Consolidated annual accounts and Independent auditor's report

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

Consolidated financial statements
for the year ended 31 December 2019

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As at 31 December 2019 and 31 December 2018

Thousand euro

Assets	Note	2019	2018 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**15,169,202**	**23,494,479**
Financial assets held for trading		**2,440,866**	**2,044,965**
Derivatives	10	1,840,245	1,720,274
Equity instruments	9	3,701	7,254
Debt securities	8	596,920	317,437
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*38,709*	*66,006*
Non-trading financial assets mandatorily at fair value through profit or loss		**171,056**	**141,314**
Equity instruments		-	-
Debt securities	8	171,056	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		**7,802,025**	**13,247,055**
Equity instruments	9	212,074	270,336
Debt securities	8	7,589,951	12,976,719
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,179,026*	*4,676,769*
Financial assets at amortised cost		**181,422,646**	**164,415,563**
Debt securities	8	19,218,721	13,131,824
Loans and advances	11	162,203,925	151,283,739
Central banks		112,923	98,154
Credit institutions		14,275,501	8,198,763
Customers		147,815,501	142,986,822
Memorandum item: loaned or pledged as security with sale or pledging rights		*5,133,513*	*4,680,404*
Derivatives – Hedge accounting	12	**468,516**	**301,975**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**249,552**	**56,972**
Investments in joint ventures and associates	14	**733,930**	**574,940**
Joint ventures		-	-
Associates		733,930	574,940
Assets under insurance or reinsurance contracts		**-**	**-**
Tangible assets	15	**3,462,399**	**2,497,703**
Property, plant and equipment		2,947,770	1,796,682
For own use		2,638,484	1,526,976
Leased out under operating leases		309,286	269,706
Investment properties		514,629	701,021
Of which: leased out under operating leases		*514,629*	*701,021*
Memorandum item: acquired through finance leases		*1,078,240*	-
Intangible assets	16	**2,564,983**	**2,461,142**
Goodwill		1,031,824	1,032,618
Other intangible assets		1,533,159	1,428,524
Tax assets		**7,008,327**	**6,859,405**
Current tax assets		492,395	312,272
Deferred tax assets	39	6,515,932	6,547,133
Other assets	17	**1,495,936**	**1,639,985**
Insurance contracts linked to pensions		133,960	132,299
Inventories		868,577	934,857
Rest of other assets		493,399	572,829
Non-current assets and disposal groups classified as held for sale	13	**764,203**	**4,586,923**
TOTAL ASSETS		223,753,641	222,322,421

(*) Shown for comparative purposes only (see section "Comparability" 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 2019.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2019 and 31 December 2018

Thousand euro

Liabilities	Note	2019	2018 (*)
Financial liabilities held for trading		**2,714,365**	**1,738,354**
Derivatives	10	1,842,553	1,690,233
Short positions		871,812	48,121
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost		**205,636,018**	**206,076,860**
Deposits		178,898,181	179,877,663
Central banks	18	20,064,641	28,799,092
Credit institutions	18	11,471,187	11,999,629
Customers	19	147,362,353	139,078,942
Debt securities issued	20	22,569,896	22,598,653
Other financial liabilities	21	4,167,941	3,600,544
Memorandum item: subordinated liabilities		*3,088,538*	*3,065,259*
Derivatives – Hedge accounting	**12**	**728,769**	**633,639**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**234,537**	**36,502**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**22**	**430,434**	**466,379**
Pensions and other post employment defined benefit obligations		99,346	88,456
Other long term employee benefits		6,938	12,404
Pending legal issues and tax litigation		66,889	58,226
Commitments and guarantees given		110,746	108,568
Other provisions		146,515	198,725
Tax liabilities		**240,803**	**176,013**
Current tax liabilities		42,637	8,783
Deferred tax liabilities	39	198,166	167,230
Share capital repayable on demand		**-**	**-**
Other liabilities		**784,154**	**995,069**
Liabilities included in disposal groups classified as held for sale	**13**	**10,155**	**82,605**
TOTAL LIABILITIES		210,779,235	210,205,421

(*) Shown for comparative purposes only (see section “Comparability” 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 2019.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2019 and 31 December 2018

Thousand euro

Equity	Note	2019	2018 (*)
Own funds	23	13,171,806	12,544,931
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		39,742	35,487
Retained earnings		4,858,681	-
Revaluation reserves		-	-
Other reserves		(977,687)	3,832,935
Reserves or accumulated losses of investments in joint ventures and associates		223,975	206,149
Other		(1,201,662)	3,626,786
(-) Treasury shares		(8,533)	(143,452)
Profit or loss attributable to owners of the parent		767,822	328,102
(-) Interim dividends		(110,817)	(110,739)
Accumulated other comprehensive income	24	(266,746)	(491,470)
Items that will not be reclassified to profit or loss		(44,677)	(52,564)
Actuarial gains or (-) losses on defined benefit pension plans		(2,361)	(329)
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		(42,316)	(52,235)
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		(222,069)	(438,906)
Hedge of net investments in foreign operations [effective portion]		114,237	213,031
Foreign currency translation		(445,169)	(640,720)
Hedging derivatives. Cash flow hedges reserve [effective portion]		89,845	4,306
Fair value changes of debt instruments measured at fair value through other comprehensive income		(2,137)	(22,958)
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		21,155	7,435
Non-controlling interests	25	69,346	63,539
Accumulated other comprehensive income		242	118
Other items		69,104	63,421
TOTAL EQUITY		12,974,406	12,117,000
TOTAL EQUITY AND TOTAL LIABIITIES		223,753,641	222,322,421

Memorandum item: off-balance sheet exposures			
Loan commitments given	26	27,563,836	22,645,948
Financial guarantees provided	26	2,107,412	2,040,786
Other commitments provided	26	10,398,913	8,233,226

(*) Shown for comparative purposes only (see section "Comparability" 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 2019.

Consolidated income statement of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

	Note	2019	2018 (*)
Interest income	28	4,984,891	4,861,943
Financial assets at fair value through other comprehensive income		119,888	212,080
Financial assets at amortised cost		4,429,106	4,268,831
Other interest income		435,897	381,032
(Interest expenses)	28	(1,362,495)	(1,186,759)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**3,622,396**	**3,675,184**
Dividend income		4,516	8,180
Profit or loss of entities accounted for using the equity method	14	56,427	56,554
Fee and commission income	29	1,628,892	1,558,648
(Fee and commission expenses)	29	(190,151)	(223,347)
Gains or (-) losses on financial assets and liabilities, net	30	37,947	226,709
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		152,483	208,106
Financial assets at amortised cost		65,277	(75,870)
Other financial assets and liabilities		87,206	283,976
Gains or (-) losses on financial assets and liabilities held for trading, net		(111,151)	10,568
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(111,151)	10,568
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(2,470)	(13,902)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(2,470)	(13,902)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	19
Gains or (-) losses from hedge accounting, net		(915)	21,918
Exchange differences [gain or (-) loss], net		88,309	(1,318)
Other operating income	31	234,240	256,682
(Other operating expenses)	32	(550,822)	(547,065)
Income from assets under insurance or reinsurance contracts		-	-
(Expenses on liabilities under insurance or reinsurance contracts)		-	-
Gross income		**4,931,754**	**5,010,227**

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2019.

Consolidated income statement of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

	Note	2019	2018 (*)
(Administrative expenses)		(2,743,459)	(2,920,350)
(Staff expenses)	33	(1,648,836)	(1,590,590)
(Other administrative expenses)	33	(1,094,623)	(1,329,760)
(Depreciation and amortisation)	15, 16	(469,656)	(353,095)
(Provisions or (-) reversal of provisions)	22	(26,595)	(160,706)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(667,025)	(756,092)
(Financial assets at fair value through other comprehensive income)		3,748	(2,472)
(Financial assets at amortised cost)		(670,773)	(753,620)
Profit/(loss) on operating activities		**1,025,019**	**819,984**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		6,605	157
(Impairment or (-) reversal of impairment on non-financial assets)	35	(86,236)	(400,648)
(Tangible assets)		4,717	(60,428)
(Intangible assets)		(6,964)	(286)
(Other)		(83,989)	(339,934)
Gains or (-) losses on derecognition of non-financial assets, net	36	41,357	34,573
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	(35,668)	(35,201)
Profit or (-) loss before tax from continuing operations		**951,077**	**418,865**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(174,199)	(83,635)
Profit or (-) loss after tax from continuing operations		**776,878**	**335,230**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the year		**776,878**	**335,230**
Attributable to minority interest [non-controlling interests]	25	9,056	7,128
Attributable to owners of the parent		767,822	328,102
Earnings per share (euro)	**3**	**0.13**	**0.05**
Basic (in euro)		0.13	0.05
Diluted (in euro)		0.13	0.05

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2019.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses

For the years ended 31 December 2019 and 2018

Thousand euro

	Note	2019	2018 (*)
Profit or loss for the year		**776,878**	**335,230**
Other comprehensive income	**24**	**224,848**	**(285,394)**
Items that will not be reclassified to profit or loss		7,888	(102,007)
Actuarial gains or (-) losses on defined benefit pension plans		(2,902)	(10,138)
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		193	(135,478)
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		10,597	43,609
Items that may be reclassified to profit or loss		216,960	(183,387)
Hedge of net investments in foreign operations [effective portion]		(98,793)	(23,616)
Valuation gains or (-) losses taken to equity		(98,793)	(23,616)
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation		195,549	38,813
Translation gains or (-) losses taken to equity		195,549	38,813
Transferred to profit or loss		-	-
Other reclassifications		-	-
Cash flow hedges (effective portion)		122,152	121,163
Valuation gains or (-) losses taken to equity		77,343	200,505
Transferred to profit or loss		40,326	(79,342)
Transferred to initial carrying amount of hedged items		4,483	-
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		28,654	(396,409)
Valuation gains or (-) losses taken to equity		205,422	(120,071)
Transferred to profit or loss		(176,768)	(276,338)
Other reclassifications		-	-
Non-current assets and disposal groups held for sale		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Share of other recognised income and expense of investments in joint ventures and associates		13,721	(4,148)
Income tax relating to items that may be reclassified to profit or (-) loss		(44,323)	80,810
Total comprehensive income for the year		**1,001,726**	**49,836**
Attributable to minority interest [non-controlling interests]		9,180	7,039
Attributable to owners of the parent		992,546	42,797

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

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 2019.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the years ended 31 December 2019 and 2018

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 31/12/2018	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening 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**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**767,822**	**-**	**224,724**	**124**	**9,056**	**1,001,726**
Other changes in equity	**-**	**-**	**-**	**4,255**	**4,858,681**	**-**	**(4,810,622)**	**134,919**	**(328,102)**	**(78)**	**-**	**-**	**(3,373)**	**(144,320)**
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) (*)	-	-	-	-	(56,270)	-	-	-	-	(110,817)	-	-	-	**(167,087)**
Purchase of treasury shares	-	-	-	-	-	-	-	(210,624)	-	-	-	-	-	**(210,624)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	(39,868)	345,543	-	-	-	-	-	**305,675**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	217,363	-	-	-	(328,102)	110,739	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	11,767	-	-	-	-	-	-	-	-	-	**11,767**
Other increase or (-) decrease in equity	-	-	-	(7,512)	4,697,588	-	(4,770,754)	-	-	-	-	-	(3,373)	**(84,051)**
Closing balance 31/12/2019	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**

(*) Distribution of supplementary dividend (see Note 3).

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 2019.

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 2019 and 2018

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**

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 2019.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

	Note	2019	2018 (*)
Cash flows from operating activities		**(10,395,460)**	**(3,527,010)**
Profit or loss for the year		776,878	335,230
Adjustments to obtain cash flows from operating activities		1,438,317	1,734,258
Depreciation and amortisation		469,656	353,095
Other adjustments		968,661	1,381,163
Net increase/decrease in operating assets		(11,821,101)	(6,889,631)
Financial assets held for trading		(395,901)	(472,461)
Non-trading financial assets mandatorily at fair value through profit or loss		(29,743)	18,417
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		5,479,518	1,572,710
Financial assets at amortised cost		(16,457,905)	(8,349,090)
Other operating assets		(417,070)	340,793
Net increase/decrease in operating liabilities		(522,824)	1,351,513
Financial liabilities held for trading		976,011	307,139
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		(1,570,415)	1,534,920
Other operating liabilities		71,580	(490,546)
Income tax receipts or payments		(266,730)	(58,380)
Cash flows from investment activities		**2,232,503**	**624,954**
Payments		(793,531)	(738,048)
Tangible assets	15	(445,174)	(300,530)
Intangible assets	16	(333,321)	(375,093)
Investments in joint ventures and associates	14	(14,653)	(46,178)
Subsidiaries and other business units	Schedule I	(383)	(16,247)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		3,026,034	1,363,002
Tangible assets	15, 36	252,844	504,881
Intangible assets		-	-
Investments in joint ventures and associates	14	114,615	93,240
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale		2,658,575	764,881
Other collections related to investment activities		-	-

(*) Shown for comparative purposes only (see section “Comparability” in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2019.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2019 and 2018

Thousand euro

	Note	2019	2018 (*)
Cash flows from financing activities		**(261,814)**	**21,324**
Payments		(477,854)	(710,811)
Dividends		(56,270)	(392,087)
Subordinated liabilities		-	-
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(210,624)	(267,449)
Other payments related to financing activities		(210,960)	(51,275)
Collections		216,040	732,135
Subordinated liabilities		-	500,000
Issuance of own equity instruments		-	-
Disposal of own equity instruments		216,040	232,135
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**99,494**	**12,404**
Net increase (decrease) in cash and cash equivalents		**(8,325,277)**	**(2,868,328)**
Cash and cash equivalents at the beginning of the year	7	**23,494,479**	**26,362,807**
Cash and cash equivalents at the end of the year	7	**15,169,202**	**23,494,479**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		4,939,689	4,822,300
Interest paid		(1,329,782)	1,134,273
Dividends received		4,516	8,180
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash	7	897,745	814,761
Cash equivalents in central banks	7	13,587,274	22,065,440
Other demand deposits	7	684,183	614,278
Other financial assets		-	-
Less: bank overdrafts repayable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**15,169,202**	**23,494,479**
Of which: held by Group entities but which cannot be drawn by the Group		-	-

(*) Shown for comparative purposes only (see section "Comparability" in Note 1).

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2019.

BANCO SABADELL GROUP CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2019

Note 1 – Activity, accounting policies and practices

1.1 Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank or the company), with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The supervision of Banco Sabadell on a consolidated basis is taken on by the European Central Bank (ECB).

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 Group's consolidated annual financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2019, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2019 and the results of its consolidated operations, changes in equity and cash flows in 2019.

The consolidated annual financial statements 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 financial statements is the responsibility of the directors of the Group's parent company. The Group's consolidated annual financial statements for 2019 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 30 January 2020 and will be submitted to 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 financial statements 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) entering into force in 2019

During 2019 the following standards have entered into force and have been adopted by the European Union:

Standards	Titles
IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Interpretation of IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 28	Long-term interests in associates and joint ventures
Annual improvements to IFRS	Cycle 2015 - 2017
Amendments to IAS 19	Plan amendment, curtailment or settlement

IFRS 16 "Leases"

IFRS 16 "Leases" entered into force on 1 January 2019. This standard sets forth principles for the recognition, valuation, presentation and disclosure of lease agreements and has involved the adoption of changes in the Group's accounting policies in relation to these agreements (see Note 1.3.11).

At the date of the first implementation, the Group decided to apply this standard retroactively, recognising the cumulative effect of the initial implementation in the consolidated balance sheet as at 1 January 2019, without restatement of the comparative information for 2018, in accordance with the transitional arrangements of the standard (see the "Comparability" section of this Note). In addition, the Group has used the practical assumptions defined in paragraph C10 of IFRS 16 permitted for the selected first-time implementation approach.

As a result of the entry into force of IFRS 16, the Group has recognised a lease liability as at 1 January 2019 amounting to 1,107 million euros and an asset equal to the amount of the lease liability in relation to the agreements considered as operating leases in accordance with the requirements of IAS 17, repealed by IFRS 16. This lease liability bears an average annual interest rate of 1.73%.

The reconciliation between the operating lease commitments as at 31 December 2018 and the lease liability recognised as at 1 January 2019 is shown below:

Million euro	
Operating lease commitments as at 31 December 2018 discounted at the incremental borrowing rate	**800**
Short-term leases recognised as a straight-line expense	(4)
Adjustments arising from different treatment of extension and termination options	311
Lease liability as at 1 January 2019	**1,107**

The first implementation of this standard has had no impact on the Group's consolidated equity, although it has reduced the Common Equity Tier 1 (CET 1) ratio by 15 basis points. Likewise, the entry into force of this standard has had no significant impact on earnings per share or on the Group's segment information in 2019.

Amendments to IFRS 9 "Prepayment features with negative compensation"

This amendment allows financial assets whose cash flows represent solely payments of principal and interest, 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 balancing entry in the statement of equity.

Interpretation of IFRIC 23 "Uncertainty over income tax treatments"

This interpretation establishes how to estimate the accounting position when there is uncertainty over 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.

Amendments to IAS 28 "Long term interests in Associates and Joint Ventures"

These amendments clarify that entities must apply IFRS 9, including its requirements in relation to the impairment of financial instruments, to long-term interests in associates and joint ventures that form part of the entities' net investment in the associate or joint venture but to which the equity method is not applied.

Annual improvements to IFRS "2015-2017 Cycle"

These improvements include minor amendments to standards IAS 12 - "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".

In particular, the amendment to IAS 12 clarifies that an entity should recognise the income tax consequences of dividends where the entity originally recognised those past transactions or events. The implementation of this amendment has resulted in recognising the tax impact of interest paid by contingent convertible bonds as a minor expense amounting to 21,975 thousand euros under the heading "*Tax expense or (-) income related to profit or loss from continuing operations*" of the consolidated income statement for 2019.

Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

This amendment to IAS 19 requires entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

Except for the impact arising from the adoption of IFRS 16 and the amendment to IAS 12 described above, the implementation of these standards has not given rise to any material effects on the consolidated annual financial statements.

Standards and interpretations issued by the IASB not yet in force

As at 31 December 2019, 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 financial statements, 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		
References to IFRS Conceptual Framework	Amendment of references to IFRS Conceptual Framework	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
Not approved for application in the EU		
IFRS 17	Insurance contracts	1 January 2021 (*)
Amendments to IFRS 3	Business combinations	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 (**)	Reference rate reform	1 January 2020

(*) The IASB proposed that it be postponed to 1 January 2022.
(**) These amendments were approved for application in the EU after the end of 2019.

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. Unless otherwise indicated, management estimates that their adoption would not have a material impact on the Group.

Approved for implementation in the EU

Amendment of references to the IFRS Conceptual Framework

The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the development of new IFRS Standards. It helps to ensure that these Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for users. It also assists institutions in developing accounting policies when no IFRS Standard applies to a particular transaction.

The revised Conceptual Framework entered into force in March 2018. Among other aspects, it reintroduced the concept of prudence, amended the definitions of assets and liabilities, included clarifications with regard to the recognition and write-off of assets and liabilities and in relation to the measurement of items in financial statements and used profit/loss as a key indicator of the profitability of an entity.

Additionally, the IASB published the document “Amendments to References to the Conceptual Framework in IFRS Standards”, which updates the references included in several IFRS Standards so that they refer to the new Conceptual Framework.

Amendments to IAS 1 and IAS 8 “Definition of material”

These amendments establish a new definition of ‘material’ in order to help companies make materiality judgements to determine what information should be included in their financial statements. In accordance with the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions made by users on the basis of the entity’s financial statements.

Not approved for their implementation in the EU

IFRS 17 "Insurance contracts"

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that entities provide relevant information in a way 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. In order to provide useful information on these aspects, IFRS 17:

- combines the current measurement of future cash flows with the revenue recognised 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 profit and loss or whether part of these results will be recognised in equity.

Amendments to IFRS 3 "Business combinations"

These amendments improve the definition of a business, in order to help entities make a distinction between asset purchases and business acquisitions. This distinction is important because only business acquisitions generate goodwill.

The amended definition of a business emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors.

Amendments to IFRS 9, IAS 39 and IFRS 7 "Benchmark rate reform"

These amendments aim to ensure that companies can continue providing useful information during the period of uncertainty arising from the phasing-out of interest rate benchmarks, in particular interbank offered rates (IBORs).

In accordance with the foregoing, some specific hedge accounting requirements have been amended to provide relief from the potential negative impacts of the benchmark rate reform. The amendments also require entities to provide additional information about the hedging relationships affected by this uncertainty.

These amendments culminate Phase 1 of the regulatory changes envisaged in relation to the benchmark rate reform. The IASB is currently working on Phase 2 of this project, which considers the potential consequences on financial reporting of replacing an existing benchmark with an alternative.

In 2018 the bank created a specific task force to assess the impacts of the benchmark rate reform from a contractual (necessary contract amendments), financial (instrument valuations and risk metrics), operational (impacts on systems and processes) and behavioural (customer communications) point of view. Based on this assessment, and bearing in mind that the accounting regulation in relation to Phase 2 of this project has not yet been published, Banco Sabadell estimates that the benchmark rate reform will not have a material impact on its consolidated financial statements.

Best judgement and estimates

The preparation of the consolidated annual financial statements requires certain accounting estimates to be made. It also requires management to use its best judgement in the process of applying the Group's accounting policies. Such judgements and estimates may affect the amount of the assets and liabilities and the disclosure of contingent assets and contingent liabilities as at the date of the consolidated annual financial statements, as well as income and expenses in the year.

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.3, 8 and 11).

- The determination of the significant increase in the credit risk of financial assets since 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 post-employment obligations (see Notes 1.3.17 and 22).

- The valuation of consolidated goodwill (see Notes 1.3.12 and 16).

- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 15 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 held on 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).

- The duration of lease contracts and the discount rate used in the valuation of the lease liability (see section “Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2019” of this note and Notes 1.3.11 and 15).

Although estimates have been made based on the information available to Management regarding current and foreseeable circumstances, final results could differ from these estimates.

1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria that have been applied in preparing these consolidated annual financial statements, are as follows: There have been no cases in which accounting principles or measurement criteria have not been applied because of a material effect on the Group’s consolidated annual financial statements for 2019.

1.3.1 Consolidation principles

In the consolidation process, a distinction is drawn between subsidiaries, joint ventures, associates and structured entities.

Subsidiaries

Subsidiaries are institutions over which the Group has control. This occurs when the Group is exposed, or is entitled, to variable returns as a result of its involvement in the investee and when it has the ability to influence those returns through its power over the investee.

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 ability to lead the significant 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 economic performance. The investor’s returns may be only positive, only negative or both positive and negative.

- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or is entitled, to variable returns due to his/her involvement with the investee, but also the ability to use their power to affect the returns obtained due to their involvement with the investee.

When the Group takes control over a subsidiary, it applies the acquisition method provided for in the regulations governing business combinations (see Note 1.3.2) except in the case of acquisitions of an asset or a group of assets.

The financial statements of subsidiaries are consolidated with the bank's financial statements using the full consolidation method.

The third party ownership of the Group's consolidated equity is shown in the heading *"Minority interests (non-controlling interests)"* of the consolidated balance sheet and the part of the profit or loss for the year attributable to these interests is presented under the heading *"Profit or loss for the year - Attributable to minority interests (non-controlling interests)"* 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 2019.

Associates

Associates are institutions over which the Group has a significant influence which generally, although not exclusively, takes the form of a direct or indirect interest representing 20% or more of the investee's voting rights.

In the consolidated annual financial statements, associates 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 dominant factor in deciding who controls the entity.

Where the Group holds an interest in an entity, or where it incorporates an entity, in order to transfer risks or for any other purposes, or to allow customers access to certain investments, the Group determines whether or not there is control over the entity based on that provided in regulations, as described above, in order to consequently determine 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 entity's assets.

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, financial support agreements commonly used in securitisation markets are generally in place, and there are no commitments to provide any financial support that goes substantially beyond what has been contractually agreed. By reason of the foregoing, it is considered that for the majority of the Group's securitisations, the transferred risks cannot be derecognised from the asset side of the consolidated balance sheet and the securitisation funds issued are recognised as liabilities on the Group consolidated balance sheet.

In the case of investment firms and mutual and pension funds managed by the Group (mostly retail funds with no legal personality over which investors acquire proportional units providing them with ownership over the assets managed), these 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. These 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 support, therefore 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 results generated by the companies disposed of during the year are consolidated 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 method of consolidation.

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. The laws in effect 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 ability of these 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. Significant disclosures 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, through which the Group obtains control over one or more businesses. Business combinations are accounted for using the acquisition method.

Under this method, the acquiring entity (acquirer) recognises the assets acquired and liabilities assumed in its financial statements, also considering contingent liabilities, according to their fair value, including those that the acquired entity (acquiree) had not recognised for accounting purposes. This method also requires the cost of the business combination to be estimated, which will normally correspond to the consideration paid, defined as the fair value, on the acquisition date, of the assets delivered, the liabilities incurred against the former owners of the acquired business and the equity instruments issued, if any, by the acquirer.

The Group then recognises goodwill in the consolidated annual financial statements if on the acquisition date there is a positive difference between:

- the sum of the consideration paid plus 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 or 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 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 acquiree's assets, liabilities or contingent liabilities cannot be conclusively determined, the initial accounting of the business combination will be 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 acquiree 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 capital 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 joint ventures in which there is a loss of control over these businesses, the Group's accounting policy is to record the full profit or loss in the consolidated income statement, recognising any remaining interest at its 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 not recognised at fair value through profit or loss, the fair value is adjusted either by adding or deducting the transaction costs directly attributable to their acquisition or issue. In the case of financial instruments at fair value through profit or loss, the directly attributable transaction costs are recognised immediately in the consolidated income statement. As a general rule, conventional sales and purchases of financial assets are recognised in the Group's consolidated balance sheet using the settlement date.

Changes in the 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.

Instruments which form part of a hedging relationship are treated in accordance with regulations applicable to hedge accounting.

Changes in valuations originating subsequent to initial recognition due to causes other than those mentioned above are treated based on the classification of financial assets and financial liabilities for the purposes of their valuation 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.

Business model

A business model refers to the way in which financial assets are managed to generate cash flows. The business model is established by considering the way in which groups of financial assets are managed together in order to achieve a particular objective. Therefore, the business model does not depend on the Group's intentions for an individual instrument, rather, it is determined for a group of instruments.

The business models used by the Group are indicated below:

- Holding financial assets in order to collect contractual cash flows: under this model, the entity manages the financial assets held within a portfolio to collect particular contractual cash flows, instead of managing the overall return on the portfolio by both holding and selling assets. The above notwithstanding, assets can be disposed of prior to maturity in certain circumstances. Sales that may be consistent with a business model whose objective is to hold assets in order to collect contractual cash flows include sales that are infrequent or insignificant in value, sales of assets close to maturity, sales triggered by an increase in credit risk and sales carried out to manage credit concentration risk.

- Sale of financial assets.

- Combination of the two business models above (business model whose objective is achieved by both holding financial assets to receive contractual cash flows and selling financial assets): this business model typically involves greater frequency and value of sales because such sales are integral to achieving the business model's objective.

Characteristics of contractual cash flows of financial assets

Financial assets should initially be classified in one of the following two categories:

- Those whose contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

- All other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at initial recognition, which could change over the life of the financial asset; for example, if there are repayments of principal. Interest is understood as the sum of consideration for the time value of money, for lending and structural costs, and for credit risk associated with the principal amount outstanding during a particular period of time, plus a profit margin.

In the event a financial asset contains contractual terms that could change the schedule or amount of cash flows (e.g. due to pre-payment options or an extension of the financial instrument, due to the extension of the contract or due to possible residual claims), the Group will estimate the cash flows that could be generated before and after the change and will determine whether these are solely payments of principal and interest on the principal outstanding.

On initial recognition, the contractual terms that have a very limited effect on cash flows (*de minimis* effect) or which depend on the occurrence of extremely rare, highly abnormal and extremely unlikely events (non-genuine characteristics) shall not prevent a financial asset from being classified in the category whose cash flows consist solely of payments of principal and interest.

Portfolios of financial instruments classified for the purpose of their valuation

Financial assets and financial liabilities are classified for the purposes of their valuation into the following portfolios, based on the aspects described above:

Financial assets at amortised cost

This category includes financial assets that meet the following two conditions:

- They are held within a business model whose objective is to hold assets in order to collect contractual cash flows, and

- Their contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

This category comprises investments associated with typical lending activities, such as amounts loaned to customers withdrawn in cash and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities which meet 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 should be understood as the acquisition cost adjusted to account for repayments of principal and the portion recognised in the consolidated income statement, using the effective interest rate method, of the difference between the initial cost and the corresponding 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 exactly equals the value of a financial instrument to the estimated cash flows over the instrument's expected life, on the basis of its contractual terms, such as early repayment options, but without taking into account expected credit losses. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate set at the time of their acquisition, considering, where appropriate, the fees, transaction costs, premiums or discounts which, because of their nature, may be likened to an interest rate. In the case of floating-rate financial instruments, the effective interest rate is the same as the rate of return in respect of all applicable concepts until the first scheduled benchmark revision date.

Financial assets at fair value through other comprehensive income

This category includes financial assets that meet the following two conditions:

- They are managed using a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding.

These financial assets primarily correspond to debt securities.

Furthermore, the Group may opt, at initial recognition and irrevocably, to include in 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 on an instrument-by-instrument basis. The Group has exercised this option for most of these financial instruments in these consolidated annual financial statements.

Income and expenses from financial assets at fair value through other comprehensive income are recognised in accordance with the following criteria:

- Interest accrued, or where applicable, dividends accrued, are recognised in the consolidated income statement.

- Exchange differences are recognised in the consolidated income statement when they relate to monetary financial assets, or through other comprehensive income when they relate to non-monetary financial assets.

- Losses due to impairment of debt instruments, or gains due to their subsequent recovery, are recognised in the consolidated income statement and, in the case of equity instruments, through other comprehensive income.

- Other changes in value are recognised through other comprehensive income.

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the fair value change recognised under the heading *"Accumulated other comprehensive income"* of the consolidated statement of equity is reclassified into the consolidated income statement. However, when an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, this amount is not reclassified into the consolidated income statement, but rather to reserves.

