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

Consolidated annual accounts
for the year ended 31 December 2018

Contents: Banco de Sabadell, S.A. Group consolidated annual accounts for 2018

Consolidated financial statements

Explanatory notes

Consolidated balance sheets of Banco Sabadell Group

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.

Not approved for their implementation in the EU

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.

<u>Debt instruments and off-balance sheet exposures</u>

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.

<u>Accounting classification of transactions on the basis of credit risk attributable to insolvency</u>

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.

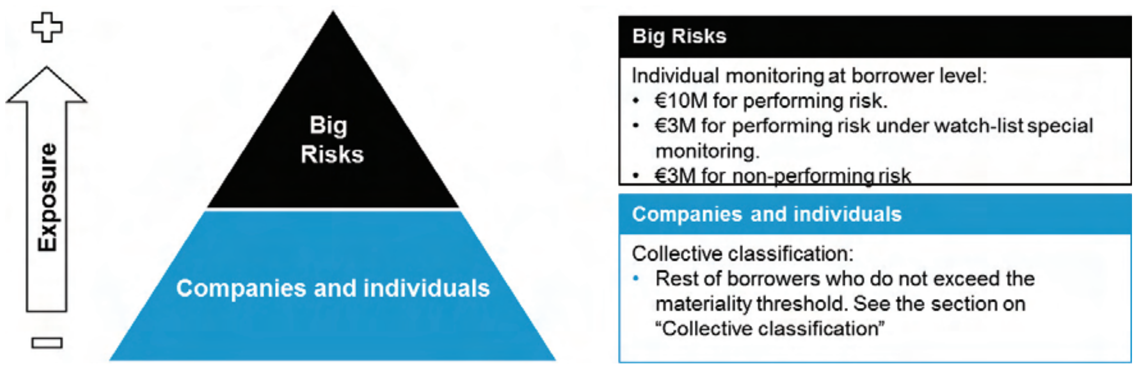
Transactions classified as stage 3 are reclassified as stage 1 or 2 when, as a consequence of the total or partial payment of unpaid risks in the case of transactions classed as stage 3 due to default, or due to having exceeded the cure period in the case of operations classified as stage 3 for reasons 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.

Classification and coverage of credit risk attributable to country risk

Country risk is the risk arising in counterparties resident in a specific country for reasons other than ordinary commercial risk (sovereign risk, transfer risk or risks 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.

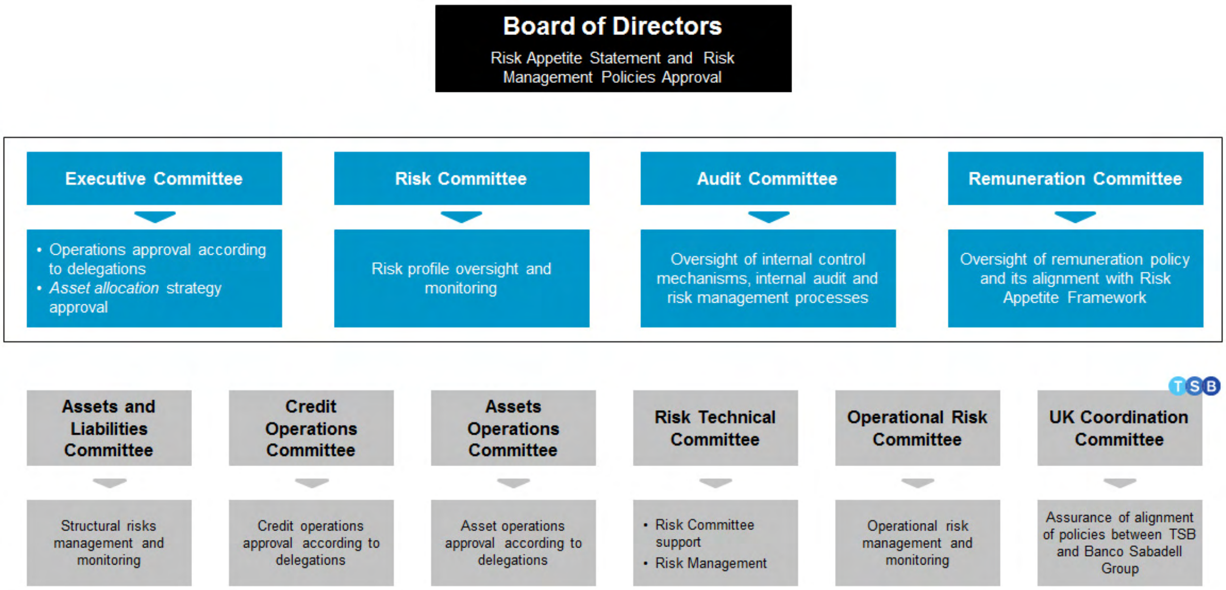
- The Group's remuneration systems should align the interests of employees and Senior Management with compliance with the Risk Appetite Framework.

