake fell below 5% of capital stock
WINTHROP SECURITIES LTD.	23/08/2018	Attribution of its stake to Fintech Europe S.à.r.l.
BLACKROCK INC.	05/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	07/09/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	11/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	12/09/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	14/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	02/10/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	18/10/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	22/10/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	29/10/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	3/12/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	17/12/2018	The stake exceeded 5% of capital stock.

Main changes

A.3 Complete the next tables regarding the members of the company's board of directors who hold voting rights in the company:

Name of director	Voting rights attributed to the shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)	Voting rights that may be transferred through financial instruments (%)	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. JOSÉ OLIU CREUS	0.01%	0.11%	0.03%	0.00%	0.15%	0.00%	0.00%
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. JAIME GUARDIOLA ROMOJARO	0.02%	0.00%	0.03%	0.00%	0.05%	0.00%	0.00%
Mr. ANTHONY FRANK ELLIOTT BALL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. AURORA CATÁ SALA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. PEDRO FONTANA GARCIA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. MARÍA JOSÉ GARCÍA BEATO	0.00%	0.00%	0.01%	0.00%	0.01%	0.00%	0.00%
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. GEORGE DONALD JOHNSTON	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. DAVID MARTÍNEZ GUZMÁN	0.00%	3.10%	0.00%	0.00%	3.10%	0.00%	0.00%
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	0.04%	0.01%	0.00%	0.00%	0.05%	0.00%	0.00%
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	0.04%	0.00%	0.02%	0.00%	0.06%	0.00%	0.00%
Mr. MANUEL VALLS MORATÓ	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. DAVID VEGARA FIGUERAS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Total % of voting rights held by the board of directors	3.36%

Comments
The percentage of voting rights through financial instruments reflects the rights attributed to the long-term supplementary incentives for the years 2016, 2017 and 2018, which have not vested.

Detail the indirect holding:

Name of director	Full name/corporate name of direct owner	Voting rights attributed to the shares (%)	Voting rights through financial instruments (%)	Total voting rights (%)	Voting rights that may be transferred through financial instruments (%)
Mr. DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE S.A.R.L.	3.10%		3.10%	

Comments

A.4 Indicate any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the company, unless they are not material or are derived from ordinary commercial transactions, except those disclosed in section A.6.

A.5 Indicate any commercial, contractual or corporate relationships between owners of significant stakes and the company and/or its group, unless they are not material or are derived from ordinary commercial transactions:

A.6 Indicate any relationships between significant shareholders or shareholders with board representation and the directors, or their representatives, in the case of natural persons representing directors that are legal persons, except where such relations are non-material for the two parties.

Indicate how the significant shareholders are represented. Specifically, identify any directors who were appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders, or who are related to significant shareholders and/or entities in their group, indicating the nature of the relationship. In particular, disclose the existence, identity and position of directors, or representatives of directors, of the listed company who are, in turn, members of the board, or their representatives, in companies that hold significant stakes in the listed company or in entities of such significant shareholders' group.

Full name/corporate name of related director or representative	Name of related significant shareholder	Corporate name of the significant shareholder's group company	Description of relationship/position
DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE, S.À.R.L.		

Comments
Fintech Europe S.A.R.L. is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

A.7 Indicate whether shareholders' agreements that affect the company have been notified to the company as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe the agreements and list the shareholders involved:

Yes ☐ No ☒

Parties to shareholder agreement	% of share capital affected	Brief description of agreement	Date of expiration of the agreement, if any

Comments

Indicate if the company is aware of any concerted actions among its shareholders. If so, give a brief description:

Yes ☐ No ☒

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

On 24 December 2018, in regulatory disclosure no. 273.317, it was announced that the signatories of the shareholders' agreement dated 27 July 2006 had decided to cancel it.

A.8 Indicate if any natural or legal person exercises or can exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify that person:

Yes ☐ No ☒

Comments

A.9 Complete the next tables about the company's own shares:

At year-end:

No. of direct shares	**No. of indirect shares (*)**	**Total % of share capital**
88,788,514	2,448,704	1.62%

Comments

(*)

Through:

Name of direct owner of holding	**No. of direct shares**
TSB Bank plc.	2,448,704
Total:	2,448,704

Comments

Describe the main changes in the year:

Describe the main changes

See detail in table.

A.10 Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to buy or sell own shares.

The current mandate was granted by a resolution of the General Meeting of Shareholders of Banco Sabadell, S.A. on 19 April 2018, under item 6 on the agenda, for five years, in the following terms:

"Revoke the delegation granted under resolution six adopted at the General Meeting on 30 March 2017 in the part not executed, and authorise Banco de Sabadell, Sociedad Anónima so that, either directly or through any of its subsidiaries, and within a maximum period of five years as from the date of this General Meeting, it may acquire, at any time and as often as it sees fit, shares of Banco de Sabadell, Sociedad Anónima by any of the means admitted by law, including against profit for the year and/or unrestricted reserves, and that it may subsequently sell or cancel any shares thus acquired or, as appropriate, deliver them to employees or directors of Banco de Sabadell, Sociedad Anónima as part of their remuneration or as a result of the exercise of stock options which they hold, all in accordance with the provisions of articles 146, 509 and matching articles of the Capital Companies Act.

Approve the limits or conditions of these acquisitions, as follows:

- The par value of the shares thus acquired, directly or indirectly, in addition to any shares already held by Banco de Sabadell, Sociedad Anónima and its subsidiaries, must not exceed, at any time, the legal limit established at any time by the legislation in force (currently ten per cent of share capital), complying in all cases with all the limits for acquisition of treasury shares established by the stock market regulators in the markets on which the shares of Banco de Sabadell, Sociedad Anónima are listed.
- The acquisition, including any shares previously acquired by Banco de Sabadell, Sociedad Anónima (or by a person acting in their own name but on the bank's behalf) and held by it, must not lead to equity being less than the amount of capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.
- The shares acquired must have been fully paid.
- The acquisition price must be no less than par value and no higher than 20 per cent above the stock market price or any other price whereby the shares may be valued as of the date of their acquisition. All acquisitions of treasury shares must be made in accordance with general stock market rules and regulations."

A.11 Estimated free float:

	%
Estimated free float	86.83

Comments

A.12 Indicate whether there are any restrictions (under the Articles of Association, the law or any other type) on the transfer of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might hamper the acquisition of control of the company by purchasing its shares in the market, and the requirements as to prior authorisation or disclosure of the acquisition or disposal of the company's financial instruments that are applicable in its industry.

Yes [X] No [ ]

Description of the restrictions

The only existing restrictions are those derived from Spanish legislation applying to all credit institutions. There are no restrictions in the Articles of Association or of any other type. Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, establishes that in any acquisition of at least 10 percent of the capital or of the voting rights of the institution, or that, without attaining that percentage, enables significant influence to be exercised over the institution, as well as any increases such as to exceed 20%, 30% or 50%, or the acquisition of control of the institution, the purchaser must give advance notice to the Bank of Spain, which will process the request for approval or denial by the European Central Bank. The reduction of the stake below those thresholds must be notified by the seller to the Bank of Spain.

A.13 State whether the General Meeting adopted measures to neutralise a takeover bid under the provisions of Act 6/2007.

Yes ☐ No ☒

Detail any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

A.14 Indicate whether the company has issued securities that are not listed in a regulated market in the European Union.

Yes ☐ No ☒

If so, state the classes of shares and, for each class of shares, their corresponding rights and obligations.

B GENERAL MEETING

B.1 Indicate whether there are differences with respect to the minimum requirements set out in the Capital Companies Act in connection with the quorum for a General Meeting of Shareholders, and describe any such differences.

Yes ☐ No ☒

B.2 Indicate whether there are differences with respect to the rules provided by the Corporations Law for the adoption of corporate resolutions, and describe any such differences:

Yes ☐ No ☒

Describe the differences with respect to the rules set out in the Capital Companies Act.

B.3 Describe the rules that apply to amendments of the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and any rules for safeguarding shareholders' rights in the event of an amendment of the Articles.

Amendments of the Bank's Articles of Association are governed by the Capital Companies Act and the Bank's own Articles of

Association; where required by law, it is also necessary to obtain authorisation from the Bank of Spain under the powers assigned to it by article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, without prejudice to the functions attributed to the European Central Bank in accordance with the provisions of Council Regulation (EU) No 1024/2013, of 15 October, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

In accordance with the provisions of the Capital Companies Act, where amendments are approved by the General Meeting, the following requirements must be met:

- The directors or shareholders proposing the amendment must provide a written report justifying the proposed amendment.
- The proposed amendments must be clearly set out in the notice of the General Meeting.
- The notice of the General Meeting must state that all shareholders are entitled to inspect the full text of the proposed amendment and accompanying explanations at the Company's registered office and to request that those documents be provided or sent to them free of charge.

The resolutions must be adopted by the Shareholders' Meeting in accordance with Article 43 of the Articles of Association:

Article 43.
In order for an Ordinary or Extraordinary Shareholders' Meeting to validly adopt a resolution to issue bonds that are convertible into shares or that grant entitlement to participate in the company's earnings, to reduce or increase the share capital, to change the legal form of the Company, to merge or de-merge the Company or, generally, to make any amendment to the Articles of Association, the Meeting, if at first call, must be attended, in person or by proxy, by shareholders holding not less than 50 per cent of the subscribed voting shares.

If at second call, 25 per cent of capital must suffice.

Where those present represent less than 50 per cent of the subscribed voting shares, any of the resolutions referred to in the preceding paragraph must require a majority of two-thirds of the capital in attendance, whether in person or by proxy.

B.4 Indicate the attendance at the shareholders' meetings held in the reporting year and the two preceding years:

Date of General Meeting	% in attendance	% represented	% remote voting		Total
			Electronic voting	Other	
31/03/2016	0.84%	65.43%	0.00%	0.00%	66.27%
Of which free float:	0.62%	63.22%	0.00%	0.00%	63.84%
30/03/2017	0.68%	63.30%	0.00%	0.00%	63.98%
Of which free float:	0.55%	62.92%	0.00%	0.00%	63.47%
19/04/2018	0.78%	60.57%	0.00%	0.00%	61.35%
Of which free float:	0.66%	60.38%	0.00%	0.00%	61.04%

Comments
The percentage of free float may include significant holdings held through international custodians.

B.5 Indicate whether any item on the agenda of the general meetings held during the year was not approved by the shareholders, for any reason.

Yes ☐ No ☒

Items on the agenda that were not approved	% votes against (*)

(*) If non-approval is due to reasons other than votes against, provide details in the text section and, in the "% votes against" column, enter "n/a".

B.6 Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting or to vote by distance means:

Yes [X] No [ ]

Number of shares required to attend the General Meeting.	1,000
Number of shares required to vote by distance means	-

Comments

B.7 Indicate whether there are rules requiring that certain decisions, other than those established by law, involving the acquisition, transfer, contribution to another company of essential assets or other similar corporate operations must be submitted for the approval of the general meeting.

Yes [ ] No [X]

Detail the decisions, other than those established by Law, that must be submitted to the general meeting.

B.8 Give the address of the company's website and the way to access the information about corporate governance and other information about General Meetings that must be placed at shareholders' disposal via the company's website.

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy". The information about General Meetings is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Shareholder and investor information"

C THE COMPANY'S GOVERNANCE STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles, and the number established by the general meeting:

Maximum number of directors	15
Minimum number of directors	11
Number of directors established by the general meeting	15

Comments

C.1.2 Complete the next table with the members of the board:

Name of director	Representative	Director category	Board position	First appointed	Last appointed	Election procedure
Mr. JOSÉ OLIU CREUS		EXECUTIVE	CHAIRMAN	29/03/1990	28/05/2015	GENERAL MEETING DECISION
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR		INDEPENDENT	DEPUTY CHAIRMAN	18/09/2010	28/05/2015	GENERAL MEETING DECISION
Mr. JAIME GUARDIOLA ROMOJARO		EXECUTIVE	MANAGING DIRECTOR	27/09/2007	19/04/2018	GENERAL MEETING DECISION
Mr. ANTHONY FRANK ELLIOTT BALL		INDEPENDENT	DIRECTOR	30/03/2017	30/03/2017	GENERAL MEETING DECISION
Ms. AURORA CATÁ SALA		INDEPENDENT	DIRECTOR	29/01/2015	28/05/2015	GENERAL MEETING DECISION
Mr. PEDRO FONTANA GARCIA		INDEPENDENT	DIRECTOR	27/07/2017	19/04/2018	GENERAL MEETING DECISION
Ms. MARÍA JOSÉ GARCÍA BEATO		EXECUTIVE	DIRECTOR and VICE-SECRETARY	24/05/2018	24/05/2018	BOARD RESOLUTION
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS		INDEPENDENT	LEAD INDEPENDENT DIRECTOR	29/03/2007	30/03/2017	GENERAL MEETING DECISION
Mr. GEORGE DONALD JOHNSTON		INDEPENDENT	DIRECTOR	25/05/2017	19/04/2018	GENERAL MEETING DECISION
Mr. DAVID MARTÍNEZ GUZMÁN		PROPRIETARY	DIRECTOR	27/03/2014	19/04/2018	GENERAL MEETING DECISION
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ		INDEPENDENT	DIRECTOR	26/03/2013	19/04/2018	GENERAL MEETING DECISION
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI		INDEPENDENT	DIRECTOR	18/09/2010	28/05/2015	GENERAL MEETING DECISION
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ		EXECUTIVE	DIRECTOR	31/05/2012	30/03/2017	GENERAL MEETING DECISION
Mr. MANUEL VALLS MORATÓ		INDEPENDENT	DIRECTOR	22/09/2016	30/03/2017	GENERAL MEETING DECISION
Mr. DAVID VEGARA FIGUERAS		INDEPENDENT	DIRECTOR	28/05/2015	28/05/2015	GENERAL MEETING DECISION

Total number of directors	15

Indicate any directors who stepped down in the reporting period, due to resignation, removal or any other reason:

Name of director	Director's category at time of removal	Date of last appointment	Date of removal	Specialised committees of which he/she was a member	Indicate whether the director stepped down before the end of his/her
Mr. JOSÉ MANUEL LARA GARCÍA	Other External	28/05/2015	24/05/2018	Audit and Control	Yes

Reason for stepping down, and other comments
On 24 May 2018, Banco Sabadell released a regulatory disclosure to the effect that Mr. José Manuel Lara García had presented his resignation by means of a letter to all the directors in which he explained that his decision was due to the fact that he was no longer involved in managing Inversiones Hemisferio and Grupo Planeta.

C.1.3 Complete the next tables with the members of the board and their category:

EXECUTIVE DIRECTORS

Name of director:

Mr. JOSÉ OLIU CREUS

Position in the company's organisation chart

CHAIRMAN

Profile:

BANKING / RETAIL & CORPORATE BANKING / FINANCE / ACADEMIC / INTERNATIONAL

He holds a degree in economics from the University of Barcelona and a PhD in economics from the University of Minnesota (USA). He was appointed Managing Director of Banco Sabadell in 1990 and has been Chairman of Banco Sabadell since 1999. He is currently non-executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. He is also a member of FEDEA (Fundación de Estudios de Economía Aplicada), and a member of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation.

Name of director:

Mr. JAIME GUARDIOLA ROMOJARO

Position in the company's organisation chart

MANAGING DIRECTOR

Profile:

BANKING / RETAIL & CORPORATE BANKING / FINANCE

He graduated in Law from Barcelona University and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). He has been managing director of Sabadell since 2007. He is a member of the Board of Trustees of Fundación ESADE, Chairman of the Economic Policy Committee of Barcelona Chamber of Commerce, and a member of the Board of Círculo de Economía.

Name of director:

Mr. JOSÉ LUIS NEGRO RODRÍGUEZ

Position in the company's organisation chart

Director - General Manager

Profile:

BANKING / FINANCE / RISKS

Diploma in General Management from IESE. In the course of his career at Banco Sabadell, he has held a number of positions, such as General Secretary - Control (2000-2001) and Controller General (2001-2012), and Vice-Secretary of the Board of Directors (2006-2012). Executive director of Banco Sabadell since 2012 and General Manager since 2013. He is currently a director of Sociedad Rectora de la Bolsa de Valores de Barcelona He is also Vice-Chairman of Barcelona Centro Financiero Europeo.