Financial assets at fair value through profit or loss

A financial asset is classified in the portfolio of financial assets at fair value through profit or loss whenever the business model used by the Group for its management or the characteristics of its contractual cash flows make it inadvisable to classify it into any of the other portfolios described above.

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

  Financial assets held for trading are those which have been acquired for the purpose of realising them the near term, or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Financial assets held for trading also include derivative instruments that do not meet the definition of a financial guarantee contract and which have not been designated as hedging instruments.

- *Non-trading financial assets mandatorily at fair value through profit or loss*

  All other financial assets mandatorily at fair value through profit or loss are classified in this portfolio.

Fair value changes are directly recognised in the consolidated income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised either as "*Interest income*", applying the effective interest rate method, or as dividends depending on their nature, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities that have been issued with an intention to repurchase them in the near term, or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They also include short positions arising from the outright sale of assets acquired in reverse repurchase agreements, borrowed in securities lending or received as collateral with sale rights, as well as derivative instruments that do not meet the definition of a financial guarantee contract and which have not been designated as hedging instruments.

Fair value changes are directly recognised in the consolidated income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised as interest applying the effective interest rate method, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

Financial liabilities designated at fair value through profit or loss

This category includes financial liabilities that do not form part of financial liabilities held for trading and which have been irrevocably designated at initial recognition. This designation can only be made if the instruments in question are hybrid financial instruments (see section "Hybrid financial instruments" in this note) that meet the conditions for such designation; if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or if more relevant information is obtained as the instruments in question are a group of financial instruments that are managed and whose performance is assessed based on their fair value in accordance with a documented risk management or investment strategy, and information about that group on a fair value basis is provided to key management personnel.

Fair value changes of these instruments are recognised in the consolidated income statement. However, the fair value change of the financial liability attributable to changes in the credit risk of that liability is recognised in the "*Accumulated other comprehensive income*" heading of the consolidated statement of equity.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are financial liabilities that cannot be classified under any of the above categories and which relate to the typical deposit-taking activity of a financial institution, irrespective of their instrumentation and maturity.

In particular, this category includes capital qualifying as a financial liability, i.e. financial instruments issued by the Group which, given their legal classification as capital, do not meet the requirements to be classified as consolidated equity for accounting purposes. These are essentially issued shares that do not carry voting rights and whose return is calculated based on a fixed or variable rate of interest.

Following initial recognition they are measured at amortised cost applying the same criteria as those applicable to financial assets at amortised cost, recognising the interest accrued, calculated using the effective interest rate method, in the consolidated income statement. However, if the Group has discretionary powers with regard to the payment of coupons associated with the financial instruments issued and classified as financial liabilities, the Group's accounting policy is to recognise them in consolidated reserves.

Hybrid financial instruments

Hybrid financial instruments are those that combine a non-derivative host contract and a financial derivative, known as an "embedded derivative", which cannot be transferred separately, nor does it have a different counterparty, and which results in some of the cash flows of the hybrid instrument varying in a similar way to the cash flows that would exist if the derivative were considered separately.

Generally, when the host contract of a hybrid financial instrument is a financial asset, the embedded derivative is not separated and the valuation rules are applied to the hybrid financial instrument as a whole.

When the host contract of a hybrid financial instrument is a financial liability, the embedded derivatives of that contract are separated and treated independently for accounting purposes if the characteristics and economic risks of the embedded derivative are not closely related to those of the host contract. A different financial instrument with the same conditions as those of the embedded derivative would qualify as a derivative instrument, therefore the entire hybrid contract would not be designated at its fair value through profit or loss.

The fair value of the Group's financial instruments as at 31 December 2019 and 2018 is indicated in Note 6.

1.3.4 Impairment of financial assets

A financial asset or a credit exposure is considered to be impaired when there is objective evidence that one or more events have occurred whose direct or combined effect gives rise to:

- In the case of debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time the transaction was formally executed, due to the materialisation of credit risk.

- In the case of off-balance sheet exposures with an associated credit risk, inflows that are expected to be lower than the contractual cash flows that are due if the holder of a loan commitment draws down the loan, or, in the case of financial guarantees given, inflows that are expected to be lower than the payments that are scheduled to be made.

- In the case of investments in joint ventures and associates, a situation in which their carrying amount is extremely unlikely to be recovered.

Debt instruments and off-balance sheet exposures

Impairment losses on debt instruments and other off-balance sheet credit exposures are recognised as an expense in the consolidated income statement for the year in which the impairment is estimated. The recoveries of any previously recognised losses 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 based on the type of instrument and other circumstances that could affect it, after taking into account any effective guarantees received. For debt instruments measured at amortised cost, the Group recognises both allowances, when loan loss provisions are allocated to absorb impairment losses, as well as direct write-offs, when the probability of recovery is considered to be remote. For debt instruments at fair value through other comprehensive income, impairment losses are recognised in the consolidated income statement, with a balancing entry under the heading "*Accumulated other comprehensive income*" on the consolidated statement of equity. Impairment allowances for off-balance sheet exposures are recognised on the liabilities side of the consolidated balance sheet as a provision.

For risks classified as Stage 3 (see the section "Definition of classification categories" in this note), interest accrued is recognised in the consolidated income statement by applying the effective interest rate to its amortised cost adjusted to account for 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 that reflect borrowers' ability 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 loss.

The Group has policies, methods and procedures in place to estimate the losses that it may incur as a result of its credit risks, due to both potential loan losses attributable to borrower arrears and due to country risk. These policies, methods and procedures are applied when authorising, assessing and arranging debt instruments and off-balance sheet exposures, when identifying their possible impairment and, where applicable, when calculating the allowances required to cover these expected credit losses.

Accounting classification on the basis of credit risk attributable to insolvency

The Group has established criteria that allow borrowers showing a significant increase in credit risk, vulnerabilities or objective evidence of impairment to be identified and classified on the basis of their credit risk.

The following sections describe the classification principles and methodology used by the Group.

Definition of classification categories

Credit exposures and off-balance sheet exposures are both classified, on the basis of their credit risk, into the following stages:

- Stage 1: transactions that do not meet the requirements for classification into other categories.

- Stage 2: this category includes all transactions which, although they do not meet the criteria to be classified individually as Stage 3 or a write-off, show significant increases in credit risk since initial recognition. Transactions with amounts more than 30 days past due are included in this category. Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification. Transactions that have been classified as Stage 2, due to significant increases in credit risk or due to the existence of amounts more than 30 days past due, will be reclassified into Stage 1 after passing a 6-month probation period, depending on the likelihood of them re-entering the Stage 2 category.

- Stage 3: comprises debt instruments, matured or otherwise, which do not meet the conditions for classification into the write-offs category but for which there are reasonable doubts as to their repayment in full (principal and interest) by the borrower, 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 purchased or originated credit-impaired transactions are taken into account), unless they should be classed as write-offs. This category also includes guarantees given if the guaranteed party has fallen into in arrears for the guaranteed transaction. This category also includes the amounts of all of a borrower's transactions when the transactions with amounts that are generally (as indicated above) more than 90 days past due account for over 20% of the total amounts pending collection.

  - For reasons other than borrower arrears: transactions which are not classifiable as write-offs or Stage 3 as a result of borrower arrears, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures not classified as Stage 3 as a result of borrower arrears whose payment by the Group is likely and whose recovery is doubtful.

  The accounting definition of Stage 3 is in line with the definition used in the Group's credit risk management activities. It is also in line with the regulatory definition of default, with the exception that, in regulatory terms, all the transactions of a borrower in the business segment are considered to be defaulted when there are amounts more than 90 days past due, while the accounting definition of default only considers all of a borrower's transactions to be Stage 3 when the transactions with amounts more than 90 days past due account for over 20% of the amounts pending collection.

- Write-off:

  The Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. This category includes exposures of customers who are in bankruptcy proceedings filing for liquidation, as well as transactions classified as Stage 3 as a result of borrower arrears that have been in this category for more than four years, or less than four years, when any amounts not covered by effective guarantees have been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years. 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 amounts of transactions that have portions which have been derecognised ("partial derecognition"), either because of the termination of the Group's debt collection rights ("definitive loss") – for reasons such as debt remissions or debt reductions – or because they are considered irrecoverable even though debt collection rights have not yet been terminated ("write-downs"), will be fully classified in the corresponding category on the basis of their credit risk.

  In the situations described above, the Group derecognises from the consolidated balance sheet any amount recorded as write-off, together with its provision, notwithstanding any actions that may be taken to collect payment, until no more rights to collect payment exist, whether due to a credit risk transfer, a debt remission, or for any other reasons.

Purchased or originated credit-impaired transactions

The expected credit loss on purchased or originated credit-impaired assets will not form part of the loss allowance or the gross carrying amount on initial recognition. When a transaction is purchased or originated with credit impairment, the loss allowance will be equal to the accumulated changes in lifetime expected credit losses after initial recognition. Interest revenue on these assets will be calculated by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset.

Transaction classification criteria

The Group applies various criteria to classify borrowers and transactions 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 classification criteria for refinanced transactions make up the classification and cure algorithm and are applied to the entire portfolio.

Furthermore, to enable an early identification of any significant increase in credit risk or vulnerabilities, or any transaction impairment, the Group establishes triggers, based on the number of days past due, in the form of refinancing and restructuring indicators, bankruptcy indicators and indicators of a significant increase in credit risk, among others, distinguishing between significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the conditions for classification as Stage 2 or 3, are assessed using indicators which aim to identify significant increases in credit risk or signs of vulnerability that could result in losses higher than those incurred on other similar transactions classified as Stage 1.

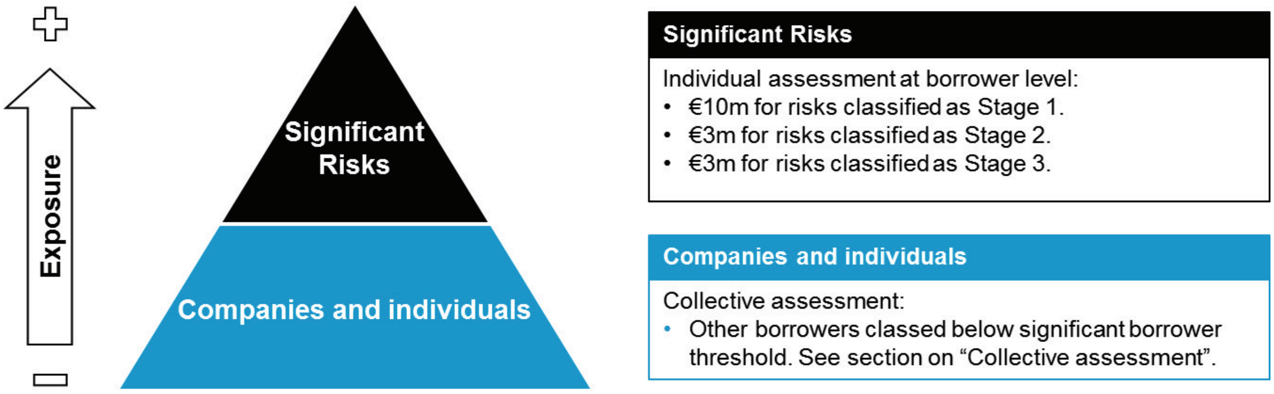
Transactions classified as Stage 3 are reclassified as Stage 1 or 2 when, due to the full or partial collection of unpaid exposures (in the case of transactions classed as Stage 3 as a result of borrower arrears) or due to the completion of the cure period (in the case of transactions classified as Stage 3 for reasons other than borrower arrears), the reasons for which they were originally classed as Stage 3 no longer exist, unless there are any other factors that make it advisable to keep such transactions in this category.

As a result of the application of these criteria, the Group either classifies its borrowers as Stage 2 or 3 or keeps them in Stage 1.

Individual assessment

The Group has established an exposure threshold to classify borrowers as significant, based on the exposure at default parameter (amount drawn and off-balance sheet exposures). Exposures of borrowers that fall into any of the main risk groups are assessed individually, as are borrowers who are not associated with any homogeneous risk group and whose classification and credit loss allowance cannot therefore be collectively estimated.

The figure below shows the thresholds established by the Group to differentiate between borrowers whose classification is determined individually from those whose classification is determined collectively.



For significant borrowers, a system of triggers has been established that allow any significant increase in credit risk, vulnerabilities or signs of impairment to be identified. This system of triggers covers signs of impairment or vulnerability by defining:

- Specific triggers that signal when there has been a significant increase in credit risk;
- Specific triggers that signal when there are signs of impairment;
- Triggers that allow an increase in credit risk and signs of impairment to be detected, based on various early warning thresholds.

A team of expert risk analysts individually analyses borrowers that have activated triggers to determine whether there is a significant increase in credit risk or whether there is any objective evidence of impairment. If there is evidence of impairment, these analysts determine whether the event or events that have given rise to the loss have an impact on the expected future cash flows of the financial asset or its group.

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently from the loan portfolio. The system of triggers seeks to identify the following aspects:

- Significant financial difficulties of the issuer or obligor, indicative of a significant increase in credit 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 as usual.

- In order to identify a significant increase in credit risk or an impairment event, it is necessary to consider variables that are indicative of a deteriorating or poor economic and financial situation as well as variables that could potentially give rise to impairment or which allow impairment to be anticipated.

  For example:

  - Stage 2 triggers:

    - Adverse changes in the financial situation, such as a significant increase in debt levels, sharp drops in turnover, or a significant tightening of operating margins.

    - 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 with respect to the benchmark German bond (share premium) are also analysed.

    - Significant actual or expected downgrade of the internal credit rating assigned to the transaction or borrower, or a reduction in the behavioural score assigned during the internal credit risk monitoring process.

    - For transactions secured with collateral, a higher loan-to-value ratio, due to a dwindling value of the collateral, or due to the amount pending amortisation staying the same or increasing as a result of the established payment terms.

    - Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower’s risk group.

  - Stage 3 triggers:

    - Evidence of impairment of other transactions of the same borrower, or in entities associated with the borrower’s risk group.

    - Negative EBITDA, significant decrease in EBITDA, in turnover, or in general, in the borrower’s recurrent cash flows.

    - Increase in the borrower’s leverage ratios.

    - Negative equity or equity reduction as a result of the borrower suffering income losses of 50% or more in the past year.

    - Existence of an internal or external credit rating showing that the borrower is in arrears.

    - Existence of a borrower’s past-due commitments of significant value with public bodies.

    - For transactions secured with collateral, significant decline in the value of the collateral received.

    - Existence of debt remissions or debt reductions approved for the same borrower or for entities associated with the latter’s risk group in the last 2 years.

    - Temporary suspension of the listing of the borrower’s shares.

- Breach of contract, defaults or delayed payments of principal or interest: in addition to amounts more than 90 days past due, which form part of the automatic classification algorithm, amounts less than 90 days past due are also identified, as these can be a sign of impairment or of a significant increase in credit risk. Breaches of covenants and defaults declared in other credit institutions in the financial system are also considered in the analysis.

- Borrowers are granted concessions or advantages due to financial difficulties that would not otherwise be considered: refinancing the debt of an obligor experiencing financial difficulties could prevent or delay their failure to honour their payment obligations, whilst at the same time preventing or delaying the recognition of the impairment associated with the financial asset linked to that obligor.

- Probability of the borrower becoming insolvent: in cases in which there is a high probability that a borrower will enter bankruptcy or other financial reorganisation, the solvency of the issuers and obligors is ostensibly affected, which could give rise to a loss event depending on the impact on future cash flows pending collection.

- The disappearance of an active market for the financial asset due to financial difficulties: the absence of financial assets issued by the obligor or issuer could give rise to a precarious economic and financial situation and therefore a reduced ability to honour payment obligations.

The Group carries out an annual review of the reasonableness of its thresholds and of the credit risk captured in the individual assessments carried out using these thresholds.

Collective assessment

For borrowers who have been classed below the significant borrower 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 that show a significant increase in credit risk compared to when the transaction was first approved, and which could give rise to higher losses than those incurred on other similar transactions classified as Stage 1.

For transactions of borrowers that are assessed collectively, the Group uses a statistical model that allows it to determine the temporary structure of PD, and therefore the residual lifetime PD, of a contract, based on different characteristics:

- Systemic: macroeconomic characteristics shared by all exposures.
- Cross-cutting: aspects that remain stable over time and which are shared by a group of transactions, such as the shared effect of lending policies in effect at the time the transaction was approved, or the transaction's approval channel.
- Idiosyncratic: aspects specific to each transaction or borrower.

With this specification, the Group is able to measure the residual lifetime PD of a transaction (the PD from a given moment in time up to the maturity of the transaction) under the circumstances that existed at the time the transaction was approved (or originated), or under the circumstances existing at the time the provision is calculated. This way, the real residual lifetime PD may fluctuate in relation to the PD at the time the transaction was approved, due to changes in the economic environment or in the idiosyncratic characteristics of the transaction or the borrower.

The significant increase in credit risk for borrowers and transactions subject to collective assessment models is estimated by comparing the residual lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated against the residual lifetime PD under the circumstances that existed at the time the transaction was approved. Some thresholds for the increase in residual lifetime PD, which is a criterion for classification into Stage 2, have been calibrated using historical data in order to maximise the measurement and identification of risks (default rate) among borrowers and/or transactions classed as Stage 1 and 2. These thresholds are not fixed, rather, they act as a non-linear function that depends on the level of residual lifetime PD at origination, requiring higher relative increases if the PD is low. Thus type of function is deemed adequate and is the best risk assessment/identification method.

In the case of exposures with natural persons, for whom provisions are calculated at a contract level, thresholds are calibrated and applied at this same level. Nonetheless, in the case of companies or retailers and self-employed, in which credit scores are assigned at borrower level, thresholds are calibrated to ensure that they correspond to the borrower's PD and to the period from approval to maturity, in order to adequately adjust each of the borrower's contracts.

Refinancing and restructuring operations

Credit risk management policies and procedures applied by the Group ensure that borrowers are carefully monitored, identifying cases where provisions need to be allocated as there is evidence that their solvency is declining (see Note 4). To this end, the Group allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring arrangements, which should be understood as follows:

- Refinancing: refinancing is granted or used for economic or legal reasons associated with a borrower's current or foreseeable financial difficulties in order to terminate one or more transactions authorised by the Group, or to bring outstanding payments fully or partially up to date, with a view to making it easier for borrowers to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in good time and in an appropriate manner.

- Restructuring: restructuring involves amending the financial terms and conditions of a transaction for economic or legal reasons associated with a borrower's current or foreseeable financial difficulties in order to make it easier for them to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to comply with those terms and conditions in good time and in an appropriate manner, even if such an amendment is already provided for in the contract. In any case, restructured transactions are those in which the terms and conditions are amended to extend the term to maturity, to modify the repayment schedule in order to the reduce repayment instalment amounts in the short term or to reduce their payment 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 that the amended terms are equivalent to the terms that would be applied by other institutions in the market for similar risks.

Formally introducing contractual amendments does not further deteriorate a borrower's circumstances to such an extent that additional provisions need to be allocated.

If a transaction is classified into a particular risk category, refinancing does not mean that its risk classification will automatically improve. The algorithm establishes the initial classification of refinanced transactions based on their characteristics, mainly, the existence of a borrower's financial difficulties (for example, an unsuitable business plan), the existence of particular clauses such as long grace periods, or the existence of amounts that have been written off as they are considered to be non-recoverable. The algorithm then changes the initial classification depending on the established cure periods. A reclassification into a lower risk category will only be considered if there is a quantitative or qualitative increase in the effective 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.

Forborne, refinanced and restructured transactions remain in the Stage *2* category during a probation period until all of the following requirements are met:

- After having reviewed the borrower's assets and financial position, it is concluded that the borrower is unlikely to experience financial difficulties.

- A minimum of two years have passed since the later of the restructuring or refinancing and the date of reclassification from the Stage 3 category.

- The borrower has largely paid the instalments of principal and interest accumulated since the later of the date of refinancing or restructuring and the date of reclassification from the Stage 3 category.

- The borrower has no other transactions with amounts more than 30 days past due at the end of the probation period.

Forborne, refinanced and restructured transactions remain in the Stage 3 category until it can be verified that they meet the general criteria for their reclassification from Stage 3 into a different category, particularly the following criteria:

- One year has passed since the date of the refinancing or restructuring.

- The borrower has paid the accumulated instalments of principal and interest.

- The borrower has no other transactions with amounts more than 90 days past due on the date on which the forborne, refinanced or restructured transaction is reclassified into Stage 2.

With regard to refinanced/restructured loans classified as Stage 2, different types of transactions are specifically assessed in order to reclassify them, where applicable, into one of the categories described previously that reflect a higher level of risk (i.e. into Stage 3 as a result of borrower arrears, when payments are, in general, over 90 days past due, or for reasons other than borrower arrears, when there are reasonable doubts as to their recoverability).

Estimated impairment losses, which are consistent with the accounting classification of the risk, are provisioned for as soon as they are identified.

The methodology used to estimate losses on these portfolios is generally similar to that used for other financial assets at amortised cost, but it is considered that, in principle, the estimated loss on a transaction that has had to be restructured to enable payment obligations to be satisfied should be higher than the estimated loss on a transaction with no history of defaulted payments (unless there are sufficient additional effective guarantees to justify otherwise).

Measurement of allowances

The Group applies the following parameters to determine its credit loss allowances:

- EAD (Exposure at Default): the institution defines exposure at default as the value it is expected to be exposed to when a loan defaults.

  The Group uses currently drawn balances and the amounts that it expects to disburse in the event its off-balance sheet exposures enter into default as an exposure metric, by applying a Credit Conversion Factor (CCF).

- PD (Probability of Default): estimation of the probability of a borrower defaulting within a given period of time.

  The Group has tools in place to help in its credit risk management that predict the probability of default of each borrower and which cover almost all lending activity.

  In this context, the Group reviews the quality and stability of the rating tools that are currently in use on an annual basis. The review process includes the definition of the sample used and the methodology to be applied when monitoring rating models.

  The tools used to assess the probability of default of a debtor are behavioural credit scores, used to monitor the risk associated with individuals, and credit ratings, which are used to monitor the risk associated with companies:

  - Credit ratings: in general, credit risks undertaken with companies are rated using a rating system based on the internal estimate of their probability of default (PD). The rating system is based on factors that predict the probability of default over a one-year period. It has been designed for different segments. The rating model is reviewed annually based on the analysis of actual default patterns. A predicted default rate is assigned to each credit rating level, which also allows a uniform comparison to be made against other segments and against credit ratings issued by external credit rating agencies using a master ratings scale.

    Credit ratings have a variety of uses in risk management. Most notably, they form part of the decision-making process (system of discretions), risk monitoring and pricing policies.

  - Credit scores: in general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn based on a quantitative model of historical statistical data, where the relevant predictive factors are identified. In regions where credit scoring takes place, credit scores are divided into two types:

    - Reactive credit scores: these are used to assess 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 borrowing power, financial profile and, if applicable, the profile of assets pledged as collateral. The resulting credit score is integrated in risk management processes using the system of discretions.

    - Behavioural credit scores: the system automatically classifies customers based on information regarding their activity and each of the products that they have acquired. These credit scores are mainly used to: authorise transactions, establish (authorised) overdraft limits, design advertising campaigns and adjust the initial stages of the debt recovery process.

If no credit scoring system exists, individual assessments supplemented with policies are used instead.

- LGD (Loss Given Default): expected loss on 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 cash flow (amounts outstanding and amounts recovered) an adjustment is applied to consider the time value of the money.

- Effective Interest Rate (EIR): discount rate that exactly equals the estimated cash flows receivable or payable throughout the expected life of a financial asset or a financial liability to the gross book value of the financial asset or to the amortised cost of the financial liability.

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the various different scenarios for which a probability of occurrence is established. Specifically, the Group has considered five macroeconomic scenarios that have been defined at Group level: one baseline scenario, which has the highest probability of occurrence (40%), one favourable scenario (10%) and three adverse scenarios (which together have a 50% probability of occurrence). To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices.

    - Baseline scenario:

    Key assumptions:

    - Orderly Brexit.
    - Some form of trade agreement between the United States and China that alleviates the rising tension between both countries.
    - Moderate impact of trade tensions between the United States and the European Union.
    - Establishment of an economic policy in China capable of sustaining growth.
    - Lax funding conditions and more expansionary tax policies.

    - Trade war and global recession

    Assumption:

    - Sharp slowdown in international trade as a result of an increase in protectionism and/or China's inability to absorb the shock.

    Impacts:

    - Global recession, affecting both developed and emerging economies. Sluggish economic activity for a protracted period of time, recovery is slow.
    - Deflation in the euro area.
    - Intensification of negative interest rates, with impacts on banks and insurers.
    - Increased financial repression.
    - Fiscal expansion and deteriorating fiscal metrics.
    - New historic lows in terms of yields on core sovereign bonds and appreciation of the US dollar.

    Geographical impacts:

    - Spain: economic downturn, with consequences for political stability. Increased uncertainty and the occasional rating downgrade.
    - United Kingdom: fall in GDP and labour market deterioration. Substantial drops in house prices. Bank of England base rate cuts.
    - Mexico: economic recession once the US abandons NAFTA. Devaluation of the peso and increases in the Banxico benchmark rate.

- End of trade war

Assumption:

- The US closes trade deals with China and Europe and tariffs are withdrawn.

Impacts:

- Uncertainty is eased and business confidence is boosted.
- Synchronised economic cycle and dynamic GDP and international trade.
- Gradual upturn in central banks' benchmark rates and long-term government bond yields.
- Global financial conditions remain lax, with no significant episodes of risk aversion.
- Political and geopolitical situation improves.
- Fiscal metrics improve and ratings increase in the European periphery.
- Devaluation of the dollar.

Geographical impacts:

- Spain: significant economic momentum. Structural reforms are adopted in a favourable political environment. Potential growth improves.
- United Kingdom: GDP picks up and labour market improves. The Bank of England gradually raises its base rate and house prices start to increase.
- Mexico: pragmatic public policies and resumed implementation of structural reforms. Entry into force of new NAFTA.

- No Deal No Cliff-Edge Brexit

Assumptions:

- The measures established by the United Kingdom and the European Union to avoid a cliff-edge Brexit are implemented and immediate disruption to cross-border and financial activity is averted.

Impacts in the UK:

- Devaluation of pound sterling.
- Economic recession in the UK in 2020.
- Upturn in inflation in the UK due to the devaluation of the pound and tariff barriers.
- The Bank of England cuts its base rate and the ECB adopts a more lax approach.
- Poor performance of UK real estate market.

Other impacts:

- Financial turbulence in capital markets.
- Recession in the euro zone, followed by a slow recovery. Reduced impact in the US, Mexico and third countries. The Spanish economy slows given the trade, investment and tourism links. The hardest hit sectors are tourism, food, transportation and the automotive industry.
- Intensification of negative interest rate environment in the euro area.
- Lending activity remains broadly flat in Spain.

- No Deal Cliff-Edge Brexit

Assumptions:

- Plans to avoid immediate disruption in cross-border and financial activity are not appropriate and/or not implemented. Additionally, a contingency not envisaged in these plans may occur.
- Air and road transportation may be disrupted, leading to delayed deliveries of goods, particularly food and medical supplies.
- Security issues along the border between Ireland and Northern Ireland.

Impacts in the UK:

- Foreign exchange crisis in the UK, with a sharp devaluation of the pound in its currency pair with the dollar and the euro.
- Steep increase in the Bank of England base rate.
- The UK falls into a severe recession, the unemployment rate soars, as does inflation (due to the devaluation of the pound).
- Significant declines in house prices.

Other impacts:

- Economic recession in the euro zone and Spain. In Spain, the tourism, food, transportation and automotive sectors are particularly hard hit.
- Europe enters an anti-inflationary phase and the ECB extends its negative interest rate policy.
- Lending in Spain declines and recovers very slowly.

d on the above parameters, the Group applies the criteria described below to calculate credit loss allowances.

ımount of impairment allowances is calculated based on whether or not there has been a significant increase in t risk since initial recognition, and on whether or not there has been a default event. This way, the impairment ance for transactions is equal to:

2-month expected credit losses, when the risk of a default event materialising has not significantly increased nce initial recognition (assets classified as Stage 1).

fetime expected credit losses, if the risk of a default event materialising has increased significantly since initial ecognition (assets classified as Stage 2).

xpected credit losses, when a default event has materialised (assets classified as Stage 3).

12-month expected credit losses are defined as:

$$EL_{12M} = EAD_{12M} \cdot PD_{12M} \cdot LGD_{12M}$$

Where:

EAD_{12M} is the exposure at default at 12 months, PD_{12M} is the probability of a default occurring within 12 months and LGD_{12M} is the expected loss given default.

Lifetime expected credit losses are defined as:

$$EL_{LT} = \sum_{i=1}^{m} \frac{EAD_i \cdot PD_i \cdot LGD_i}{(1 + EIR)^{i-1}}$$

Where:

EAD_i is the exposure at default for each year, taking into account both the entry into default and the amortisation (on the agreed date and/or early), PD_i is the probability of a default occurring within the next twelve months for each year, LGD_i is the expected loss given default for each year, and EIR is the effective interest rate of each transaction.

During this estimation process, a calculation is made of the allowance necessary to cover, on one hand, the credit risk attributable to borrowers and, on the other hand, country risk.

The Group includes forward-looking information when calculating expected credit losses and determining whether there has been a significant increase in credit risk, using scenario forecasting models to this end.

The Group uses estimated prepayment rates for different products and segments based on observed historical data (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected credit losses on exposures classified as Stage *2*. The agreed amortisation schedule for each transaction is used.

Subsequently, these expected credit losses are updated by applying the effective interest rate of the instrument (if its contractual interest rate is fixed) or the contractual effective interest rate ruling on the date of the update (if the interest rate is variable). 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 allowances.

Individual allowance estimates

The following must be estimated individually:

- Allowances for transactions classified as Stage 2 and 3 of borrowers individually considered to be significant.

- Where applicable, transactions or borrowers whose characteristics prevent a collective measurement of impairment from being carried out.

- Allowances for transactions with negligible risk classified as Stage *3*.