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**	**188,895,061**
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

	2017									
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	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

	Additions			
Deposits by maturity	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

	Additions			
Deposits by maturity	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

Geography	Breakdown of interest income by 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 Matías, 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 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 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**	

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 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		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				
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		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	(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		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				
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
Hl 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: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Aurica Coinvestments S.L.	Subsidiary	3/17/2017	52,972	0.00	82.48%	82.48%	Indirect	Full consolidation	a
Xunqueira Eolica, S.L.	Subsidiary	3/31/2017	400	0.00	98.55%	98.55%	Indirect	Full consolidation	b
Vitigudina Fv, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Orión Energía 1 - Orion Energía 30, S.L.	Subsidiary	3/31/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Flex Equipos De Descanso, S.A.	Associate	4/30/2017	50,930	0.00	19.16%	19.16%	Indirect	Equity method	c
Sabadell Innovation Cells, S.L.U.	Subsidiary	4/30/2017	3	0.00	100.00%	100.00%	Direct	Full consolidation	a
IFA Beach Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Continental Hotel, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
IFA Hotel Dunamar, S.A.U.	Subsidiary	6/30/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Tropical Partners, S.L.	Associate	6/30/2017	-	0.00	49.99%	49.99%	Indirect	Equity method	c
Parque Eólico Tahuna, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Parque Eólico Zorreras, S.L.U.	Subsidiary	7/31/2017	-	0.00	100.00%	100.00%	Direct	Full consolidation	b
Sinia Capital S.A. De C.V.	Subsidiary	7/31/2017	17,753	0.00	99.99%	99.99%	Direct	Full consolidation	a
Sabadell Innovation Capital, S.L.U.	Subsidiary	7/31/2017	1,000	0.00	100.00%	100.00%	Indirect	Full consolidation	a
Ripollet Gestión, S.L.U.	Subsidiary	8/31/2017	20	0.00	100.00%	100.00%	Direct	Full consolidation	a
Notario Alemany 26 Properties, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Hotel Notario Alemany 26, S.L.	Subsidiary	9/21/2017	-	0.00	100.00%	100.00%	Indirect	Full consolidation	b
Atrian Bakers, S.L.	Associate	12/28/2017	2,000	0.00	22.41%	22.41%	Indirect	Equity method	c
Aurica III, Fondo De Capital Riesgo	Associate	12/31/2017	16,940	0.00	-	48.15%	Indirect	Equity method	d
Aurica IIIB, Soc. De Capital Riesgo, S.A	Associate	12/31/2017	9,465	0.00	-	41.67%	Indirect	Equity method	d
Total newly consolidated subsidiaries			**72,148**						
Total newly consolidated associates			**79,335**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition of associates

(d) Additions due to change in method of consolidation.

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 31/12/2018	Amount 31/12/2017	Interest rate ruling as at 31/12/2018	Maturity / termination date	Issue currency	Target of offering
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 31/12/2018	Amount 31/12/2017	Interest rate ruling as at 31/12/2018	Maturity / termination date	Issue currency	Target of offering
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							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value				
				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							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value				
				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									
		AUTONOMOUS COMMUNITIES								
	TOTAL	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.