Name of director:

Ms. MARÍA JOSÉ GARCÍA BEATO

Position in the company's organisation chart

DIRECTOR and COMPANY SECRETARY

Profile:

BANKING / LAW / REGULATORY

Degree in Law and Diploma in Criminology. Spanish State Attorney since 1991. She was appointed Chief of Staff of the Minister of Justice in 2000, and Under-Secretary of Justice in 2002. General Counsel of Banco Sabadell (2005-2008). Company secretary of Banco Sabadell since 2008. Executive director of Banco Sabadell since 2018. She is currently an independent director at listed company Red Eléctrica Corporación, S.A. She is also a member of the Board of Trustees of Fundación Banco Sabadell, Fundación de la Asociación Española de Banca and Fundación Wolters Kluwer.

Total number of executive directors	4
% of total Board	26.67%

Comments

PROPRIETARY EXTERNAL DIRECTORS

Name of director:

Mr. DAVID MARTÍNEZ GUZMÁN

Name of the significant shareholder whom the director represents or who proposed his/her appointment:

FINTECH EUROPE S.À.R.L.

Profile:

BUSINESS / FINANCE / INTERNATIONAL

Degree in Electrical/Mechanical Engineering from the National Autonomous University of Mexico, and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Proprietary director of Banco Sabadell since 2014. He is currently a director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B.

Total number of proprietary directors	1
% of total Board	6.67%

Comments

INDEPENDENT EXTERNAL DIRECTORS

Name of director:

Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR

Profile:

BANKING / RETAIL & CORPORATE BANKING / BUSINESS

Holds a degree in Economics and Actuarial Science from the University of the Basque Country. Formerly Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Independent director of Banco Sabadell since 2010 and Vice Chairman of the Board since 2013. He is currently an independent director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, of listed company Ence, Energía y Celulosa, S.A., and of listed company Telefónica, S.A. and of Telefónica Móviles México, S.A. de C.V., both belonging to the same group. He is also a trustee of Fundación Novia Salcedo.

Name of director:

Mr. ANTHONY FRANK ELLIOTT BALL

Profile:

BUSINESS/INTERNATIONAL:

Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law. Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSkyB Plc. (1999-2004) and Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Independent director of Banco Sabadell since 2017. He is currently Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC.

Name of director:

Ms. AURORA CATÁ SALA

Profile:

BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES

Holds a degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Managing Director of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Independent director of Banco Sabadell since 2015. Currently partner of Seeliger y Conde, S.L., director of listed company Atresmedia Corporación de Medios de Comunicación, S.A., member of the Executive Committee of IESE and member of the Board of Barcelona Global.

Name of director:

Mr. PEDRO FONTANA GARCIA

Profile:

BANKING / RETAIL / BUSINESS

Degree in Business from Escuela Superior de Administración y Dirección de Empresas (ESADE), Barcelona, and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), and Deputy General Manager of Elior Group, S.A. (2017-2018). Independent director of Banco Sabadell since 2017. He is currently an independent director of Grupo Indukern, S.L. and representative of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A. He is also President of Asociación para el Progreso de la Dirección, Member of the Barcelona Chamber of Commerce, Member of the Board of Trustees of Fundació Privada Cercle d'Economía and of Fundación Barcelona Mobile World Capital, and a director of Fira Internacional de Barcelona.

Name of director:

Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS

Profile:

ACADEMIC/AUDITING/FINANCE

She has a Degree in Economics from the University of Barcelona and a PhD in Economics from the University of Minnesota, and has been a senior lecturer at the Department of Economics and Business at Pompeu Fabra University since 1995. Formerly held a number of directorships. Independent director of Banco Sabadell since 2007, and Lead Director since April 2016. She is also the Director of the Barcelona Graduate School of Economics, and a researcher and Board member of the International Economics Research Centre (CREI).

Name of director:

Mr. GEORGE DONALD JOHNSTON

Profile:

BANKING / CORPORATE BANKING / INTERNATIONAL

BA in Political Science from Middlebury College, Vermont, MA in International Economics and Latin American Studies from Johns Hopkins University. Executive Director at Salomon Brothers (1979-1990), Director of Bankers Trust International and member of its Global Executive Committee (1992-1999), Group Head of M&A for Europe and Member of the Europe Executive Committee and of the Global Operating Committee within the investment banking division of Deutsche Bank (1999-2005), Chairman of the M&A Group for Europe of Deutsche Bank (2005-2010), Director of SCi Entertainment Plc (Eidos) (2007-2009). Independent director of Banco Sabadell since 2017. Currently an independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A.

Name of director:

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ

Profile:

BUSINESS / RETAIL BANKING / INSURANCE / FINANCE / INTERNATIONAL

A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid.
Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Independent director of Banco Sabadell since 2013. Currently Honorary Chairman of MAPFRE.

Name of director:

Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI

Profile:

BANKING / BUSINESS

An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Independent director of Banco Sabadell since 2010. Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A.

Name of director:

Mr. MANUEL VALLS MORATÓ

Profile:

AUDITOR

Degree in Economics and Business Studies from the University of Barcelona and a post-graduate qualification in Business Administration from IESE/University of Navarra: he is a registered auditor and a member of Spain's official register of auditors since its creation. Partner of PwC (1988-2013), Head of the Audit Division at PwC (2006-2013) and Chairman of PwC Auditores (2006-2011). Independent member of the Governing Board of Institut Català de Finances (2015-2016). Independent director of Banco Sabadell since 2016. Currently an independent director of listed company Renta Corporación Real Estate, S.A.

Name of director:

Mr. DAVID VEGARA FIGUERAS

Profile:

FINANCIAL / RISKS / ACADEMIC / REGULATORY

A graduate in Economics and Business Studies, Major in General Economics (Applied Economics) from the Autonomous University of Barcelona, he holds a Master in Economics, major in Capital Markets and Political Science, from London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), Deputy Managing Director, Banking, European Stability Mechanism (ESM) (2012-2015), and Associate Professor in the Department of Economics, Finance and Accounting at ESADE (until 2018). Independent director of Banco Sabadell since 2015. Currently member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A.

Total number of independent directors	10
% of total number of Board members	66.67%

Comments

Indicate whether any director classified as independent receives, from the company or the same group, any amount or benefit under a heading other than director remuneration, or holds or has held, during the last year, a business relationship with the company or any other company in its group, either in his/her own name or as a significant shareholder, director or senior manager of an institution that holds or has held such a relationship.

None.

If yes, give the reasons why it is considered that the director qualifies as an independent director.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and detail the reasons why they cannot be classified as proprietary or independent, and any relations they have with the company, its executives or its shareholders.

Name of director:

-

Company, executive or shareholder to which he/she is related:

-

Reason:

-

Profile:

-

Total number of other external directors	
% of total number of Board members	

Comments

Indicate any changes in each director's status in the period:

Name of director	Date of change	Previous category	Current category

Comments

C.1.4 Complete the following table with information on the number of female directors in the last four years, and their category:

	Number of female directors				% of total directors in each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	1	0	0	0	25.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	2	2	2	20.00%	20.00%	28.57%	22.22%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	3	2	2	2	20.00%	13.33%	14.29%	13.33%

Comments
Banco Sabadell appointed one female director in 2018, with the category of Executive Director, which, considering the two female independent directors, significantly strengthened the presence of women on the Board of Directors.

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors with regard to issues such as age, gender, ability, or professional training and experience. Small and medium-sized undertakings, as defined the Audit Act, must disclose at least the policy they have established in relation to gender diversity.

Yes [x] No [ ] Partial policies [ ]

If yes, describe the diversity policies, their objectives, the measures and the way in which they have been applied and their results in the year. Also disclose specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve balance and diversity on the Board of Directors.

If the company does not apply a diversity policy, give the reasons.

Description of the policies, objectives, measures and manner in which they were applied, as well as the results obtained
Banco Sabadell applies its diversity policy through the Banco Sabadell Policy for the Selection of Candidates for

Directorship, which was approved by the Board of Directors on 25 February 2016, and whose goal is to achieve an appropriate balance in the composition of the Board of Directors such as to have the overall effect of enriching decision-making and providing plural viewpoints in debates on matter under its remit.

In order to achieve this diversity objective, the Policy establishes the conditions that the Appointments Committee must vet in candidates for directorships in Banco Sabadell; candidates are required to have professional competence, provide diversity and meet the fitness and suitability requirements. To this end, in accordance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, professional competence will be assessed in persons who have achieved recognition in their profession; particular value is attached to recognition or prominence in the business community, which enables the candidate to contribute a strategic and business vision. Candidates are also expressly required to have an academic background with the appropriate level and profile to comprehend the institution's main activities and risks. Diversity in the Board of Directors is achieved through a variety of professional profiles, experiences, origins, nationalities and, in particular, gender; fitness and suitability is evidenced by an appropriate track record and personal, commercial and professional conduct that shed no doubt as to the person's capacity to exercise healthy, prudent oversight of the institution.

Regarding the measures and manner in which the Banco Sabadell diversity policy is applied, the Appointments Committee fulfils its function of overseeing the qualitative composition of the Board of Directors, as set out in the Articles of Association and the Regulations of the Board of Directors; it oversees the application of and compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, and by ensuring that the selection procedures, when filling vacancies on the Board or appointing new directors, favour a diversity of experience and knowledge, facilitate the selection of female directors and, in general, do not have any implicit biases that may entail discrimination of any kind.

The Appointments Committee ensures that the candidate selection process fulfils the parameters of professional competence, diversity of profiles, origins, experience and knowledge, and good repute and suitability; in assessing the selected candidates, it places special emphasis on ensuring gender diversity in the Board of Directors. To this end, where necessary during the director selection process, the Committee can call on the support of an external consulting firm in order to obtain a diversity of candidate profiles for analysis.

In addition, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee ethical and responsible behaviour throughout the organisation and have an impact on diversity and that are equally applicable to the Board of Directors, both in the director selection procedure and in the day-to-day performance of their functions, in matters such as training and professional experience, age, ability and gender.

These policies are published on the Company's corporate website (www.grupobancosabadell.com), within the Corporate Social Responsibility (CSR) section. One of the primary guidelines of the Banco Sabadell Group Human Resources Policy is to ensure optimal professional development for its employees while providing a working environment free of any kind of discrimination on grounds of age, ability or gender. Additionally, the Banco Sabadell Group Ethics and Human Rights Policy requires that fairness, transparency, professional responsibility, respect for diversity and the rights of individuals and the non-discrimination and exploitation of the human being are values that are part of the way of being and way of doing of the Banco Sabadell Group. Likewise, the Ethics and Human Rights Policy enshrines the principle of equality of persons without any distinction on the basis of race, sex, religion or any other distinguishing characteristic, respecting their dignity and guaranteeing equality of opportunities. In the area of workplace safety, the Banco Sabadell Occupational Safety Plan has a specific procedure for the protection of particularly sensitive persons, including workers with a recognised disability, which applies equally to the Board of Directors.

C.1.6 Describe any measures adopted by the Appointments Committee to ensure that the selection procedure is free of any implicit bias that might prevent the selection of women, and that the company deliberately seeks female candidates with the necessary professional profile, enabling it to attain a balance of women and men:

Detail such measures

The Board of Directors has adopted active policies to promote gender equality within the institution. Specifically, at a meeting on 17 February 2016, the Appointments Committee issued a favourable report to the Board of Directors on the approval of the Banco Sabadell Policy for the Selection of Candidates for Directorship, in compliance with Recommendation 14 of the Code of Good Governance for Listed Companies.

As indicated in section C.1.5 above, the Policy sets out the criteria to be applied in the process of selecting new members of the Board of Directors and in the re-appointment of directors, under the provisions of the applicable laws and recommendations, and establishes that those selection procedures must facilitate the selection of female directors and, generally, must not have any implicit biases that might hamper the appointment of female directors. The Policy goal is that the under-represented gender accounts for at least 30% of the Board by 2020.

In particular, the Appointments Committee ensures that the director selection process fulfils the requirements as to professional competency, integrity, suitability and diversity and, specifically, seeks to ensure that there is a sufficient number of female directors. To this end, during the director selection process, the Committee focuses particularly on ensuring gender diversity on the Board of Directors, ensuring that the candidates include women with the necessary professional profile, for which purpose it can be assisted by an external consulting firm in order to obtain a diversity of profiles for analysis.

At 2018 year-end, there were 3 female directors out of a total of 15, two of them independent directors and one of them an executive director. Since 2016, the Lead Independent director has been a woman, who is also a member of the Audit and Control Committee, the Appointments Committee, the Remuneration Committee and the Risk Committee. The other female independent director is the Chair of the Appointments Committee and of the Remuneration Committee. As a result, women account for 20% of the Company's Board of Directors, 20% of the independent directors and 25% of the executive directors; they also chair two of the Board's five sub-committees and are members of four of those five committees. Accordingly, female directors account for 25% of the Audit and Control Committee, 25% of the Risk Committee, and 50% of the Remuneration Committee and the Appointments Committee.

Where, despite such measures, there are few or no female directors, indicate the reasons for this situation:

Detail the reasons

C.1.7 Detail the conclusions reached by the Appointments Committee in assessing compliance with the director selection policy. In particular, indicate how this policy promotes the objective that, by 2020, women account for at least 30% of the Board.

In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship that was approved by the Board of Directors on 25 February 2016, the Appointments Committee has placed on record that it checked that the policy was complied with in the director appointments made in 2018, which conformed to the parameters and requirements of both the Policy and the existing regulations governing directorships at credit institutions. Specifically, in the appointment by the Board of Directors on 24 May 2018 of the new executive director, Ms. María José García Beato, whose banking, regulatory and legal profile complements the diversity of knowledge and experience of the Board of Directors. Ms. María José García Beato was appointed on the basis of the procedure described in the Banco Sabadell Policy for the Selection of Candidates for Directorship, in a transparent process that focused particularly on increasing gender diversity, in compliance with the mandate of the Board of Directors and of the Appointments Committee to enhance gender diversity on the Board.

C.1.8 Indicate any reasons for which proprietary shareholders were appointed at the proposal of a shareholder owning less than 3% of capital:

Name of shareholder	Justification
-	-

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others which applied successfully for a proprietary directorship. Detail the reasons for any such rejection:

Yes ☐ No ☒

Name of shareholder	Explanation
-	-

C.1.9 Disclose any powers or faculties delegated by the Board of Directors to directors or committees of the Board:

Name of director or committee:	Brief description
Mr. JOSÉ OLIU CREUS	He holds general powers to represent the institution, direct and promote the strategy and all those for the exercise of his functions as Chairman of the Board and Chairman of the Executive Committee; direct oversight and promote the establishment of risk control and management systems for the Bank and the Group, direct supervision of the Internal Audit services of the Bank and the Group; direct and promote the communication strategy of the Bank and the Group; and enter into strategic and collaborative agreements.
Mr. JAIME GUARDIOLA ROMOJARO	All the powers of the Board, except those that may not by law be delegated, and those powers that are necessary for him to manage the institution effectively as its chief executive.
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	The general powers that are necessary to perform his functions in the institution.
Ms. MARÍA JOSÉ GARCÍA BEATO	The general powers that are necessary to perform her functions in the institution.
EXECUTIVE COMMITTEE	It has been expressly delegated with all the powers corresponding to the Board of Directors, except the powers that the law or the Articles reserve exclusively for the Board.