The Group has developed a methodology to estimate these allowances, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows it expects to receive, discounted using the effective interest rate. To this end, 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 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 to fully or partially repay the debt owed through the economic and financial activities and structure of the company. This involves estimating the cash flows obtained by the borrower during the course of their business activity.

- Collateral recovery method: debtors who are not able to generate cash flows during the course of their own business activities and who are then forced to liquidate assets in order to honour their payment obligations. This involves estimating cash flows based on the enforcement of guarantees.

- Combined method: debtors who are estimated to be able to generate future cash flows and also have non-core assets. These cash flows can be supplemented with the potential sale of non-core assets, insofar as they are not required for the performance of their activity, and consequently, for the generation of the aforesaid future cash flows.

Collective allowance estimates

Exposures that are not assessed using individual allowance estimates are subject to collective allowance estimates.

When calculating collective impairment losses, the Group, in accordance with IFRS 9, mainly takes the following aspects into account:

- The impairment estimation process takes all credit exposures into account. The Group recognises an impairment loss equal to the best estimate available from internal models, taking into account all of the relevant information which the Group holds on the existing conditions at the end of the reported period. For some types of exposures, including sovereign risk with general governments of 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 have negligible risk given that, based on the information available as at the date of signing off the consolidated annual financial statements, the impairment allowance that these exposures are estimated to require is not significant as long as they are not reclassified into Stage 3.

- In order to collectively assess impairment, internal models estimate a different PD and LGD for each contract. To this end, various types of historical information are used that allow the risk to be individually classified for each exposure (ratings, default events, vintage, exposure, collateral, characteristics of the borrower or contract). Available historical information representative of the institution and past losses (defaults) is therefore taken into account. It is worth highlighting that the models' estimation is adjusted to account for the existing economic climate and the forecasts in the scenarios considered, which are representative of expected credit losses. The estimates of impairment loss allowance models are directly incorporated into activities related to risk management and the input data that they use (e.g. credit ratings and credit scores) are those used for authorising risks, in risk monitoring, pricing and in capital calculations. Additionally, recurring back-testing exercises are carried out at least once a year, and estimates are adjusted in the event any major deviations are detected. The models are also reviewed regularly in order to include the most recent available information and to ensure that they perform adequately and that they are suitably representative when applied to the current portfolio for the calculation of impairment loss allowances.

The classification of credit risk and the measurement of allowances are determined based on whether or not there has been a significant increase in credit risk since origination, or whether or not any default events have occurred.

Observed credit impairment since initial recognition

Credit risk category	Stage 1	Stage 2	Stage 3	Write-off
Criteria for classification into stages	Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories.	Transactions with no default events but which do show a significant increase in credit risk since initial recognition.	Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due. Transactions with amounts more than 90 days past due.	Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower.
Calculation of allowance	12-month expected credit loss	Lifetime expected credit loss		Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction
Accrual of interest	Calculated by applying the effective interest rate to the gross carrying amount of the transaction		Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances)	Not recognised in the income statement
Transactions included, by stage	Initial recognition	Transactions which show a significant increase in credit risk since initial recognition Transactions included in a debt sustainability agreement. Risks of borrowers who are in bankruptcy proceedings that do not meet the conditions for classification into Stage 3. Forborne, refinanced and restructured transactions that do not meet the conditions for classification as Stage 3. Transactions with amounts more than 30 days past due.	**Transactions classified as Stage 3 as a result of borrower arrears:** Amount of debt instruments with one or more amounts more than 90 days past due. Amount of all of a borrower's transactions when the transactions with amounts more than 90 days past due account for over 20% of the total amounts pending collection. **Transactions classified as Stage 3 for reasons other than borrower arrears:** • Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful. • Transactions with outstanding balances claimed through judicial proceedings. • Transactions in which the collateral enforcement process has been initiated. • Transactions and guarantees given to borrowers who have filed for bankruptcy or who have declared that they will be filing for bankruptcy without requesting liquidation. • Forborne, refinanced and restructured transactions not qualifying for classification as Stage 2. • Purchased or originated credit-impaired (POCI) transactions.	Transactions whose possibility of recovery is considered remote. Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs). - Transactions classified as Stage 3 as a result of borrower arrears, when they have been in this category for over 4 years or when the amount not covered by effective guarantees has been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years, unless the effective collateral covers at least 10% of the gross amount. - Transactions of borrowers who are in bankruptcy proceedings filing for liquidation or who have declared they will be filing for liquidation, unless they have effective collateral covering at least 10% of the gross carrying amount.

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 to be effective guarantees:

- Real estate guarantees applied as first mortgage liens:
  - Completed buildings and completed component parts:
    - Housing units.
    - Offices, commercial premises and multi-purpose industrial buildings.
    - Other buildings, such as non-multi-purpose industrial buildings and hotels.
  - Urban land and regulated building land.
  - Other real estate.
- Collateral in the form of pledged financial instruments:
  - Cash deposits.
  - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
  - Personal property received as collateral.
  - Subsequent mortgages on properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

The Group has collateral valuation criteria for assets located in Spain that are in line with current regulations. In particular, the Group applies criteria for the selection and hiring of appraisers that are geared towards assuring their independence and the quality of the appraisals. All of the appraisers used are appraisal companies and agencies that have been entered in the Bank of Spain Special Register of Appraisal Firms, and the appraisals are carried out in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes.

Real estate guarantees for loan transactions are valued on the date they are provided, while real estate assets are valued on the date on which they are recognised, whether as a result of a purchase, foreclosure or a payment in kind, and also whenever there is a significant reduction in value. Additionally, minimum updating criteria are applied, which ensure that updates take place at least once a year in the case of impaired assets (assets classified as Stage 2 or 3 and real estate assets foreclosed or received in lieu of debt), or at least once every three years for large debts classified as Stage 1 with no signs of latent credit risk. Statistical methodologies are only used to update the valuations of the assets described above when they have low exposure and risk levels, although a full ECO appraisal must be carried out at least every three years.

For assets located in other EU countries, the appraisal 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.

The Group has developed internal methodologies to estimate credit loss allowances. These methodologies use the appraisal value as a starting point to determine the amount that can be recovered with the enforcement of real estate guarantees. This appraisal value is adjusted to account for the time required to enforce such guarantees, price trends and the Group's ability and experience in realising the value of similar properties through enforcement in terms of prices and terms, as well as the costs of enforcement, maintenance and sale.

Backtesting of allowances for loan losses and real estate asset impairment

The Group has established backtesting methodologies to compare estimated losses against actual losses.

Based on this backtesting exercise, the Group makes amendments to its internal methodologies when this regular backtesting exercise reveals significant differences between estimated losses and actual losses.

The backtests show that the risk classification and credit loss allowances are adequate given the portfolio's credit risk profile.

Investments in joint ventures and associates

The Group recognises allowances for the impairment of investments in joint ventures and associates, always provided there is objective evidence that the carrying amount of an investment is not recoverable. Objective evidence that equity instruments have become impaired is considered to exist when, after initial recognition, one or more events occur whose direct or combined effect demonstrates that the carrying amount is not recoverable.

Among others, the Group considers the following indicators to determine whether there is evidence of impairment.

- Significant financial difficulties.

- Disappearance of an active market for the instrument in question due to financial difficulties.

- Significant changes in profit or loss, compared to the data included in budgets, business plans or targets.

- Significant changes in the market in the issuer's equity instruments, its existing products, or its potential products.

- Significant changes in the global economy or in the economy of the region in which the issuer operates.

- Significant changes in the technological or legal environment in which the issuer operates.

The amount of the allowances for the impairment of interests held in associates included under the heading of "*Investments in joint ventures and associates*" is estimated by comparing their recoverable amount against their carrying amount. The latter shall be the higher of the fair value, less selling costs, and the value in use.

The Group determines the value in use of each interest held 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. In particular, interests held in insurance investees are valued by applying the market consistent embedded value methodology, those held in companies related to real estate are valued based on their net asset value, and those held in financial investees are valued using multiples of their book value and/or the profit of other comparable listed companies.

Impairment losses are recognised in the consolidated income statement for the year in which they materialise and subsequent recoveries are recognised in the consolidated income statement for the year in which they are recovered.

1.3.5 Hedging transactions

The Group uses financial derivatives to (i) provide these instruments to customers that request them, (ii) manage risks associated with the Group's proprietary positions (hedging derivatives), and (iii) realise gains as a result of price fluctuations. To this end, it uses both financial derivatives traded in organised markets and those traded bilaterally with counterparties outside organised markets (over the counter, or OTC).

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 hedge against the exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), the exposure to variability in estimated cash flows that is attributable to a particular risk of financial assets and financial liabilities, firm 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 financial derivative must effectively eliminate some portion of the risk that is inherent in the hedged item or position throughout the entire expected life of the hedge. This effectiveness should be measured both prospectively and retrospectively. To this end, the Group analyses whether, at the time of its inception, a hedge is expected to operate with a high level of effectiveness in business-as-usual conditions. It also runs effectiveness tests throughout the life of the hedge, in order to verify that the results of these tests show an effectiveness that falls within a range of between 80% and 125%.

- Suitable documentation must be available to show that the financial derivative was acquired specifically to hedge against certain balances or transactions and to show the intended method for achieving and measuring hedge effectiveness, provided that this method is consistent with the Group's own risk management processes.

Hedges are applied to either individual items and balances (micro-hedges) or to portfolios of financial assets and financial liabilities (macro-hedges). In the latter case, the set of financial assets and financial liabilities to be hedged must share the same type of risk, a condition that is met when the individual hedged items have a similar interest rate sensitivity.

Changes that take place after the designation of the hedge, changes in the valuation of financial instruments designated as hedged items and changes in financial instruments designated as hedging instruments are recognised in the following way:

- In fair value hedges, differences arising in the fair value of the derivative and the hedged item that are attributable to the hedged risk are recognised directly in the consolidated income statement, with a balancing entry under the headings of the consolidated balance sheet in which the hedged item is included or under the heading "*Derivatives – Hedge accounting*", as appropriate.

  In fair value hedges of interest rate risk of 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 fair value changes in the hedged item that can be attributed 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 either the asset side or the liability side of the consolidated balance sheet, as applicable. In this case, hedge effectiveness is assessed by comparing the net position of assets and liabilities in each time period against the hedged amount designated for each of them, immediately recognising the ineffective portion 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 of the effective portion of hedging instruments are recognised under the heading *"Accumulated other comprehensive income – Hedging derivatives. Cash flow hedges reserve [effective portion]"* on the consolidated statement of equity. These differences are recognised in the consolidated income statement when the losses or gains on the hedged item are recognised through profit or loss, when the envisaged transactions are executed, or on the maturity date of the hedged item.

- In hedges of net investments in foreign operations, measurement differences in the effective portion of hedging instruments are recognised temporarily in the consolidated statement of equity under *"Accumulated other comprehensive income – Hedge of net investments in foreign operations [effective portion]"*. These differences are recognised in the consolidated income statement when the investment in foreign operations is disposed of or derecognised from the consolidated balance sheet.

- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedges and net investments in foreign operations are recognised under the heading *"Gains or (-) losses on financial assets and liabilities, net"* of the consolidated income statement.

If a derivative assigned as a hedging derivative does not meet the above requirements due to its termination, discontinuance, ineffectiveness, or for any other reason, it will be treated as a derivative held for trading for accounting purposes. Therefore, changes in its valuation will be recognised with a balancing entry through profit or loss.

When a fair value hedge is discontinued, any previous adjustments made to the hedged item are recognised in the income statement using the effective interest rate method, recalculated as at the date on which the item ceased to be hedged, and must be fully amortised upon maturity.

Where a cash flow hedge is discontinued, the accumulated gains or losses on the hedging instrument that had been recognised under *"Accumulated other comprehensive income"* in the consolidated statement of equity while the hedge was still effective, will continue to be recognised under that heading until the hedged transaction takes place, at which time the gain or loss will be recognised through profit or loss, 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 be bonds, bank guarantees, insurance contracts or credit derivatives, among others.

The Group recognises financial guarantee contracts under the heading *"Financial liabilities measured at amortised cost – Other financial liabilities"* at their fair value which, initially and unless there is evidence to the contrary, is the present value of the expected fees and returns to be received. At the same time, fees and similar income received at the commencement of the operations, as well as the accounts receivable, measured at the present value of future cash flows pending collection, are recognised as loans on the asset side of the balance sheet.

In the particular case of long-term guarantees given in cash to third parties under 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 an advance payment made or received in exchange for the provision of the service, and this is recognised in the consolidated income statement for the period in which the service is provided. Subsequently, the Group applies analogous criteria to debt instruments measured at amortised cost.

Financial guarantees are classified according to the risk of incurring loan losses attributable to either customer arrears or the transaction and, where appropriate, an assessment is made of whether provisions need to be allocated for these guarantees by applying criteria similar to the criteria used for debt instruments measured at amortised cost.

Income from guarantee instruments is recognised under the heading *"Fee and commission income"* in the consolidated income statement and 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 income statement.

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 there are no further obligations associated with the liabilities or when they are acquired for the purpose of their termination or resale.

Note 4 provides details of asset transfers in effect at the end of 2019 and 2018, 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 financial liabilities are only offset for the purpose of their presentation 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 value or 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 includes the book 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 financial statements.

It can therefore be assumed that the book value of these assets, 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 for 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 these assets or to include them in its rental operations. Similarly, investments in joint ventures or associates that meet these criteria are also recognised as non-current assets held for sale. For all of these assets, the Group has specific units that focus on the management and sale of real estate assets.

The heading "*Liabilities included in disposal groups classified as held for sale*" includes credit balances associated with assets or disposal groups, 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 lower of their carrying amount and the net fair value of their estimated selling costs. The carrying amount at the acquisition date of non-current assets and disposal groups classified as held for sale deriving from foreclosure or recovery is defined as the outstanding balance of the loans or credit that gave rise to these purchases (net of any associated provisions), for as long as the tangible and intangible assets that would otherwise be subject to amortisation remain classified as *"Non-current assets and disposal groups classified as held for sale"*.

In order to determine the net fair value of real estate assets, the Group uses its own internal methodology, which uses as a starting point the appraisal value, adjusting this based on its past experience of selling properties that are similar in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors. Similarly, agreements entered into with third parties for the disposal of these assets are also taken into account.

The appraisal value of real estate assets recognised in this heading is obtained following the policies and criteria described in the section entitled “Guarantees” in Note 1.3.4. The main appraisal firms and agencies used to obtain market values are listed in Note 6.

Gains and losses arising from the disposal of assets and liabilities classified non-current assets or liabilities held for sale, as well as impairment losses and their reversal, where 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 institution that have been disposed of or classified as held for sale and which (i) represent a business line or region that is significant and separate from the rest or is part of a single coordinated plan to dispose of that business or region, 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 generated 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, regardless of whether the business has been derecognised from or remains on the asset side of the balance sheet as at year-end. This heading also includes the profit or loss 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 that is expected to be used for more than 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 payment of debts classified on the basis of their final use.

As a general rule, tangible assets are valued at their acquisition cost less accumulated depreciation and, if applicable, less any impairment losses identified by comparing the net carrying amount of each item against its recoverable amount.

Depreciation of tangible assets is calculated on a straight-line basis, applying the estimated years of useful life of the various items to the acquisition cost of the assets less their residual value. The land on which 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 in the consolidated income statement and calculated based on the remaining years of their useful lives, estimated as an average of the different groups of components.

	Useful life (years)
Land and buildings	37.5 a 75
Fixtures and fittings	4.2 a 25
Furniture and office equipment	3.3 a 18
Vehicles	3.1 a 6.25
Cash dispensers, computers and computer equipment	4

The Group reviews the estimated useful life of the various components of tangible assets at the end of every year, if not more frequently, in order to detect any major changes. Should any such changes arise, the useful life is adjusted, correcting the depreciation charge in the consolidated income statements for future years as required to reflect the new estimated useful life.

At each year-end closing, 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 assesses whether this impairment actually exists by comparing the asset's net book value against 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 book value is higher than its recoverable amount, the Group reduces the book value of the corresponding component to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted book value and new remaining useful life, in the event this needs to be re-estimated. Where there are signs that the value of a component 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 component shall in no circumstances result in its book value being increased to a value higher than the value that the asset component would have had if impairment loss 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 of each branch based on the accumulated contribution margin less an allocated recurring cost of risk, and (ii) this recurring net cash flow is regarded as a perpetual cash 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 valuations of third parties entered in the Bank of Spain's special register of appraisal firms, in accordance with criteria set forth in Order ECO/805/2003.

The costs of preserving and maintaining tangible assets are recognised in the consolidated income statement for the year in which they occur.

1.3.11 Leases

The Group evaluates the existence of a lease contract at its commencement or when its terms are amended. A contract is deemed to be a lease contract when the contract identifies the asset and the party receiving the asset has the right to control its use.

Leases in which the Group acts as lessee

The Group recognises, for leases in which it acts as lessee, which mostly correspond to lease contracts for real estate and office spaces linked to its operating activity, a right-of-use asset of the leased asset and a liability for payments outstanding at the date on which the leased asset was made available to the Group for use.

The lease term is the non-revocable period established in the contract, plus the periods covered by an extension option (if the exercise of that option by the lessee is reasonably certain) and the periods covered by a termination option (if the lessee is reasonably certain not to exercise that option).

For lease contracts with a specified lease term that include, or not, a unilateral option for early termination that can be exercised by the Group and in which the cost associated with such termination is not significant, the term of the lease is generally equivalent to the duration initially set forth in the contract. However, if there are any circumstances that could result in contracts being terminated early, these will be taken into account.

For lease contracts with a specified lease term that include a unilateral option for extension that can be exercised by the Group, the choice to exercise this option will be made on the basis of economic incentives and past experience.

The lease liability is initially recognised in the heading "*Financial liabilities measured at amortised cost – Other financial liabilities*" of the consolidated balance sheet (see Note 21), for a value equal to the present value of estimated payments outstanding, based on the envisaged maturity date. These payments comprise the following items:

- Fixed payments, less any lease incentives payable.
- Variable lease payments, than depend on an index or rate.
- Amounts expected to be paid for residual value guarantees provided to the lessor.
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term shows that an option to terminate the lease will be exercised.

Lease payments are discounted using the implicit interest rate, if this can be easily determined and, if not, the incremental borrowing rate, understood as the rate of interest that the Group would have to pay to borrow the funds necessary to purchase assets with a value similar to the rights of use acquired over the leased assets for a term equal to the estimated duration of the lease contracts.

The payments settled by the lessee in each period reduce the lease liability and accrue an interest expense that is recognised in the consolidated income statement over the lease term.

The right-of-use asset, which is classified as a fixed asset based on the type of leased property, is initially measured at cost, which comprises the following amounts:

- The amount of the initial measurement of the lease liability, as described above.
- Any lease payments made at or before the lease commencement date, less any incentives received.
- Any initial direct costs.
- An estimate of costs to be incurred in dismantling and removing the leased asset, restoring the site on which it is located or restoring the asset to the condition required by the terms and conditions of the lease.

The right-of-use asset is depreciated on a straight-line basis at the shorter of the useful life of the asset or the lease term.

The criteria for impairing these assets are similar to those used for tangible assets (see Note 1.3.10).

The Group exercises the option to recognise as an expense during the year the payments made on short-term leases (those that, at the commencement date, have a lease term of 12 months or less) and leases in which the leased asset has a low value.

Sale and leaseback

If the Group does not retain control over the asset, (i) the asset sold is derecognised from the balance sheet and the right-of-use asset arising from the leaseback is recognised at the proportion of the previous carrying amount that relates to the right of use retained, and (ii) a lease liability is recognised.

If the Group retains control over the asset, (i) the asset sold is not derecognised from the balance sheet and (ii) a financial liability is recognised for the amount of consideration received.

The profit or loss generated in the transaction is immediately recognised in the consolidated income statement, if a sale is determined to exist (only for the amount of the gain or loss relating to the rights over the transferred asset), as the buyer-lessor has acquired control over the asset.

Leases in which the Group acts as lessor

Finance leases

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 under the heading *"Financial assets at amortised cost"* on the consolidated balance sheet. This financing includes the exercise price of the purchase option payable to the lessee upon 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.

Operating leases

In operating leases, ownership of the leased asset and a substantial proportion of all of the risks and rewards incidental to ownership of the asset remain with the lessor.

The acquisition cost of the leased asset is recognised under the heading *"Tangible assets"*. These assets are depreciated in accordance with the same policies followed for similar tangible assets for own use and the revenue from the lease contracts is recognised in the consolidated income statement on a straight-line basis.

1.3.12 Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance that arise as a result of an acquisition from third parties or which are generated internally by the Group. An intangible asset will be recognised when, in addition to meeting this definition, 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 acquired entities are recognised as goodwill on the asset side of the consolidated balance sheet. These differences represent an advance payment made by the Group of the future economic benefits derived from the acquired entities that are not individually identified and separately recognised. Goodwill, which is not depreciated, is only recognised when acquired for good and valuable consideration in a business combination.

Each goodwill item is assigned to one or more cash-generating units (UGE, for their acronym in Spanish) which are expected to benefit from the synergies arising from the business combinations. These UGEs are the smallest identifiable group of assets which, as a result of their continuous operation, generate cash flows for the Group, separately from other assets or groups of assets.

UGEs to which goodwill has been assigned are tested annually for impairment, or whenever there is evidence that impairment might have arisen. To this end, the Group calculates the recoverable amount using mainly 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 the cash flow projections used as part of the valuation. For businesses engaging in financial activities, projections are made for variables such as: changes in lending volumes, default rates, customer deposits, 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 into account the existing economic situation at the time of the valuation.

- Discount rate: the present value of future dividends, from which a value in use is obtained, is calculated using the institution's cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital 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: this is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the existing financial market circumstances and outlooks at all times.

If the book value of a UGE is higher than its recoverable amount, the Group recognises an impairment loss that is allocated, firstly, by reducing the goodwill attributed to that UGE and, secondly, if any losses remain to be allocated, by reducing the book value of the remaining allocated assets on a proportional basis. Impairment losses recognised for goodwill cannot subsequently be reversed.

Other intangible assets

This heading mainly includes intangible assets acquired in business combinations, such as the value of brands and contractual rights arising from relationships with customers of the acquired businesses, as well as computer software.

These intangible assets have a finite useful life and are amortised based on their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years. In particular, the sub-systems corresponding to the infrastructure, communications, architecture and corporate functions of the banking platforms used by Group entities to carry out their activity generally have a useful life of between 10 and 15 years, while the useful life of sub-systems corresponding to channels and data & analytics ranges from 7 to 10 years. The base platform implemented in 2018 that TSB uses to carry out its activity has a useful life of 15 years.

The criteria for recognising impairment losses on these assets and any reversals of impairment losses recognised in earlier financial years are similar to those applied to tangible assets. To this end, the Group determines whether there is evidence of impairment by comparing actual changes against 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 life of intangible assets are treated in a similar way to changes in the estimated useful life of tangible assets.

1.3.13 Inventories

Inventories are non-financial assets that are held by the Group for their use or sale 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 which 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 value 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, entered in the Bank of Spain Special Register of Appraisal Firms and performed in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes, which is then adjusted in line with the internal methodology developed by the Group, taking into account its experience in selling assets that are similar 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 recognised as an expense during the year in which the income from its sale is recognised.

1.3.14 Own equity instruments

Own equity instruments are defined as equity instruments that meet the following criteria:

- Those that do not involve any contractual obligation for the issuer that entails: delivering cash or another financial asset to a third party, or exchanging financial assets or financial liabilities with a third party under terms that are potentially unfavourable to the issuer.

- In the case of a contract that will or may be settled in the issuer's own equity instruments: if it is a non-derivative financial instrument, it does not entail an obligation to deliver a variable number of its own equity instruments; or, if it is a derivative instrument, it is settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments.

All transactions involving the Group's own equity instruments, including their issuance or depreciation, are recognised directly with a balancing entry in consolidated equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the financial statements. Any consideration received or paid in exchange for such instruments is directly added to or deducted from consolidated equity net of the associated transaction costs.

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 book value of the 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 that have both a liability and an equity component from the issuer's perspective (e.g. convertible bonds that grant their holder the option to convert them into equity instruments of the issuing entity), are recognised at issuance, separating their component parts and presenting them according to their substance.

Assigning the initial carrying amount to the various component parts of the compound instrument shall not imply, under any circumstances, a recognition of earnings. An amount shall first be assigned to the component part that is a financial liability, including any embedded derivative with an underlying asset that is anything other than an own equity instrument. This amount will be obtained based on the fair value of the institution's financial liabilities that share similar characteristics with the compound instruments, but which are not associated with own equity instruments. The initial carrying amount assigned to the equity instrument will be the residual portion of the initial carrying amount of the compound instrument as a whole, after deducting the fair value assigned to the financial liability.

1.3.15 Remuneration in equity instruments

The delivery to employees of the Group's own equity instruments in payment for their services (where these instruments are determined at the start of, and delivered upon completion of, a specified period of service) is recognised as a service expense over the period during which the services are being provided, with a balancing entry under the heading *"Other equity"* in the consolidated statement of equity. On the date these 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 cannot be subsequently reversed, even when employees do not exercise their right to receive the equity instruments.

For transactions involving share-based remuneration paid in cash, the Group records a service expense over the period during which the services are being provided, with a balancing entry on the liabilities side of the consolidated balance sheet. The Group recognises this liability at fair value until it is settled. Changes in value are recognised in the income statement for the year.

1.3.16 Provisions, contingent assets and contingent liabilities

Provisions are present obligations of the Group resulting from past events and whose nature as at the date of the financial statements 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 with an expenditure.

In general, the Group's consolidated annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among others, pension commitments undertaken with employees by Group entities (see Note 1.3.17), as well as provisions for tax litigation and other contingencies.

Contingent liabilities are any possible obligations in the Group that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Contingent liabilities include present obligations of the Group for which payment is not probable or whose amount, in extremely rare cases, cannot be measured reliably. Contingent liabilities are not recognised in the consolidated annual financial statements, rather, they are disclosed in the notes to the consolidated annual financial statements.

As set forth in IAS 37.92, if the disclosure of some or all of the information required regarding provisions and contingent liabilities can be expected to seriously undermine the position of the Group in disputes with third parties in relation to the situations that consider these provisions and contingent liabilities (such as those linked to litigation or arbitration issues), the Group can choose not to disclose this information.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of events not wholly within the control of the Group. These contingent assets are not recognised on the consolidated balance sheet or in the consolidated income statement, but they are disclosed in the corresponding report where an inflow of economic benefits is probable.

1.3.17 Provisions for pensions

The Group's pension commitments to its employees are as follows:

Defined contribution plans

These are plans under which fixed contributions are made to a separate entity in accordance with the agreements entered into with each particular group of employees, without any legal or constructive obligation to pay further contributions if the separate entity is unable to pay all employee benefits relating to employee service in the current and prior periods.

These contributions are recognised each year in the consolidated income statement (see Note 33).

Defined benefit plans

Defined benefit plans provide for all existing commitments arising from the application of Articles 42, 43, 44 and 48 of the 23rd Collective Bargaining Agreement for Banks (*XXIII Convenio Colectivo de Banca*).

These commitments are financed in the following ways: the pension plan, insurance contracts, the voluntary social welfare agency ("E.P.S.V.") and internal funds.

1. The pension plan

Banco Sabadell's employee pension plan covers benefits payable under the aforementioned collective bargaining agreement with employees belonging to regulated groups, with the following exceptions:

- Additional commitments due to early retirement, as set out in Article 43 of the Collective Bargaining Agreement.

- Disability or incapacity arising in certain circumstances.

- Widowhood and orphanhood benefits arising from the death of a retired member of staff who began their employment in the entity after 8 March 1980.

The Banco Sabadell employee pension plan is regarded to all intents and purposes as a plan asset for the obligations insured by entities that are not a related party of the Group. Obligations of the pension plan insured by companies that are related parties of the Group are not considered plan assets.

A Control Committee has been created for the pension plan, formed of representatives of the sponsor and representatives of the participants and beneficiaries. This Control Committee is the body responsible for supervising its operation and execution.

2. Insurance contracts

Insurance contracts generally provide cover for certain commitments arising from Articles 43 and 44 of the 23rd Collective Bargaining Agreement for Banks, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension plan (listed in the previous section).

- Serving employees covered by a collective bargaining agreement of Banco Atlántico.

- Pension commitments in respect of some serving employees not provided for under the collective bargaining agreement.

- Commitments towards employees on extended leave of absence who are not entitled to benefits under the Banco Sabadell employee pension plan.

- Commitments towards early retirees. These may be partly financed with benefits accrued under the Banco Sabadell employee pension plan.

These insurance policies have been arranged with insurers separate from the Group, whose insured commitments are mainly those towards former Banco Atlántico employees and BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. The voluntary social welfare agency “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, who are insured by policies. It was set up by Banco Guipuzcoano in 1991 as an agency with a separate legal personality. All of the pension commitments to serving and former employees are insured by entities separate from the Group.

4. Internal funds

Internal funds are used to settle obligations with early retirees up to their legal retirement age and relate to 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 the financial and actuarial assumptions 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 plan assets has been deducted. Plan assets are assets that will be used to settle obligations, including insurance policies, since they meet the following requirements:

- They are not owned by the Group but by a legally separate third party not qualifying as a related party.
- They are available only to pay or fund employee benefits and are not available to creditors of the Group, even in the event of the Bank becoming insolvent.
- They cannot be returned to the Group unless the assets remaining in the plan are sufficient to settle all obligations, of the plan or of the entity, relating to employee benefits, or unless assets are to be returned to the bank to reimburse it for employee benefits previously paid.
- They are not non-transferable financial instruments issued by the Group.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros are not plan 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 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 period, (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 plan.

- Under the heading *"Accumulated other comprehensive income"* in the consolidated statement of equity, the remeasurement of the net defined benefit liability (asset) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the previous actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the return on plan assets, and (iii) any change in the effect of the asset ceiling, excluding, for the last two items, the amounts included in net interest on the defined benefit liability (asset).

  The amounts recognised in the consolidated statement of equity are not reclassified into the consolidated income statement in subsequent years, rather, they are reclassified under the heading *"Other reserves – Other"* of the consolidated statement of equity.

The heading "*Provisions – Other long term employee benefits*" on the liabilities side of 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:

	2019	2018
Tables	PERM / F 2000 New production	PERM / F 2000 New production
Discount rate, pension scheme	0.75% per annum	1.50% per annum
Discount rate, internal fund	0.75% per annum	1.50% per annum
Discount rate, related insurance	0.75% per annum	1.50% per annum
Discount rate, non-related insurance	0.75% 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 2019 and 2018, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 12.50 years in 2019 and 11.94 years in 2018.

The early retirement age considered is the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions has been determined by applying the same technical interest rate used in actuarial assumptions (0.75% in 2019).

1.3.18 Foreign currency transactions and exchange differences

The Group's functional and presentation currency is the euro. Consequently, all balances and transactions denominated in currencies other than the euro are 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 rules are used to translate foreign currency balances to the functional currency of each investee:

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the end of the reporting period.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.
- Non-monetary items measured 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 rate ruling at the transaction date.

In general, exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recognised in the consolidated income statement. However, for exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognised under the heading *"Accumulated other comprehensive income"* in the consolidated statement of equity, a breakdown is given for the exchange rate component of the remeasurement of the non-monetary item.

The balances of the financial statements of consolidated entities with a functional currency other than the euro are translated into euros in the following manner:

- Assets, liabilities and value adjustments are translated at the exchange rate ruling at each year-end closing.
- Income and expenses are translated at the average exchange rate, weighted by the volume of transactions of the company whose income and expenses are being translated.
- Own funds are translated by applying historical exchange rates.

Exchange differences arising on the translation of financial statements of consolidated entities with a functional currency other than the euro are recognised under the heading *"Accumulated other comprehensive income"* on the consolidated statement of equity.

The exchange rates applied to translate balances denominated in foreign currency into euros are those published by the European Central Bank on 31 December of each year.

1.3.19 Recognition of income and expense

Interest income and expense and other similar items

Interest income and expense and other 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 expense"* of the consolidated income statement, as applicable. Dividends received from other entities are recognised as income at the time the right to receive them originates.

Commissions, fees and similar items

Generally, income and expense in the form of commissions and similar fees are recognised in the consolidated income statement based on the following criteria:

- Those linked to financial assets and financial liabilities measured at fair value through profit or loss are recognised at the time of disbursement.

- Those related to transactions carried out or services rendered over a given period of time are recognised throughout that period.

- Those related to a transaction or service that is carried out or rendered in a single act are recognised 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 accrued net of associated direct costs and recognised in the consolidated income statement over their expected average life.

Assets managed by the Bank but owned by third parties are not included in the balance sheet. Fees generated by this activity are recognised under the heading *"Fee and commission income"* in the consolidated income statement.

Non-financial income and expense

These items are recognised in the accounts upon delivery of the non-financial asset or upon the provision of the non-financial service. To determine the carrying amount and when this item should be recognised, a model is used that consists of five steps: identification of the contract with the customer, identification of the separate obligations of the contract, calculation of the transaction price, allocation of the transaction price to the identified obligations and, lastly, recognition of the revenue when, or as, the obligations are settled.

Deferred payments and collections

Deferred payments and collections are accounted for at the carrying amount obtained by discounting expected cash flows at market rates.

Levies

For levies and tax obligations whose amount and date of payment are certain, 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 a present obligation to pay the tax.

Deposit guarantee schemes

The Bank is a member of the Deposit Guarantee Fund. In 2019, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.18% of the amount of the deposits guaranteed as at 30 June 2019 (0.18% of the amount of deposits guaranteed as at 30 June 2018 in 2018). Each entity's contribution is calculated based on the amount of deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the amount of the securities guaranteed as at 31 December 2019 (0.2%f 5% of the amount of the securities guaranteed as at 31 December 2018 in 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 schemes which are similar to the Deposit Guarantee Fund and they make contributions to these schemes in accordance with national regulations (see Note 32). The most significant of these 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 makes contributions to the deposit guarantee fund established by the Instituto para la Protección del Ahorro Bancario. 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 it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) 806/2014. This regulation sets out 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 that makes decisions on the resolution of failing banks, in order to efficiently undertake the resolution measures that have been 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

Corporation tax applicable to the Spanish companies of Banco Sabadell Group, as well as similar taxes applicable to foreign investees, is considered to be an expense and is recognised under the heading *"Tax expense or income related to profit or loss from continuing operations"* in the consolidated income statement, except when it arises as a result of a transaction that has been directly recognised in the consolidated statement of equity, in which case it is 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 benefits), and the variation in deferred tax assets and deferred tax 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 that are non-taxable or non-deductible.

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amount of the assets and liabilities appearing 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 tax benefit, 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 arising due to deductible timing differences arising from investments in subsidiaries, branches and associates, or from equity interests in joint ventures, are only recognised insofar as the difference is expected to be reverted due to the dissolution of the investee.

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 tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next 12 months, for example, a corporation tax payment made to the tax authority (Hacienda Pública)) and deferred tax assets/liabilities (to be recovered/paid in future years).

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.

At each year-end closing, recognised deferred tax assets and liabilities are reviewed to ascertain whether they are still 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 account:

- Forecasts of results of each entity or fiscal group, based on the financial budgets approved by the Group'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.

Banco Sabadell Group companies included in Spain's consolidated tax regime for 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 expense associated with cash flows from activities classified as investment or financing activities.

The consolidated cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where 'cash equivalents' are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.

- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investment or financing activities.

- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.

- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

No situations requiring the application of significant judgements to classify cash flows have arisen during the year.

There have been no significant transactions that have generated cash flows not reflected in the consolidated cash flow statement.

1.4 Comparability

The information presented in these consolidated annual financial statements for 2018 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2019 and therefore does not constitute the Group's consolidated annual financial statements for 2018.

In accordance with that permitted by regulations, the Group has opted not to restate the comparative information of 2018 by applying the classification and measurement criteria set forth in IFRS 16, instead recognising, as at 1 January 2019, the accumulated impact arising from the entry into force of the aforementioned standard on the Group's consolidated financial statements. This impact is disclosed in the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2019" of this note.

In 2019, a change has been made in the structure of the Group's business units that existed in 2018, therefore the segment information for 2018 included in these consolidated annual financial statements (see Note 38) has been restated for comparison purposes, as provided in IFRS 8 "Segment reporting".

The amendment of IAS 12 "Income Taxes" described in Note 1.2 has resulted in the tax impacts from the distribution of generated profits being recognised under the heading entitled "*Tax expense or (-) income related to profit from continuing operations*" of the consolidated income statement, when before they were recognised in the consolidated statement of equity. The amount had this amendment to IAS 12 been applied to previous years would have resulted in 22 million euros being added to the consolidated income statement in 2018. This reclassification has not had an impact on the Group's consolidated statement of equity.

Note 2 – Banco Sabadell Group

The subsidiaries and associated companies as at 31 December 2019 and 2018 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 2019 and 2018. 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 2019

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2019.

Exclusions from the scope of consolidation:

- 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), structured around the transfer of two real estate asset portfolios, with the commercial names "Challenger" and "Coliseum". The overall gross book value of the real estate assets involved in the transaction amounted to approximately 9,100 million euros, and their overall net book value amounted to approximately 3,900 million euros as at the date of the agreement.

  In addition, Banco Sabadell has agreed on 2 August 2019 the sale of a portfolio of real estate assets called Rex to Cerberus. The real estate assets involved in this transaction had an overall net book value of approximately 342 million euros at the date of the agreement, with the sale amount reaching 314 million euros.

  On 20 December 2019, the Bank formalised the transfer of most of the real estate assets that comprised these three portfolios to companies wholly owned by a subsidiary of Cerberus called Promontoria Challenger I, S.A., which is in turn 80% owned by Cerberus and the remaining 20% by Banco Sabadell, with the subsequent derecognition of these assets from Banco Sabadell Group balance sheet.

  The real estate assets transferred constitute nearly 46,000 units with an overall gross book value of approximately 6,414 million euros, an amount that does not include the assets that have been marketed and sold to third parties to date. The liquidation of the approximately 15,000 units remaining of real estate assets, amounting to 1,149 million euros, is pending the likely exercise of pre-emptive rights by third parties, although this would not alter the expected financial consequences, and this transfer is expected to be formalised in the short-term.

  The price of the transactions is approximately 3,430 million euros. At the closing of the transactions, the enforcement of certain contractual clauses on the entire pool of assets of the transactions required the recognition of additional provisions amounting to 52 million euros, after tax.

  On the other hand, in the fourth quarter of 2019, 20 million euros were recognised (after tax) for charges linked to assets not attributable to the sale. The closing of these transactions contributed positively to improving the profitability of Banco Sabadell Group and had a positive impact on Banco Sabadell's (fully-loaded) Common Equity Tier 1 capital ratio of 16 basis points in the fourth quarter of 2019.

  As at 31 December 2019, the Group had an account receivable with Cerberus amounting to 447 million euros in connection with this divestment operation, which matures 24 months after the closing of this transaction.

- On 23 April 2019, the Bank, having obtained the relevant authorisations, closed the sale of 80% of the share capital of Solvia Servicios Inmobiliarios, S.L. (Solvia) to Intrum Holding Spain, S.A.U. (formerly, Lindorff Holding Spain, S.A.U.), a company that is part of Intrum AB Group.

  The transaction price has amounted to 241 million euros, corresponding to an equity value of 300 million euros for the entire share capital of Solvia. This price may increase by a maximum of 40 million euros, provided that the conditions relating to the performance of some of Solvia's business lines are met.

  The transaction has generated a profit of 133 million euros and a positive impact of 15 basis points on the fully-loaded Common Equity Tier 1 capital ratio.

With the exception of the transaction described above, there have been no significant changes in the scope of consolidation in 2019.

Changes in the Group's scope of consolidation in 2018

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2018.

Exclusions from the scope of consolidation:

There have been no significant exclusions from the scope of consolidation in 2018.

Other significant transactions in 2019

- On 24 July 2018, Banco Sabadell reached an agreement to transfer a portfolio of assets (mostly mortgage loans) comprised in turn of three sub-portfolios to Deutsche Bank and Carval Investors.

  On 24 July 2019, the Bank, having obtained the relevant authorisations, completed the transfer of this credit portfolio with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros at the date of the transfer.

  This transaction does not entail allocating any additional provisions and has a neutral impact on the capital ratio.

- On 5 February 2019, the Bank began a competitive bidding process to sell 100% of the share capital of Solvia Desarrollos Inmobiliarios, S.L.U. (SDIn Residencial), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the divestiture and transfer in share blocks of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.

  On 3 August, the Bank transferred 100% of the share capital of this investee company, together with the aforementioned plots and real estate developments, to an entity controlled by funds managed and/or advised by Oaktree Capital Management. The total amount of the transaction, referenced to the existing pool as at 1 January 2019, amounted to 882 million euros. As at 31 December 2019, the book amount of assets subject to this transaction amounted to 824 million euros, of which 766 million euros are recognised under the heading "Inventories" in the consolidated balance sheet.

  The closing of the transaction, subject to obtaining the relevant authorisations, will have a positive impact of +5 basis points on the fully-loaded Common Equity Tier 1 capital ratio.

Other significant transactions in 2018

On 16 May 2018, Banco Sabadell agreed to transfer a portfolio of loans with an outstanding balance of approximately 866 million euros, of which 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 had a net impact of approximately 6 million euros in losses, which were recognised in the consolidated income statement for the year ended 31 December 2018.

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 2019 are as follows:

Million euro

Balance as at 31 July 2011	18,460
Acquisition of real estate assets	(7,862)
Collections and subrogation	(6,884)
Increase in write-offs	(1,824)
Credit drawdowns	90
Balance at 31 December 2019	**1,980**

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 31 December 2019 are as follows:

Million euro

Balance as at 31 July 2011	4,663
Acquisition of real estate assets	5,884
Sales of real estate assets	(10,159)
Balance at 31 December 2019	**389**

The portfolio of assets protected by the APS as at 31 December 2019 breaks down as follows:

Million euro

	Balance	Provision
Loans and advances, guarantees and contingent liabilities	1,986	134
Of which, amount drawn not classified as Stage 3	*1,625*	*12*
Of which, amount drawn classified as Stage 3	*355*	*122*
Of which: commitments and guarantees not classified as Stage 3	*3*	-
Of which: commitments and guarantees classified as Stage 3	*3*	-
Real estate exposures	167	64
Non-current assets held for sale for which a transfer agreement has been reached	222	122
Investments in joint ventures and associates	39	27
Write-offs	513	513
Total	**2,927**	**860**

The NPL ratio and NPL coverage ratio are indicated below, together with the lending volumes for construction and real estate developments:

%

	2019
NPL ratio	17.98
NPL coverage ratio	37.64

Million euro

	On Group balance sheet		*Of which, Stage 3*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances - amount drawn	1,980	134	*355*	*122*
Of which, lending to construction and real estate development sector (business in Spain)	*330*	*63*	*119*	*60*
Total	**1,980**	**134**	***355***	***122***

For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses from the disposal of these assets), the Group keeps an account receivable classed under the "*Financial assets measured at amortised cost – Loans and advances - Customers*" heading and recognised on the income statement, in order to reflect the right of collection from the DGF as a result of its guarantee. The accumulated amount recorded as at 31 December 2019 is 3,092 million euros.

Note 3 – Shareholder remuneration and earnings per share

Set out below is the distribution of 2019 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 2018 profits, which was approved by shareholders at the AGM on 28 March 2019:

Thousand euro

	2019	2018
To dividends	223,356	167,008
To Canary Island investment reserve	1,174	383
To voluntary reserves	828,737	372,475
Profit for the year of Banco de Sabadell, S.A.	**1,053,267**	**539,866**

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 0.04 euros per share for 2019.

On 24 October 2019, the Board of Directors agreed to distribute an interim dividend of the 2019 earnings amounting to 110,817 thousand euros (0.02 euros gross per share), paid out on 24 December 2019. It was decided that the amount of the interim dividend net of the corresponding tax withholding (0.0162 euros per share) would be paid through (i) the remittance of the Bank's own shares valued at the simple arithmetic average of their weighted average prices on Spain's electronic trading system in the trading sessions between 11 and 17 December 2019, inclusive (the "Reference Price"), up to a distributed maximum of 90 million shares and (ii) if insufficient, a cash amount up to supplementing this net amount.

The Reference Price of Banco Sabadell shares was 1.0725 euros and the interim dividend was settled by delivering one Banco Sabadell share to shareholders for every 66.20368225 shares held. The fractions of shares lower than the unit which the shareholders were entitled to receive in accordance with the above ratio were settled in cash, applying the Reference Price. Shareholders whose depository institutions accredited in good time and in an appropriate manner their right to exemption from withholding or the application of a reduced rate of withholding have been paid the corresponding amount in cash.

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:	30/09/2019
Banco Sabadell profit as at the date indicated, after provisions for taxes	823,429
Estimated statutory reserve	-
Estimated Canary Island investment reserve	361
Maximum amount available for distribution	823,068
Interim dividend proposed	110,688
Cash balance at Banco de Sabadell, S.A. available (*)	11,955,899

(*) Includes the balance of the heading "Cash, cash balances at central banks and other demand deposits".

The Annual General Meeting, held on 28 March 2019, approved a shareholder remuneration, supplementary to the dividend corresponding to 2018, of 0.01 euros per share (56,270 thousand euros), which was paid on 5 April 2019. Previously, in December 2018, shareholders received remuneration in the form of a dividend of 0.02 euros per share, charged to the income statement for 2018, which was paid on 28 December 2018.

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:

	2019	2018
Profit or loss attributable to owners of the parent (thousand euro)	767,822	328,102
Adjustment: Remuneration of other equity instruments (thousand euro)	(73,250)	(51,275)
Profit or (-) loss after tax from discontinued operations (thousand euro)	-	-
Adjusted net profit attributable to the owners of the parent company (thousand euros)	694,572	276,827
Weighted average number of ordinary shares outstanding (*)	5,538,122,771	5,564,718,978
Conversion undertaken of convertible debt and other equity instruments	-	-
Adjusted weighted average number of ordinary shares outstanding	5,538,122,771	5,564,718,978
Earnings per share (euro)	0.13	0.05
Basic earnings per share adjusted for mandatory convertible bonds (euro)	0.13	0.05
Diluted earnings per share (euro)	0.13	0.05

(*) Average number of shares outstanding, excluding the average number of own shares held in treasury stock during the year.

As at 31 December 2019 and 2018, 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 – Risk management

4.1 Introduction

During 2019, Banco Sabadell Group has continued to strengthen its risk management and control framework by incorporating improvements in accordance with supervisory expectations and market trends.

Bearing in mind that Banco Sabadell Group takes risks during the performance of its activities, good management of these risks is a key part of the business. In this regard, a set of principles has been defined, translated into policies and deployed in procedures, strategies and processes that aim to increase the likelihood of achieving the strategic objectives of the Group’s various activities, facilitating management in an environment of uncertainty. This set is called the Global Risk Framework.

In its management of risks, the Group considers the macroeconomic environment and the regulatory environment. The most significant aspects of 2019 are set out below:

- Political and geopolitical issues have once again conditioned the international economic and financial environment.
- The trade war between the United States and China has led to an increase in tariffs. Tensions have also become evident in the technological field.
- Brexit did not materialised during 2019. Boris Johnson's big electoral win makes it easier for the UK to leave the EU on 31 January 2020.
- The global economy has weakened in this environment of uncertainty, recording the lowest growth since the financial crisis.
- The manufacturing sector and business investment have been the hardest hit by the trade war, while services have been more resilient.
- Spain has experienced a growth performance similar to that of the previous year, with an increase in the year of around 2% per year.
- In the United Kingdom, activity has recorded reduced growth, affected by the uncertainty surrounding Brexit.
- In Mexico, the economy has stagnated, influenced by uncertainty over domestic policy and the slow execution of expenditure by the government.
- Risk assets have performed positively, supported by the shift towards a more accommodating monetary policy from the developed countries' Central Banks.
- In September, the ECB approved a comprehensive stimulus package (borrowing interest rate cut, resumption of the asset purchase programme, etc.)
- The Fed lowered interest rates as an insurance against global risks, held liquidity auctions and initiated a Treasury bill purchase program to combat money market stress.
- German long-term government bond yields returned to negative figures for the first time since 2016, influenced by the degree of uncertainty and the ECB policy.
- Sovereign risk premiums of the European periphery have narrowed, influenced by the ECB's new accommodating measures and the new Italian government.
- The euro has depreciated against the dollar, influenced by economic weakness in the euro zone and trade tensions.
- The pound has remained sensitive to Brexit and has appreciated against the euro with the British Parliament's rejection of a no-deal Brexit and Boris Johnson's search for a deal.
- As regards the financial markets of emerging economies, the accommodating shift of the Central Banks of the main developed countries has been a supporting factor.
- The European banking system has held its solvency and continued making progress in reducing its NPL ratio.
- Progress in the Banking Union and the Capital Markets Union has been limited due to the electoral scenario in the EU. The main milestones have been the adoption of the reform of the single rule book, the agreement on the resolution framework and the roll-out of the Sustainable Finance Action Plan.
- The use of macro-prudential policy has intensified in the face of accumulated financial vulnerabilities in an environment of an accommodating monetary policy.
- In the regulatory and supervisory framework, the work related to the reform of benchmarks and the increasing attention by Central Banks and supervisors to the consequences of climate change on the banking sector are noteworthy.

Brexit

The Group has considered the potential developments and consequences of Brexit in its macroeconomic and financial scenarios. The United Kingdom will maintain the trade and regulatory status quo during the transition period. The UK will also continue to bear the economic costs of the uncertainty associated with the negotiating process of the new relational framework with the EU. The scenario also considers the relocation of some services, particularly financial services. The baseline scenario considers that the Brexit process takes place in an orderly manner following a trade agreement with the EU.

The Group also works with risk scenarios in which the UK's exit from the EU ends up being disorderly, generating significant impacts on the UK economy. The Spanish economy would also be significantly affected given the existing trade, tourism and investment links with the United Kingdom. The most stressed scenario is aligned with those established by the Bank of England for stress tests of financial institutions.

Other than the impacts on the actual economy, TSB's exposure to Brexit is relatively limited, given the domestic nature of its activities. 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 20.4%), an evenly distributed balance sheet between loans and deposits (loan-to-deposit ratio of 103%), as well as a loan portfolio in which over 90% of loans are secured with a mortgage. The quality of this 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.

In 2019, the Bank has carried out an analysis of the recoverability of the invested capital, based on the business plan approved by TSB's Board and presented to analysts and investors last November. The result of this analysis shows that there are no indications of impairment of this investment, as detailed in Note 16.

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 2019 has mainly improved for the following reasons:

(i) **Reduction of non-performing assets:**

- Reduction of the NPA ratio from 5.6% to 4.8% in year-on-year terms, additionally bringing the net NPA to total asset ratio to 1.7% and virtually eliminating non-performing real estate exposure from the Group's balance sheet.
- Furthermore, the Group's NPL ratio fell to 3.83% from 4.22% in December 2018.

(ii) **Concentration**

- From a sectoral point of view, the portfolio is well diversified with an upward trend in sectors with higher credit quality. Reduction of real estate exposures (its weight is one third of that of 2014).
- In terms of individual concentration, concentration risk metrics of large exposures have also been reduced, while the credit rating in the TOPs composition has improved.
- In geographical terms, the portfolio is positioned in the most dynamic regions, both nationally and internationally.
- International risk continues to account for almost a third of the loan portfolio, with year-on-year increases in all relevant regions (Mexico +7.9%, TSB +3.2% and foreign branches +16.2%).

(iii) **TSB lending performance:**

- Positive lending performance at TSB in the second half of the year, recovering the year-on-year growth path. Net lending grew due to the high volume of mortgage applications received, which resulted in increased agreements.
- Loan recovery maintaining the low risk profile (more than 94% in retail mortgages with average LTV of 44%), while improving the portfolio composition by reducing exposures in the Interest Only and Buy to Let portfolios.
- In November 2019, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

(iv) **Improvement of the capital position:**

- Improvement in the (fully-loaded) CET1 ratio which stands at 11.7% at the end of 2019, as a result of significant organic capital generation.
- The Total Capital ratio ended 2019 at 15.0% and the Leverage ratio improved from 4.54% to 4.75% year-on-year.

(v) **Robust liquidity position:**

- At the end of 2019, the LCR stood at 172% and the Loan-to-Deposit (LtD) ratio stood at 99%.
- The Group met the MREL requirement at the end of the year. This ratio stood above regulatory requirements.

The improvement in the Group's fundamentals, mainly in terms of risk, is reflected in the Investment Grade consideration by all the agencies that rate its debt (see Directors' Report – Section 1.4 Banco Sabadell shares and shareholders – Credit Rating Management).

4.2.2 Strengthened credit risk management and control environment

Planning and control of existing and new stock

During 2019, 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 regions, providing a powerful tool that allows the Global Risk Framework to be implemented and guides the growth of lending, seeking to optimise the duality between long-term profitability and risk.

Each of these frameworks defines the Group's risk appetite in each sector or portfolio and the requirements to achieve them, 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 region.
- 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 environment 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 with 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.
- Generation of a correlated sectorisation model, grouping sectors with an outlook focused on risk management.

In this 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:

- Obtain the Group's sectoral strategic outlook.
- Detect growth opportunities, as well as undesirable scenarios.
- Define mechanisms to achieve the agreed objectives.

Pricing system that guarantees alignment with credit risk

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 among the various portfolios.

Improvement of monitoring environment

In 2019, 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 customers' needs. 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 professionals, 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.
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.
- Feedback using the information provided by the Basic Management Team as a result of this management.

4.3 General principles of risk management

Global Risk Framework

The Global Risk Framework aims to establish the common basic principles relating to the risk management and control activity of Banco Sabadell Group, including, inter alia, all those actions associated with the identification, decision, measurement, evaluation, monitoring and control of the various risks to which the Group is exposed. With the Global Risk Framework, the Group aims to:

- Tackle risk through a structured and consistent approach throughout the Group.
- Foster an open and transparent culture with regard to risk management and control, promoting the involvement of the entire organisation.
- Facilitate the decision-making process.
- Align the accepted risk with the risk strategy and the risk appetite.
- Understand the risk environment in which it operates.
- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

The Group’s Global Risk Framework consists of the following elements:

- The Group’s Global Risk Framework Policy.
- Risk Appetite Framework (RAF) of the Group and subsidiaries.
- Risk Appetite Statement (RAS) of the Group and subsidiaries.
- Specific policies for the various relevant risks to which the Group and subsidiaries are exposed.

4.3.1 Global Risk Framework Policy

As an integral part of the Global Risk Framework, the Global Risk Framework Policy establishes the common pillars for the risk management and control activities of Banco Sabadell Group. These activities comprise the duties carried out by the various areas and business units of the Group as a whole.

Consequently, the Global Risk Framework Policy develops a general framework for the establishment of other policies related to risk management and control, determining core/common aspects which are applicable to the different risk management and control policies.

When implementing the Global Risk Framework to all Group’s business lines and entities, proportionality criteria are taken into account in relation to the size, complexity of their activities and the materiality of the risks taken.

Global Risk Framework Principles

For risk management and control to be effective, the Group's Global Risk Framework must comply with the following principles:

- Risk governance and involvement from the Board of Directors through the three lines of defence model, among others.

The risk governance established in the various policies that form part of the Global Risk Framework promotes a solid organisation of risk management and control, categorising it, defining limits and establishing clear responsibilities at all levels of the organisation through policies, procedures and manuals for each risk.

Banco de Sabadell, S.A. Board of Directors assumes, among its other duties, the identification of the Group's main risks and the implementation and monitoring of the appropriate internal control and reporting systems, including the questioning and monitoring and strategic planning of the Group and the supervision of the management of relevant risks and the alignment thereof with the profile defined by the Group.

Similarly, the equivalent bodies of the Group's various subsidiaries maintain the same level of involvement in risk management and control at local level.

- Alignment with the Group's business strategy, especially through the implementation of risk appetite throughout the organisation.

Through the set of policies, procedures, manuals and other documents that comprise it, the Group's Global Risk Framework is aligned with the Group's business strategy, adding value as it should contribute to the achievement of objectives and improve medium-term performance. Therefore, it is integrated into key processes such as strategic and financial planning, budgeting, capital and liquidity planning and, in general, business management.

- Integration of the risk culture, focusing on aligning remuneration to the risk profile.

Corporate culture and values are a key element as they reinforce ethical and responsible behaviour by all members of the organisation.

Accordingly, the Group's risk culture is based on compliance with the regulatory requirements applicable to it in all areas in which it carries out its activities, and ensuring compliance with supervisory expectations and best practices in risk management, monitoring and control.

The Group establishes as one of its priorities the maintenance of a solid risk culture in the mentioned aspects, understanding that this favours an adequate risk-taking, facilitates the identification and management of emerging risks and promotes employees to carry out their activities and develop the business in a legal and ethical manner.

- A holistic view of risk that translates into the definition of the taxonomy of first- and second-tier risks by their nature; and

The Global Risk Framework, through the set of documents that comprise it, contemplates a holistic view of risk: it includes all risks, with special attention to the correlation between them (inter-risk) and within the risk itself (intra-risk), as well as the effects of concentration.

- Alignment with the interests of stakeholders

The Group regularly disseminates relevant information to the public, so that market participants can maintain an informed opinion on the suitability of the management and control framework for these risks, thus ensuring transparency in risk management.

Likewise, risk management and control ensure that the interests of the Group and its shareholders are protected at all times.

4.3.2 Risk Appetite Framework (RAF)

Risk appetite is a key element in determining risk strategy, since it defines the scope of action. The Group has a Risk Appetite Framework (RAF) that sets out the governance framework governing Risk Appetite.

Consequently, the RAF establishes the structure and mechanisms associated with the governance, definition, communication, management, measurement, monitoring and control of the Group's Risk Appetite established by Banco de Sabadell, S.A. Board of Directors.

The RAF's effective implementation requires an adequate combination of policies, processes, controls, systems and procedures which enable a set of defined objectives to be achieved, and to do so effectively and continuously.

The RAF covers all the Group's business lines and units, in accordance with the principle of proportionality, and must enable adequately informed decision-making, taking into account the relevant risks to which it is exposed, including both financial and non-financial risks.

The RAF is aligned with the Group's strategy and with the processes of strategic planning and budgeting, self-assessment of capital and liquidity, the Recovery Plan and the remuneration framework, among others, and takes into account the material risks to which the Group is exposed, as well as their impact on stakeholders, such as shareholders, customers, investors, employees and the general public.

4.3.3 Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the written articulation of the types of risks the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Depending on the nature of each risk, the RAS includes both qualitative and quantitative metrics, which are expressed in terms of capital, asset quality, liquidity, profitability or any other relevant measure. The RAS is therefore a key element in determining risk strategy, since it determines the scope of action.

RAS' qualitative aspects

The Group's RAS incorporates the definition of a set of qualitative aspects, which fundamentally allow the definition of the Group's position against certain risks when these are difficult to quantify.

These qualitative aspects complement the quantitative metrics, establish the overall tone of the Group's risk-taking approach and articulate the motivations for taking or avoiding certain types of risks, products, geographic exposures or others.

RAS' quantitative aspects

The set of quantitative metrics defined in the RAS are intended to provide objective elements of comparison of the Group's situation with respect to the goals or challenges proposed at the risk management level. These quantitative metrics follow a hierarchical structure, as established in the RAF, with three levels: Board (or first-tier), Executive (or second-tier) and Operational (or third-tier) metrics.

Each of these levels has its own mechanisms for approval, monitoring and acting in the event of breaches of thresholds.

In order to gradually detect likely situations of deterioration in the risk position and thus be able to better monitor and control them, the RAS articulates a system of thresholds associated with the quantitative metrics. These thresholds reflect the desirable levels of risk by metric, as well as the levels to be avoided –their breach may trigger the activation of adjustment plans aimed at redirecting the situation.

The articulation of the different thresholds is graduated according to the severity, which allows the execution of preventive actions before reaching excessive levels. Setting all or only part of the thresholds for a given metric will depend on its nature and its hierarchy within the RAS metrics structure.