C.1.10 Identify any board members who are directors, representatives of directors, or executives in other companies that form part of the listed company's group:

Name of director	Name of Group company	Position	Does he/she have executive functions?
Mr. JOSÉ OLIU CREUS	SABADELL CONSUMER FINANCE, S.A.U.	CHAIRMAN	No
Mr. JAIME GUARDIOLA ROMOJARO	SABADELL CONSUMER FINANCE, S.A.U.	DIRECTOR	No
Mr. JAIME GUARDIOLA ROMOJARO	BANCO SABADELL, S.A. I.B.M. (MEXICO)	CHAIRMAN	No
Mr. JAIME GUARDIOLA ROMOJARO	SabCapital, S.A. de C.V., SOFOM, E.R.(MEXICO)	CHAIRMAN	No
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	SABADELL CONSUMER FINANCE, S.A.U.	DIRECTOR	No
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	BANSABADELL FINANCIACIÓN, E.F.C. S.A.	CHAIRMAN	No
Mr. DAVID VEGARA FIGUERAS	BANCO SABADELL, S.A. I.B.M. (MEXICO)	DIRECTOR	No
Mr. DAVID VEGARA FIGUERAS	SabCapital, S.A. de C.V., SOFOM, E.R. (MEXICO)	DIRECTOR	No

C.1.11 Detail any directors of the company, or representatives of directors that are legal persons, who are members of the board of directors, or representatives of directors that are legal persons, of other companies listed on official stock markets, other than group companies, of which the company has been notified:

Name of director	Name of listed group company	Position
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ACS ACTIVIDADES DE LA CONSTRUCCIÓN Y SERVICIOS, S.A.	DIRECTOR
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	TELEFÓNICA, S.A.	DIRECTOR
Ms. MARÍA JOSÉ GARCÍA BEATO	RED ELÉCTRICA CORPORACIÓN, S.A.	DIRECTOR
Ms. AURORA CATÁ SALA	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A.	DIRECTOR
Mr. PEDRO FONTANA GARCÍA	GRUPO ELIOR, S.A.	REPRESENTATIVE OF DIRECTOR
Mr. GEORGE DONALD JOHNSTON	ACERINOX, S.A.	DIRECTOR
Mr. GEORGE DONALD JOHNSTON	MERLIN PROPERTIES, SOCIMI, S.A.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	ALFA, S.A.B. DE C.V.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	CEMEX, S.A.B. DE C.V.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	VITRO, S.A.B. DE C.V.	DIRECTOR
Mr. MANUEL VALLS MORATÓ	RENTA CORPORACIÓN REAL ESTATE, S.A.	DIRECTOR

Comments

C.1.12 Indicate whether the company has established rules about the maximum number of directorships that board members can hold; describe any such rules and detail their location:

Yes [X] No [ ]

Detail the rules and identify the document where they are set out

Banco Sabadell is bound by article 26 of Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions. which establishes the maximum number of directorships that directors of credit institutions may hold, in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, specifically article 91, which establishes the following maximum combination of positions: i) one non-executive position with two no-executive positions, ii) four non-executive positions. Executive and non-executive positions in the same group or in companies in which the institution holds a significant stake count as one position. Also applicable are the European Central Bank's Guide to fit and proper assessments, updated in May 2018, and the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 12 March 2018, which came into force on 30 June 2018. The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

C.1.13 Indicate the amounts of the following items of the overall remuneration for the Board of Directors:

Remuneration earned by the Board of Directors in the year (thousand euro)	6,463
Amount of accumulated pension rights held by current directors (thousand euro)	37,883
Amount of accumulated pension rights held by former directors (thousand euro)	0

Comments

C.1.14 Indicate senior management members who are not executive directors and the total remuneration accrued to them in the year:

Name	Position(s)
Mr. MIQUEL MONTES GÜELL	GENERAL MANAGER
Mr. TOMÁS VARELA MUIÑA	GENERAL MANAGER
Mr. CARLOS VENTURA SANTAMANS	GENERAL MANAGER
Mr. RAFAEL JOSÉ GARCÍA NAUFFAL	DEPUTY GENERAL MANAGER
Mr. RAMÓN DE LA RIVA REINA	DEPUTY GENERAL MANAGER
Mr. ENRIC ROVIRA MASACHS	DEPUTY GENERAL MANAGER
Mr. MANUEL TRESÁNCHEZ MONTANER	DEPUTY GENERAL MANAGER
Mr. JOSÉ NIETO DE LA CIERVA	DEPUTY GENERAL MANAGER
Ms. NURIA LÁZARO RUBIO	DEPUTY GENERAL MANAGER - HEAD OF INTERNAL AUDIT

Total remuneration for senior management (thousand euro)	6,326

Comments

C.1.15 Indicate whether there were any amendments to the board regulation in the year.

Yes ☐ No ☒

Describe the amendments

C.1.16 Indicate the procedure for appointing, re-appointing, assessing and removing directors. Indicate the competent bodies, the process and the criteria for each procedure.

In accordance with the provisions of Articles 50, 53, 55 and 61 of the Articles of Association, articles 14, 19 and 20 of the Board of Directors Regulation, the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors on 25 February 2016, and the procedure for assessing the suitability of the members of the Board of Directors and holders of key functions of Banco Sabadell, the procedures for appointment, reappointment, evaluation and removal of directors are as follows:

Selection

The Appointments Committee is responsible for analysing the competencies and diversity of the Board of Directors in order to determine the profile of candidates for director of Banco Sabadell. In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, it is responsible for performing a prior assessment to ensure that candidates for director possess the necessary competencies, knowledge and experience; to that end, it is necessary to consider the balance of knowledge, skills, diversity and experience of the members of the Board of Directors and, for this purpose, to define the roles and capabilities required of the candidates to fill each vacancy and to evaluate the time and dedication needed for them to effectively perform their duties.

To select candidates, the Appointments Committee may, if deemed necessary, engage a prestigious consultant in the field of personnel selection to initiate a process of finding candidates that fit the desired profile. Additionally, any director may suggest candidates for director provided they meet the requirements of the Banco Sabadell Policy for the Selection of Candidates for Directorship.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key personnel must be applied; on this basis, the Appointments Committee will analyse the information about the candidates and the reports presented by the Board Secretary, drawn up by the Bank's Senior Counsel, as to their commercial and professional integrity, knowledge and experience and their willingness to provide good governance, by application of the requirements set out in Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, and having regard to the criteria for assessing the suitability of the members of the Board of Directors as set out in Royal Decree 84/2015, of 13 February, implementing the aforementioned Act 10/2014, of 26 June, and the European Central Bank guidelines on fit and proper assessments dated 15 May 2017, as well as the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 21 March 2018, which came into force on 30 June 2018. The Appointments Committee will check that candidates meet the requirements as to integrity, knowledge, experience and governance envisaged in the applicable legislation and will draw up a candidate suitability assessment report. In addition, candidates for directorships must be vetted by the European Central Bank.

The Appointments Committee is also entrusted with assessing director suitability on an ongoing basis, and evaluating the profile of the persons most suited to being members of the various committees, and making proposals in this regard to the Board of Directors; in particular, it must seek to ensure that the rules on the qualitative composition of the Board of Directors are complied with.

Appointment

After assessing the suitability of candidates for director, the Appointments Committee is entrusted, among its basic responsibilities in accordance with Article 61 of the Articles of Association, with making proposals to the Board for the appointment of independent directors either by co-optation or for submission to a vote at the General Meeting of Shareholders, and must advise on the proposals to appoint other director categories by co-optation or by referral to the General Meeting of Shareholders.

Ordinary members of the Board of Directors are appointed by the General Meeting of Shareholders. Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board decides, in the interests of the bank, to act in accordance with the Capital Companies Act. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

Re-appointment

Directors are appointed for a term of at most four years and they can be re-appointed one or more times for periods of the same maximum duration.

(This description continues in section H)

C.1.17 Describe the extent to which the annual evaluation of the Board led to significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes

Each year since 2007, the Bank assesses the performance of the Board of Directors and of its sub-committees (Executive Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee). The assessment for the year 2017 was carried out with the help of an independent external consultant, Deloitte Legal, in compliance with the provisions of the Code of Good Governance of Listed Companies, whose Recommendation 36 establishes that, at least once every three years, the Board of Directors should be assisted in the assessment by an external consultant, whose independence should be vetted by the Appointments Committee.

The report on the assessment by Deloitte Legal of the Board of Directors and the Committees of Banco Sabadell was approved by the Board of Directors at its meeting on 8 March 2018, after a favourable report from the Appointments Committee. The conclusions of the Report were positive: it found that the functioning of the Board of Directors is excellent, complying with the functions attributed to it by the Capital Companies Act, the Articles of Association of Banco Sabadell and its own terms of reference; the report highlighted the position and performance of the Chairman and the Managing Director, and no aspects of internal functioning were found that might affect the overall conclusion that performance is satisfactory.

Nevertheless, the Report established an Action Plan consisting of measures aimed at improving Banco Sabadell's corporate governance and the workings of both the Board of Directors and of its sub-committees.

In compliance with the measures contained in the Action Plan for 2018, the following actions were carried out:

An increase in the diversity of the composition of the Board of Directors through the appointment of a female executive director, which improves the gender balance in the Board of Directors.

Enhancement of the Director training programme. Training addressed specific needs of the directors, and the fact that the training was given by Banco Sabadell executives was considered to be a strength.

The Board worked further on the definition of strategy, with a high degree of director involvement, which resulted in meetings with the executive team to discuss the Strategic Plan.

With regard to sending documentation to directors sufficiently in advance, the technology systems provided to the directors were strengthened.

To encourage and monitor compliance with the specific action plans approved by the Committees for 2018, and by the Board itself, Banco Sabadell undertook measures in addition to those covered by the 2018 Action Plan, by approving a number of policies aimed at more effective control of such aspects as remuneration in the Group, risk control and management in Banco Sabadell, operational risk, privacy and data protection and the Group's scenarios.

Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an external consultant, if any, with regard to the performance and composition of the Board and its committees, and any other area or aspect that was assessed.

Description of the assessment process and the areas that were assessed

In accordance with article 529 nonies of the Capital Companies Act, the Code of Good Governance for Listed Companies and the Board of Directors Regulation, the Board of Directors assessed its own performance and that of its sub-committees in 2017 with the assistance of an independent external consultant, Deloitte Legal.

The methodology applied in the assessment is based on three main elements:

- Input from the directors. The perception of the members of the Board of Directors and its committees is a key component of the analysis, since they know how it works and are a source of essential information for diagnostic purposes. Directors' opinions on the various issues under assessment were gathered through personal interviews with directors and by asking them all to complete the same questionnaires.

- Analysis of significant corporate documentation of Banco Sabadell relating to key aspects of the corporate governance system. The documentation and information that were reviewed were the agendas and minutes of the Board of Directors and sub-committee meetings, as well as records of member attendance at meetings, the self-assessment report for 2016 and the action plan for 2017, the institution's internal regulations (Articles of Association, Board of Directors Regulations, Regulations of the Audit and Control Committee, and the Code of Conduct in relation to the securities market), and the bank's policies and public disclosures, such as the Annual Corporate Governance Report for 2016.

- Review of the 2017 Reports on the activities of the Appointments Committee, the Remuneration Committee and the Risk Committee. Analysis of these documents provided greater insight into the actions of the committees in 2017, giving a broader vision of their performance and the fulfilment of the duties assigned to them.

The analysis of director feedback, obtained through interviews and questionnaires, as well as the information contained in the activity reports and the analysis of the corporate information and other relevant documentation of Banco Sabadell, enabled the external advisor to acquire extensive knowledge of the performance of the Board of Directors, the degree of participation by its members and key position holders, the efficiency of its committees, the matters that were reported and debated, and other additional information that is germane to the performance assessment and the identification of potential areas for improvement on which to design the action plan for 2018.

In accordance with recommendation 36 of the Code of Good Governance, Deloitte Legal reviewed the quality and efficiency of the Board of Directors' performance; the performance and composition of its committees; the diversity in the composition and competencies of the Board of Directors; the performance of the Chairman of the Board of Directors and the Chief Executive Officer; and the performance and contribution by each director. The review also covered fulfilment of the action plan for 2017 that arose from the assessment the Board of Directors' performance in 2016, and the action plan for 2018 was defined.

C.1.18 In years where the assessment was performed with the support of an external consultant, detail the business relations between the consultant and any company in its group with the company and any company in its group.

The year 2017 was the first year in which the performance assessment of the Board of Directors and its sub-committees was assisted by an external consultant, Deloitte Legal.

The business relations with the external consultant and any company in its group are within the ordinary course of business. Deloitte Legal has provided advice on matters of criminal liability. Other companies in the Deloitte group have provided advisory services to the Banco Sabadell group, particularly in the field of information technology and security.

C.1.19 Indicate the reasons for which directors may be forced to resign.

Under article 20 of the Banco Sabadell Board of Directors Regulation, directors may be removed:

a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.
c) Where their continuance on the Board may jeopardise the company's interests.

C.1.20 Do any decisions require a supermajority, other than the legal majority?

Yes ☐ No ☒

Describe the differences, if any.

Description of differences

C.1.21 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

Yes ☒ No ☐

Description of requirements
Those established in the Succession Plan for the Chairman and Managing Director of Banco Sabadell, approved by the Board of Directors on 21 July 2016.

C.1.22 Indicate if the articles or board regulation establish an age limit for directors:

Yes ☐ No ☒

C.1.23 Indicate if the articles or board regulation establish a term limit for independent directors or other requirements for them that are stricter than those provided by law, other than those provided in the regulations:

Yes ☐ No ☒

Additional requirements and/or maximum term	

C.1.24 Indicate whether or not the Articles of Association or the Board Regulation set out specific rules for directors to grant proxy in Board of Directors meetings, the method of doing so and, more specifically, the maximum number of proxies that a director can hold, as well as whether or not a limitation has been set with regard to the categories to which proxy may be granted, above and beyond the limitations imposed by law. Give a brief description of any such rules.

Directors must attend Board of Directors meetings in person. However, when they can not attend in person, they may grant proxy to another director. Article 56 of the Articles of Association establishes that non-executive directors may grant proxy only to another non-executive director.

Additionally, the Director Remuneration Policy for 2018, 2019 and 2020, approved by the Shareholders' Meeting on 19 April 2018, which establishes the system of remuneration for directors for their functions as members of the Board of Directors, breaks down their fixed remuneration under this heading, establishing, in addition to the fixed remuneration for membership of the Board, per diems for meeting attendance, capped at 11 per diems for ordinary meetings; directors may collect per diems for up to two meetings per year missed for just cause provided that they grant proxy.

C.1.25 Indicate the number of board of directors meetings held in the year. Also, state the number of times that the Chairman did not attend Board meetings. Proxies granted with specific instructions are not counted as absences:

Number of Board meetings	14
Number of Board meetings held without the chairman	0

Comments

Indicate the number of meetings held by the lead director with the other directors, without any executive director being present.

Number of meetings	2

Comments

Indicate the number of meetings held by board sub-committees in the year:

Committee	No. of meetings
Number of Executive Committee meetings	35
Number of Audit and Control Committee meetings	12
Number of Appointments Committee meetings	12
Number of Remuneration Committee meetings	12

Number of Risk Committee meetings	15

Comments

C.1.26 Indicate the number of board of directors meetings held in the year, and give data on attendance by members:

Number of meetings which were attended in person by at least 80% of directors	14
Attendance in person as a % of the total number of votes during the year	97.58%
Number of meetings at which all the directors were present in person or for which they granted proxy with specific instructions.	14
Votes cast with all directors actually present or having granted proxy with specific instructions, as a % of total votes in the year	100%

Comments

C.1.27 Indicate whether the separate and consolidated financial statements that are presented for board approval are certified beforehand:

Yes ☒ No ☐

Identify the person(s) that certified the company's separate and consolidated financial statements for board authorisation:

Name	Position
Mr. JOSÉ OLIU CREUS	CHAIRMAN
Mr. JAIME GUARDIOLA ROMOJARO	MANAGING DIRECTOR
Mr. TOMÁS VARELA MUIÑA	GENERAL MANAGER—CHIEF FINANCIAL OFFICER

Comments

C.1.28 Detail any mechanisms established by the Board of Directors to ensure that the separate and consolidated financial statements authorised by it are presented to the Shareholders' Meeting with an unqualified auditors' report.

The Bank's internal units draw up financial statements drafted clearly such as to present a true and fair view of the company's net worth, financial situation and results, to which end they must apply generally accepted accounting principles to all the financial and accounting information.

The Audit and Control Committee reviews the company's financial statements, both separate and consolidated, before referring them to the Board, and exercises vigilance to ensure compliance with the law and the proper application of generally-accepted accounting principles. To this end, it holds regular meetings with the external auditors in order to be informed punctually about the audit process and to be aware sufficiently in advance of any possible discrepancies or differences of opinion that might arise. In the event of any discrepancy that might lead to a qualification in the auditors' report, the committee seeks to resolve it before the financial statements are authorised.