4.3.4 Specific policies for the different relevant risks

The set of policies for each of the risks, together with the operating and conceptual Procedures and Manuals that form part of the body of regulations of the Group and its subsidiaries, are tools on which the Group and subsidiaries rely to develop more specific aspects of each of the risks.

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.

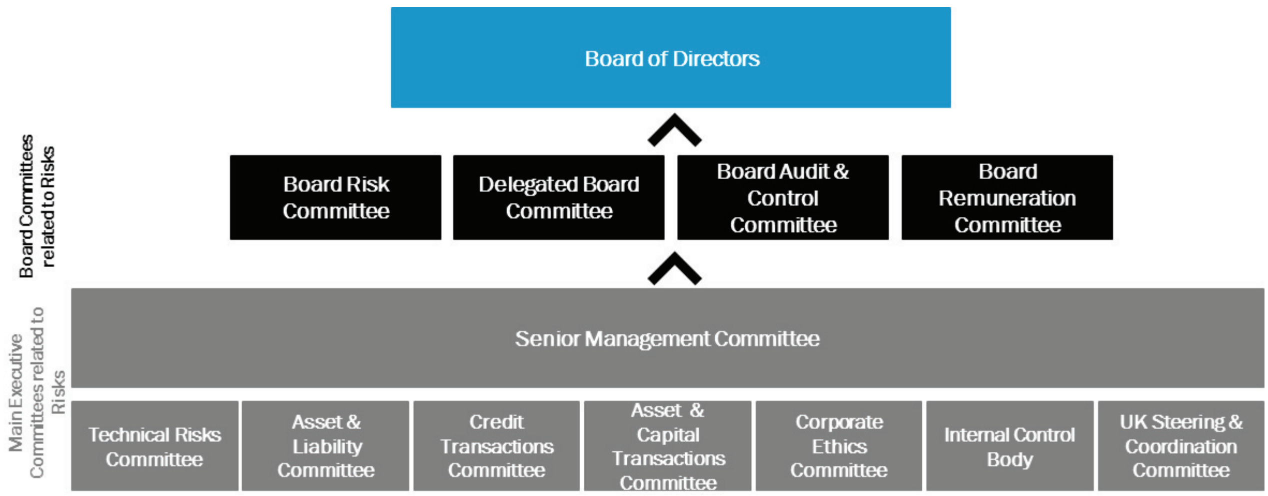
4.3.5 Overall organisation of the risk function

Governance structure

Banco de Sabadell, S.A. Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions, as well as determining the main strategic lines in this regard, ensuring consistency with the Group's short- and long-term strategic objectives, as well as with the business plan, capital and liquidity planning, risk capacity and remuneration programmes and policies.

Banco de Sabadell, S.A. Board of Directors is also responsible for approving the Group's Global Risk Framework.

In addition, within the Board of Directors of Banco de Sabadell, S.A. itself, there are four Committees involved in the Group's Global Risk Framework and, therefore, in risk management and control (the Delegated Committee, the Board Risk Committee, the Remuneration Committee and the Audit and Control Committee). Likewise, various Committees and Divisions are significantly involved in the risk function.



The governance structure defined aims to ensure the appropriate development and implementation of the Global Risk Framework and, therefore, of the risk management and control activity within the Group, while at the same time it aims to facilitate:

- Participation and involvement in risk decisions, and also in their supervision and control, of the Group's management bodies and Senior Management.
- Alignment of objectives at all levels, monitoring of their fulfilment and implementation of corrective measures when necessary.
- The existence of an adequate management and control environment for all risks.

Organisation

The Group establishes an organisational model for assigning and coordinating risk control responsibilities based on the three lines of defence model. This model is developed, for each of the risks, in the various policies that make up the Group's regulatory body, where specific responsibilities for each of the three lines of defence are established.

For each of the lines of defence, the set of risk policies describes and assigns responsibilities, as appropriate, to the following functions (or additional ones to be considered):

- First line of defence: responsible for maintaining sufficient and effective internal controls and implementing corrective actions to remedy deficiencies in its processes and controls. The responsibilities attributed to this line under the Global Risk Framework are:

    - Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;

    - Identifying, quantifying, 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 regulatory compliance and which focus on control errors, inadequate processes and unforeseen events.

- Second line of defence: 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 are:

    - Proposing the global risk management and control framework.

    - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.

    - Overseeing the development of risk management processes and controls.

    - Participating in decision-making processes, providing an overview in terms of risk.

    - Ensuring and monitoring compliance with the established risk appetite.

    - Verifying compliance with the regulations applicable to the Group in the development of its businesses.

    - Analysing and comparing existing and potential 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.

- Third line of defence: it helps the Group to achieve its objectives by providing a systematic, disciplined approach to assess the sufficiency and effectiveness of the organisation's governance processes and its risk management and internal control activities.

4.4 Management and monitoring of the main significant risks

Below are the most noteworthy aspects in terms of their management and actions of the first-tier risks identified in Banco Sabadell Group's risk taxonomy in 2019:

4.4.1 Strategic risk

Strategic risk is associated with the risk of losses or negative impacts resulting from strategic decisions or their subsequent implementation. It also includes the inability to adapt the Group's business model to the evolution of the environment in which it operates.

The Group develops a Strategic Business Plan which sets out the institution's strategy over a certain period of time (currently 2018-2020). In addition, the Plan is periodically monitored in order to study the Group's most recent performance and the environment, as well as the risks taken. This projection is carried out on the basis of the most likely economic scenario for the key regions (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 activities, and annual profit and loss is also assessed in terms of compliance with the target risk appetite.

In addition, it is worth noting that in November, TSB presented its new strategic plan (2019-2022), with the aim of improving profitability, increasing lending, its commitment to digital transformation, as well as increasing the Bank's profits and improving the customer experience.

Strategic risk includes the management and control of four risks:

- Solvency risk: this is the risk of not having sufficient capital, either in quality or quantity, required to achieve strategic and business objectives, withstand operational losses or comply with regulatory requirements and/or the expectations of the market in which it operates.

- Business risk: the possibility of incurring losses arising from adverse events that negatively affect the capacity, strength and recurrence of the income statement, either because of its viability (short-term) or sustainability (medium-term).

- Reputational risk: this is the current or future risk of loss arising from failures in the areas of processes and operations, strategy and corporate governance, which generate a negative perception by customers, counterparties, shareholders, investors or regulators and which may negatively affect the Group's ability to maintain its business relationships or establish new ones, and to continue to access funding sources.

- Environmental risk: this is the risk associated with "physical environmental factors" related to adverse weather events (such as floods or heat waves) or changes in the weather over the long-term (such as rising sea levels) or "environmental transition factors" arising from the processes of transitioning towards a low-emission economy (such as regulatory changes, the emergence of disruptive technologies, etc.).

4.4.1.1 Solvency risk

The CET1 ratio has performed positively throughout 2019. It stood at 11.7% (fully-loaded) at the end of 2019, as a result of significant organic capital generation.

The Total Capital ratio also performed along these lines, standing at 15.0% in December 2019. Likewise, the Leverage ratio stood at 4.75% as at December 2019 compared to 4.54% in the previous year.

As at 31 December 2019, Banco Sabadell's phased-in CET1 capital ratio stood at 12.5% and the Total Capital ratio at 15.7%.

Banco Sabadell exceeds the limits required by the European Central Bank in the decision it sent to the Group in December 2019 and which are applicable to it for 2020. Therefore, Banco Sabadell has no limitations on distributions of dividends, variable remuneration and coupon payments to holders of AT1 capital instruments.

The current levels of solvency show that Banco Sabadell is generally in compliance with capital levels in terms of regulatory requirements.

Furthermore, Banco Sabadell complies with the minimum MREL requirement, which coincides with supervisory expectations and is in line with its funding plans.

For further details on own funds and capital management, see Section 5 to these consolidated annual financial statements.

4.4.1.2 Business risk

The strength of the Group's banking business revenues, despite the interest rate environment, continues to evolve positively, growing 1% year-on-year. In terms of fee income, there was a good year-on-year performance with growth of 7.7%, driven by service fees. As a result, the profit obtained at the end of December 2019 was 768 million euros and the ROE was solid at 5.9%.

At the same time, it was possible to carry out actions that lay the foundations for greater future profitability based on the growth of core revenues, mainly by promoting digitalisation and divestment in non-strategic businesses.

In addition, as part of the strategy, the Group has sped up the digital transformation process, increasing both the volume of customers and the number of digital sales throughout 2019. In Spain, the launch of the NOMO application to help self-employed individuals manage their finances, and the partnership with SQUARE in the UK to facilitate card payments for customers in TSB's business segment are noteworthy.

Finally, it is worth noting the improvement in TSB's recurring profit envisaged in the strategic plan disseminated to the market, which will stand between 130 million and 140 million pounds in 2022. At these levels, TSB's ROE will be close to 7%. The Bank also plans to increase and diversify its loan portfolio, with a net annual increase of 5% over the next three years. Cost savings, after absorbing the impact of amortisation of investments, will reach around 100 million pounds, which will help to improve its cost-to-income ratio by 15 percentage points.

4.4.1.3 Reputational risk

With regard to reputational risk, Banco Sabadell continues to maintain its competitive advantage by excelling in service quality. Accordingly, the service quality index has performed positively throughout 2019, and is above the average for the sector. In addition, the Group has consolidated its top position in the NPS ranking for the SME segment, while it is second in the ranking for Corporates and Personal Banking segments.

Similarly, TSB's NPS continued to improve during the year and especially the mobile NPS, which is practically at pre-migration levels.

4.4.1.4 Environmental risk

Climate change has led to the identification of new sources of financial risk to which the regulatory and supervisory community is paying greater attention. Consequently, and in line with the trend in the sector, Banco Sabadell has started a project to deepen the management and control of environmental risk.

As part of this, in September 2019 Banco Sabadell became one of the founding signatories to the Principles of Responsible Banking, committing itself to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change. By signing the Principles of Responsible Banking, Banco Sabadell joined a coalition of 130 banks worldwide, representing more than 47 trillion dollars in assets, which are committed to playing a crucial role in achieving a sustainable future.

Banco Sabadell's growing commitment to promoting more sustainable energy models is reflected in the increase in investment in renewable energy projects throughout 2019.

4.4.2. 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.

4.4.2.1 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 Delegated 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 activities, whilst the risk analyst takes a more system-based approach making use of their specialised knowledge.

The implementation of advanced risk management methodologies 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 view 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 risk taken. 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 (increased 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 in the economic cycle, debt refinancing and restructuring are the main risk management techniques used. The Bank's objective, when faced with debtors or 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 to experience financial difficulties.

- Refinancing 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 of 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 intensive management and avoiding downtime between the different phases.

For further quantitative information, see Schedule VI "*Other risk information: Forbearance*" to these consolidated annual financial statements.

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 in this portfolio 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 Bank has established three strategic lines of action:

- New lending: real estate development business

New lending to developers is governed by a “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. This analysis is based on models that allow an objective assessment to be obtained, taking into account the expert real estate vision.

Accordingly, the Bank has:

- The Real Estate Business Division (a unit within the Business Banking Division), with a team of real estate specialists who exclusively manage the Bank's developer customers. This unit has a monitoring approach which enables the Group to have a detailed understanding of the projects being analysed by the unit (including the surface area, the number of units, the sales volume, the construction budget and the extent of pre-marketing activities).

- Two Real Estate Investment Analysis and Monitoring Divisions, East and West (reporting to the Real Estate Risk and Investees Division), responsible for analysing all of the real estate projects that the Bank is considering awarding funding to from a purely real estate business point of view, 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). This 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 compliance with the business plan (sales, costs and timelines).

This management model has allowed the definition of alerts to be monitored from the Analysis and Monitoring Divisions.

- Management of non-performing real estate exposures

Non-performing exposures are managed in line with the defined policy. In general, they are managed taking into account:

- The customer.
- The guarantees.
- The 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/file.

Cases in which the stabilisation or settlement of the loan by the customer is not a feasible option are managed using support models on the basis of the type of loan or financed asset.

In the case of completed real estate developments or completed non-residential properties, the possibility of marketing at prices that can drive the market is offered.

For other funded real estate developments, 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.

- 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 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 Board Risk 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*" to these consolidated annual financial statements.

4.4.2.2. 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 actual 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
0.36%	11.36%	20.08%	22.88%	29.35%	11.35%	3.48%	0.91%	0.18%	0.07%	100%

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 regions in which credit scoring takes place, the latter is divided into two types:

Behavioural scoring: the system automatically classifies customers based on information on their transactions 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 various transactions 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
0.93%	4.34%	16.69%	35.93%	22.30%	11.78%	5.11%	1.61%	0.55%	0.74%	100%

Excluding transactions relating to TSB.

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.).
- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.

4.4.2.3. 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 2019 and 2018, 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	2019	2018
Financial assets held for trading		**600,621**	**324,691**
Equity instruments	9	3,701	7,254
Debt securities	8	596,920	317,437
Non-trading financial assets mandatorily at fair value through profit or loss		**171,056**	**141,314**
Equity instruments		-	-
Debt securities	8	171,056	141,314
Financial assets at fair value through other comprehensive income		**7,972,968**	**13,247,055**
Equity instruments	9	382,903	270,336
Debt securities	8	7,590,065	12,976,719
Financial assets at amortised cost		**184,356,525**	**167,850,730**
Debt securities	8	19,218,841	13,132,060
Loans and advances	11	165,137,684	154,718,670
Derivatives	**10, 12**	**2,308,761**	**2,022,249**
Total credit risk due to financial assets		**195,409,931**	**183,586,039**
Loan commitments provided	26	27,563,836	22,645,948
Financial guarantees provided	26	2,107,412	2,040,786
Other commitments provided	26	10,398,913	8,233,226
Total off-balance sheet exposures		**40,070,161**	**32,919,960**
Total maximum credit risk exposure		**235,480,092**	**216,505,999**

The Group has also given borrowers guarantees and loan commitments, materialised in the establishment of guarantees 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 financial statements shows quantitative data relating to credit risk exposures by region.

4.4.2.4. 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 guarantees 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 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 888,078 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 values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2019 and 2018 are as follows:

Thousand euro

	2019	2018
Value of collateral	93,600,477	87,807,280
Of which: securing Stage 2 loans	*5,277,168*	*6,222,290*
Of which: securing Stage 3 loans	*2,745,459*	*2,916,904*
Value of other guarantees	10,146,890	10,882,213
Of which: securing Stage 2 loans	*614,257*	*820,106*
Of which: securing Stage 3 loans	*356,153*	*320,192*
Total value of guarantees received	**103,747,367**	**98,689,493**

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 60.42% of total gross lending.

In the case of market transactions, counterparty credit risk is managed as explained in Section 4.4.2.7.

4.4.2.5. 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 exposure percentage of the institution calculated using internal models, for solvency purposes, is 76%. This percentage has been calculated following the TRIM guidelines (Article 31[a]).

The breakdown of total exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	14,347	111	-	*74*	14,458
A	7,724	25	-	-	7,749
BBB	75,193	115	-	-	75,308
BB	41,977	482	2	*2*	42,461
B	23,055	2,991	-	*104*	26,046
Rest	2,824	4,168	5,863	*82*	12,855
No rating/score assigned	13,261	39	58	*4*	13,358
Total gross amount	178,381	7,931	5,923	266	192,235
Impairment allowances	(400)	(269)	(2,265)	*(3)*	(2,934)
Total net amount	177,981	7,662	3,658	*263*	189,301

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2018				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	10,703	228	-	-	10,931
A	9,245	27	-	-	9,272
BBB	70,519	200	-	-	70,719
BB	41,027	481	-	-	41,508
B	25,907	2,975	-	*15*	28,882
Rest	1,206	4,917	6,368	*405*	12,491
No rating/score assigned	7,048	66	104	-	7,218
Total gross amount	165,655	8,894	6,472	420	181,021
Impairment allowances	(373)	(325)	(2,737)	*(86)*	(3,435)
Total net amount	165,282	8,569	3,735	*334*	177,586

The breakdown of total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2019 and 2018 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	1,757	28	-	*3*	1,785
A	1,628	1	-	-	1,629
BBB	11,072	27	-	-	11,099
BB	13,586	220	-	-	13,806
B	6,492	655	-	*19*	7,147
Rest	302	344	250	*1*	896
No rating/score assigned	3,683	20	5	-	3,708
Total gross amount	38,520	1,295	255	*23*	40,070
Impairment allowances	(48)	(12)	(51)	-	(111)
Total net amount	38,472	1,283	204	*23*	39,959

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 2018				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	2,705	33	-	*9*	2,738
A	1,584	5	-	-	1,589
BBB	9,204	77	-	-	9,281
BB	9,959	156	-	-	10,115
B	6,366	401	-	-	6,767
Rest	391	347	135	-	873
No rating/score assigned	1,549	6	2	-	1,557
Total gross amount	**31,758**	**1,025**	**137**	***9***	**32,920**
Impairment allowances	**(46)**	**(14)**	**(48)**	**-**	**(108)**
Total net amount	**31,712**	**1,011**	**89**	**9**	**32,812**

Further details on the credit rating and credit scoring models are included in Section 4.4.2.2 of these consolidated annual financial statements.

For Spain business' borrowers that do not exceed the materiality threshold and whose coverage has been assessed under internal models in 2019, the following table shows the breakdown by segment of the average EAD-weighted PD and LGD parameters, differentiating between on-balance-sheet and off-balance-sheet exposures, and the stage at which the transactions are classified according to their credit risk.

%

	Average EL parameters for on-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.10%	23.50%	20.30%	19.60%	100.00%	34.70%	6.80%	23.80%
Other financial corporations	1.20%	26.50%	10.80%	9.00%	100.00%	45.20%	1.60%	26.30%
Non-financial corporations	1.30%	34.40%	18.90%	25.00%	100.00%	40.40%	5.60%	34.10%
Households	1.00%	12.10%	21.90%	13.70%	100.00%	31.40%	8.10%	13.60%

%

	Average EL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	0.90%	31.40%	31.30%	32.30%	100.00%	53.80%	1.40%	31.50%
Other financial corporations	1.60%	41.00%	4.70%	42.00%	-	-	1.60%	41.00%
Non-financial corporations	1.10%	37.50%	32.60%	33.00%	100.00%	54.20%	1.90%	37.50%
Households	1.00%	32.30%	14.70%	23.10%	100.00%	40.00%	1.10%	32.20%

During 2019, an improvement has been observed in the reduction of assets classified as Stage 3, which have been reduced by 413 million euros during the year, resulting in a reduction of the Group's NPL ratio as shown in the table below:

%

	2019	2018
NPL ratio (*)	3.83	4.22
NPL coverage ratio (*)	49.58	54.07

(*) The NPL ratio excluding TSB stands at 4.62% and the NPL coverage ratio at 50.09% (in 2018, 5.04% and 54.34%, respectively).

The NPL ratio, broken down by lending segment, is set out below:

%	Proforma 2019 (*)	2019	Proforma 2018 (*)	2018
Real estate development and construction	10.96	10.91	15.68	15.62
Non-real estate construction	6.11	6.10	5.68	5.67
Corporates	1.45	1.45	2.32	2.32
SMEs and self-employed	6.73	6.69	6.48	6.45
Individuals with 1st mortgage guarantee	5.33	3.43	5.82	3.82
Sabadell Group NPL ratio	**4.62**	**3.83**	**5.04**	**4.22**

(*) 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.

4.4.2.6. Concentration risk

Concentration risk is defined as credit risk to exposures with the potential to generate sufficiently large losses that threaten the solvency of the institution or the viability of its ordinary business.

Exposures can be concentrated within a single customer or economic group, or at sector or geographical 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 metrics from the Risk Appetite Statement and their subsequent monitoring as first-tier metrics.

- Individual limits for risks and customers considered to be significant, which are set by the Delegated Committee.

- A structure of conferred powers which requires transactions with significant customers to be approved by the Credit Operations Committee, or even by the Delegated Committee.

In order to control its concentration risk, Banco Sabadell Group has deployed the following critical control parameters:

Consistency with the Global Risk 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.

Exposure to customers or significant risks

As at 31 December 2019, there were no borrowers with approved lending that individually exceeded 10% of the Group's own funds.

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 Delegated 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.

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.

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.

4.4.2.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving transactions with counterparty credit risk. Counterparty risk is a type of credit risk that 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.

Accordingly, the amount subject to the potential default of the counterparty does not correspond to the notional of the contract, but is uncertain and depends on the fluctuation of market prices until the maturity or settlement of the financial contracts.

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 regions in which the Group operates.

%

AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Rest	**TOTAL**
0.0%	0.0%	7.2%	38.7%	18.1%	11.7%	6.3%	5.7%	3.5%	1.8%	1.0%	3.1%	1.4%	0.3%	1.3%	**100.0%**

%

	2019
Euro Zone	73.8%
Rest of Europe	18.9%
U.S.A. and Canada	5.6%
Rest of the world	1.7%
Total	**100.0%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 82% 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

	2019	2018
Transactions with organised markets	3,779	2,784
OTC transactions	169,533	178,102
Settled through clearing houses	*88,444*	*88,452*
Total	**173,312**	**180,886**

There are currently no transactions that meet the accounting criteria 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 2019 and 2018:

Thousand euro

	2019				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,852,354	1,631,635	174,004	-	46,715
Repos	12,037,527	-	25,390	12,183,111	(170,974)
Total	**13,889,881**	**1,631,635**	**199,394**	**12,183,111**	**(124,259)**

Thousand euro

	2019				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	2,486,328	1,631,635	888,771	157,912	(191,990)
Repos	8,442,811	-	617,509	8,416,140	(590,838)
Total	**10,929,139**	**1,631,635**	**1,506,280**	**8,574,052**	**(782,828)**

Thousand euro

	2018				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net value
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,508,703	1,208,294	243,375	-	57,034
Repos	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)
Repos	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)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2019 and 2018 are indicated hereafter:

Thousand euro

	2019	2018
Derivative financial assets settled through a clearing house	929,918	652,615
Derivative financial liabilities settled through a clearing house	1,241,254	858,273

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 of a default by a counterparty. 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 mechanisms established by the Group. Exposures are thus subjected to daily monitoring and control in accordance with 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 CMOF).
- Variation margin collateral agreements for derivatives (CSA and Schedule 3 - CMOF), 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.

Variation margin 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 variation margin collateral agreements. Furthermore, for derivative transactions with such institutions, the Group is required to exchange variation margin collateral with financial counterparties pursuant to Delegated Regulation (EU) 2251/2016. The Group's standard variation margin 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.

4.4.2.8 Assets pledged in financing operations

As at the end of 2019 and 2018, there were certain financial assets pledged in financing transactions, 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, 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 transactions 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

	2019	2018
Fully derecognised from the balance sheet:	**1,069,492**	**833,792**
Securitised mortgage assets	165,572	186,899
Other securitised assets	896,022	16,122
Other transferred financial assets	7,898	630,771
Fully retained on the balance sheet:	**13,246,466**	**15,092,110**
Securitised mortgage assets	12,526,632	13,876,927
Other securitised assets	719,834	1,215,183
Other transfers to credit institutions	-	-
Total	**14,315,958**	**15,925,902**

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 2019, 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, as at 31 December 2018, 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 for 621,627 thousand euros. As at 31 December 2019, this management practice is no longer in place.

Schedule II to these consolidated annual financial statements includes certain information regarding the securitisation funds originated by the Group.

4.4.3. Financial risks

Financial risk is defined as the possibility of obtaining an inadequate return or insufficient levels of liquidity to prevent compliance with future requirements and expectations.

4.4.3.1. Liquidity risk

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 or 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.

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 supplemented with access to wholesale funding markets, that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units ("UGLs", 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), BancSabadell d'Andorra (BSA), TSB 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.

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:

- Risk governance and the involvement of the Board of Directors and Senior Management in the management and control of liquidity risk. The Board of Directors has the highest responsibility for the oversight of liquidity risk.

- Integration of the risk culture, based on prudent liquidity risk management and its alignment with the established risk appetite.

- 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, ensuring the involvement of the governing bodies and Senior Management.

- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also that, under a criterion of prudence, a sufficient level of liquid assets is available to cope with possible stress events.

- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.

- Sound identification, measurement, management, control and reporting processes on the various liquidity sub-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.

- Holistic view of risk, complying with regulatory requirements, recommendations and guidelines.

- Alignment with stakeholders' interests through regular public disclosure of liquidity risk information.

- Availability of a Liquidity Contingency Plan.

Tools/Metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and tolerance limits which are described in the RAS and which define the appetite for liquidity risk, previously 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 its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate business continuity in the management of liquidity, particularly in the event that a 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.

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 2019 and 2018, under business-as-usual market conditions:

Thousand euro

				2019						
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	-	21,517,866	1,965,459	1,977,159	517,913	-	-	-	-	**25,978,397**
Loans and receivables	619,417	7,632,828	5,972,617	14,418,127	11,924,479	13,576,551	10,769,445	8,886,124	69,080,634	**142,880,223**
Debt securities	-	285,618	385,221	1,363,200	601,538	564,837	315,855	1,718,607	18,350,303	**23,585,179**
Other assets	-	-	-	3	29	-	741	799	8,570	**10,142**
Total assets	**619,417**	**29,436,312**	**8,323,298**	**17,758,489**	**13,043,959**	**14,141,387**	**11,086,042**	**10,605,530**	**87,439,507**	**192,453,941**
Money Market	-	7,591,949	2,612,807	4,950,608	15,188,075	1,043,995	42,903	44,165	111,193	**31,585,695**
Of which: Repos	-	4,756,408	1,610,538	1,801,130	393,765	-	-	-	-	***8,561,841***
Customer funds	118,205,321	2,593,762	2,875,573	12,745,397	2,848,587	1,086,392	275,788	934,616	9,536	**141,574,973**
Marketable debt securities (*)	-	94,440	1,378,895	3,338,512	2,987,089	3,659,325	2,990,734	5,201,593	4,753,890	**24,404,477**
Of which: Secured senior debt	-	15,426	311,100	2,462,637	2,176,289	1,827,110	1,501,734	2,818,259	2,717,164	***13,829,721***
Of which: Unsecured senior debt	-	-	491,122	9,975	358,284	682,215	989,000	2,383,333	1,521,700	***6,435,630***
Of which: Subordinated liabilities	-	-	-	424,600	452,515	1,150,000	500,000	-	515,025	***3,042,140***
Other liabilities	-	46,145	93,012	383,878	355,660	271,468	216,377	184,644	1,017,406	**2,568,589**
Total liabilities	**118,205,321**	**10,326,296**	**6,960,287**	**21,418,394**	**21,379,411**	**6,061,180**	**3,525,802**	**6,365,018**	**5,892,025**	**200,133,735**
Of which:										
Secured liabilities	-	4,771,834	1,921,638	3,853,916	6,735,597	2,238,488	1,501,734	1,936,736	2,717,164	***25,677,107***
Unsecured liabilities	118,205,444	5,554,340	5,038,649	17,564,478	14,643,814	3,822,692	2,024,068	4,428,282	3,174,861	***174,456,627***
Trading and Hedging Derivatives										
Receivable	-	15,501,712	20,397,410	20,038,070	14,462,384	9,437,524	10,583,364	16,415,371	34,057,369	**140,893,204**
Payable	-	16,619,346	21,167,793	22,977,713	15,608,687	9,603,503	9,297,872	16,207,859	36,059,617	**147,542,390**
Net	**-**	**(1,117,634)**	**(770,383)**	**(2,939,644)**	**(1,146,303)**	**(165,979)**	**1,285,492**	**207,512**	**(2,002,248)**	**(6,649,187)**
Contingent risks										
Financial guarantees	37,479	22,339	111,565	260,912	181,908	85,041	41,396	34,637	1,332,135	**2,107,412**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

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	21,997	49,112	73,578	264,874	213,524	96,339	51,406	36,751	1,233,205	**2,040,786**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and liquidity trends in 2019" in this note.

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 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.

- 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 2019, 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 2019.

- As at 31 December 2019, the Group does not have any instruments which are subject to master netting agreements.

Funding strategy and evolution of liquidity in 2019

The Group’s primary source of funding is customer deposits (mainly demand deposit accounts 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 2019 and 2018, on-balance sheet customer funds by maturity are shown below:

Million euro / %

	Note	2019	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**146,309**	**6.1%**	**2.8%**	**5.9%**	**4.0%**	**81.2%**
Deposits with agreed maturity		25,748	31.2%	15.1%	33.7%	20.0%	-
Sight accounts	19	118,868	-	-	-	-	100.0%
Retail issues		1,693	42.3%	13.2%	0.1%	44.4%	-

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

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 (excl. repos) and other liabilities placed via the branch network: non-convertible bonds issued by Banco Sabadell, commercial paper and others.

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 deposit accounts.

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 financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, TSB and Mexico). Details of the volumes of these business units are included in the Section "Businesses" of the Consolidated Directors' Report.

In 2019, 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 reduce the Group's Loan-to-Deposit (LtD) ratio (from 147% as at 2010 year-end to 98.6% as at 2019 year-end).

Capital Markets

During 2019, although the customer funding gap has shown a positive performance allowing the partial refinancing of maturities in the capital market, the level of funding in said market has increased due to the need to comply with regulatory requirements such as MREL (Minimum Requirement for own funds and Eligible Liabilities) focusing on those products in which, given the institution's rating, the cost/term ratio is more adjusted. The outstanding nominal balance of funding in capital markets by product type as at 31 December 2019 and 2018 is shown below:

Million euro

	2019	2018
Nominal balance	22,480	21,719
Covered Bonds	11,951	12,165
Of which: TSB	*1,469*	*559*
Commercial paper and ECP	633	2,353
Senior debt	3,626	1,805
Senior non-preferred debt	1,451	-
Subordinated debt and preference shares	3,025	3,001
Of which: TSB	*453*	*430*
Securitisation bonds	1,779	2,381
Of which: TSB	*501*	*698*
Other	14	14

Maturities of issues (excluding securitisations, ECP and commercial papers) by product type and considering its legal maturity aimed at institutional investors as at 31 December 2019 are analysed below:

Million euro

	2020	2021	2022	2023	2024	2025	>2025	Balance
Covered bonds (*)	2,015	1,808	1,707	1,388	2,732	836	1,465	11,951
Senior Debt (**)	-	299	25	973	849	1,480	-	3,626
Senior non-preferred debt (**)	-	-	-	-	951	500	-	1,451
Subordinated Debt and Preferred Securities (**)	413	-	-	-	-	-	2,613	3,026
Other medium/long term financial instruments (**)	-	10	-	-	3	-	-	13
Total	2,428	2,117	1,732	2,361	4,535	2,816	4,078	20,067

(*) 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 papers and is aimed at institutional and retail investors. On 16 May 2019, the commercial paper programme of Banco Sabadell for 2019 was registered with the CNMV (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 2019, the outstanding balance of the programme was of 790 million euros (net of commercial papers subscribed by Group companies), compared with the 2,565 million euros as at 31 December 2018.

- 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 2019, the outstanding balance of the programme was of 290 million euros (net of Euro Commercial Papers subscribed by Group companies), decreasing when compared with the 696 million euros as at 31 December 2018.

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 4 July 2019, with a maximum issue amount of 16.5 billion euros: this programme regulates the issues of ordinary or non-preferential, subordinated or structured bonds and debentures, as well as covered bonds, public sector covered bonds and mortgage bonds carried out under Spanish legislation 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 2019 of Banco Sabadell as at 31 December 2019 was of 14,080 million euros (as at 31 December 2018, the limit available under the 2018 Fixed Income Programme was of 12,280 million euros).

  During 2019, Banco Sabadell has carried out public issues under the Fixed-Income Programme in force at all times for a total of 1,027 million euros. Banco Sabadell has carried out the following issues throughout the year:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Structured Bonds 1/2019	ES03138603D5	Institutional	February-19	3	3
Sabadell bond I/2019 issue	ES03138603C7	Retail	March-19	601	3
Sabadell bond 3/2019 issue	ES03138603G8	Institutional	April-19	300	2
Structured Bonds 2/2019	ES03138603F0	Institutional	April-19	3	3
Sabadell bond 4/2019	ES03138603H6	Institutional	November-19	120	4.5

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 29 April 2019, and supplemented on 26 July and 25 October 2019. This programme allows (preferred and non-preferred) senior debt and subordinated bonds to be issued in any currency, with a maximum limit of 10 billion euros.

  During 2019, Banco Sabadell has carried out issues under the EMTN Programme in force at any given time for a total of 3 billion euros, including the inaugural issue of 5-year non-preferred senior debt for an amount of 1 billion on 10 May 2019 and a senior preferred issue with a nominal value of 500 million, maturing in 6 years, with an early cancellation option in favour of Banco Sabadell in the fifth year. Banco Sabadell has carried out the following issues throughout the year:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Senior Non Preferred 1/2019 issue	XS1991397545	Institutional	May-19	1,000	5
Senior bond 1/2019 issue	XS2028816028	Institutional	July-19	1,000	6
Senior Non Preferred 2/2019 issue	XS2055190172	Institutional	September-19	500	5.5
Senior bond 2/2019 issue	XS2076079594	Institutional	November-19	500	6

- In addition, on 15 February 2019, TSB issued 500 million pounds in covered bonds to the institutional market with a 5-year maturity, which it extended on 28 February by a further 250 million pounds to reach a total issue amount of 750 million pounds.

In relation to asset securitisation transactions:

- 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 credit claims arising from finance lease agreements.
- There are currently 21 outstanding asset securitisation transactions recognised fully on the balance sheet (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 2019, the balance of securitisation bonds placed in the market stood at 1,779 million euros.
- In the third quarter of 2019, Banco Sabadell sold all the tranches of the Sabadell Consumer Securitisation Fund 1 to the market, including the excess margin tranche. This is Banco Sabadell's first securitisation of consumer loans, amounting to 1 billion euros. This transaction has been implemented as a capital and liquidity management tool.

In March 2016, the European Central Bank announced new economic stimulus measures through a new targeted longer-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 June and September 2019, Banco Sabadell carried out the early amortisation of TLTRO II for a value of 5 billion and 2 billion euros, respectively. The balance drawn down under this programme at the end of 2019 amounted to 13.5 billion euros, of which 3 billion euros will mature in June 2020 and 10.5 billion euros in March 2021.

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 6,606 million euros, and also in February 2018, with an additional drawdown of 999 million euros. In August and November 2019, TSB carried out early repayments of the amount drawn under the TFS amounting to 529 and 1,822 million euros, respectively. This brings the amount drawn down under this programme to 5,254 million euros at the end of 2019.

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

	2019	2018
Cash(*) + Net Interbank Position	7,044	18,229
Funds available in Bank of Spain facility (**)	7,633	4,081
ECB eligible assets not pledged in facility	21,335	12,468
Other non-ECB eligible marketable assets	3,518	2,177
Memorandum item:		
Balance drawn from Bank of Spain facility(***)	*14,613*	*21,548*
Balance drawn from Bank of England Term Funding Scheme	*5,254*	*7,233*
Total Liquid Assets Available	39,530	36,955

(*) Excess reserves at Central Banks.

(**) 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.

(***) Includes TLTRO-II and borrowing of USD 1,250 million from the ECB for a period of 3 weeks.

With respect to 2018, the Group's first line of liquidity has grown by 2,575 million euros, mainly due to the generation of a positive customer funding gap and liquidity inflows associated with the sale of real estate portfolios during the year. The balance of Central Bank reserves and the net interbank position have decreased by 11,185 million euros in 2019, mainly due to the early repayment of TLTRO II, as well as a reduction in net repo funding during the year. There is also a volume of ECB eligible liquid assets, whose volume over the year has increased by 12,419 million euros, while available non-ECB eligible assets have grown by 1,341 million euros.

In the case of TSB, the first line of liquidity as at 31 December 2019 is mainly comprised of high quality and liquidity assets, mainly gilts, amounting to 2,578 million euros (1,372 million euros as at 31 December 2018) and a surplus of reserves in the Bank of England (BoE) amounting to 4,803 million euros (7,703 million euros as at 31 December 2018), mostly as a result of the TFS drawdowns made.

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, a buffer is maintained by the institution comprising of real estate assets and loans to general governments eligible as collateral for covered bonds and public sector covered bonds respectively, which at the end of 2019 contributed 4,640 million euros in terms of the capacity to issue new treasury bonds eligible as collateral in return for access to the ECB facility. At the end of 2019, available liquidity amounted to 44,170 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 as at this date.

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 1 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 2019, the LCR stands at 184% (excl. TSB) and at 231% in TSB.

As for the NSFR ratio, it is due to come into force in June 2021. However, the Group has already started to monitor 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 well over 100%.

4.4.3.2. 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 foreign exchange risk position.

The items of the consolidated balance sheet as at 31 December 2019 and 2018 are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

	On-balance sheet balance	Trading activity	Rest	Main risk factor for balance sheet under "Rest"
Assets subject to market risk	**223,753,641**	**1,757,516**	**221,996,125**	
Cash, cash balances at central banks and other demand deposits	15,169,202	-	15,169,202	Interest rate
Financial assets held for trading	2,440,866	1,665,843	775,023	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	171,056	-	171,056	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	7,802,025	91,673	7,710,352	Interest rate; credit spread
Financial assets at amortised cost	181,422,646	-	181,422,646	Interest rate
Derivatives – Hedge accounting	468,516	-	468,516	Interest rate
Investments in joint ventures and associates	733,930	-	733,930	-
Other financial assets	249,552	-	249,552	Interest rate
Other non-financial assets	15,295,848	-	15,295,848	-
Liabilities subject to market risk	**210,779,235**	**2,012,614**	**208,766,621**	
Financial liabilities held for trading	2,714,365	2,012,614	701,751	Interest rate
Derivatives – Hedge accounting	728,769	-	728,769	Interest rate
Financial liabilities measured at amortised cost	205,636,018	-	205,636,018	Interest rate
Provisions	430,434	-	430,434	Interest rate
Other financial liabilities	234,537	-	234,537	Interest rate
Other non-financial liabilities	1,035,112	-	1,035,112	-
Equity	**12,974,406**	**-**	**12,974,406**	

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 measured 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 limits established by the risks unit.

Trading activity

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of 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 their 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, since 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 that influence 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 liquidity level 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 used 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 2019, there were no exceptions in the backtesting due to the low exposure within the trading activity to the significant events of the year, such as pound fluctuations due to Brexit uncertainty and the devaluations of the euro against the dollar throughout the year in an environment of trade tensions between China and the US.

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 Board Risk Committee for each management unit (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

Market risk incurred on trading activity in terms of the 1-day VaR with a 99% confidence interval for 2019 and 2018 is as follows:

Million euro

	2019			2018		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	0.63	1.23	0.42	2.35	26.73	0.41
Currency risk-trading	0.04	0.13	0.01	0.11	0.27	0.04
Equities	0.43	1.36	0.13	0.59	1.59	0.29
Credit spread	0.54	1.27	0.08	0.15	0.61	0.07
Aggregate VaR	**1.64**	**2.32**	**0.97**	**3.19**	**27.46**	**0.97**

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, 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.

Structural interest rate risk

Structural interest rate risk is inherent in banking activities and is defined as the current or future risk to both the income statement (income and expenses) and the economic value (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as IRRBB, Interest Rate Risk in the Banking Book).

The Group identifies three interest rate sub-risks:

- Repricing risk arising from the different rate at which assets and liabilities renew their interest rate. It covers both parallel changes in the interest rate curve and non-parallel changes (i.e. changes in the slope and shape of the curve).
- Basis risk arising from having financial instruments with similar pricing terms but based on different benchmarks.
- Optionality risk arising from explicit or implicit options on assets and liabilities, in which the institution or the customer or counterparty may alter the level and/or timing of their flows. Automatic options, related to the behaviour of interest rates, and those related to the behaviour of customers that do not only depend on interest rates are considered.

The Group's management of this risk pursues two fundamental objectives:

- To stabilise and protect net interest income by preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of economic value, this perspective being complementary to that of the margin.

Interest rate risk is managed through a global approach at Group level on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (UGBs, for their acronym in Spanish). In coordination with the Group's corporate divisions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based particularly on the following principles, 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. Thus, the Group obtains information from all of the identified sources of IRRBB, assesses their effect on net interest margin and the economic value of equity and measures the vulnerability of the Group/UGB in the event of potential losses deriving from IRRBB under different stress scenarios.
- At the corporate level, the Group establishes a set of limits for overseeing and monitoring the level of IRRBB exposure that are appropriate to its internal risk tolerance policies. 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 system covered by the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB's management and control policy, the first line of defence is undertaken by the various Balance Sheet Management Units (UGB), which report to the various local Asset and Liability Committees. Their main function is to manage interest rate risk, guaranteeing its recurrent evaluation through management and regulatory metrics, taking into account the modelling of the various balance sheet items and the level of risk taken.

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 UGBs and by local Asset and Liability Committees. The diversification effect between currencies and UGBs is taken into account when presenting overall figures.

The metrics that the Group calculates monthly are as follows:

- Interest rate gap: static metric showing the distribution of maturities and repricing of sensitive balance sheet items. This metric compares the amounts of assets that are reviewed or mature in a given period and the liabilities that mature or reprice in that same period.

- Net interest margin sensitivity: dynamic metric that measures the short- and medium-term impact of interest rate fluctuations. It is obtained by comparing the 1-year net interest margin in the baseline scenario, which would be the one obtained from implicit market rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario.
- Economic value sensitivity: static metric that measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and the one obtained in a scenario of instantaneous disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as a discount to the risk-free interest rate curve on the reference date of future principal and interest flows without taking account of the trade margins, in line with the IRRBB management strategy followed.

In the quantitative estimates of interest rate risk made by each UGB, a series of interest rate scenarios are designed to capture the various sources of risk mentioned above. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the interest rate curve. On this basis, the sensitivity is calculated as the difference of:

- Baseline scenario: market interest rate movements based on implicit interest rates.
- Stressed scenario: from the baseline scenario, a shift in interest rates is caused depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting with -100 bps for immediate maturities and increasing by 5 bps to 0% in 20 years or more.

Also, in accordance with the Group's corporate principles, each UGB periodically performs stress exercises that enable it to project situations of high impact and low likelihood of occurrence that could place the UGB in an extreme exposure with respect to interest rate risk and to propose mitigating actions in such situations.

The following table gives details of the Group's interest rate gap as at 31 December 2019 and 2018:

Thousand euro

	2019								
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	21,543,319	1,954,473	1,962,692	517,913	-	-	-	-	**25,978,397**
Loans and receivables	27,264,599	21,283,491	43,205,289	12,641,452	11,260,049	7,310,346	6,420,801	13,494,195	**142,880,223**
Debt securities	1,061,383	479,475	923,979	514,499	421,461	245,479	1,644,314	18,294,589	**23,585,179**
Other assets	988	3,968	4,885	-	-	-	13	289	**10,142**
Total assets	**49,870,288**	**23,721,407**	**46,096,845**	**13,673,865**	**11,681,510**	**7,555,825**	**8,065,128**	**31,789,073**	**192,453,941**
Money Market	12,966,939	2,882,156	4,826,662	10,894,996	2,064	3,020	5,724	4,135	**31,585,695**
Customer funds	49,578,257	8,212,963	22,966,153	12,377,149	8,905,463	6,977,402	5,704,302	26,853,284	**141,574,973**
Marketable debt securities	3,235,822	3,182,537	2,543,807	2,408,515	2,526,659	2,539,000	3,630,000	4,338,136	**24,404,477**
Of which: Subordinated liabilities	-	-	*424,600*	*452,515*	*1,150,000*	*500,000*	-	*515,025*	***3,042,140***
Other liabilities	114,192	193,420	605,057	257,827	203,178	166,437	143,618	884,860	**2,568,589**
Total liabilities	**65,895,211**	**14,471,076**	**30,941,679**	**25,938,488**	**11,637,363**	**9,685,859**	**9,483,645**	**32,080,414**	**200,133,735**
Hedging Derivatives	**2,428,864**	**1,720,442**	**(1,612,692)**	**(1,398,947)**	**408,036**	**1,608,952**	**1,716,271**	**(4,818,364)**	**52,562**
Interest rate gap	**(13,596,059)**	**10,970,773**	**13,542,474**	**(13,663,570)**	**452,183**	**(521,082)**	**297,755**	**(5,109,704)**	**(7,627,231)**

Thousand euro

	2018								
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)**

The following table shows the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2019 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	2.8%	(2.2%)
GBP	1.6%	0.5%
USD	(0.1%)	(0.0%)

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 Group main currencies with a high "pass through", i.e. the rate of increase of benchmark interest rates which is transferred to customers' term deposits and interest-bearing sight accounts is the majority, and the results obtained are 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	7.8%	11.0%
Of which EUR	*4.8%*	*6.3%*
Of which GBP	*3.0%*	*4.3%*

The calculation of the metrics takes into account the assumptions on the behaviour of items with no contractual maturity and those whose expected maturity is different from the maturity established in the agreements, in order to obtain a more realistic view and therefore more effective for management purposes. Among the most relevant are:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit optionality): in order to reflect the behaviour of customers in relation to interest rate movements, prepayment/cancellation assumptions are defined and segmented by product type. To this end, the institution uses historical data to allow such assumptions to be aligned with the market's best practices.
- Modelling of sight accounts and other liabilities with no contractual maturity: a model has been defined on the basis of monthly historical data with the aim of reproducing customer behaviour, establishing stability parameters, the percentage of translation of interest rate movements to remuneration and the delay with which this occurs, according to product and customer type, enabling the institution to meet current regulatory requirements.
- Modelling of non-performing loans: a model has been defined that enables the expected flows associated with these non-performing loans (net of provisions), i.e. those expected to be recovered, to be included within the scope of interest rate-sensitive items. Accordingly, both the balances and the estimated recovery periods have been incorporated.

The approval and updating of the IRRBB models is part of the corporate governance of models whereby these models are reviewed and validated by a division independent from the one that has developed them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed.

As for the measurement systems and tools used, all sensitive transactions are captured and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the institution on which quality, consistency and completeness controls have been established. These transactions are aggregated according to predefined criteria, so that greater agility is allowed in the calculations without losing quality or reliability of data. Additionally, a regular reconciliation process of the information loaded into the measurement tool with the accounting information is carried out.

Based on the positioning of the balance sheet and the market situation and outlook, mitigation strategies are proposed and agreed upon to adapt this positioning to the one desired by the Group. As such techniques, interest rate instruments are used in addition to the natural hedges of balance sheet items, such as fixed-income bond portfolios or hedging derivatives that enable the metrics to be placed at levels appropriate to the institution's risk appetite. In addition, it may be proposed to redefine the interest rate characteristics of commercial products or the creation of new products.

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 risk 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 risk 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.

For each type of macro-hedging, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting, as well as establishing its governance.

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 foreign exchange 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 foreign exchange 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.

Foreign exchange risk is monitored regularly, and reports on current risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the 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 Board Risk 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 foreign exchange risk.

As regards permanent investments in US dollars, the structural position in this currency has gone from 968 million US dollars as at 31 December 2018 to 1,051 million US dollars as at 31 December 2019. With regard to this structural position, as at 31 December 2019, a hedge is in place for 19% of the total investment. See Note 12, on the *"Hedges of net investments in foreign operations"* section.

In terms of permanent investments in Mexican pesos, the evolution of balances deriving from the business in Mexico is monitored, as is the EUR/MXN 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 11,050 million Mexican pesos as at 31 December 2018 (of a total exposure of 14,703 million Mexican pesos) to 10,418 million Mexican pesos as at 31 December 2019 (of a total exposure of 14,069 million Mexican pesos). See Note 12 on the *“Hedges of net investments in foreign operations”* section.

As for the structural position in pounds sterling, 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 may result from fluctuations in the aforementioned EUR/GBP exchange rate. Accordingly, Banco de Sabadell, S.A. has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during 2019 the capital buffer has gone from 1,368 million pounds as at 31 December 2018 to 573 million pounds as at 31 December 2019, representing 30% of the total investment made (excluding intangibles). See Note 12, on the *“Hedges of net investments in foreign operations”* section.

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 2019 and 2018, classified in accordance with their nature, is as follows:

Thousand euro

	2019			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**10,166,192**	**47,844,236**	**3,098,367**	**61,108,795**
Cash, cash balances at central banks and other demand deposits	552,780	5,417,198	674,941	6,644,919
Debt securities	1,331,485	2,536,718	132,003	4,000,206
Loans and advances	8,076,877	39,060,902	2,076,900	49,214,679
Central banks and Credit institutions	130,837	583,399	49,496	763,732
Customers	7,946,040	38,477,503	2,027,404	48,450,947
Other assets	205,050	829,418	214,523	1,248,991
Liabilities denominated in foreign currency:	**9,957,441**	**44,310,409**	**2,276,797**	**56,544,647**
Deposits	9,688,145	41,133,452	2,218,839	53,040,436
Central banks and Credit institutions	2,278,017	5,312,836	264,517	7,855,370
Customers	7,410,128	35,820,616	1,954,322	45,185,066
Other liabilities	269,296	3,176,957	57,958	3,504,211

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

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 2,580 million euros, of which 1,608 million euros corresponded to permanent shareholdings in GBP, 757 million euros corresponded to permanent shareholdings in USD, 172 million euros corresponded to permanent shareholdings in MXN and 43 million euros to permanent shareholdings in MAD. Net assets and liabilities valued at a historic exchange rate are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2019, the equity exposure sensitivity to a 2% devaluation in exchange rates against the euro of the main currencies to which the Bank is exposed amounted to 52 million euros, of which 62% correspond to the pound sterling, 29% to the US dollar and 7% 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 deficient processes, personnel and internal systems or due to external events. This definition includes, among others, legal risk, model risk and information and communication technology (ICT) risk and excludes strategic risk and reputational risk.

The effective 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 according to the organisational structure. 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 Board 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 adequately 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 and detect potential weaknesses in the processes that require action plans aimed at mitigating the associated risks. Also included are the recoveries that make it possible to reduce the level of loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

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:

- Technology risk: Technology risk (or ICT risk) is defined as the current or future risk of losses due to the inadequacy or deficiencies of hardware and software of technical infrastructures, which may compromise the availability, integrity, accessibility and security of infrastructures and data. This includes security risks resulting from inadequate or deficient internal processes or external events, including cyberattacks or inadequate physical security.

- Outsourcing risk: the possibility of incurring losses deriving from suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also includes other related risks such as concentration risk, country risk, legal risk or risk of non-compliance.

- Model risk: the possibility of losses arising from decisions made using inadequate models.

- 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 and 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 incurring an undue income when complying with tax obligations, thus negatively affecting shareholders and other stakeholders.

- 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.

Reputational risk, understood as the possibility of incurring losses arising from negative publicity related to the institution's practices and businesses, is also managed and controlled according to the methodological framework of Operational Risk, as this is a potential relevant source of reputational risk. This risk also considers the loss of trust in the institution that may affect its solvency.

4.4.4.1 Technology risk

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 (cybercrime) and their potential impacts on institutions and the financial system in general.

- Implementation of new business models based on data and new technologies and which therefore bring about 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.

4.4.4.2 Tax risk

Banco Sabadell Group'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 Group aims to comply with its tax obligations at all times, adhering to the current legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to promoting responsible taxation, promoting preventive 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 that have a particular tax risk due to their amounts or special 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 regions 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.

4.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of Banco Sabadell Group's policy, and the basis of its organisational culture, is strict compliance with all legal provisions, so that the achievement of business objectives must be made compatible, at all times, with subjection to the law and the established legal system.

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 is manifest in all areas of the Group's activities.

This Division assesses and manages compliance risk in order to minimise the possibility of any failure to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.

- Identifying and periodically evaluating the risks of regulatory compliance in the different areas of activities and contributing to their management in an efficient manner. To this end, to establish, apply and maintain appropriate procedures to prevent, detect, correct and minimise any compliance risk.

- Establishing, in accordance with the above, an updated oversight and control programme, with the appropriate tools and methodologies for control.

- Supervising the risk management activities carried out by the 1st line of defence to ensure that they are aligned with the established policies and procedures.

- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary verification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best compliance with the regulatory obligations.

- Submitting to the administrative and management bodies the regular or ad-hoc reports on regulatory compliance that are legally required at any given time.

- Reporting to the administrative and management bodies any relevant information on regulatory compliance arising from all areas and activities of each of the Group's entities.

- Assisting the Board of Directors and Senior Management in compliance matters.

- Acting as a spokesperson before the relevant regulatory bodies, overseeing the responses to requirements and inspections by official or supervisory bodies, as well as compliance with their recommendations, 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 (AEPD).

- Assigning functional responsibilities for regulatory compliance when necessary.

- Intervening in the development process of remuneration policies and practices.

- With regard to Anti-Money Laundering, Counter-Terrorist Financing (AML/CTF) and International Sanctions, implementing, managing and updating policies and procedures; carrying out the classification of the AML/CTF risk of customers, both at the time of registration and during the business relationship; applying due diligence measures in accordance with the risk assigned to customers, with special attention to those classified as high risk to which reinforced measures will be applied at the time of registration for their prior acceptance and due updating; managing tracking alerts and identifications of lists of designated persons and transactions of countries subject to international sanctions; performing special analysis of suspicious activities and their communication via alerts; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk analysis of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for legal compliance on these matters.

- Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to carry out their duties properly.

- Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with established internal procedures.

- Informing, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to consultations submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group's ethical conduct to ensure compliance with the principles of action set forth in Banco Sabadell Group Code of Conduct, the Internal Code of Conduct relating to the securities market of Banco Sabadell Group, Banco Sabadell Group General Policy on Conflicts of Interest and the Policy on Criminal Liability Prevention of Banco Sabadell Group.

Note 5 – Minimum own funds and capital management

Regulatory Framework

The Group calculates minimum capital requirements based on Directive 2013/36/EU (CRD-IV) and Regulation (EU) 575/2013 (hereinafter, CRR), which regulates the minimum capital to be held by credit institutions. This framework came into force on 1 January 2014 and was enacted in Spain through the following regulations:

(i) Royal Decree Law 14/2013 on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions;

(ii) Law 10/2014 on the regulation, supervision and solvency of credit institutions;

(iii) Royal Decree 84/2015 that implements the previous Law 10/2014, as well as other lower-ranking provisions; and

(iv) Bank of Spain Circulars 2/2014 and 2/2016.

The new regulatory framework amending the previous one was published on 7 June 2019 and entered into force on 27 June. Its implementation will be carried out in successive stages from that date, although most of the provisions will be implemented from 28 June 2021:

- Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempt entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (CRD V); and

- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) 648/2012 (hereinafter, CRR II).

Accordingly, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority and require institutions to maintain additional capital.

On 8 February 2019, the bank received a notification from the European Central Bank, subsequent to the Supervisory Review and Evaluation Process (SREP), with regard to the minimum prudential requirements applicable to the bank for 2019, based on which the Group had to maintain a Common Equity Tier 1 (CET1) ratio of 9.64%, measured through phase-in regulatory capital. This requirement included the minimum required by Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%) and the systemic buffer (other systemically important institutions, or O-SIIs) (0.25%). Additionally, the Group had to comply with the requirement arising from the calculation of the institution's specific counter-cyclical capital buffer, which, as at December 2019, stands at 0.14%.

On 4 December 2019, Banco Sabadell received the decision of the European Central Bank in relation to the minimum prudential requirements applicable to the institution for 2020 as a result of the Supervisory Review and Evaluation Process (SREP). At consolidated level Banco Sabadell is required to maintain a minimum Common Equity Tier 1 (phased-in CET1) of 9.64% and a minimum phased-in Total Capital ratio of 13.14%. These ratios include the minimum required under Pillar 1 (4.50%), the Pillar 2R requirement (2.25%), the capital conservation buffer (2.50%), the requirement arising from the institution's perceived status as an "other systemically important institution" (0.25%) and the counter-cyclical buffer (0.14%). Following that decision, the capital requirement remains unchanged relative to 2019.

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 2019, the Group's CET1 capital ratio stood at 12.4% (12% as at 31 December 2018) therefore, with regard to the capital requirements indicated in the preceding points, this does not imply any of the limitations mentioned.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell following the Supervisory Review and Evaluation Process (SREP) for the years 2018-2020:

	2020	2019	2018
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	2.25%	2.25%	1.75%
Capital conservation buffer (*)	2.50%	2.50%	1.875%
Systemic buffer (*)	0.25%	0.25%	0.1875%
Contracyclical buffer	0.14%	0.14%	-
Common Equity Tier 1 ratio (CET 1)	9.64%	9.64%	8.3125%
Dates of communication of the SREP outcome	04/12/2019	08/02/2019	14/10/2017

(*) 2018 transition period

On an individual basis, the requisite Common Equity Tier 1 (CET1) ratio resulting from the 2019 SREP process was 9.34% and the phased-in Total Capital ratio was 12.84%. This requirement included the minimum required by Pillar 1 (4.50%), the Pillar 2R requirement (2.25%), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2019, was 0.089%. The decision reported for 2020, with regard to the capital requirements, on both an individual and a consolidated basis, remains unchanged relative to 2019.

As at 31 December 2019, Banco Sabadell's CET1 capital ratio stood at 14.11%, and its phased-in Total Capital ratio stood at 16.81%; consequently, with regard to the individual capital requirements, it also comfortably exceeds the SREP requirements.

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 bank recovery and resolution directive (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 as a preventive resolution authority.
- Fondo de Reestructuración Ordenada Bancaria (FROB), the Fund for Orderly Bank Restructuring, which is the executive resolution authority.

On 19 November 2019, Banco Sabadell received a notification from the Bank of Spain, in its capacity as the domestic preventive resolution authority, regarding the decision taken by the Single Resolution Board concerning the minimum requirement for own funds and eligible liabilities (MREL) applicable to the institution on a consolidated basis. The decision is based on current legislation and may be subject to subsequent amendments by the resolution authority. The MREL requirement established for Banco Sabadell on a consolidated basis is 8.31% of total liabilities and own funds (TLOF), of which 5.99% must consist of subordinated debt instruments, taking into consideration an allowance of 2.2% on the total risk exposure amount (TREA). The decision establishes that the requirement must be met by 1 January 2020 at the latest,and must be complied with at all times as from that date.

Banco Sabadell currently complies with this MREL requirement, which is consistent with Banco Sabadell's expectations and in line with the institution's funding plans. In this respect, in 2019 the Group successfully completed the issue of MREL-eligible instruments for a total amount of approximately 4,000 million euros, of which 1,500 million euros correspond to senior non-preferred debt.

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 ranging from corporate banking customers to SMEs, RE Developers and holding companies	PD LGD CCF	Advanced IRB	Authorised on 06/2008
BSab	Retail	Mortgages	PD LGD	Advanced IRB	Authorised on 06/2008
BSab	Retail	Consumer loans	PD LGD	Advanced IRB	Authorised on 06/2008
BSab	Corporates	Project finance	PD	Supervisory Slotting Criteria	Authorised on 12/2009
BSab	Retail	Retailers and Self-Employed	PD LGD CCF	Advanced IRB	Authorised on 12/2010
BSab	Retail	Credit cards	PD LGD CCF	Advanced IRB	Authorised on 12/2011
BSab	Retail	Loans	PD LGD CCF	Advanced IRB	Authorised on 12/2011
BSab	Institutions	Financial institutions	PD	Foundation IRB	Authorised on 12/2012
TSB	Retail	Mortgages	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2014 (PRA)
TSB	Retail	Consumer loans	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 10/2014 (PRA)
TSB	Retail	Credit cards	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2015 (PRA)
TSB	Retail	Current accounts	PD LGD CCF	Advanced IRB (PRA) Waiver SSM	Authorised on 06/2015 (PRA)

Data of models approved by the Supervisor, as at 31 December 2019.
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 once a year. 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 Group has defined a risk classification system which encompasses the most important risks to which it is exposed, distinguishing between two levels; specifically, the first level risks are Credit Risk, Strategic Risk, Financial Risk and Operational Risk. All risks are assessed internally in the self-assessment exercise, thereby determining whether they represent a high, medium or low risk. In the case of important risks representing a significant risk, the Group has a complex capital measurement system using internal models, calculating capital under stress situations. In this way, internal methods ensure that capital needs are consistent with the risk inventory.