If the discrepancy cannot ultimately be resolved before the financial statements are authorised, the annual report of the Audit and Control Committee must expressly describe the discrepancies and its position in connection with them.

The auditors' reports on the separate and consolidation financial statements for 2018 were unqualified.

C.1.29 Is the board secretary a director?

Yes ☐ No ☒

If the secretary is not a director, complete the following table:

Name of secretary	Representative
Mr. MIQUEL ROCA I JUNYENT (SECRETARY)	

Comments

C.1.30 Describe the specific mechanisms established by the company to safeguard the independence of the external auditors, and any mechanisms to safeguard the independence of financial analysts, investment banks and rating agencies, including details of how the legal requirements are implemented in practice.

In connection with the external auditors, article 60 of the Articles of Association provides that the Audit and Control Committee has the following competencies:
(…)
4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
(…)
6. 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 and in the audit rules."

The Board of Directors Regulation expresses itself in similar terms: article 30 provides that: "Relations between the Board and the company's external auditors will be conducted through the Audit and Control Committee."

During 2018, the Audit and Control Committee was composed of four independent directors and one non-executive director until 24 May 2018, when the latter resigned from the Board of Directors of Banco Sabadell. That Committee's Regulation, which was current in 2018, includes the provisions of the Articles of Association and the Board of Directors Regulation; article 21.3 provides that, as directors and members of the Committee, those members must act with independence of opinion and action with respect to the rest of the organisation (…)

On 19 April 2016, in conformity with Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April, the Audit and Control Committee approved the Group policy for safeguarding auditor independence. The policy is implemented through procedures that contemplate measures to preserve the auditor's independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, rotation requirements and fee limits, as well as measures in the processes of auditor selection, appointment, reappointment or replacement, and processes for authorising all the auditor's services, particularly in connection with non-audit services that the auditor is not prohibited from providing.

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm's independence with respect to the Banco Sabadell Group was received on 24 July 2018 and 28 January 2019. Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued, and it issued its annual report on that independence.

The institution complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, the institution: i) takes care not to provide financial analysts with any information that might put them in a position of privilege with respect to other market participants, ii) regularly uses the services of three prestigious rating agencies, and iii) where the bank receives advice from investment banks in certain transactions and, in the course of providing those services, such investment banks become privy to inside information, the institution includes the persons who become privy to such information in its internal control systems, and expressly notifies such persons of the obligation to fulfil their duty of confidentiality and ensure that it, and any trading restrictions, are fulfilled by others.

The institution also acts in accordance with the provisions of its General Policy on Conflicts of Interest, which is based essentially on identifying, logging, managing, avoiding or eliminating any conflicts of interest, and in line with the Banco Sabadell Group Policy on Outsourcing Services or Functions, approved in connection with credit institutions by the Board of Directors on 27 October 2016.

C.1.31 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

Yes ☐ No ☒

Outgoing auditor	Incoming auditor

Comments
Based on a reasoned recommendation from the Audit and Control Committee, the Board of Directors resolved, at a meeting on 20 December 2018, as disclosed via regulatory disclosure no. 273.045, to appoint select KPMG Auditores, S.L. as auditor of the financial statements of Banco de Sabadell, S.A. and the consolidated financial statements of the Banco Sabadell group for the years 2020, 2021 and 2022. This decision was adopted in compliance with current legislation on auditor rotation and as a result of a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities. The Board will propose this appointment to the next Ordinary General Meeting of Shareholders.

If there was a disagreement with the outgoing auditor, describe it:

Yes ☐ No ☒

Explanation of the disagreement

C.1.32 Indicate whether the audit firm performs work for the company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of the total fees billed to the company and/or its group:

Yes ☒ No ☐

	Company	Group companies	Total
Fees for work other than auditing (thousand euro)	142	433	575
Fees for work other than auditing/Total audit fees (%)	10.91%	8.34%	8.86%

Comments
The amount of fees for non-audit work does not include audit-related services for a total of 659 thousand euros (486 thousand euros corresponding to the Company and 173 thousand euros corresponding to Group subsidiaries), since they are independent assurance services, some of which are required by law.

C.1.33 State whether or not the auditors' report on the previous year's financial statements was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to the shareholders at the General Meeting of Shareholders to explain the content and scope of the qualification or exception.

Yes ☐ No ☒

Description of the reasons

C.1.34 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or the consolidated financial statements of its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Separate	Consolidated
Number of consecutive years	36	34
No. of years audited by the current audit firm/No. of years that the company has been audited (%)	94.74%	100.00%

Comments

C.1.35 State and detail any procedures in place to ensure that directors can obtain the information they need to prepare in good time for meetings of the Board and committees:

Yes ☒ No ☐

Detail the procedure

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the Agenda, which must contain, among other items, information about subsidiaries and Board sub-committees, and proposals and suggestions by the Chairman and other Board members and the bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

1. Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations. The right to information extends to subsidiaries, both domestic and foreign.

2. So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Secretary to the Board, who must attend to the director's requests by giving the information directly, providing appropriate access to individuals at the relevant level of the organisation, or providing the means by which the director may carry out the desired formal examination and inspection on site.

Banco Sabadell has a procedure for providing the directors with the necessary material to prepare for meetings of the Board of Directors and its sub-committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed; hence, they are duly informed.

C.1.36 State and detail any rules in place that oblige the directors to report any circumstances that might jeopardise the company's credit and reputation and, if appropriate, resign:

Yes [X] No [ ]

Describe the rules

The rules in the Capital Companies Act, in the chapter on directors' duties, are applicable: Specifically, under article 50 of the Articles of Association and article 23 of the Board of Directors Regulation, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Executives, they must disclose any case where there might be a conflict of values or interests in order to enable the Bank to manage such situations appropriately.

Additionally, article 20 of the Board of Directors Regulation provides that directors will be removed:

a) When they fulfil any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.

b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious infringement.

c) Where their continuance on the Board may jeopardise the company's interests.

All the foregoing is without prejudice to the application of the rules on the fitness assessment to be performed by the bank in line with the procedure approved by the Board of Directors, which requires that any potential conflicts of interest or special situations be checked and assessed.

C.1.37 State whether any member of the Board of Directors has informed the company that he/she has faced criminal charges or has been arraigned for any of the offences listed in Article 213 of the Capital Companies Act:

Yes [ ] No [X]

State whether the Board of Directors has analysed the case. If so, give a reasoned explanation of the decision taken as to whether or not the Director should remain in office or, where applicable, detail the actions taken by the Board of Directors until the date of this report or that it plans to take.

C.1.38 Detail any significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

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C.1.39 Identify and detail, individually, in the case of directors, and in overall terms, in other cases, any agreements between the company and its directors and senior executives or employees that contain indemnities, guarantees or severance clauses in the event of their resignation or unfair dismissal or if the contractual relationship is terminated due to a takeover bid or other transaction.

Number of beneficiaries	45
Type of beneficiary	**Description of agreement**

Chairman	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Managing Director	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Director - General Manager	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Director and Company Secretary	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Other beneficiaries	25 executives have a clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control, and 16 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control.

State whether, outside the cases provided for in the regulations, such contracts must be reported and/or approved by the decision-making bodies of the company or group. If so, specify the procedures, cases and nature of the bodies foreseen assumptions and the nature of the parties responsible for approving or disclosing:

	Board of Directors	**General Meeting**
Body that authorises the clauses	Yes	No

	Yes	**No**
Is the General Meeting informed of the clauses?	X	

Comments

C.2. Board of Directors sub-committees

C.2.1 Give details of all committees of the Board of Directors, their members, and the proportion of executive, proprietary, independent and other non-executive directors in their composition:

Executive Committee

Name	**Position**	**Category**
Mr. JOSÉ OLIU CREUS	CHAIRMAN	Executive
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Independent
Mr. JAIME GUARDIOLA ROMOJARO	MEMBER	Executive
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	MEMBER	Independent
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	MEMBER	Executive

% executive directors	60.00%
% proprietary directors	0.00%

% independent directors	40.00%
% other external directors	0.00%

Comments

Detail the functions assigned or attributed to this committee other than those already described in section C.1.10 and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

Under article 59 of the Articles of Association and article 12 of the Board of Directors Regulation, the Executive Committee is responsible for the coordination of the Bank's executive management, adopting any resolutions and decisions to this end under the scope of the powers granted to it by the Board of Directors, and overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation.

The Executive Committee must consist of a maximum of six directors, to be appointed by the Board with the favourable vote of two-thirds of its members, with a composition similar to that of the Board in terms of categories; the Chairman of the Board must act as its Chair. The resolutions of the Committee must be entered in a minutes book, and the minutes must be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It must meet whenever convened by its Chairman or by the Vice-Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the matter in question; such persons may speak but not vote.

The Committee Secretary, who need not be a director, must be designated by the Board of Directors, which must also designate a substitute secretary for cases of illness or absence.

In 2018, the Executive Commission monitored the ordinary activities of the Bank, oversaw Bank management, adopted resolutions and decisions falling within the scope of the powers that the Board of Directors delegated to it, and analysed and reviewed other issues, providing favourable reports to the sub-committees with competency in those areas and to the Board of Directors for the adoption of the appropriate resolutions. The most salient actions undertaken in 2018 by the Executive Committee in carrying out its functions and discharging its responsibilities included tracking and analysing the financial information and results of the Bank and its group; analysing the reaction of markets and investors to the institution's results; being apprised of the strategic plan and tracking strategic issues appropriately; and tracking business performance and trends in treasury stock and the share price. The Committee also analysed and, as appropriate, approved transactions in connection with the Group's corporate development. It was informed of new developments in legislation, of relations with the supervisors and of regulatory matters, and adopted the pertinent decisions for action. It was also informed of the Group's risks, deciding on the risk operations that fell under its remit due to their amount or relevance. It issued favourable reports to the Board of Directors on the incorporation and/or dissolution and liquidation of subsidiaries and investees, as well as changes in capital and other amendments to articles of association; it informed the Appointments Committee and the Board of Directors of changes in the composition of such institutions' governing bodies. The Executive Committee also performed a self-assessment of its performance in 2017 with the assistance of an external consultant.

Audit and Control Committee

Name	**Position**	**Category**
Mr. MANUEL VALLS MORATÓ	CHAIRMAN	Independent
Mr. PEDRO FONTANA GARCÍA	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%

Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Audit and Control Committee is expressly regulated by article 60 of the Articles of Association and article 13 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance.

The purpose of the Audit and Control Committee is to exercise oversight to ensure good banking and accounting practices in the various echelons of the organisation, as well as to ensure that suitable measures are taken to address improper conduct or methods. It is also a watchdog, ensuring that the measures, polices and strategies defined by the Board are duly implemented.

The Audit and Control Committee has the responsibilities established by law, including:

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

- When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.
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b) Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system that were detected in the course of the audit.

- During the year, the Committee reviewed the Group's risk management and control systems using reports prepared by the Risk, Finance and Internal Audit Departments.

  In compliance with the requirements as to disclosure to the markets in the framework of the provisions of Part Eight: "Disclosure by Institutions" of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, (hereinafter, the Capital Requirements Regulation - CRR), the Committee reviewed the contents of the "Pillar III disclosures" and analysed the information in connection with the group's computable equity and capital and the degree to which it conformed to the criteria defined in the CRR and the risk management and control objectives set out in group policies. The Committee also carried out a detailed review of all financial data to be relied on as a basis for characterising the group's risk profile as conservative in the various categories of risk for which disclosure was required.

  The Committee also reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2017 in connection with risk governance, management and control systems, and concluded that they conformed to the institution's risk profile and reached a favourable conclusion as to the Banco Sabadell Group's consolidated capital, which assures coverage of the regulatory requirements. It also reviewed Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the contents of the report, the Commission was able to conclude that the Banco Sabadell Group has a liquidity position that enables it to meet payment commitments at a reasonable cost, either under normal conditions or in a situation of stress, that the group has a stable and balanced funding structure, in line with the risk appetite and the defined risk management strategy, and that a robust governance framework is in place for managing and controlling liquidity and funding risk.

  Regarding tax risks, the Committee reviewed the Tax Strategy policy with the objective of strengthening the Banco Sabadell Group's commitment to fiscal transparency and social responsibility in complying with tax obligations.

  In accordance with the Board of Directors Regulation, the Audit and Control Committee is entrusted with oversight of Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

  In connection with its function of overseeing the internal audit units, on 24 May 2018, following a favourable report by the Appointments Committee, the Board of Directors resolved unanimously to ratify that the Internal Audit Department reports directly to the Board of Directors' Audit and Control Committee. This reinforces its hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. During 2018, the Commission received information about the execution of the planned actions; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls.

In 2018, the Committee also received information about the conclusions of the reports issued by the external auditors and the supervisory authorities and on the proper implementation of the improvement measures proposed by the regulatory bodies.

c) Overseeing the drafting and presentation of regulated financial information;

- During the year, the Audit and Control Committee supervised the internal control model established in the institution with respect to the process of preparing and presenting regulated financial and non-financial disclosures. To this end, it received information from the Finance Department, the Internal Audit Department and the External Auditors regarding the risks relating to financial reporting processes and the adequacy and effectiveness of the controls that mitigate them, as well as aspects that may give rise to changes in the internal control model, including regulatory changes, the incorporation of new products or the modification of Banco Sabadell's processes.

d) Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.

- With regard to the external auditor, the Committee reviewed the criteria and conditions of engagement and, as a result, proposed to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank’s separate and consolidated accounts for the year 2018. The Board of Directors resolved to submit the Committee’s recommendation to the General Meeting of Shareholders, which approved it on 19 April 2018.

  Additionally, on 30 January 2018, the Audit and Control Committee resolved to begin planning an orderly process for selecting the auditor for the years 2020-2022. During 2018, the committee ensured that the selection process was conducted in accordance with the criteria established in Regulation (EU) 537/2014, of 16 April, on specific requirements regarding statutory audit of public-interest entities. On the basis of the reasoned recommendation of the Audit and Control Committee, which contained two alternatives and in which it indicated its preference for the firm KPMG, the Board of Directors resolved on 20 December to propose this appointment to the General Meeting of Shareholders.

  The Committee remained in contact with the external auditor constantly to ensure that it was kept informed of any significant accounting or financial reporting issues arising in the course of the auditor’s work. The Committee also reviewed in depth the contents of the audit report, as well as the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2018, required to comply to the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

e) Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.

- In the course of the year, the Committee paid particular attention to reviewing the financial statements and the quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication. In order to carry out these reviews, the Finance Department and the External Auditor participated in meetings of the Committee to present matters relating to the financial disclosures.

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 and in the audit rules.

- In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to safeguard auditor independence, approved by the Audit and Control Committee on 19 April 2016, the Audit and Control Committee reviewed the main non-audit services provided by PricewaterhouseCoopers during 2018. The objective of these reviews was to ensure that all that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

Additionally, based on information received from the auditor, the Committee reviewed the procedures and tools used by the firm in connection with the auditor independence requirements. Written confirmation of the firm's independence with respect to the Sabadell Group was received on 24 July 2018 and 28 January 2019.

Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued.

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

- In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.

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.

- In pursuit of good governance of the Bank's business, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Executive Committee on the corporate governance structure and practices at Banco Sabadell, S.A. in the year.

  The Committee also examined half-yearly reports from the Group's Corporate Ethics Committee on action taken to ensure compliance with the Banco Sabadell Group Code of Conduct in relation to the securities market, the Group's general Code of Conduct, initiatives undertaken in the area of Corporate Social Responsibility and other key aspects.

  By reviewing these reports, the Committee also received information on the performance of the complaints channel, including the number of complaints received, their origin and types, the results of the investigations and the proposals for action.

  In connection with related party transactions as referred to in recommendation 6 of the Good Governance Code of Listed Companies approved by the Board of the National Securities Market Commission (CNMV) on 18 February 2015, the Committee verified that the related-party transactions performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies or had obtained such authorisation based on a recommendation by the Committee, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

  Additionally, in conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank's own shares and on compliance with the regulator's recommendations.

The Audit Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority of them must be independent directors, and one must be appointed on the basis of his/her knowledge and experience of accounting and/or auditing. The Board of Directors must appoint the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members, and the committee secretary, who must not be a director. The Secretary must take minutes of every meeting, which must be approved at the end of the meeting itself or at the next meeting. The business transacted at Committee meetings must be reported to the Board of Directors at the next meeting by means of a reading of the minutes.

The Committee must meet at least once every three months, and whenever convened by the Chair at his/her own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors, to discharge the duties assigned to it.

On 24 May, 2018, Mr. José Manuel Lara García stepped down as a member of the Audit and Control Committee as a result of his resignation as director.

Identify the members of the audit committee who were appointed on the basis of their knowledge and experience in accounting, auditing or both, and state the date of appointment of the Chairman of this committee.

Name of directors with experience	Mr. MANUEL VALLS MORATÓ
Date of appointment as Chairman	30/03/2017

Comments

Appointments Committee

Name	Position	Category
Ms. AURORA CATÁ SALA	CHAIR	Independent
Mr. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
Mr. PEDRO FONTANA GARCÍA	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%
% other external directors	0.00%

Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Appointments Committee is regulated in article 61 of the Articles of Association and article 14 of the Board of Directors Regulation. Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors or the Board of Directors Regulation, the Appointments Committee has the following basic duties:

a) Making proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for referral to the General Meeting, and as to the re-appointment or removal of such directors;

- In fulfilment of its functions, it proposed to the Board of Directors that it refer to the General Meeting of Shareholders the proposals to re-appoint, ratify and appoint independent directors, and ratify their fitness and suitability.

b) Advising on proposals to appoint other directors by co-optation or for referral to the General Meeting, and on proposals to re-appoint or remove them.

- In fulfilment of its functions, it advised the Board of Directors on proposals for the re-appointment of an executive director and of a proprietary director, ratifying their fitness and suitability, for submission to the General Meeting of Shareholders, and it advised on the proposal to appoint a female executive director by co-optation and assessed her fitness and suitability.

c) Ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association.

- The Committee exercised oversight to ensure compliance with the qualitative composition of the Board in all its proposals for the re-appointment, ratification and appointment of independent directors, as well as advising on the Board's proposals with respect to the other directors. It also verified compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, in accordance with Recommendation 14 of the Code of Good Governance of Listed Companies, and analysed and advised the Board on the composition of the Board, the categories of directors, and the approval of the Annual Corporate Governance Report.

d) Checking that the members of the Board of Directors are suitable and possess the necessary competency, knowledge and experience.

- During 2018, it analysed the powers and diversity of the Board of Directors to determine the profiles of the candidates for directorships and assessed the suitability of the directors presented for appointment and/or re-appointment. It also advised the Board of Directors on the director training programme for 2018.

e) Advising on proposals for the appointment and removal of senior executives and of the material risk takers.

- The Committee fulfilled its function of advising the Board of Directors on proposals for the appointment of senior executives, having assessed their suitability. It also reviewed the composition of the list of material risk takers of the Bank, the group and the subsidiaries, and advised the Board of Directors on proposals to amend the list of material risk takers.

f) Advising on the basic conditions of the contracts of executive directors and senior executives;

g) Examining and organising succession plans for the Chairman of the Board of Directors and the Bank's chief executive and, as appropriate, making proposals to the Board.

- The Succession Plan for the Chairman and Managing Director of Banco Sabadell was approved by the Board of Directors on 21 July 2016.

h) Setting a target for representation of the gender that is under-represented on the Board of Directors and drawing up guidelines on how to achieve that target.

- That target is set in the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors at a meeting on 25 February 2016. The Appointments Committee verified compliance with this Policy in the resolutions adopted in 2018 regarding the re-appointment, ratification and/or appointment of directors, which conformed to the diversity parameters and requirements set out in the Policy and in the current regulations governing directorships of credit institutions and, in particular, with a view to achieving the objectives as to the weighting in the Board of the under-represented gender.

In addition, the Appointments Committee approved the Report on the functions and activities of the Appointments Committee for the year 2017; it advised on the annual evaluation of the Appointments Committee's performance in 2017 and the evaluation of the Board of Directors' performance, as well as that of its Chairman, the Managing Director, the Lead Independent Director and the Secretary and the Vice-Secretary of the Board of Directors, all with the assistance of an independent external consultant. It also proposed that the Board of Directors make changes in the composition of the Board sub-committees.

The Appointments Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors appoints the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members.

The Appointments Committee meets whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and whenever it is advisable in order to properly discharge its duties. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

On 8 March 2018, Mr. Pedro Fontana García was appointed as a member of the Appointments Committee.

Remuneration Committee

Name	Position	Category
Ms. AURORA CATÁ SALA	CHAIR	Independent
Mr. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. GEORGE DONALD JOHNSTON	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%

Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Remuneration Committee is regulated in article 62 of the Articles of Association and article 14 bis of the Board of Directors Regulation. Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors or the Board of Directors Regulation, the Remuneration Committee has the following basic duties:

a) Proposing, to the Board of Directors, the director remuneration policy;

- The Remuneration Committee issued a favourable report to the Board of Directors on the proposal to the Ordinary General Meeting of Shareholders to approve the Banco Sabadell Director Remuneration Policy for the years 2018, 2019 and 2020, which was approved by the General Meeting of Shareholders on 19 April 2018.

b) Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Executive Committees or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with.

- To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2017 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2018.

c) Regularly reviewing remuneration policy;

- In 2018, the Remuneration Committee analysed an independent report by an external consultant evaluating remuneration policy and practices; and it reviewed the remuneration policies of Banco Sabadell and reported favourably on this matter to the Board of Directors.

d) Advising on remuneration programmes based on shares and/or options;

- The Commission analysed in detail the proposal for the long-term supplementary incentive programme for 2018-2021 based on the appreciation by the shares of Banco Sabadell, for executive directors, senior management and other executives who are part of the Group's list of material risk takers, and issued a favourable report to the Board of Directors on the proposal to be submitted to the Ordinary General Meeting of Shareholders on 19 April 2018, which approved it.

e) Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;

- It examined the independent report by an external consultant evaluating remuneration policy and practices, which analysed whether the remuneration policy and remuneration practices of Banco Sabadell complied with the requirements and recommendations of the supervisory bodies; it analysed the degree of compliance with the Group's objectives for the year 2017, and recommended that the Board of Directors approve the Group's objectives for 2018; it approved the percentages of compliance with the 2017 objectives by the Group's material risk takers, the salary review for 2018 for the material risk takers, the amount of variable remuneration for 2017 and the 2018 variable remuneration target for the Group's material risk takers; it analysed the proposed amendment to the Articles of Association in relation to the remuneration to which directors are entitled for performing their duties, the goal being to adapt the wording to current legislation and to best practices in the area of corporate governance, and it resolved to issue a favourable report to the Board of Directors on the proposed amendments to the Articles; it reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell's remuneration policy and oversight of the remuneration of the bank's executive directors, senior management and other material risk takers; it reported favourably to the Board of Directors on the fixed remuneration for group's entire workforce and an increase in the total salary expense for the year 2018.

f) Ensuring that remuneration is transparent;

- It cooperated actively in the Corporate Governance Road Show held at the beginning of February 2018 for proxy advisors and the most significant shareholders, in which it detailed the most salient aspects of the remuneration policy.

g) Ensuring that any conflicts of interests are not detrimental to the independence of external advisors; and

h) Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.

- It vetted and cleared the information on remuneration to be included in the Annual Corporate Governance Report, and recommended that the Board of Directors approve the Annual Report on Director Remuneration.

The Remuneration Committee also approved, and resolved to submit to the Board of Directors, the Report on the assessment of the Remuneration Committee for 2017 and the proposal for the action plan for 2018, which were drawn up with the help of an external consultant.

The Remuneration Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors appoints the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members.

The Remuneration Committee meets whenever the Board or its Chair requests that it issue a report or adopt a proposal, and whenever it is advisable in order to properly discharge its duties. In any event, the Committee must meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

Risk Committee

Name	Position	Category
Mr. DAVID VEGARA FIGUERAS	CHAIRMAN	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. GEORGE DONALD JOHNSTON	MEMBER	Independent
Mr. MANUEL VALLS MORATÓ	MEMBER	Independent

% executive directors	0.00%
% proprietary directors	0.00%
% independent directors	100.00%
% other external directors	0.00%

Comments

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Risk Committee is regulated in article 63 of the Articles of Association and article 15 of the Board of Directors Regulation. Its functions are focused on supervising and exercising oversight to ensure that all the risks of the bank and its consolidated group are accepted, controlled and managed appropriately, and reporting to the Board on the performance of the functions corresponding to it, in accordance with the law, the Articles of Association and the Board of Directors Regulation, which include:

a) Supervising implementation of the Risk Appetite Framework;

b) Determining and proposing, to the full Board, the annual limits on investment in the real estate market and the criteria and amounts applicable to the various types of investment;

c) Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and provisions of the Articles of Association;

d) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors;

e) Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose;

f) Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.

It comprises at most five directors, appointed by the Board of Directors, none of whom may be an executive director; they must have the appropriate knowledge, skill and experience to fully understand and oversee the Bank's risk strategy and risk appetite; at least two of them must be independent directors. The Board of Directors appoints its Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members.

In the exercise of its functions, the Risk Committee may directly request the information it sees fit from both the director who is Chief Risk Officer and the Risk Control Manager. At the end of 2018, it was decided to create the position of Chief Risk Office, reporting directly to the Risk Committee.

The Risk Committee must meet at least twice per month and whenever convened by its Chairman at his/her own initiative or at the request of any member of the Committee or of the Chairman of the Board of Directors.

For each of the functions of the Risk Committee listed in the preceding paragraphs, items a) through f), the most salient actions carried out by the Committee during the year were as follows:

In relation to Governance functions, as referred to in items a), b) and c) above, the Risk Committee analysed and reviewed matters that required it to issue a recommendation for subsequent approval by the Board of Directors, including the Risk Appetite Statement (RAS), ICAAP, ILAAP, Recovery Plan and IFRS9, as well as the Risk Policies, such as those relating to credit, concentration, market, liquidity and capital risk.

In connection with its function of advising the Remuneration Committee on the employee remuneration programmes' coherence with Bank's risk, capital and liquidity, as set out in f) above, the Risk Committee reviewed the external consultants' report on the degree to which the Banco Sabadell remuneration policy conforms to the regulatory parameters applicable to credit institutions, verifying that the remuneration policy is aligned with the risk, and it issued a favourable report to the Remuneration Committee about the analysis carried out of the objectives for the material risk takers with regard to the bank's risk, capital and liquidity and on the proposal for the 2018 objectives, itemised for each of the material risk takers; it also reviewed and reported favourably on the proposal to update the Policy on Conflicts of Interests for Directors and Key Position Holders, to be approved by the Board of Directors.

Regarding the functions referred to in items d) and e) of the list of functions, the Risk Committee regularly monitored the Risk Appetite Statement during the year, including the following actions:
- Regular tracking, mainly of the Risk Committee scorecard and the Annex to the Risk Committee scorecard.
- Large Groups that are reviewed by the Executive Committee.
- Tracking of risk-adjusted pricing.
- Ad-hoc monitoring, including in particular this year regularly monitoring the TSB Migration Programme, NPA reporting, and other monographic issues related to market risk, operational risk, cyber risk, outsourcing, country risk, and the risk relating to financial institutions and certain portfolios (SMEs and Corporate, among others).

The Risk Committee carried out actions related to IRB risk models, both for management and for capital and provisioning purposes, in accordance with the functions indicated in item e) of the list of functions. The implementation of Risk Models requires a favourable opinion from the Risk Committee in order for it to be approved subsequently by the Board of Directors. Notable action under this heading were related to the Group's Adjustment model and tracking of Remediation Plans under the Single Supervisory Mechanism (SSM) for the retail, shops and self-employed groups, as well as Loss Given Default (LGD) and credit risk models for subsidiaries, such as TSB.

Additionally, the Risk Committee analysed and reviewed ad-hoc monographs covering specific risks (IT Risk, Operational Risk, Outsourcing Risks), among others, as well as specific portfolios.

The Risk Committee also performed a self-assessment for 2017 with the assistance of an external consultant, and approved the report on the functions and activities of the Risk Committee for 2017.

C.2.2 Complete the following table with information on the number of female directors in the Board sub-committees at the end of the last four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0%	0	0%	0	0.00%	0	0.00%
Audit and Control Committee	1	25.00%	1	20.00%	1	33.33%	1	33.33%
Appointments Committee	2	50.00%	2	66.67%	1	33.33%	1	25.00%
Remuneration Committee	2	50.00%	2	50.00%	2	66.66%	1	25.00%
Risk Committee	1	25.00%	1	25.00%	1	33.33%	1	25.00%

Comments

C.2.3 Indicate if there are any Board sub-committee regulations, where they can be consulted, and amendments made in the year. Also, indicate if an annual report on each committee's activities has been drafted voluntarily.

Section C.2.1 details the articles of the Articles of Association and the Board of Directors Regulation that contain the rules governing the workings and competencies of the sub-committees.

The current texts of the Articles of Association and Board of Directors Regulation are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

The Audit and Control Committee has an Internal Regulation setting out its functions and procedures. This Regulation has been filed with the Mercantile Register and is accessible on the website (www.grupobancosabadell.com) – in the section entitled "Corporate governance and remuneration policy" - Board of Directors Regulation).

All the Board sub-committees draw up an annual self-assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation; the reports for 2017 were evaluated with the assistance of an independent external consultant. Additionally, the Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee draw up annual reports on their functions and activities, which are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

D RELATED-PARTY AND INTERCOMPANY TRANSACTIONS

D.1 State, where applicable, the procedure for the approval of related-party and intercompany transactions, and the bodies empowered for this purpose.

Procedure for advising on the approval of related-party transactions.

The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors.

D.2 Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

Name of significant shareholder	Name of group company or institution	Nature of relationship	Type of transaction	Amount (thousand euro)

Comments

D.3 Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and the company's directors or executives:

Name of director or executive	Name of related party	Relationship	Nature of relationship	Amount (thousand euro)

Comments

D.4 Detail the material transactions between the company and other companies in the group, except those that are eliminated in consolidation and do not form part of the company's normal operations with regard to their purpose and conditions:

In any event, provide details of any intercompany transactions carried out with organisations based in countries or territories that are considered to be tax havens:

Name of the group institution	Brief description of transaction	Amount (thousand euro)

Comments

D.5 Give details of any material transactions between the company or any group undertakings and other related parties that are not disclosed in the preceding sections:

Name of related party	Brief description of transaction	Amount (thousand euro)

Comments

D.6 Specify the mechanisms established to detect, identify and resolve possible conflicts of interest arising between the company and/or the group and its directors, senior managers or significant shareholders.

1. Under the Board of Directors Regulation, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the company itself or in other companies outside the group.

Specifically, Article 25 of the Regulation states that a director may not provide professional services to Spanish companies whose corporate purpose coincides wholly or partly with that of the company. An exception is made for offices they hold in companies in the group. Directors must notify the Appointments Committee before accepting any executive appointment in another company or institution.

Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake.
It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.

2. The Banco Sabadell Group's Code of Conduct provides a set of rules for the guidance of all persons employed by the group and its stakeholders (customers, suppliers, shareholders, authorities and the local community) based on principles which we consider fundamental to carrying on our business.

It expressly contemplates rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.

3. Banco Sabadell Group’s Internal Rules of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018, are applicable to the members of the Bank’s Board of Directors, and to all executives and employees whose work is directly or indirectly related to activities and services in the field of the stock markets or who have frequent or habitual access to price-sensitive information related to the Bank itself or group companies.

Section 4 of the IRC sets out the mechanisms for identifying, preventing and resolving possible conflicts of interest that are detected by persons concerned, who are obliged to declare any significant relations of a financial, family or other nature with customers of the Bank in connection with services related to the securities markets or to companies listed on the Stock Exchange, as well as any other relationships that, in the opinion of an external and neutral observer, might compromise the impartiality of the persons concerned.

4. The Banco Sabadell Group’s General Policy Regarding Conflicts of Interest is an internal set of regulations laying down the criteria and procedures to be followed to guarantee that decisions taken within the Banco Sabadell Group with respect to the provision of investment services or other services that potentially create such conflicts of interest are made so as to avoid, eliminate or, in the final instance, disclose any conflict of interest to the customer. The Compliance Department is responsible for correctly applying the general conflicts of interest policy and, when necessary, it will urge the other departments in the group to which it applies to take the necessary action.