Each year the Group carries out an internal capital adequacy assessment process. This process, as mentioned in the previous paragraph, 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 be 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 2019, the Group's eligible capital amounted to 12,755 million euros (11,834 million euros as at 31 December 2018), representing a surplus of 6,257 million euros (5,407 million euros as at 31 December 2018), as shown below:

Thousand euro

	2019	2018	Year-on-year change (%)
Capital	703,371	703,371	-
Reserves	12,364,430	11,893,256	3.96
Convertible bonds	-	-	-
Minority interests	14,961	13,769	8.66
Deductions	(2,972,809)	(2,981,577)	(0.29)
CET1 resources	**10,109,953**	**9,628,818**	**5.00**
CET1 (%)	12.4	12.0	3.88
Preference shares, convertible bonds and deductions	1,153,095	1,153,147	-
Additional Tier 1 resources	**1,153,095**	**1,153,147**	**-**
AT1 (%)	1.4	1.4	(1.11)
Tier 1 resources	**11,263,048**	**10,781,965**	**4.46**
Tier 1 (%)	13.9	13.4	3.31
Tier 2 resources	**1,492,440**	**1,052,303**	**41.83**
Tier 2 (%)	1.8	1.3	40.26
Capital base	**12,755,488**	**11,834,268**	**7.78**
Minimum capital requirement	6,498,467	6,426,806	1.12
Capital surplus	**6,257,021**	**5,407,462**	**15.71**
Total capital ratio (%)	**15.7**	**14.7**	**6.60**
Risk weighted assets (RWAs)	**81,230,838**	**80,335,078**	**1.12**

Common Equity Tier 1 (CET1) capital accounted for 79.26% of eligible capital. Deductions are mainly comprised of goodwill and intangible assets.

Tier 1 capital is comprised, in addition to CET1 funds, by items that largely make up Additional Tier 1 capital (9.04% of own funds), which are capital items comprised of preference shares.

Tier 2 capital provides 11.70% of the total capital 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, as demonstrated by the results of the Supervisory Review and Evaluation Process (SREP), which are given in the first section of this Note.

In 2019, the Group increased its capital base organically, on a fully loaded basis, by more than 566 million euros. It is important to note also the impact of the Subordinated Bond issue for 500 million euros that took place in 2018, which the European Central Bank authorised for inclusion in Tier 2 in February 2019. In terms of risk-weighted assets, the impact of the sale of non-performing asset portfolios during the period and the securitisation issued in the third quarter of the year are also included. As a result of all this, the bank was able to offset the increase in risk-weighted assets (1,117 million euros) arising from changes to accounting standards, regulatory effects such as the introduction of IFRS 16, or the results of the Targeted Review of Internal Models (TRIM). Therefore, the fully loaded CET1 ratio stood at 11.71% at year end.

With reference to phased-in capital, all of these actions and events, both in terms of available capital and in terms of risk-weighted assets, have enabled Banco Sabadell to reach a phased-in Common Equity Tier 1 (CET 1) ratio of 12.45%, and a total capital ratio of 15.70% as at 31 December 2019, substantially above regulatory minima.

The following table shows movements in the various regulatory capital components during 2019:

Thousand euro

CET1 balance as at 31 December 2018	**9,628,818**
Profit attributable to the Group, net of dividends	544,465
Reserves	(73,290)
Minority interests	1,192
Valuation adjustments	145,513
Deductions and transition effects	(136,745)
CET1 balance as at 31 December 2019	**10,109,953**

Thousand euro

Additional Tier 1 balance as at 31 December 2018	**1,153,147**
Eligible instruments	-
Minority interests	(52)
Deductions and transition effects	-
Additional Tier 1 balance as at 31 December 2019	**1,153,095**

Thousand euro

Tier 2 balance as at 31 December 2018	**1,052,303**
Eligible instruments	440,206
Credit risk adjustments	(199,213)
Minority interests	(69)
Deductions and transition effects	199,213
Tier 2 balance as at 31 December 2019	**1,492,440**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2019 and 2018:

Thousand euro

	2019	2018
Shareholders' equity	13,171,806	12,544,931
Accumulated other comprehensive income	(266,746)	(491,470)
Minority interests	69,346	63,539
Total equity	**12,974,406**	**12,117,000**
Goodwill and intangibles	(2,594,020)	(2,461,142)
Other adjustments	(270,433)	(27,040)
Regulatory accounting adjustments	**(2,864,453)**	**(2,488,182)**
Common Equity Tier 1 capital	**10,109,953**	**9,628,818**
Additional Tier 1 capital	**1,153,095**	**1,153,147**
Tier 2 capital	**1,492,440**	**1,052,303**
Total regulatory capital	**12,755,488**	**11,834,268**

As at 31 December 2019 and 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 81,231 million euros as at 31 December 2019, which represents and increase of 1.12% relative to the previous year.

The following table shows the reasons for changes in RWAs weighted by credit risk occurring during 2019. It is worth noting that the impact on risk-weighted assets of the securitisation issued in the third quarter of the year amounted to -488 million euros.

Thousand euro

	RWA	Capital requirements (*)
Balance as at 31 December 2018	**71,796,346**	**5,743,708**
Change in business volume	723,318	57,865
Asset quality	(488,872)	(39,110)
Changes in models	-	-
Methodology, parameters and policies	(1,078,000)	(86,240)
Acquisitions and disposals	(1,669,369)	(133,550)
Exchange rate	640,096	51,208
Other	(48,090)	(3,847)
Balance as at 31 December 2019	**69,875,429**	**5,590,034**

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs.

(*) Calculated as 8% of RWAs.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2019 and 2018, is shown below, with credit risk accounting for the largest proportion.

%

	2019	2018
Credit risk (*)	89.05%	88.71%
Operational risk	10.09%	10.37%
Market risk	0.87%	0.92%
Total	**100%**	**100%**

(*) Includes counterparty credit risk and other risk exposure amounts.

The tables below show risk-weighted assets for the most significant risk in terms of volume (credit risk), broken down by geography and sector:

%

	2019
Spain	76.76%
United Kingdom	13.24%
Rest of European Union	3.93%
Americas	5.10%
Rest of the world	0.98%
Total	**100%**

Includes counterparty credit risk.

%

	2019
Finance, retailers and other services	40.14%
Individuals	26.56%
Transportation, distribution and hospitality	11.08%
Real estate	7.67%
Manufacturing industries	5.47%
Generation and distribution of energy	6.41%
Construction	1.76%
Agriculture, livestock and fishing	0.65%
Mining and quarrying	0.27%
Total	**100%**

Includes counterparty risk. Not includes equity.

The table below sets out regulatory exposures and risk-weighted assets, broken down by segment and by calculation approach, as at 31 December 2019:

%

	EAD	IRB	STDA	RWA	IRB	STDA
Public sector	22.80%	-	100.00%	0.63%	-	100.00%
Financial institutions	2.17%	27.05%	72.95%	1.86%	38.83%	61.17%
Corporates	12.53%	90.60%	9.40%	22.49%	89.46%	10.54%
SMEs (Business banking)	7.84%	81.26%	18.74%	11.87%	85.75%	14.25%
SMEs (Retail banking)	5.91%	90.08%	9.92%	6.17%	89.73%	10.27%
Retailers and self-employed	1.44%	80.83%	19.17%	1.45%	77.87%	22.13%
Mortgage loans	32.46%	76.81%	23.19%	17.55%	49.67%	50.33%
Loans	1.97%	59.51%	40.49%	4.99%	65.36%	34.64%
Other retail banking customers	3.51%	78.42%	21.58%	3.29%	72.79%	27.21%
Other	8.99%	-	100.00%	26.87%	-	100.00%
Equities	0.39%	100.00%	-	2.82%	100.00%	-
Total	**100%**			**100%**		

Includes counterparty credit 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 of eligible Tier 1 capital to exposures, 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 for the ratio are set out in Article 451 of part eight. A minimum requirement is not specified, although Article 92 of the recently published CRR II already sets forth a mandatory requirement of 3%. The bank reports to the supervisor on a quarterly basis.

The leverage ratio as at 31 December 2019 and 2018 is shown below:

Thousand euro

	2019	2018
Tier 1 capital	11,263,048	10,781,965
Exposure	224,618,208	221,804,098
Leverage ratio	**5.01%**	**4.86%**

The capital and leverage ratios as at 31 December 2019 do not include either the results or the reduction of exposure arising from the sale of SDIN Residencial, S.L.U. and a portfolio of outstanding real estate assets, nor do they include the results of the sale of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal, since these transactions had not yet been completed. If this impact had been included, the CET1 ratio would stand at 12.87%, the Tier 1 ratio would stand at 14.29%, the total capital ratio at 16.13% and the total pro forma leverage ratio would stand at 5.16%

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395.

The following table shows the impact that the application of the transitional arrangements in force in 2019 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

	2019
Available capital	
Common Equity Tier 1 (CET1) capital	10,109,953
Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	9,524,757
Tier 1 (T1) capital	11,263,048
Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	10,677,852
Total capital	12,755,488
Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12,184,660
Risk weighted assets	
Total risk weighted assets	81,230,838
Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied	81,310,988
Capital ratios	
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount)	12.45%
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	11.71%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount)	13.87%
Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	13.13%
Total capital (expressed as percentage of risk exposure amount)	15.70%
Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	14.99%
Leverage ratio	
Total exposure measure corresponding to leverage ratio	224,618,208
Leverage ratio	5.01%
Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied	4.75%

The main impact arising from the application of these transitional arrangements has been the inclusion of 585 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. The impact generated a reduction of risk-weighted assets by 80 million euros.

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, under 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 to be 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 directly or indirectly based on 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 techniques	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	- Issuers' 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
Simple derivatives (a)	Net present value method	Implicit curves calculated based on quoted market prices	This model assumes: - Observable yield curve - FX swaps curve and spot curve
Rest of derivatives (a)	For equity derivatives, currencies and commodities: Black-Scholes model (analytic/semi-analytic formulae)	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term.	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.) - Volatility surfaces of options. - For forex derivatives Probability of default for the calculation of CVA and DVA (b)
	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.	- Term structure of interest - Volatility surfaces of Libor rate options (caps) and swap rates (swaptions) Probability of default to calculate CVA and DVA (b).
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates.	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

(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 techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates for variables that affect future cash flows: claims, losses, amortisations	- Estimated credit spreads of the issuer or a similar issuer. - Rates of claims, losses and/or amortisations
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 and 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 a similar issuer. - Historic volatility of credit spreads
	For interest rate derivatives: - Standard Model - Libor Market Model	These models assume that: - The standard model allows negative interest rates - Forward rates in the term structure of the interest rate curve are fully correlated.	For interest rate derivatives: - Internal probability of 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 liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

		2019		2018	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	15,169,202	15,169,202	23,494,479	23,494,479
Financial assets held for trading	8, 9, 10	2,440,866	2,440,866	2,044,965	2,044,965
Non-trading financial assets mandatorily at fair value through profit or loss	8	171,056	171,056	141,314	141,314
Financial assets designated at fair value through profit or loss		-	-	-	-
Financial assets at fair value through other comprehensive income	8, 9	7,802,025	7,802,025	13,247,055	13,247,055
Financial assets at amortised cost	8, 11	181,422,646	188,332,900	164,415,563	170,494,967
Derivatives – Hedge accounting	12	468,516	468,516	301,975	301,975
Fair value changes of the hedged items in portfolio hedge of interest rate risk		249,552	249,552	56,972	56,972
Total assets		**207,723,863**	**214,634,117**	**203,702,323**	**209,781,727**

Thousand euro

		2019		2018	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	10	2,714,365	2,714,365	1,738,354	1,738,354
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Financial liabilities measured at amortised cost	18, 19, 20, 21	205,636,018	204,760,043	206,076,860	205,522,865
Derivatives – Hedge accounting	12	728,769	728,769	633,639	633,639
Fair value changes of the hedged items in portfolio hedge of interest rate risk		234,537	234,537	36,502	36,502
Total liabilities		**209,313,689**	**208,437,714**	**208,485,355**	**207,931,360**

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 measured at amortised cost*" has been estimated using the discounted cash flow method, applying 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 the 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 tables show 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	2019			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		568,196	1,872,570	100	2,440,866
Derivatives	10	-	1,840,245	-	1,840,245
Equity instruments	9	1,817	1,884	-	3,701
Debt securities	8	566,379	30,441	100	596,920
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		51,007	2,663	117,386	171,056
Equity instruments		-	-	-	-
Debt securities	8	51,007	2,663	117,386	171,056
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		7,420,035	282,809	99,181	7,802,025
Equity instruments	9	22,365	106,389	83,320	212,074
Debt securities	8	7,397,670	176,420	15,861	7,589,951
Loans and advances		-	-	-	-
Derivatives – Hedge accounting	12	-	468,516	-	468,516
Total assets		**8,039,238**	**2,626,558**	**216,667**	**10,882,463**

Thousand euro

	Note	2019			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		871,812	1,842,553	-	2,714,365
Derivatives	10	-	1,842,553	-	1,842,553
Short positions		871,812	-	-	871,812
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting	12	-	728,769	-	728,769
Total liabilities		**871,812**	**2,571,322**	**-**	**3,443,134**

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	9	-	-	-	-
Debt securities		24,412	42,648	74,254	141,314
Loans and advances		-	-	-	-
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**

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 7.18% of the total, and their adjustment for credit and debit risks represents 3.04% 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, disclosed in the accompanying consolidated balance sheets, are shown below:

Thousand euro

	Assets	Liabilities
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**	**-**
Valuation adjustments recognised in profit and loss (*)	(38,415)	-
Valuation adjustments not recognised in profit and loss	7,335	-
Purchases, sales and write-offs	16,134	-
Net additions/removals in Level 3	102,886	-
Exchange differences and other	(1,011)	-
Balance as at 31 December 2019	**216,667**	**-**

(*) Relates to securities retained on the balance sheet.

Net level 3 inflows primarily correspond to debt instruments previously classified as level 1 and level 2 whose fair value is now calculated using valuation techniques in which the main significant inputs are based on unobservable data.

Details of financial instruments that were transferred between valuation levels in 2019 are as follows:

Thousand euro

		2019					
	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		-	22,399	-	62,229	-	505
Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
Financial assets at fair value through other comprehensive income		5,209	4,147	-	15,453	-	837
Derivatives		-	-	-	-	-	-
Liabilities:							
Financial liabilities held for trading		-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-	-	-
Derivatives – Hedge accounting		-	-	-	-	-	-
Total		**5,209**	**26,546**	**-**	**77,682**	**-**	**1,342**

In 2018 there were no transfers between different valuation levels.

As at 31 December 2019, 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 correspond, among other things, to the interest that the Group 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.

Transfers from Level 1 to Level 2 are due to the fact that the markets in which these instruments (mainly bonds issued by Autonomous Communities) are traded are no longer considered as active markets; therefore, their valuation is now calculated using valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

In addition, transfers from Level 1 to Level 3 are due to the fact that the markets in which these instruments (mainly asset-backed securities) are traded are no longer considered as active markets; therefore, their value is now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans) is based on data that is unobservable in the market.

In addition, transfers from Level 2 to Level 3 are due to the fact that these instruments (mainly perpetual convertible preferred stock) are now calculated using valuation techniques in which one of the main significant inputs (illiquidity discount rate) is based on data that is unobservable in the market.

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 2019 and 2018, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

As at the end of 2019 and 2018, 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 2019 and 2018, the 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 rental 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. The value obtained is in turn 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 static 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 2019 and 2018:

Thousand euro

	2019			
	Level 1	Level 2	Level 3	Total
Housing	-	881,028	-	881,028
Offices, retail establishments and other real estate	-	1,192,568	-	1,192,568
Land and building plots	-	-	574,306	574,306
Work in progress	-	-	216,728	216,728
Total assets	**-**	**2,073,596**	**791,034**	**2,864,630**

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**

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 discount rate. 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 2019 and 2018 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 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**
Purchases	-	-	129,964
Sales	-	-	(31,106)
Impairments recognised on income statement (*)	-	-	(18,359)
Net additions/removals in Level 3	-	-	(601,497)
Balance as at 31 December 2019	-	-	**791,034**

(*) Relates to assets kept on the balance sheet as at 31 December 2019 and 2018 (see Note 35).

During 2019, 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 2019 and 2018:

Thousand euro

	2019				2018			
	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount	Carrying amount (*)	Impairment	Net carrying amount	Valuation amount
Investment properties	570,029	(56,298)	513,731	601,035	772,959	(72,894)	700,065	811,492
Inventories	1,724,085	(855,508)	868,577	1,100,376	1,859,878	(925,018)	934,860	1,204,111
Non-current assets held for sale	889,607	(203,797)	685,810	1,071,967	6,908,521	(2,805,971)	4,102,550	6,994,966
Total	**3,183,721**	**(1,115,603)**	**2,068,118**	**2,773,378**	**9,541,358**	**(3,803,883)**	**5,737,475**	**9,010,569**

(*) Cost less accumulated depreciation.

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 2019 are as follows:

Thousand euro

Valuation firm	Non-current assets held for sale	Investment properties	Inventories
Afes Técnicas de Tasación, S.A.	-	3,138	-
Alia Tasaciones, S.A.	98,585	72,215	109,409
Aplicaciones Estadistícas y Consultoría, S.L.	926	-	-
Col.lectiu d'Arquitectes Taxadors	11,703	-	-
Cushman & Wakefield	-	16,747	-
Eurovaloraciones, S.A.	18,912	13,396	164,282
Gestión de Valoraciones y Tasaciones, S.A.	25,630	132,489	193,894
Gloval Valuation, S.A.U.	17,464	8,637	39,216
Ibertasa, S.A.	10,729	4,347	17,511
Instituto de Valoraciones, S.A.	1,371	-	58,161
JLL Valoraciones, S.A.	396	-	-
Krata, S.A.	887	1,865	3,378
Peritand	4,194	12,096	-
Sociedad de Tasación, S.A.	354,774	184,833	64,962
Tabimed Gestión de Proyectos, S.L.	311	-	-
Tasasur Sociedad de Tasaciones, S.A.	66	-	129
Tecnitasa Técnicos en Tasación, S.A	6,329	12,778	1,139
Thirsa	192	-	352
Tinsa Tasaciones Inmobiliarias, S.A.	44,139	22,837	162,136
Valoraciones Mediterráneo, S.A.	57,625	28,069	53,404
Resto	31,577	284	604
Total	**685,810**	**513,731**	**868,577**

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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
By nature:		
Cash	897,745	814,761
Cash balances at central banks	13,587,274	22,065,440
Other demand deposits	684,183	614,278
Total	**15,169,202**	**23,494,479**
By currency:		
In euro	8,524,283	14,726,126
In foreign currency	6,644,919	8,768,353
Total	**15,169,202**	**23,494,479**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2019 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 2019 and 2018 are broken down below:

Thousand euro

	2019	2018
By heading:		
Financial assets held for trading	596,920	317,437
Non-trading financial assets mandatorily at fair value through profit or loss	171,056	141,314
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	7,589,951	12,976,719
Financial assets at amortised cost	19,218,721	13,131,824
Total	**27,576,648**	**26,567,294**
By nature:		
Central banks	-	-
General governments	24,290,371	23,732,596
Credit institutions	1,376,147	987,601
Other sectors	1,452,604	1,575,346
Stage 3 assets	73	357
Impairment allowances	(234)	(236)
Other valuation adjustments (interest, fees and commissions, other)	457,687	271,630
Total	**27,576,648**	**26,567,294**
By currency:		
In euro	23,576,442	21,968,957
In foreign currency	4,000,206	4,598,337
Total	**27,576,648**	**26,567,294**

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

	2019	2018
Amortised cost (*)	7,597,159	13,020,937
Fair value	7,589,951	12,976,719
Accumulated losses recognised in equity	(81,823)	(138,296)
Accumulated capital gains recognised in equity	76,695	99,906
Value adjustments made for credit risk	(2,080)	(5,828)

(*) Includes net gains/(-) losses due to impairment in the profit and loss account for 2019 and 2018 of 3,748 and (2,472) thousand euros, of which those due to provisions during the year amount to (1,093) and (7,685) thousand euros, and those due to reversal of impairment amount to 4,841 and 5,213 thousand in 2019 and 2018 (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

	2019	2018
Amortised cost	6,292,827	10,979,744
Fair value	6,272,501	10,939,940
Accumulated losses recognised in equity	(73,085)	(120,525)
Accumulated capital gains recognised in equity	52,861	81,236
Value adjustments made for credit risk	(102)	(515)

The portfolio of "*Financial assets at amortised cost*" breaks down as follows:

Thousand euro

	2019	2018
Central banks	-	-
General governments	18,112,781	12,606,171
Credit institutions	565,924	81,007
Other sectors	540,219	444,900
Impairment allowances	(203)	(254)
Total	19,218,721	13,131,824

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2019 and 2018 are broken down below:

Thousand euro

	2019	2018
By heading:		
Financial assets held for trading	3,701	7,254
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	212,074	270,336
Total	215,775	277,590
By nature:		
Resident sector	173,618	156,226
Credit institutions	7,065	8,869
Other	166,553	147,357
Non-resident sector	16,325	64,487
Credit institutions	-	52,815
Other	16,325	11,672
Participations in investment vehicles	25,832	56,877
Total	215,775	277,590
By currency:		
In euro	214,428	220,951
In foreign currency	1,347	56,639
Total	215,775	277,590

As at 2019 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 2019 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

	2019	2018
Cost of acquisition	288,025	347,586
Fair value	212,074	270,336
Accumulated capital losses recognised in equity at reporting date	(146,067)	(140,597)
Accumulated capital gains recognised in equity at reporting date	70,116	63,347
Transfers of gains or losses within equity during the period	-	-
Recognised dividends from investments held at the end of the year	4,480	7,611
Recognised dividends from investments derecognised during the year	-	569

At the end of 2019, the Group, based on the last strategic plan presented by the company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish) has reduced the book value of the investment held in this company by 4,535 thousand euros, which has been recognised in the consolidated statement of equity, with the book value of the investment being impaired by 100%. Furthermore, the Group has reduced the book value of the subordinated debt it holds in this company by 46,749 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 2019. As at 31 December 2019, the book value of subordinated debt in SAREB amounted to 27,000 thousand euros (73,749 thousand euros as at 31 December 2018).

On 13 March 2019, the bank made a transfer to Glenoaks Investments, S.A. of the 8,238,084 shares of Colombian bank Banco GNB Sudameris, S.A. (Banco GNB Sudameris), owned by Banco Sabadell, representing 4.99% of the share capital of Banco GNB Sudameris, for a total price of 60,352 thousand US dollars.

The transaction was executed through the exercise of the purchase option granted by Banco Sabadell to Starmites Corporation, S.à r.l. On 1 October 2015, which was assigned by the latter to Glenoaks Investments, S.A.

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 2019 and 2018 is as follows:

Thousand euro

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Securities risk	98,229	97,909	162,458	165,141
Interest rate risk	1,202,760	1,182,667	1,073,148	1,057,141
Currency risk	351,656	373,614	473,271	456,015
Other types of risk	187,600	188,363	11,397	11,936
Total	**1,840,245**	**1,842,553**	**1,720,274**	**1,690,233**
By currency:				
In euro	1,595,590	1,593,692	1,545,066	1,519,317
In foreign currency	244,655	248,861	175,208	170,916
Total	**1,840,245**	**1,842,553**	**1,720,274**	**1,690,233**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2019 and 2018, are shown below:

Thousand euro

	2019	2018
Assets		
Swaps, CCIRS, Call Money Swap	1,360,018	1,050,903
Currency options	30,743	95,011
Interest rate options	28,660	33,717
Index and securities options	97,584	162,383
Currency forwards	320,913	378,260
Fixed income forwards	1,715	-
Equity forward	583	-
Interest rate forwards	29	-
Total derivatives on asset side held for trading	1,840,245	1,720,274
Liabilities		
Swaps, CCIRS, Call Money Swap	1,337,427	1,030,712
Currency options	30,773	95,289
Interest rate options	24,574	29,857
Index and securities options	105,362	173,649
Currency forwards	342,842	360,726
Fixed income forwards	927	-
Equity forward	583	-
Interest rate forwards	65	-
Total derivatives on liability side held for trading	1,842,553	1,690,233

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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
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	14,388,424	8,296,917
Total	**14,388,424**	**8,296,917**
By nature:		
Deposits with agreed maturity	1,768,595	2,414,351
Repos	11,805,180	5,367,349
Hybrid financial assets	-	-
Other	811,986	512,058
Stage 3 assets	304	299
Impairment allowances	(492)	(1,861)
Other valuation adjustments (interest, fees and commissions, other)	2,851	4,721
Total	**14,388,424**	**8,296,917**
By currency:		
In euro	13,624,692	6,549,965
In foreign currency	763,732	1,746,952
Total	**14,388,424**	**8,296,917**

Customers

The breakdown of the heading "*Loans and advances – Customers*" (General governments and Other sectors) of the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019	2018
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	147,815,501	142,986,822
Total	**147,815,501**	**142,986,822**
By nature:		
Overdrafts, etc.	7,376,969	7,807,725
Commercial loans	6,443,041	6,185,828
Finance leases	2,558,211	2,564,586
Secured loans	87,049,502	83,639,258
Repos	235,749	595,917
Other term loans	41,144,218	39,168,359
Stage 3 assets	5,922,593	6,471,569
Impairment allowances	(2,933,267)	(3,433,070)
Other valuation adjustments (interest, fees and commissions, other)	18,485	(13,350)
Total	**147,815,501**	**142,986,822**
By sector:		
General governments	10,509,796	10,875,811
Other sectors	134,297,894	129,085,862
Stage 3 assets	5,922,593	6,471,569
Impairment allowances	(2,933,267)	(3,433,070)
Other valuation adjustments (interest, fees and commissions, other)	18,485	(13,350)
Total	**147,815,501**	**142,986,822**
By currency:		
In euro	99,364,554	98,595,913
In foreign currency	48,450,947	44,390,909
Total	**147,815,501**	**142,986,822**
By geography:		
Spain	95,659,236	96,209,799
United Kingdom	39,702,191	36,704,792
Rest of European Union	4,464,943	3,822,923
Americas	9,082,619	7,615,135
Rest of the world	1,839,779	2,067,243
Impairment allowances	(2,933,267)	(3,433,070)
Total	**147,815,501**	**142,986,822**

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

Certain information concerning financial leasing transactions carried out by the Group in which it acts as lessor is set out below:

Thousand euro

	2019	2018
Finance leases		
Total gross investment	2,789,636	2,651,777
Impairment allowances	(55,454)	(52,887)
Interest income	72,471	51,392

At 31 December 2019, the reconciliation of undiscounted lease receipts to the net investment on the leases is as follows:

Thousand euro

	2019
Undiscounted lease receipts	2,594,150
Unguaranteed residual value	195,486
Gross investment in the lease	**2,789,636**
Unearned financial income	214,854
Net investment in the lease (*)	**2,574,782**

(*) Relates mainly to finance leases granted to customers in the amount of 2,558,211 euros.

The table below shows a breakdown by term of the minimum undiscounted future amounts receivable by the Group during the period of mandatory compliance (assuming that no extensions or existing purchase options will be exercised) as set out in the financial lease contracts:

Thousand euro

	2019	2018
Up to 1 year	732,175	636,359
1-2 years	575,586	494,820
2-3 years	383,798	377,550
3-4 years	243,542	238,811
4-5 years	172,350	165,774
More than 5 years	486,699	554,002
Total	**2,594,150**	**2,467,316**

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 2019 amounted to 126,793 thousand euros (130,322 thousand euros as at 31 December 2018). Of this total, over 78% of the balance as at 31 December 2019 (52% of the balance as at 31 December 2018) 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 2019 and 2018 is as follows:

Thousand euro

Stage 1	31/12/2019	31/12/2018
Debt securities	27,119,124	26,279,110
Loans and advances	151,262,299	139,376,896
Customers	136,888,126	131,106,667
Central banks and Credit institutions	14,374,173	8,270,229
Total *stage* 1	178,381,423	165,656,006
By sector:		
General governments	34,762,568	34,573,924
Central banks and Credit institutions	15,750,320	9,244,381
Other private sectors	127,868,535	121,837,701
Total *stage* 1	178,381,423	165,656,006
Stage 2		
Debt securities	-	16,435
Loans and advances	7,931,152	8,878,533
Customers	7,919,564	8,855,004
Central banks and Credit institutions	11,588	23,529
Total *stage* 2	7,931,152	8,894,968
By sector:		
General governments	37,598	34,482
Central banks and Credit institutions	11,588	36,978
Other private sectors	7,881,966	8,823,508
Total *stage* 2	7,931,152	8,894,968
Stage 3		
Debt securities	73	357
Loans and advances	5,922,896	6,471,868
Customers	5,922,593	6,471,569
Central banks and Credit institutions	304	299
Total *stage* 3	5,922,969	6,472,225
By sector:		
General governments	11,772	20,434
Central banks and Credit institutions	304	299
Other private sectors	5,910,894	6,451,492
Total *stage* 3	5,922,969	6,472,225
Total *stages*	192,235,545	181,023,199

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2019 and 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	35,841,425	867,615	279,016	*17,774*	36,988,056
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)
Balance as at 31 December 2018	**165,656,006**	**8,894,968**	**6,472,225**	***420,162***	**181,023,199**
Transfers between impairment stages	(1,802,973)	619,908	1,183,065	-	-
Stage 1	5,489,037	(5,420,825)	(68,212)	-	-
Stage 2	(6,965,516)	7,321,554	(356,038)	-	-
Stage 3	(326,494)	(1,280,821)	1,607,315	-	-
Increases	50,880,311	669,178	322,849	*7,523*	51,872,338
Decreases	(36,880,578)	(2,288,401)	(1,452,585)	*(171,815)*	(40,621,564)
Transfers to write-offs	(152)	(932)	(609,784)	-	(610,868)
Adjustments for exchange differences	528,809	36,431	7,199	*9,663*	572,439
Balance as at 31 December 2019	**178,381,423**	**7,931,152**	**5,922,969**	***265,533***	**192,235,544**

The breakdown of assets classified as Stage 3 by type of guarantee as at 31 December 2019 and 2018 is as follows:

Thousand euro

	31/12/2019	31/12/2018
Secured with a mortgage (*)	3,191,551	3,480,089
Of which: Stage 3 financial assets with guarantees covering all of the risk	*2,373,708*	*2,487,184*
Other collateral (**)	354,338	343,581
Of which: Stage 3 financial assets with guarantees covering all of the risk	*184,704*	*192,788*
Rest	2,377,080	2,648,555
Total	**5,922,969**	**6,472,225**

(*) Assets secured with a mortgage with an outstanding exposure below 100% of their valuation amount.