5. The Policy on Conflicts of Interest of Directors and Senior Executives, approved by the Board of Directors on 28 January 2016 and amended by the Board of Directors on 8 March 2018, establishes the necessary measures for managing conflicts of interest of directors and senior executives and their related parties in connection with corporate transactions or non-bank activities and also with ordinary banking business.
The Credit Transactions Committee analyses all credit operations carried out by directors, senior executives and their related parties and makes proposals to the Board of Directors for their approval. Royal Decree 84/2005, implementing Act 10/2014, of 26 June, on Ordering, Supervision and Solvency of Credit Institutions, sets out the requirements in connection with disclosure of transactions by directors, senior executives and their related parties to the competent authority and for authorisation by the latter.

6. The Banco Sabadell Group's Corporate Ethics Committee is responsible for fostering ethical conduct throughout the organisation and for making proposals and giving advice to the Board of Directors, via the Audit and Control Committee, and to the corporate and business units on decisions involving issues that might lead to conflicts of interest. The Committee is also responsible for overseeing the group's compliance with its obligations as set out in the Code of Conduct and in the Internal Rules of Conduct in connection with the securities market.
To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Department, and has been given extensive powers by the Board to gain access to all the documents and

information it requires to perform its supervisory function.

D.7 Is more than one company in the Group listed in Spain?

Yes ☐ No ☒

Identify the other companies that are listed in Spain and their relationship to the company:

-

Indicate whether the respective areas of activity and any business relationships between them have been defined publicly and accurately, as well as those of the listed subsidiary company with other companies in the group;

Yes ☐ No ☐

Define any business relationships between the parent company and the listed subsidiary, and between the latter and the rest of the group companies

Identify the mechanisms established to resolve any conflicts of interest between the listed subsidiary and the other companies in the group:

Mechanisms to resolve conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the scope of the company's Risk Control and Management System, including that relating to tax risks.

The Banco Sabadell Group Risk Management system is based on the Risk Appetite Framework contained in the Risk Appetite Statement (RAS), the associated management policies and the reporting system and overall governance model for the risk function, which contemplate tax risk under the terms described below.

The system applies throughout the group, consolidating by area, business unit or activity, subsidiary and geography at corporate level.

The Banco Sabadell Group includes tax risk in its Risk Policy as a specific risk.

Additionally, the Board of Directors of Banco de Sabadell, S.A. has approved the group's tax strategy. That strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, it is broadly aligned with the Banco Sabadell Group's business strategy, and it is applied in all the companies controlled by the group, regardless of their geographic location.

E.2 Identify the bodies of the company responsible for drawing up and executing the Risk Control and Management System, including tax risk.

The Board of Directors has indelegable responsibility for: (i) determining the tax strategy; (ii) approving investments or operations considered strategic by virtue of their amount or special characteristics, strategic nature or particular tax risks, unless their approval corresponds to the General Meeting; (iii) approving the creation special-purpose vehicles or entities resident in jurisdictions considered tax havens or the acquisition of shares in such undertakings; and (iv) the approval of any other transactions or operations of a comparable nature whose complexity might impair the transparency of Banco de Sabadell, S.A. and its group.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect. Therefore, the Board is the body responsible for approving the Risk Appetite Framework and ensuring its consistency with the institution's short- and long-term strategic objectives, together with the business plan, capital planning, risk-taking capacity and compensation schemes.

Within the Board itself there is a Risk Committee which is responsible for ensuring compliance with the Risk Appetite Statement (RAS) approved by the Board and with the associated risk management policies, including those related to tax risk; its functions are described in section C.2.1. In addition, another three Board sub-committees participate in risk management and control: the Executive Committee, responsible for coordinating executive management of the Bank, for approving transactions and limits of risk groups that exceed the limits of the delegated powers and for approving asset allocation proposals within the Risk Appetite Framework; the Audit and Control Committee, which oversees the effectiveness of the risk management systems, and is the body responsible for the regular oversight of the tax risk management and control framework to validate its effectiveness and ensure that the main risks are properly identified, managed and communicated; and the Appointments and Remuneration Committee, which ensures that the Group's remuneration practices are coherent with its risk profile, avoiding inappropriate risk-taking and promoting sound and effective risk management.

The departments involved in risk management and control, including tax risk, include, among others, the following:

- Risk Control Department, with the following functions: (i) proposing and implementing the Risk Appetite Framework; (ii) systematically monitoring and analysing the evolution of all major risks and verifying the degree to which they conform to the established policies; (iii) proposing the guidelines, methodology and strategy for managing all risks; (iv) defining and establishing the risk monitoring and control model, developing internal advanced measurement systems, in line with supervisory requirements, to enable risks to be quantified and discriminated, and activating their application in the business; (v) establishing procedures to optimise the credit approval function, and (vi) promoting and standardising, with the assistance and advice of the Tax Advisory Department (within Legal), the management and control of tax risks within the group's risk control environment, systematically overseeing and analysing trends in tax risk and the degree to which the controls conform to the policy framework that is in place. At the end of 2018, it was decided to create the position of Chief Risk Office, reporting directly to the Risk Committee.

- Risk Management Department, with the following functions: (i) managing and integrating exposures in accordance with the pre-determined levels of autonomy, via selective acceptance of risk to ensure its quality, achieve growth and optimise business profitability; (ii) aligning the priorities of the strategic plan and the vision of the Risk Management Department in all segments, identifying the initiatives to be implemented as regards risk.

- Finance Department, with the following functions: (i) supporting the Managing Director and Chief Risk Officer in implementing the Risk Appetite Framework; (ii) as part of the planning, budgeting and management control processes, it calculates provisions and assigns capital in keeping with the Bank's strategy, ensuring the risk variable is taken into account in all decisions and overseeing the specific risk measurement models, ensuring their standardisation in terms of generally accepted principles and methodologies and particularly vis-à-vis the supervisory authorities. Additionally, it develops and manages the stress test analysis framework within the institution's financial planning; and (iii) in relation to tax risk, it is the department responsible for implementing and complying with the tax obligations in relation to corporate income tax, value added tax and transfer pricing, implementing the tax principles and rules in this connection.

- Asset Transformation and Industrial and Real Estate Investees Department: Manages the group's entire exposure to real estate, the developer loan book and real estate assets on the Bank's balance sheet together with processes for recovering problematic assets.

- Treasury and Capital Markets Department: responsible for managing the Bank's liquidity, and management and compliance with its regulatory coefficients and ratios. It also manages the risk of the proprietary trading book, interest rate and exchange rate risk and various books, basically due to operational flows with both internal and external clients, originating from the activity of the Distribution units and also the Finance Department and the network of branches and offices.

- Compliance Department: promotes and seeks to ensure the highest possible level of compliance with the legislation in force and with the group's professional ethics, thereby mitigating compliance risk, which is understood as the risk of incurring legal or administrative sanctions, significant financial losses or reputational losses due to non-compliance with laws, regulations, standards, self-regulations and codes of conduct applicable to banking activities.

- Internal Audit Department: (i) oversees the control system established for effective compliance with management policies and procedures, assessing the adequacy and effectiveness of the management and control activities of each functional and executive unit, reporting directly to the Audit and Control Committee; (ii) verifies the design and effectiveness of the Risk Appetite Statement and its alignment with the supervisory framework; and (iii) provides assurance concerning the implementation of the RAS both in the documentation structure (consistency between it and the RAS) and in the subsequent integration into the Bank's management practices, verifying compliance with the established metrics and action plans.

- Tax Advisory Department (Legal Department): responsible for setting the tax approach in matters of importance for tax reasons and for advising the Board of Directors and the group's divisions. It may also obtain advice from independent experts where it is considered necessary.

- The other divisions, areas and departments, including Human Resources and the Centralised Administration, must implement the tax strategy in all actions or operations that may have a tax impact.

(This description continues in section H)

E.3 Describe the main risks, including tax risks, and corruption-related risks, to the extent that they are material (within the scope of Royal Decree-Act 18/2017), that may affect attainment of the business targets.

Credit and concentration risk

Credit risk is the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. The following risks stand out because of their specific characteristics:

- ***Concentration risk***
Complementary to credit risk, concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity.
- ***Counterparty risk***
The regulations on bank capital risk use the term counterparty risk to refer to exposure to certain financial contracts (derivatives and repos) for which risk exposure does not match the notional value of the contract. This includes counterparty risk, settlement risk and delivery risk.
- ***Country risk***
Country risk is that arising in the debts of a country, taken as a whole, as a result of reasons inherent to the country's sovereignty and economic situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation.
Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, are generally unable to honour debts.
- ***Non-performing asset (NPA) risk***
NPA risk is defined as the risk of incurring higher costs or losses associated with managing doubtful assets and/or foreclosed assets.

Liquidity risk

Liquidity risk arises due to the possibility of losses being incurred as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the institution itself.

Market risk

This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.

Structural risks: Including, because of their special features:

- ***Interest rate risk***
Structural interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking and is defined as the possibility of incurring losses as a result of the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the entity’s equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).
- ***Exchange rate risk***
This risk arises from changes in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in overseas offices and subsidiaries which use currencies other than the euro.
- ***Credit spread risk in the banking book***
Credit spread risk in the banking book (CSRBB) refers to any risk with respect to the spread of credit instruments not attributable to structural interest rate risk or to default risk.
- ***Insurance risk***
Defined as the risk arising from the institution's equity holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).

Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This definition includes reputational, behavioural, technology, model and outsourcing risks. The following risks stand out because of their specific characteristics:

- ***Reputational risk***
The possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution, with an impact on its solvency.
- ***Conduct risk***
The possibility of losses for the Institution derived from inadequate provision of financial services, including cases of malice or negligence.
- ***Technology risk***
Impact or effect on services to customers (both internal and external) in terms of service and quality, which may lead to data losses and/or integrity failures derived from improper management, operation, control and/or failure of information systems, of their resilience capabilities or of the teams that manage them.
- ***Model risk***
The possibility of losses arising from decision-making based on the use of inadequate models.
- ***Outsourcing risk***
The possibility of losses deriving from: failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.

Business risk

The possibility of incurring losses as a result of adverse events with a negative impact on the capacity, strength and recurrence of the income statement.

Tax risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to comply with the tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the Bank's goals.
- On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, internal rules or codes of conduct applicable to the Group's business.

E.4 Identify whether the institution has levels of tolerance to risk, including tax risk.

The chief element of the Risk Appetite Framework approved by the Board of Directors is the Risk Appetite Statement. The group understands the Risk Appetite Statement as expressing the quantity and diversity of risks that the Banco Sabadell Group seeks and tolerates in order to achieve its business objectives, maintaining a balance between returns and risk.

The RAS comprises the quantitative metrics and qualitative elements that together define the Bank's risk appetite levels, both globally and for each of the major risks assumed in the ordinary course of business.

As for tax risk, one of the main principles of the tax strategy referred to in section E1 above is to minimise tax risk.

This statement applies to all risks identified in section E3 above.

E.5 State what risks, including tax risks, materialised during the year.

The Group provides detailed information of the risks in the Annual Report, which is available on the corporate website (www.grupobancosabadell.com – section Information for shareholders and investors – Financial information – Annual Reports), specifically under section 4 of the consolidated directors' report.

E.6 Describe the response and supervision plans for the company's main risks, including tax risks, as well as the procedures applied by the company to ensure that the Board of Directors responds to emerging challenges.

The Risk Appetite Framework establishes the monitoring systems for major risks. At the highest level, this monitoring is carried out by the Risk Committee. Additionally, the Risk Control Department and the Technical Risk Committee exercise more frequent and detailed oversight.

The Risk Committee seeks to ensure appropriate acceptance, management and control of the group's tax risks, ensuring compliance with the general principles of the tax strategy and advising on decisions that are within the brief of the Board of Directors.

Risk management is underpinned by solid procedures for checking that risks conform to pre-set limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk measurement methodology.

The group has risk control systems that are appropriate to the commercial banking activities and businesses in which it operates and to the risk profile it wishes to assume. These control systems form part of the above-mentioned risk approval, monitoring, mitigation and recovery procedures and, in turn, are subject to supervision.

In this regard, the group has a framework for risk reporting and control intended to oversee compliance with the Risk Appetite Framework both group-wide and at a lower level for objectives set at Business Unit or Portfolio level.

The Risk Committee is in charge of coordinating oversight, although in this regard it relies on the various committees and areas, depending on the type and level of disaggregation of each risk.

The Risk Reporting and Control Framework, which includes tax risk, comprises:

- Drawing up and regularly updating a Scorecard that reflects trends in the main metrics and variables associated with the Risk Appetite Framework, and ensuring that they conform to the established framework and limits.
- Systematic oversight and analysis of trends in all significant risks, with detailed second-tier metrics.
- Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.
- There is a reporting procedure that includes the top-level metrics defined in the RAS, as well as additional second-tier metrics for significant risks. This report is compiled, transmitted and presented by the CRO to the various governing and control bodies (Technical Risk Committee, Risk Committee, Board of Directors). The report identifies warning or overshoot situations, and the metrics and their performance.
- The process of reporting in connection with the Risk Appetite Framework is headed by the Risk Control Department, which defines the content of the Scorecard, including top-tier and second-tier metrics. The process of monitoring the Group's metrics includes tracking Banco Sabadell's top-tier metrics.
- By agreement with the departments in charge, the Risk Control Department establishes a regular process for compiling information drawn from databases or processes with built-in controls that are subject to review and audit procedures.

Also, in the event that the limits established for a given metric in the RAS are exceeded, a protocol of action is triggered that is linked to the group's Recovery Plan for the RAS metrics in question, in order to review, control and, as necessary, correct any deviation.

The protocol also includes monitoring the execution and outcome of the action plan once it has been approved and set in motion.

Risk assessment also forms part of the control system and is established through advanced measuring methodologies. In this regard, the Basel Committee on Banking Supervision has been working on a new capital adequacy framework for financial institutions, known as the New Basel Capital Accord, a fundamental principle of which is that banks' regulatory capital requirements should be more closely related to the risks actually incurred, based on internal risk measurement models and parameters and internal estimates that have been validated beforehand.

The Bank has an advanced methodology in place to ensure that risks incurred can be assessed reliably and managed actively, following the guidelines defined by the Basel Committee in developing the components required to complete its risk measurement systems.

On the basis of the risk metrics provided by these new methodologies, the bank has developed a consolidated risk measurement model with a common internal unit of measurement — allocated capital — the purpose of which is to determine, on the basis of internal parameters, the amount of capital required to ensure a specified level of solvency. Evaluating risk in terms of allocated capital requirements means that the risk can be linked to returns, from individual customer up to business unit level. Banco Sabadell has also developed an analytical pricing system associated with the risk, which provides this assessment and incorporates it into the transaction pricing process.

(This description continues in section H)

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

F.1 The organisation's control environment

Provide details, highlighting the main characteristics of, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR system; (ii) its implementation; and (iii) its supervision.

Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.

In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.

The functions of the group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

The group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.

Part of that contribution materialises in the responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.

F.1.2. The following elements, if any, with regard to the process in which the financial reporting is formulated:

- Departments and/or mechanisms entrusted with: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for proper dissemination within the company.

  The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department which, based on the Banco Sabadell Group Master Plan (which normally runs for three years), analyses and reviews the resources required by each division for compliance. This review is carried out regularly and decides not only the necessary workforce but also the structural organisation of each unit. Once an agreement has been reached, it is submitted to the Management Committee for approval and referral to each of the general divisions.

  At the same time, the details of all the departments/units/offices are sent on a monthly basis to the Human Resources Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

  The organisation chart of the Banco Sabadell Group arising from the above process addresses all the departments, areas and divisions into which the Banco Sabadell Group is divided. This organisation chart is supplemented by a "process map" giving greater details of the functions and responsibilities assigned to each area of the Banco Sabadell Group, including details of the presentation, analysis and review of financial reporting. The Banco Sabadell Group organisation chart and process map are accessible to all personnel on the corporate intranet.

- Code of conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the recognition of transactions and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

  The Banco Sabadell Group has a General Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency, particularly vis-à-vis shareholders, and a commitment to place all the financial and corporate information at their disposal. The purpose is to comply strictly with the Banco Sabadell Group's obligation to offer reliable financial reporting prepared in accordance with the applicable regulations, presenting a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that include aspects that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions.

- A whistleblowing channel, that allows reporting to the audit committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.

  The Banco Sabadell Group has, and encourages the use of, a whistle-blower channel to report all types of irregularities, particularly possible breaches of the General Code of Conduct. Any reports received are treated confidentially and, once handled by the Corporate Ethics Committee (comprising a chairperson and six members appointed by the Board of Directors), are referred to the Audit and Control Committee, if appropriate. This channel is managed internally and may be contacted by email at 0901CEC@bancsabadell.com.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least accounting standards, auditing, internal control and risk management.

  As regards training and refresher programmes and particularly regarding the financial reporting process, the Banco Sabadell Group's Finance Department has an on-site training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

  These training sessions are programmed based on two criteria:

  - Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.

  - Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

  These training sessions are not only for Finance Department personnel but also for other departments (Audit, Risk Control, Asset Transformation, etc.), depending on the content.

  The on-site training is taught chiefly by internal professionals of the Banco Sabadell Group and by external experts who are specialists in the subject area.

  In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IAS-IFRS (International Financial Reporting Standards), financial mathematics, Spain's General Accounting Plan and general tax matters.

  The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In the 2018-2019 academic year, ten audit professionals were taking this programme, and 65 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2018, the members of the Internal Audit Department participated in workshops on new regulatory impacts, including new accounting and financial reporting.

F.2 Evaluation of financial reporting risks

Provide information on, at least:

F.2.1. What are the chief characteristics of the process for identifying risk, including error or fraud, in relation to:

- If the process exists and is documented.

  The Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a procedure which sets out the frequency, methods, types of risks and other basic features of the process.

- Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; valuations; presentation, itemisation and comparability; and rights and obligations), and if it is updated and how often.

  The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an annual basis. If (i) circumstances not previously identified which reveal possible errors in the financial information, or (ii) material changes to the operations of the Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

  The process is structured such that, on a half-yearly basis, an analysis is conducted to identify which areas or processes and in which companies and locations material transactions arise.

  Once they have been identified, they are reviewed so as to analyse the potential risks of error for these types of transactions in each financial reporting objective.

- The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles.

  The process for identifying the scope of consolidation is described in section F.3.1. of this document.

- If the process takes into account the effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

  In addition, the process considers the risk of error in certain processes not linked to specific transaction types but which are especially important in view of their impact on drafting the financial reporting, such as the process of reviewing judgements and estimates, significant accounting policies and the closing and consolidation process. In this respect, and with a view to covering the risks of these processes, the Banco Sabadell Group has the control activities described in section F.3.1. of this document. It should also be noted that the risk identification process takes into account the possible effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

- What governing body of the institution supervises the process.

  The aforementioned process is conducted and documented by the Banco Sabadell Group’s Finance Department and is supervised ultimately by the Audit and Control Committee.

F.3 Control activities

State whether the company has at least the following, and describe their characteristics:

F.3.1. Review and authorisation procedures for financial reporting and description of the ICFR, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting close procedure and specific review of the

judgements, estimations, evaluations and major projections.

The procedure for reviewing and authorising the Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly financial reports are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with the provisions of its Regulation, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Managing Director of the Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a significant impact on the financial statements, the Banco Sabadell Group has descriptions of the controls in place to mitigate the risk of material error (intentional or otherwise) in the information reported to the markets. For the critical areas of the Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

- Loans and advances
- Fixed-income portfolio and issuance
- Equity securities
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

The Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, the Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all the subsidiaries; the analysis covers all types of corporate structures.

The review of judgements and estimates is carried out at different levels by members of the Finance Department. In addition, in its financial statements the Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions made in this connection. It also has procedures for reviewing accounting estimates. The main estimates relate to impairment losses on certain financial assets, actuarial calculations of pension liabilities and obligations, the useful life of tangible and intangible assets, measurement of goodwill, and the fair value of unlisted financial assets and of real estate.

F.3.2. Internal control policies and procedures on security, the information systems (among others, access control, change control, operation, operational continuity and segregation of functions) that support the institution’s major processes with regard to the formulation and publication of financial reporting.

The Banco Sabadell Group uses information systems to maintain an adequate record and control of its operations and is, consequently, highly dependent on them working properly.

As part of the process to identify risks of error in financial reporting, the Banco Sabadell Group identifies which systems and applications are important in each of the areas or processes considered to be material. The identified systems and applications include those used directly in preparing the financial information and those that are important for ensuring that the controls to mitigate the risk of errors are effective.

The design and implementation of the applications define a methodological framework that establishes various points of control to ensure that the solution complies with user requirements and meets the required standards of reliability, efficiency and maintainability.

Any change regarding infrastructures or applications is handled via the change management service, which defines the change approval flow, which may be escalated to the Change Committee, with definition of the impact and the possibility of roll-back.

The Banco Sabadell Group Information Security and Operational Continuity Department has policies aimed at covering access security by segregating functions and defining virtual roles and resources, and the continuity of operations by creating BRS centres, and performing periodic operating tests.

F.3.3. Internal control policies and procedures for managing outsourced activities, and measurement, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Banco Sabadell Group regularly examines whether activities carried out by third parties are material to the financial reporting process or might indirectly affect its reliability. To date, the Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, the Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2018, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate valuations, measuring post-employment benefits for employees, and reviewing goodwill.

The units of the Banco Sabadell Group responsible for these operations exercise oversight on the work of the external experts to check their competence, skills, accreditation and independence together with the validity of the data and methods used and the reasonableness of the assumptions, applied as described in section F.3.1.

F.4 Information and reporting

State whether the company has at least the following, and describe their characteristics:

F.4.1. A specific function responsible for defining the accounting policies and keeping them up to date (accounting policies department or area) and for resolving doubts or conflicts arising from their interpretation, maintaining regular communication with the persons responsible for operations within the organisation, together with an updated accounting policies manual distributed to all the bank's operating units.

The Accounting Regulation and Financial Reporting Department (under the Financial Reporting Department) is the unit responsible for identifying and defining the accounting policies that affect the Banco Sabadell Group and for responding to queries concerning accounting from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of the Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of the Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial and Non-Financial Disclosures include identifying transactions that, in accordance with established procedures, must be cross-checked by an independent accounting expert, identifying and review accounting issues to be referred to the Audit and Control Committee for approval, approving accounting procedures, and overseeing and checking the conclusions provided by the work groups that analyse one-off transactions, as well as any accounting treatment that has a material impact and involves a significant judgement and estimate component.

The Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of the Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

F.4.2. Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the bank or group, to support the main financial statements and notes as well as detailed disclosures on ICFR.

The chief IT systems and applications used in generating financial reporting by the Banco Sabadell Group are centralised and interconnected. There are procedures and controls that ensure proper development and maintenance of those systems, as well as their proper performance, continuity and security.

During the consolidation and preparation of the financial reporting, inputs such as the financial statements issued by the Group subsidiaries are used in the established formats, together with the rest of the financial information required both for accounting harmonisation and for meeting the disclosure requirements.

The Banco Sabadell Group has a number of software applications for consolidation, including a series of controls to ensure the reliability and proper processing of the information received from subsidiaries, notably checks to ensure consolidation entries were posted correctly, an analysis of variations in all balance sheet and income statement items, variations in the results obtained with respect to proper insertion of group undertakings' financial statements, the monthly and annual budget, and specific Bank of Spain checks on the financial statements, in which the balance sheet and profit and loss account items are cross-checked.

F.5 Supervision of system operation

Report on at least the following, giving details of their main features:

F.5.1. Supervision of ICFR by the Audit Committee, and whether the institution has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the institution has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

At each financial close, the Financial Department assesses the internal control model, considering its frequency, the risks in the financial reporting processes, and the adequacy and effectiveness of the controls that mitigate them, and it produces and custodies evidence that each specific control was performed. The Finance Department also continuously evaluates aspects that may lead to changes in the internal control model, including regulatory changes, the introduction of new products and amendments to Banco Sabadell's processes, identifying the risks associated with them and designing controls to mitigate them; it also reviews the criticality of the controls and the changes in the materiality of processes with an accounting impact.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is the body empowered with overseeing Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation, and the effective functioning of the risk management and control systems.

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2018; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2018 the external auditor reviewed the information relating to the ICFR, with no adverse findings.

F.5.2. Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The group's auditor has direct access to the group's senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by group management and any action plans implemented to remedy internal control weaknesses.

F.6 Other material information

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls, while at the same time ensuring ongoing identification of new risks to be considered and updates to mitigating controls in each accounting close. This application enables the controls to be validated on time and properly with the aim of guaranteeing the reliability of the financial reporting. The software features are designed to take account of the recommendations in the CNMV's guide entitled "Internal Control over Financial Reporting in Listed Companies," based on the principles and good practices contained in the COSO report (Committee of Sponsoring Organisations of the Treadway Commission).

F.7 External auditor report

Report on:

F.7.1. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The Banco Sabadell Group submitted the ICFR information supplied to the markets for 2018 to the external auditor for review. The report by the external auditor (PricewaterhouseCoopers), once it is available, will be attached as an annex to this annual report on corporate governance.

The scope of the auditor's review is determined by Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.

G DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

Indicate the degree of compliance by the company with the recommendations of the Unified Good Governance Code for Listed Companies. If any recommendation is not followed or is followed only in part, give a detailed explanation of the reasons so that shareholders, investors and the market in general have sufficient information to be able to evaluate the company's course of action. Explanations of a general nature will not be sufficient.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies [X] Explain [ ]

2. When a dominant and a subsidiary company are both listed, the two should provide detailed disclosure on:

a) The respective fields of business and any business relationships between them, as well as those between the listed subsidiary and other companies in the group.

b) The mechanisms for settling any conflicts of interest that might arise.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

3. During the Annual General Meeting, in addition to the written corporate governance annual report, the Chairman of the Board of Directors should verbally inform the shareholders, providing sufficient detail, of the most significant aspects of the company's corporate governance and, in particular:

a) Any changes since the last General Meeting.

b) The specific reasons for which the company does not follow one or more of the recommendations of the Code of Corporate Governance and, if any, alternative rules that are of application in this matter.

Complies [X] Partially complies [ ] Explain [ ]

4. The company defines and promotes a communication and contact policy with shareholders, institutional investors and proxy advisors that fully complies with the standards to combat market abuse and that gives similar treatment to shareholders in the same position. This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those entrusted with its implementation.

Complies [X] Partially complies [ ] Explain [ ]

5. The Board of Directors should not submit proposals to the General Meeting to grant powers to issue shares or convertible securities while overriding pre-emptive subscription rights for an amount greater than 20% of capital at the time of granting of these powers. Whenever the Board of Directors approves an issue of shares or convertible securities, with the exception of pre-emptive subscription rights, the company should immediately publish on its website the reports required in company law in connection with overriding pre-emptive rights.

Complies [X] Partially complies [ ] Explain [ ]

6. Although not expressly required by company law, listed companies that have prepared the reports listed below, either obligatorily or voluntarily, should publish them on their website sufficiently in advance of the Ordinary General Meeting:

a) Report on the auditor's neutrality.

b) Reports on the performance of the Audit Committee and the Appointments and Remuneration Committees.

c) **Report by the Audit Committee on related-party transactions.**

d) **Report on the company's corporate responsibility policy.**

Complies [X] Partially complies [ ] Explain [ ]

7. The company should broadcast its general meetings live on the corporate website.

Complies [X] Explain [ ]

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies [X] Partially complies [ ] Explain [ ]

9. The company should disclose its conditions and procedures for accrediting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website. Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies [X] Partially complies [ ] Explain [ ]

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) **Immediately circulate the supplementary items and new proposals.**

b) **Re-issue the attendance card or proxy appointment or remote voting form in a duly modified form so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.**

c) **Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.**

d) **After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals**.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

12. The Board of Directors should perform its duties with unity of purpose and independence, granting the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies [X] Partially complies [ ] Explain [ ]

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is between five and fifteen members.

Complies ☒ Explain ☐

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable;
b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published upon convening the general meeting that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☒ Partially complies ☐ Explain ☐

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be as low as is practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies ☒ Partially complies ☐ Explain ☐

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies ☒ Explain ☐

17. Independent directors should account for at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, one-third of board places.

Complies ☒ Explain ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other remunerated activities they engage in, of any type.

c) Statement of the director category to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on same.

Complies [X] Partially complies [ ] Explain [ ]

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the instances of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others who applied successfully for a proprietary directorship.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directorships, the number of the latter should be reduced accordingly.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where there is just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them from allocating sufficient time to their duties as board members, or are in breach of their fiduciary duties or come under one of the cases enumerated in the applicable legislation that disqualify a person from being classified as independent. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership arise from the proportionality criterion set out in recommendation 16.

Complies [X] Explain [ ]

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's good name or reputation and, in particular, to inform the board if they are investigated by the police and, and the progress of any subsequent court proceedings.

As soon as a director is indicted or arraigned for any of the offences listed in company law, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not the director should be called on to resign. The Board of Directors should give a reasoned report on this in the annual report on corporate governance.

Complies [X] Partially complies [ ] Explain [ ]

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might be detrimental to the company's interests. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that might harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies [ ] Partially complies [ ] Explain [ ] Not applicable [X]

24. Directors who step down before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed in the form of a regulatory disclosure, the reasons should be set out in the annual corporate governance report.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively. The board of directors regulations should establish the maximum number of company boards on which directors can serve.

Complies ☒ Partially complies ☐ Explain ☐

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☒ Partially complies ☐ Explain ☐

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of unavoidable absence, directors should grant proxy with the appropriate instructions.

Complies ☒ Partially complies ☐ Explain ☐

28. When directors or the secretary express concerns about a motion or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be entered in the minute book if the person expressing them so requests.

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies ☒ Partially complies ☐ Explain ☐

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies ☒ Partially complies ☐ Explain ☐

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so that they can study the matter or gather the material they need beforehand. For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☒ Partially complies ☐ Explain ☐

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies ☒ Partially complies ☐ Explain ☐

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies ☒ Partially complies ☐ Explain ☐

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice-chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially related to the company's corporate governance; and coordinate the chairman's succession plan.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the recommendations of the Good Governance Code that are applicable to the company.

Complies [X] Explain [ ]

36. The board in full should conduct an annual assessment, adopting, where necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairs of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee. Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee. Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report. The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies [X] Partially complies [ ] Explain [ ]

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies [ ] Partially complies [X] Explain [ ] Not applicable [ ]

In accordance with article 59 of the Articles of Association, the Executive Committee will comprise at most 6 directors. At the end of 2018, the Executive Committee comprised 3 executive directors and 2 independent directors. The Chairman of the Board of Directors is a member and the Chair of the Executive Committee; the Secretary (not a director) of the Executive Committee is an Executive Director and Vice-Secretary of the Board of Directors, with the same faculties as the Secretary of the Board of Directors.

The Appointments Committee has sought to ensure that the composition of the Executive Committee is similar to that of the Board of Directors, with both executive directors and independent directors who, additionally, are not members of any of the other Board sub-committees. Consequently, Banco Sabadell understands that the composition of the Executive Committee in terms of the categories of directors who are represented is similar to that of the Board of Directors itself, in line with the principles of the Code of Good Governance.

Independent directors account for 66.67% of the Board of Directors and 40% of the Executive Committee.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

39. All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing and risk management. A majority of committee places should be held by independent directors.

Complies [X] Partially complies [ ] Explain [ ]

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies [X] Partially complies [ ] Explain [ ]

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

42. The audit committee should have the following functions over and above those assigned to it by law:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information relating to the company and, as appropriate, the group, checking for compliance with legal provisions, accurate demarcation of the consolidation perimeter, and proper application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a regulatory disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for same.

d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and on the evolution of the accounting situation and the company's risks.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☒ Partially complies ☐ Explain ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior executive.

Complies ☒ Partially complies ☐ Explain ☐

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so that the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the proposed exchange ratio.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

45. Risk control and management policy should identify at least:

a) The types of financial and non-financial risk the company is exposed to (including operational, technology, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) **The measures in place to mitigate the impact of identified risk events should they occur.**

d) **The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

Complies [X] Partially complies [ ] Explain [ ]

46. Companies should establish a risk control and management function and assign it to one of the company's internal department or units, reporting directly to the audit committee or another dedicated board committee. This function should be expressly charged with the following responsibilities:

a) **Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**

b) **Participate actively in the preparation of risk strategies and in key decisions about their management.**

c) **Ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the board of directors.**

Complies [X] Partially complies [ ] Explain [ ]

47. Appointees to the nomination and remuneration committee — or the appointments committee and remuneration committee, if separate — should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies [X] Partially complies [ ] Explain [ ]

48. Large cap companies should have separate nomination and remuneration committees.

Complies [X] Explain [ ] Not applicable [ ]

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies [X] Partially complies [ ] Explain [ ]

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) **Propose to the board the standard conditions for senior executive contracts.**

b) **Monitor compliance with the remuneration policy set by the company.**

c) **Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.**

d) **Ensure that conflicts of interest do not undermine the independence of any external advisory services engaged by the committee.**

e) **Verify the information on director and senior executives' remuneration contained in corporate documents, including the annual report on director remuneration.**

Complies [X] Partially complies [ ] Explain [ ]

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior executives.

Complies [X] Partially complies [ ] Explain [ ]

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) Committees should be chaired by an independent director.

c) The board should appoint the members of such committees on the basis of the directors' knowledge, skills and experience and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, such as the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of the other stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess the degree of compliance.

f) Monitor and evaluate the company's interaction with its stakeholders.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technology, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies [X] Partially complies [ ] Explain [ ]

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Specific practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies [X] Partially complies [ ] Explain [ ]

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies [X] Partially complies [ ] Explain [ ]

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independence of non-executive directors.

Complies [X] Explain [ ]

57. Variable remuneration linked to the company's and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors. The company may consider share-based remuneration for non-executive directors provided that they must retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [X] Partially complies [ ] Explain [ ]

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's industry, or circumstances of that kind. In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

59. A major part of variable remuneration components should be deferred for long enough to ensure that predetermined performance criteria have effectively been met.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the stock options or other rights on shares, for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies [X] Partially complies [ ] Explain [ ] Not applicable [ ]

H OTHER INFORMATION OF INTEREST

1. If there is any material issue relating to corporate governance at the company or any of the group companies that has not been disclosed in other sections of this report but whose disclosure is necessary to provide a more comprehensive and fully reasoned picture of the institution's governance structure and practices, describe it briefly.

2. This section may be used to provide further information, clarifications or reservations in relation to the preceding sections of this report, which should be significant and not repetitive.

Specifically, indicate if the company is subject to corporate governance legislation of any jurisdiction other than Spain, and, if so, include the obligatory disclosures that differ from those required in this report.

3. The company may also indicate whether it has voluntarily adopted any other codes of ethics or good practices, whether international, industry-wide or otherwise. Identify any such code and the date on which it was adopted. In particular, disclose whether the company has adopted the Code of Good Tax Practices of 20 July 2010.

A.2

The information provided is based on communications sent by shareholders to the CNMV or directly to the bank.

B.6

In accordance with article 38 of the Articles of Association of Banco de Sabadell, S.A., in order to attend and vote at a General Meeting, shareholders must accredit that they possess or hold proxies for one thousand (1,000) shares. Shareholders holding less than that minimum amount of shares may group together to constitute the minimum and grant proxy to any one of them, or to another shareholder that is entitled to attend the General Meeting in accordance with the provisions of the Articles of Association.

C.1.2

Mr. Miquel Roca i Junyent was appointed as Secretary of the Board of Directors (not a director) on 13 April 2000.

C.1.13

The amount of pension rights vested in directors includes the amounts accumulated since 2000 and, therefore, does not refer only to the amount contributed in the year.

C.1.14

In application of the standard, this section includes the 8 members of senior management, plus the Internal Auditor. There were changes in senior management in 2018: Mr. José Nieto de la Cierva was appointed as Deputy General Manager.

The total remuneration of senior management does not include the combined contributions to pension plans, structured through insurance policies, in the year 2018, which amounted to 2,124 thousand euro.

C.1.16

(Continuation of disclosures in section C.1.16)

Removal

Directors must step down when their term ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association. The Appointments Committee is empowered to make proposals for the removal of independent directors by the General Meeting of Shareholders, and to advise on proposals to remove directors in other categories. The Board does not currently have any powers in this respect under the law or the Articles of Association. The General Meeting of Shareholders may remove directors at any time, as provided in article 50 of the Articles of Association.

Restrictions

The following may not hold office as members of the Board of Directors:

a) Minors.
b) Persons disqualified by law, undischarged bankrupts or insolvents, those under convictions involving disqualification from holding public office, and those convicted of serious breaches of the Spanish Corporations Act or Company regulations, or who are prevented from engaging in trade by reason of their office.
c) Government officials whose duties are related to, or have a bearing on, the business of the Bank.
d) Those in default with respect to any obligation to the Bank.
e) Persons in any of the situations of incompatibility or limitation on holding office as provided by law.

C.2.1

In addition to the information detailed in this point, the following persons form part of the Board sub-committees:

- Executive Committee: Ms. María José García Beato, as Secretary (non-member).
- Audit and Control Committee: Mr. Miquel Roca i Junyent, as Secretary (not a director).
- Appointments Committee: Mr. Miquel Roca i Junyent, as Secretary (not a director).
- Remuneration Committee: Ms. María José García Beato, as Secretary (non-member).
- Risk Committee: Ms. María José García Beato, as Secretary (non-member).

D. Related-party and intragroup transactions

During the year, a transaction relating to Inversiones Hemisferio, S.L. began to be treated as a related-party transaction but it was ultimately not classified as such since it was approved after the director related to that company had resigned from the Board.

E.2

(Continuation of disclosures in section E.2):

Additionally, the following committees have been created and have risk control and management functions within the Risk Appetite Framework:

- o Technical Risk Committee, which holds meetings on a monthly basis and has the following functions: (i) supporting the Risk Committee in fulfilling its functions: determining, proposing, reviewing and tracking the Risk Appetite Framework; supervising the institution's risk on an overall level; tracking the tolerance thresholds of first-and second-tier metrics, and adaptation plans; (ii) approving second-tier limits (including liquidity, interest rate and treasury metrics); (iii) approving minor changes in models, criteria and procedures as well as monitoring the use of models and autonomies in approving transactions; (iv) approving policy frameworks and debating asset allocation strategies (public sector, industry level, ...); (v) tracking and managing delinquency; (vi) performing ad hoc analysis of specific portfolio-related issues in order to integrate them into the management approach; and (vii) drafting and proposing policies and criteria for proper risk management.

- Credit Transactions Committee, which holds meetings on a weekly basis and has the following functions: (i) approval of credit transactions, including transactions/limits for countries and banks, and of specific criteria in line with the policies under the established delegation of powers; (ii) establishment of autonomies in accordance with the established delegation of powers, monitoring their use, and referring proposals for changes to the Executive Committee; and (iii) monthly reporting to the Executive Committee of the transactions approved and performed in the previous month.

- Asset and Capital Transactions Committee (COAC), which holds meetings every two weeks and has the following functions: (i) approval of asset management transactions in accordance with the established delegation of powers; (ii) monthly reporting to the Executive Committee of the transactions approved and performed in the previous month.

- Real Estate Development Committee, which has the following functions: (i) setting action criteria and strategy in relation to the Group's real estate portfolio (analysis of trends in real estate exposure and real estate action policies); (ii) taking the decisions that must be adopted by real estate subsidiaries (holding companies and servicer): proposal of investment transactions in real estate developments and land development; and (iii) monitoring the performance of Solvia Real Estate.

- Assets and Liabilities Committee (ALCO): this body defines criteria for the appropriate management of the structural risk assumed in the Group's balance sheet in its commercial activity and of market risk. It supervises interest rate, exchange rate, equity and liquidity risk and suggests commercial, market or hedging alternatives intended to achieve business targets based on the market and balance sheet situation.

- Operational Risk Committee, which meets every two months and defines the strategic guidelines and framework for operational risk management and establishes operational priorities on the basis of the assessment of the risk exposure of the various business and corporate departments. Reputational risk is managed by the Operational Risk Committee.

- Internal Control Body: Oversight and monitoring body which oversees compliance with the law on the prevention of money laundering and terrorist financing and the law to block terrorist financing; it comprises representatives of all the group companies that are bound by the legislation in this area, as well as areas of particular risk for the Bank. The Compliance Department acts as secretary of this Body.

- Corporate Ethics Committee: Oversight and monitoring body which oversees the group's compliance with the code of conduct with regard to the securities market and with the general code of conduct.

There are other committees for specific risk types, notably the Models Committee, the Provisions Committee and the Liquidity Committee.

E.6

(Continuation of disclosures in section E.6):

With regard to credit risk, the bank has implemented advanced measurement models based on internal data, tailored to particular counterparty segments and categories (businesses, retailers, individuals, mortgages and consumer credit, property developers, project finance, structured finance, financial institutions and countries), thus allowing transactions to be differentiated on the basis of risk and assessments to be made of the probability of default or the degree of severity in the event of default actually occurring.

The bank has a tax risk management policy whose objective is to ensure compliance with tax obligations while guaranteeing an appropriate return for our shareholders. The Tax department establishes criteria and advises on the taxation applicable to the departments responsible for the calculating and paying taxes. The departments are responsible for establishing procedures and controls to ensure that taxes are properly calculated and paid, which are subject to review by the Internal Audit department.

More information regarding the systems for controlling the risks to which the group is exposed can be found in the Annual Report, available on the corporate website: www.grupobancosabadell.com – Shareholder and Investor Information – Financial Information – Annual Reports.

This annual corporate governance report was approved by the company's Board of Directors on 31 January 2019.

Indicate whether any board members voted against or abstained with respect to the approval of this report.

Yes ☐ No ☒

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT VERIFICATION REPORT

To the shareholders of Banco de Sabadell, S.A.,

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Consolidated Non-Financial Disclosures Report ("NFR") for the year ended 31 December 2018 of Banco de Sabadell, S.A. and subsidiaries ("Banco Sabadell" or "the Group") which forms part of Banco Sabadell's Consolidated Directors' Report.

The content of the NFR includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the table included in Annex 2 of the accompanying NFR.

Responsibility of the Board of Directors and Management

The preparation of the NFR included in Banco Sabadell's Consolidated Directors' Report and the content thereof are the responsibility of the Board of Directors of Banco de Sabadell, S.A. The NFR has been drawn up in accordance with the provisions of current commercial legislation and with the selected GRI standards, in line with the details provided for each matter in the table included in Annex 2 of said NFR.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure NFR is free from material misstatement, due to fraud or error.

The directors of Banco de Sabadell, S.A. are also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the NFR is obtained.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

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Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out in relation solely to fiscal year 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several Banco Sabadell's units that were involved in the preparation of the NFR, in the review of the processes for compiling and validating the information presented in the NFR and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Banco Sabadell personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.
- Analysis of the scope, relevance and integrity of the content included in the NFR based on the materiality analysis carried by Banco Sabadell, considering the content required under current commercial legislation.
- Analysis of the procedures used to compile and validate the information presented in NFR for 2018.
- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the NFR.
- Verification, through sample testing, of the information relating to the content of the NFR for 2018 and its adequate compilation using data supplied by Banco Sabadell's information sources.
- Obtainment of a management representation letter from the Directors and Management.

Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to our attention which may lead us to believe that Banco Sabadell's NFR for the year ended 31 December 2018 has not been prepared, in all of their significant matters, in accordance with the provisions of current commercial legislation and the selected GRI standards described in accordance with the details provided for each matter in the table included in Annex 2 of said NFR.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Ignacio Marull

1 February, 2019

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON "INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)" OF BANCO DE SABADELL, S.A. FOR THE 2018 FINANCIAL YEAR

To the Board of Directors of Banco de Sabadell, S.A.,

In accordance with the request of the Board of Directors of Banco de Sabadell, S.A. and its subsidiaries ("the Group") and our engagement letter dated 14 December 2018, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in Annual Corporate Governance Report in section F for listed companies of Group Banco de Sabadell for the 2018 financial year, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the "*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*" published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2018 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

In addition, provided that this special work neither constitutes an account audit it is not even submitted to the Law of Account audit, we do not express an opinion of audit in the terms foreseen in the mentioned regulation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular nº 7/2015 of the National Securities Market Commission dated December 22, 2015 and in Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018.

2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.

3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.

4. Comparison of the information described in point 1 above with our knowledge of the Group´s ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.

5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.

6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

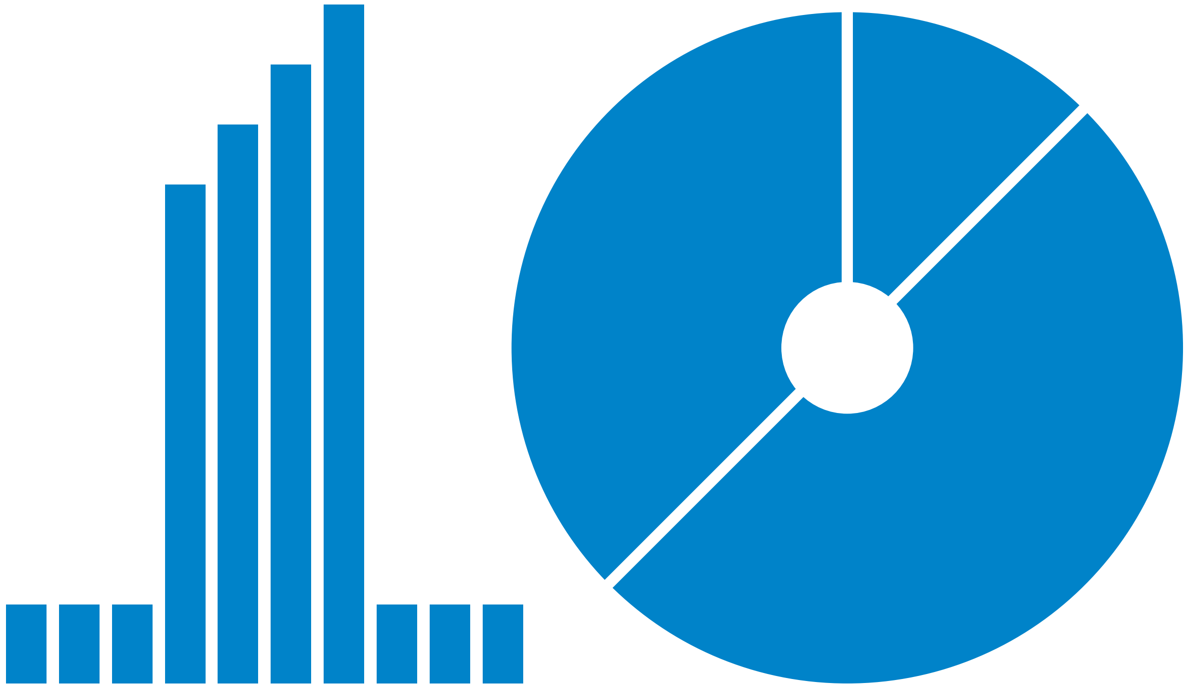
This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular nº 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular nº 7/2015 of the National Securities Market Commission, dated December 22, 2015 and by Circular nº 2/2018 of the National Securities Market Commission dated June 12, 2018, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Raúl Ara Navarro

31 January, 2019

Contact



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General Meeting of Shareholders 2018

This annual report is available on the group's website (www.grupobancosabadell.com), along with the full version and other reports and corporate policies.
If you have a smartphone or tablet, you can access these reports on your device using the QR code.

The issuer's legal name is Banco de Sabadell, S.A. and its commercial name is Banco Sabadell.
It is registered in the Mercantile Registry of Alicante, in tomo 4070, folio 1, hoja A-156980, and its registered offices are in Alicante at Avenida Óscar Esplà, 37.

Credits

Creative Director
Mario Eskenazi

Design
Gemma Villegas
Marta Claverol

Photography
Elena Claverol

Page 16

Joan Hernández Pijuan
Camp pintat de blanc 2003
Oil on canvas
180 × 150 cm
Banco Sabadell Collection

This document is printed on FSC-certified paper and produced using environmentally-friendly processes.

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Sabadell