(**) Includes the rest of assets secured with collateral.

The breakdown by geography of the balance of assets classed as stage 3 as at 31 December 2019 and 2018 is as follows:

Thousand euro

	31/12/2019	31/12/2018
Spain	5,192,312	5,785,832
United Kingdom	503,588	516,602
Rest of European Union	40,710	47,458
Americas	146,024	76,668
Rest of the world	40,336	45,665
Total	**5,922,970**	**6,472,225**

Accumulated financial income on impaired financial assets incurred but not recorded in the consolidated income statement amounted to 333,191 thousand euros as at 31 December 2019 and to 402,022 thousand euros as at 31 December 2018.

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during 2019 and 2018 are as follows:

Thousand euro

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**
Additions	**669,726**
Use of accumulated impairment balance	578,035
Directly recognised on income statement	36,367
Contractually payable interests	50,724
Other items	4,600
Disposals	**(1,084,717)**
Collections of principal in cash from counterparties	(80,613)
Collections of interest in cash from counterparties	(1,041)
Debt forgiveness	(29,324)
Referrals	-
Forbearance	(41)
Sales	(894,762)
Other items	(78,936)
Exchange differences	**25,924**
Balance as at 31 December 2019	**5,043,769**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side of the consolidated balance sheets, listed according to credit risk, as at 31 December 2019 and 2018 are as follows:

Thousand euro

Stage 1	2019	2018
Debt securities	234	236
Loans and advances	399,628	372,856
Central banks and Credit institutions	191	1,539
Customers	399,437	371,317
Total stage 1	**399,862**	**373,092**
Stage 2		
Debt securities	-	-
Loans and advances	268,743	324,782
Central banks and Credit institutions	-	24
Customers	268,743	324,759
Total stage 2	**268,743**	**324,782**
Stage 3		
Debt securities	-	-
Loans and advances	2,265,388	2,737,293
Central banks and Credit institutions	300	298
Customers	2,265,087	2,736,995
Total stage 3	**2,265,388**	**2,737,293**
Total stages	**2,933,992**	**3,435,167**

Movements in impairment allowances allocated by the Group to cover credit risk during 2019 and 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
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**
Movements reflected in impairment gains/(losses) (**)	**(5,113)**	**110,129**	**(22,871)**	**119,756**	**347,568**	**549,469**
Increases due to origination	-	-	244,151	-	-	244,151
Changes due to credit risk variance	(4,738)	101,761	(158,349)	89,180	420,152	448,006
Other movements	(375)	8,368	(108,673)	30,576	(72,583)	(142,687)
Movements not reflected in impairment gains/(losses)	**(5,630)**	**(355,166)**	**45,709**	**(167,430)**	**(577,101)**	**(1,059,618)**
Transfers between impairment stages	(5,629)	104,483	46,026	(128,792)	(16,087)	-
Stage 1	(1,832)	(5,359)	137,436	(109,553)	(20,691)	-
Stage 2	2,763	(570)	(65,503)	95,188	(31,878)	-
Stage 3	(6,560)	110,412	(25,907)	(114,427)	36,482	-
Utilisation of allocated provisions	(1)	(456,919)	(225)	(38,306)	(451,725)	(947,176)
Other movements (***)	-	(2,729)	(92)	(332)	(109,288)	(112,442)
Adjustments for exchange differences	**8**	**527**	**3,933**	**2,406**	**2,100**	**8,974**
Balance as at 31 December 2019	**16,149**	**491,526**	**399,862**	**252,593**	**1,773,862**	**2,933,992**

(*) 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.

(**) 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 contra account under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 34)

(***) Relates mainly to the transfer of 112,442 thousand euros in 2019 to cover credit risk on non-current assets held for sale (note 13) and investment property (note 15). In 2018, it related mainly to the transfer of 200,615 thousand euro of impairment booked for the outcome of contingencies related to interest rate floor clauses and to the transfer of 162,463 thousand euro for risk cover to non-current assets held for sale and to investment property.

The breakdown by geography of the balance of impairment allowances as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Spain	2,557,901	3,051,311
United Kingdom	235,516	252,032
Rest of European Union	34,042	32,266
Americas	72,288	61,752
Rest of the world	34,245	37,806
Total	**2,933,992**	**3,435,167**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of cost or risk and of its impact by stage in the event of a change, ceteris paribus, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

	Change in the variable	Impact on cost of risk	*Of which: stage 2*	*Of which: stage 3*
Deviation in GDP growth	- 100 bps	+ 7 bps	+ 2 bps	+ 4 bps
	+ 100 bps	- 6 bps	- 2 bps	- 3 bps
Deviation in unemployment rate	+ 350 bps	+ 10 bps	+ 2 bps	+ 6 bps
	- 350 bps	- 8 bps	- 3 bps	- 5 bps
Changes in housing prices	- 300 bps	+ 14 bps	+ 2 bps	+ 11 bps
	+ 300 bps	- 7 bps	- 3 bps	- 4 bps

Note 12 – Derivatives - asset and liability hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet positioning and the market situation and outlook, interest rate risk mitigation strategies are proposed and agreed in order to adjust the aforesaid positioning to that desired by the Group. With this aim in mind, Banco Sabadell Group establishes interest rate hedging strategies for positions that are not included in the trading book and, to that 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 the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The said document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

The Group operates with the following types of 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 against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - 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*".
  - Fixed-rate liabilities, including fixed-term deposits and the institution's capital market funding transactions.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the bank's funding operations in the capital markets, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

If the 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 in cash or as 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. As such, the hedge will not cover any risk inherent to the hedged items other than the risk of a change in the risk-free interest rate.

In order to asses the effectiveness of the hedge 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 results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own debt securities, for which they arrange derivative contracts, typically for a nominal amount identical to the item hedged and with the same financial features.

  If the 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 credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to asses the effectiveness of the hedge 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.

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 through its policies and procedures.

Hedging of net investments in foreign operations

The positions of subsidiaries and foreign branches 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.

2019 hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2019 and 2018, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2019			2018		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Micro-hedges:						
Fair value hedges	**7,245,991**	**55,400**	**67,932**	**13,000,928**	**47,422**	**82,045**
Exchange rate risk	1,976	113	-	57,838	347	58
For funding operations (A)	-	-	-	*5,000*	-	*58*
Of permanent investments	-	-	-	-	-	-
Of non-monetary items (B)	*1,976*	*113*	-	*52,838*	*347*	-
Interest rate risk	5,185,382	48,275	57,533	10,983,284	47,041	55,117
For funding operations (A)	*468,381*	*9,882*	*1,010*	*3,708,940*	*12,139*	*16,266*
For lending operations (C)	*4,717,001*	*38,393*	*56,523*	*7,274,344*	*34,902*	*38,851*
Risk associated with shares	2,058,633	7,012	10,399	1,959,806	34	26,870
For funding operations (A)	*2,058,633*	*7,012*	*10,399*	*1,959,806*	*34*	*26,870*
Cash flow hedges	**5,931,234**	**238,985**	**17,570**	**6,443,227**	**140,787**	**13,150**
Exchange rate risk	317,492	51,254	-	554,999	72,952	-
Of non-monetary items (D)	*317,492*	*51,254*	-	*554,999*	*72,952*	-
Interest rate risk	3,602,746	6,171	17,335	3,636,428	77	9,123
Of future transactions (E)	*223,319*	*3,384*	-	*786,546*	-	*7,254*
For funding operations (A)	*500,525*	*2,753*	*14,663*	-	-	-
For securitisation operations (F)	*2,878,902*	*34*	*2,672*	*2,844,909*	-	*1,869*
Rest	-	-	-	*4,973*	*77*	-
Risk associated with shares	9,996	-	100	800	1	3
For funding operations (G)	*9,996*	-	*100*	*800*	*1*	*3*
Other risks	2,001,000	181,560	135	2,251,000	67,757	4,024
For inflation-linked bonds (H)	*2,001,000*	*181,560*	*135*	*2,251,000*	*67,757*	*4,024*
Hedge of net investment in foreign operations	**1,648,059**	**2,678**	**25,212**	**2,155,118**	**5,315**	**22,956**
Exchange rate risk (I)	*1,648,059*	*2,678*	*25,212*	2,155,118	5,315	22,956
Macro-hedges:						
Fair value hedges	**23,279,606**	**171,453**	**605,689**	**23,356,122**	**87,174**	**493,492**
Interest rate risk	23,279,606	171,453	605,689	23,356,122	87,174	493,492
For funding operations (J)	*10,735,569*	*161,693*	*7,132*	*10,571,060*	*60,863*	*20,778*
For lending operations (K)	*12,544,037*	*9,760*	*598,557*	*12,785,062*	*26,311*	*472,714*
Cash flow hedges	**400,000**	**-**	**12,366**	**2,050,000**	**21,277**	**21,996**
Interest rate risk	400,000	-	12,366	2,050,000	21,277	21,996
For funding operations (L)	*400,000*	-	*12,366*	*700,000*	-	*21,996*
For lending operations (M)	-	-	-	*1,350,000*	*21,277*	-
Total	**38,504,890**	**468,516**	**728,769**	**47,005,395**	**301,975**	**633,639**
By currency:						
In euro	*18,817,424*	*357,989*	*382,743*	25,734,732	182,794	242,786
In foreign currency	*19,687,466*	*110,527*	*346,026*	21,270,663	119,181	390,853
Total	**38,504,890**	**468,516**	**728,769**	**47,005,395**	**301,975**	**633,639**

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 measured at amortised cost*". As at 31 December 2019, micro-hedges against interest rate risk on customer sight accounts are not current.
B. Micro-hedges against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*" and *"Financial assets not intended for trading mandatorily measured at fair value through profit or loss"*. As at 31 December 2019, micro-hedges against the exchange rate risk of equity transactions recognised under the heading "*Financial assets at fair value through other comprehensive income*" are not current.
C. Micro-hedges of transactions involving customer loans, recognised under the heading "*Financial assets at amortised cost*" and debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories.
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 measured at amortised cost*", and transactions involving currency futures. As at 31 December 2019, the micro-hedges against the exchange rate risk of currency futures transactions are not current.
E. Micro-hedges against interest rate risk on futures 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 bank 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 573 million pounds sterling and 10,418 million Mexican pesos corresponding to shareholdings in Group entities (1,368 million pounds sterling and 11,050 million Mexican pesos as at 31 December 2018); and 200 million US dollars corresponding to shareholdings in foreign branches (40 million US dollars as at 31 December 2018). 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 measured at amortised cost*".
K. Macro-hedges of debt securities classified in the portfolio under the "fair value through other comprehensive income" and "amortised cost" categories, 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 measured at amortised cost*". The average rate of interest rate swaps used for this hedge was -0.40% (-0.32% as at 31 December 2018).
M. Macro-hedges for floating rate mortgage loans granted to customers recognised under the heading "*Financial assets at amortised cost*". As at 31 December 2019, the macro-hedge for fixed-rate mortgage loans was not in effect. The average rate of interest rate swaps used for this hedge was -0.18% as at 31 December 2018.

The maturity profiles of the hedging instruments used by the Group as at 31 December 2019 and 2018 are shown below:

Thousand euro

	2019					
	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	706,675	921,589	339,263	-	-	**1,967,527**
Interest rate risk	1,869,952	223,319	4,140,362	12,038,165	14,195,936	**32,467,734**
Risk associated with shares	15,406	59,835	242,785	1,717,835	32,768	**2,068,629**
Other risks	-	-	-	11,000	1,990,000	**2,001,000**
Total	**2,592,033**	**1,204,743**	**4,722,410**	**13,767,000**	**16,218,704**	**38,504,890**

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 2019 and 2018 there were 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 were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges contracted by the Group:

Thousand euro

	2019					2018	
	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
Interest rate risk	4,074,896	532,354	(22,345)	10,090	18,312	7,033,252	3,755,456
Risk associated with shares	-	2,182,389	-	28,272	(28)	-	2,052,016
Total	**4,074,896**	**2,714,743**	**(22,345)**	**38,362**	**18,284**	**7,086,090**	**5,812,456**

In terms of fair value macro-hedges, the book value of the hedged items recognised in assets and liabilities for 2019 amounts to 28,007,949 and 51,284,438 thousand euros, respectively (16,067,394 and 55,300,022 thousand euros in 2018, respectively). Similarly, fair value adjustments of the hedged items amount to 249,552 and 234,537 thousand euros as at 31 December 2019, respectively (56,972 and 36,502 thousand euros as at 31 December 2018, respectively).

In relation to fair value hedges, the losses and gains recognised in 2019 and 2018, arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2019		2018	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(139,860)**	**139,610**	**(93,700)**	**89,053**
Fixed-rate assets	(53,512)	53,574	(49,663)	45,989
Capital markets	(12,052)	12,242	(15,011)	14,561
Fixed-rate liabilities	24,045	(24,354)	(13,214)	12,594
Assets denominated in foreign currency	(98,341)	98,148	(15,812)	15,909
Macro-hedges	**(143,466)**	**143,309**	**(11,728)**	**38,895**
Capital markets and fixed-rate liabilities	132,659	(133,410)	80,892	(61,467)
Fixed-rate assets	(276,125)	276,719	(92,620)	100,362
Total	**(283,326)**	**282,919**	**(105,428)**	**127,948**

In cash flow hedges, the amounts recognised in the statement of consolidated equity during the year and the amounts derecognised from consolidated equity and included in earnings during the year are indicated in the statement of total changes in equity of the Group.

The hedge ineffectiveness in the results for 2019 related to cash flow hedges amounted to losses of 508 thousand euros (losses of 602 thousand euros in 2018).

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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Assets	**976,084**	**7,409,293**
Cash, cash balances at central banks and other demand deposits	-	-
Loans and advances	1,850	421,422
Credit institutions	-	14
Customers	1,850	421,408
Debt securities	-	-
Equity instruments	-	-
Real estate exposure	915,557	6,920,693
Tangible assets for own use	30,967	104,451
Investment properties	-	20,533
Foreclosed assets	884,590	6,795,709
Leased out under operating leases	13,141	8,608
Rest of other assets	45,536	58,570
Impairment allowances	**(211,881)**	**(2,822,370)**
Non-current assets and disposal groups classified as held for sale	**764,203**	**4,586,923**
Liabilities		
Financial liabilities measured at amortised cost	4,016	44,150
Tax liabilities	2,759	7,489
Liabilities under insurance or reinsurance contracts	-	-
Rest	3,380	30,966
Liabilities included in disposal groups classified as held for sale	**10,155**	**82,605**

Tangible assets for own use relate mainly to commercial establishments.

In respect of real estate assets originating in foreclosures, 91.01% of the balance corresponds to residential properties, 8.53% to industrial properties and 0.46% 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 23.2 months in 2019 (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 in 2019 was 12.19% (in 2018 it was 20.74%).

Movements in "*Non-current assets and disposal groups classified as held for sale*" during 2019 and 2018 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2017		**3,559,232**
Additions		1,011,285
Disposals		(1,831,457)
Transfer of credit losses (*)		(169,904)
Other transfers/reclassifications		4,840,137
Balances as at 31 December 2018		**7,409,293**
Additions		489,292
Disposals		(6,979,478)
Transfer of credit losses (*)		(112,400)
Other transfers/reclassifications		169,377
Balances as at 31 December 2019		**976,084**
Impairment allowances:		
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**
Impairment through profit or loss	37	345,881
Reversal of impairment through profit or loss	37	(176,668)
Utilisations		(2,857,647)
Other transfers/reclassifications		77,945
Balances as at 31 December 2019		**211,881**
Net balances as at 31 December 2018		**4,586,923**
Net balances as at 31 December 2019		**764,203**

(*) 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	2019	2018
Loans and advances		1,064	409,129
Tangible assets	15	29,170	865,165
Inventories	17	51,925	697,533
Rest		9,273	12,054
Total		**91,432**	**1,983,881**

Changes in the balance under this heading during 2019 are mainly due to the closing of transactions agreed in 2018, described in note 2 (the transfer of Challenger and Coliseum portfolios to Cerberus, the sale of Solvia Servicios Inmobiliarios, S.L. To Intrum Holding Spain, S.A.U. and the transfer of a loan portfolio and real estate assets to Deutsche Bank and to Carval Investors).

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2019 and 2018 are as follows:

Thousand euro

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**
Scope additions / exclusions	150,669
Profit/(loss) for the year	56,551
Acquisition or capital increase (*)	14,653
Sale or dissolution	(53,328)
Dividends	(55,416)
Transfer	57,930
Impairment, allowances, translation differences and other	(12,069)
Balance as at 31 December 2019	**733,930**

(*) See cash flow statement.

The section of the cash flow statement *"Investment activities -- Collections from investments in joint ventures and associates"* shows 114,615 thousand euros which correspond to the sum of 53,328 thousand euros on sales or settlements, 55,416 thousand euros on dividends charged and 5,871 thousand euros, which correspond to 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 14,653 thousand euros, which correspond to the acquisitions carried out during 2019.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2019 y 2018 are indicated in Schedule I.

In the section concerning additions to and withdrawals from the scope of consolidation, the addition of Promontoria Challenger I. S.A. Is included (see Note 2), which had a book value of 161,958 thousand euros as at 31 December 2019.

As at 31 December 2019 goodwill linked to investments in joint ventures and associates corresponding to the investee Solvia Servicios Inmobiliarios, S.L.U., amounted to 29,037 thousand euros. This goodwill arose as a result of the recognition at fair value of the interest held in this entity following the sale of 80% of its share capital to a non-Group third party (see Note 2).

As at 31 December 2019 and 2018, 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

	2019	2018
Group investment in investees (Schedule I)	446,496	291,056
Contributions due to retained earnings	310,830	262,859
Valuation adjustments	(23,396)	21,025
Total	**733,930**	**574,940**

The following table shows the key financial data relating to the investment considered to be individually significant, BanSabadell Vida, as at 31 December 2019 and 2018. 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 (*)	
	2019	2018
Total assets	11,202,448	10,072,813
Of which: financial investments	*10,033,236*	*9,307,566*
Total liabilities	10,531,615	9,408,757
Of which: technical provisions	*9,198,607*	*9,043,282*
Result of the technical account of insurer	110,618	73,361
Of which: premiums allocated to the year	*1,668,940*	*2,404,090*
Of which: claims ratio for the year	*(1,471,879)*	*(1,574,663)*
Of which: technical financial yield	*129,928*	*143,423*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

As at 31 December 2019 and 2018, the book value of the investment in BanSabadell Vida, S.A. amounted to 291,429 and 312,803 thousand euros, respectively. As at 31 December 2019 and 2018, the aggregate book value of investments in associates considered as non-material on an individual basis was of 442,501 and 262,137 thousand euros, respectively.

Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019				2018			
	Cost	Depreciation and amortisation	Impairment	Net value	Cost	Depreciation and amortisation	Impairment	Net value
Property, plant and equipment	**4,567,235**	**(1,595,540)**	**(23,925)**	**2,947,770**	**3,273,845**	**(1,461,375)**	**(15,788)**	**1,796,682**
For own use (*):	4,200,109	(1,543,640)	(17,985)	2,638,484	2,933,404	(1,396,127)	(10,301)	1,526,976
Computer equipment and related facilities	525,018	(370,452)	-	154,566	510,945	(378,773)	-	132,172
Furniture, vehicles and other facilities	1,274,106	(698,969)	(4,078)	571,059	1,276,404	(691,182)	(4,078)	581,144
Buildings	2,312,108	(459,600)	(13,907)	1,838,601	1,094,086	(309,497)	(6,223)	778,366
Work in progress	53,371	-	-	53,371	7,987	(1)	-	7,986
Other	35,506	(14,619)	-	20,887	43,982	(16,674)	-	27,308
Leased out under operating leases	367,126	(51,900)	(5,940)	309,286	340,441	(65,248)	(5,487)	269,706
Investment properties	**614,308**	**(43,381)**	**(56,298)**	**514,629**	**821,885**	**(47,970)**	**(72,894)**	**701,021**
Buildings	610,531	(42,796)	(55,752)	511,983	818,128	(47,444)	(72,362)	698,322
Rural property, plots and sites	3,777	(585)	(546)	2,646	3,757	(526)	(532)	2,699
Total	**5,181,543**	**(1,638,921)**	**(80,223)**	**3,462,399**	**4,095,730**	**(1,509,345)**	**(88,682)**	**2,497,703**

(*) As at 31 December 2019, the cost of property, plant and equipment for own use includes right-of-use assets relating to the leased properties in which the Group acts as lessee amounting to 1,192,180 thousand euros, of which 113,940 thousand euros have been depreciated at that date (see Note 1 under "Implementation of IFRS 16 - Leases").

Movements in the balance under the “*Tangible assets*” heading during 2019 and 2018 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2017		1,214,502	1,863,907	2,483,103	299,611	5,861,123
Additions		17,279	100,697	76,758	105,796	300,530
Disposals		(24,052)	(142,650)	(513,080)	(64,631)	(744,413)
Transfer of credit losses (*)		-	-	(6,266)	-	(6,266)
Other transfers		(59,512)	(33,799)	(1,218,629)	(260)	(1,312,200)
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
Additions (**)		1,303,088	103,462	25,255	120,821	1,552,626
Disposals		(51,950)	(110,943)	(202,257)	(94,606)	(459,756)
Transfer of credit losses (*)		-	-	(42)	-	(42)
Other transfers		(10,856)	14,645	(30,533)	-	(26,744)
Exchange rate		14,648	4,611	-	470	19,729
Balances as at 31 December 2019		2,400,985	1,799,124	614,308	367,126	5,181,543
Accumulated depreciation:						
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
Additions (***)		149,305	109,231	13,374	45,479	317,389
Disposals		(3,032)	(116,898)	(11,951)	(58,503)	(190,384)
Other transfers		(5,497)	3,545	(6,012)	-	(7,964)
Exchange rate		7,271	3,588	-	(324)	10,535
Balances as at 31 December 2019		474,219	1,069,421	43,381	51,900	1,638,921
Impairment losses:						
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
Impairment through profit or loss	35	16	-	25,360	-	25,376
Reversal of impairment through profit or loss	35	-	-	(30,093)	-	(30,093)
Utilisations		(409)	-	(14,176)	453	(14,132)
Other transfers		8,077	-	2,313	-	10,390
Balances as at 31 December 2019		13,907	4,078	56,298	5,940	80,223
Net balances as at 31 December 2018		813,660	713,316	701,021	269,706	2,497,703
Net balances as at 31 December 2019		1,912,859	725,625	514,629	309,286	3,462,399

(*) Allowance arising from provisions allocated to cover credit risk.

(**) Includes 1,192,180 thousand euro corresponding to recognition on the consolidated balance sheet of the cost of the right-of-use assets in leased property, plant and equipment where the group acts as lessee, of which 1,107,452 correspond to the impact of the first-time application of IFRS 16 (see 'IFRS 16 - Leases' in note 1).

(***) Includes 113,385 thousand euros relating to the recognition in the consolidated income statement of the depreciation of the right-of-use assets of the leased properties in which the Group acts as lessee (see Note 1 under “Implementation of IFRS 16 - Leases”).

Details of the net carrying value of transfers shown in the table above are as follows:

Thousand euro

	Note	2019	2018
Non-current assets and disposal groups classified as held for sale	13	(29,170)	(865,165)
Credit losses		(42)	(6,266)
Other assets		-	-
Total		(29,212)	(871,431)

Specific information relating to tangible assets as at 31 December 2019 and 2018 is shown hereafter:

Thousand euro

	2019	2018
Gross value of tangible assets for own use in use and fully amortised	411,143	459,417
Net carrying value of tangible assets of foreign operations	434,609	232,636

Lease contracts in which the Group acts as lessee

Information is set out below concerning the lease contracts in which the Group acts as lessee:

Thousand euro

	2019
Interest expense on lease liabilities	(14,940)
Expense related to short-term low-value leases (*)	(21,733)
Total lease payments in cash (**)	137,710

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under Lease liabilities are not significant.

Minimum future payments over the period that cannot be cancelled for lease contracts in effect as at 31 December 2019 are indicated below:

Thousand euro

	2019
Undiscounted future lease payments	
Up to 1 month	16,262
1 to 3 months	14,542
3 to 12 months	89,207
1 to 5 years	372,888
More than 5 years	757,501

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the bank). The main characteristics of the most significant lease contracts in effect as at the end of 2019 are as follows:

	2019			
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 lease contracts is given below:

Thousand euro

	2019
Undiscounted future lease payments	
Up to 1 month	9,936
1 to 3 months	2,768
3 to 12 months	38,113
1 to 5 years	198,032
More than 5 years	579,049

During 2019 no individually material gain or loss was obtained through sale and leaseback transactions.

Contracts in which the Group acts as lessor

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include a clause which stipulates a minimum non-cancellable lease period, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease period, and additional guarantees or sureties to limit losses in the event of non-payment.

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 2019 amounted to 17,591 and 27,489 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 2019 and 2018 was as follows:

Thousand euro

	2019	2018
Goodwill:	**1,031,824**	**1,032,618**
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	27,278	28,072
Other intangible assets:	**1,533,159**	**1,428,524**
With a finite useful life:	1,533,159	1,428,524
Contractual relations with customers (Banco Guipuzcoano)	5,007	10,495
Private Banking Business, Miami	16,244	19,730
Contractual relations with TSB customers and brand	167,681	199,497
Computer applications	1,342,902	1,197,357
Other	1,325	1,445
Total	**2,564,983**	**2,461,142**

Goodwill

As set forth in the regulatory frame of reference, Banco Sabadell has carried out an analysis to evaluate the existence of any potential impairment of 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 2024). Given the current environment of zero or negative interest rates estimated for the entire projection period, by 2024 the Bank's income statement will still not have reached its normal level. Nevertheless, 2024 has been taken as the reference year for calculating the terminal value, using a perpetual growth rate of 1.7%. A discount rate of 9.1% was used, a figure reached using 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 Cash Generating Units (CGUs), namely Commercial Banking, Corporate Banking, Private Banking, TSB and others, are higher than their respective book values and therefore no impairment has been recognised.

In addition, the Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of a recovery value for each of the CGUs.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs +/- 5pbs.
- Recurrent cost of risk for the year 2024 +/- 10pbs.

The sensitivity analysis does not alter the conclusions drawn from the goodwill impairment test. Of the 30 sensitivity analyses that the group has carried out, there would only be an impairment in one, relative to the change in cost of risk, and this would affect the Commercial Banking CGU by -0.9% of its book value. This value of this CGU is over-stated in the baseline scenario by +8% of its book value.

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 (CGUs), which are expected to benefit from identified synergies. The CGUs and their weight as a percentage of Banco Urquijo's total goodwill are: Private Banking CGU (12.7%), Commercial Banking CGU (21.2%), Corporate Banking CGU (1.9%) and Other CGU (2.3%). Synergies that could not be assigned to a specific CGU due to limited available historical information of the acquired entity have been assigned to the overall set of CGUs (61.9%).

Banco Guipuzcoano

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking CGU 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 CGU.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

Other intangible assets

Contractual relations with customers (Banco Guipuzcoano)

The intangible assets associated with the acquisition of Banco Guipuzcoano mainly include the value of the contractual rights arising from relationships with customers taken over from Banco Guipuzcoano for core deposits and mutual funds. The valuation of core deposits has been carried out with the income approach using the cost savings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative sources of funding. Mutual fund management was valued by the income approach using the excess earnings method. The fair value was mainly determined by estimating the net present value of the cash flows generated by the fees received for the sale of mutual funds. These assets are amortised within ten years from the date of acquisition of Banco Guipuzcoano.

Private Banking business, Miami

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from relationships with customers taken over from this business, mainly short-term lending and deposits. These assets are amortised within 15 years from their creation.

Contractual relations with TSB customers and brand

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 2019, forecast at the time of the initial valuation. Based on this comparison, the conclusion can be drawn 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 CGU included an implicit analysis of its valuation and concluded that there is no impairment.

IT applications

Software purchase costs comprise mainly the capitalised costs of developing the Group's computer software and the purchase of software licences.

Movements

Movements in goodwill in 2019 and 2018 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2017	**1,019,440**	**-**	**1,019,440**
Additions	13,178	-	13,178
Disposals	-	-	-
Exchange differences	-	-	-
Other	-	-	-
Balance as at 31 December 2018	**1,032,618**	**-**	**1,032,618**
Additions	334	-	334
Disposals	(1,128)	-	(1,128)
Exchange differences	-	-	-
Balance as at 31 December 2019	**1,031,824**	**-**	**1,031,824**

Movements in other intangible assets in 2019 and 2018 were as follows:

Thousand euro

	Cost	Depreciation and amortisation	Impairment	Total
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**
Additions	333,321	(197,373)	(6,964)	128,984
Disposals	(179,924)	138,418	5,857	(35,649)
Other	-	-	1,108	1,108
Exchange differences	19,920	(9,728)	-	10,192
Balance as at 31 December 2019	**2,981,426**	**(1,448,267)**	**-**	**1,533,159**

The gross value of other intangible assets that were still in use and had been fully amortised as at 31 December 2019 and 2018 amounted to 863,110 thousand euros and 896,451 thousand euros, respectively.

Note 17 – Other assets

The "*Other assets*" heading on the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

	Note	2019	2018
Insurance contracts linked to pensions	22	133,960	132,299
Inventories		868,577	934,857
Rest of other assets		493,399	572,829
Total		**1,495,936**	**1,639,985**

The heading "*Rest of other assets*" includes mainly prepaid expenses, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2019 and 2018 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Finished buildings	Total
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**
Additions		47,395	93,699	72,273	213,367
Disposals		(21,391)	(950)	(121,392)	(143,733)
Impairment through profit or loss	35	(54,495)	(6,813)	(77,593)	(138,901)
Reversal of impairment through profit or loss	35	31,991	2,970	19,951	54,912
Other transfers	13	(88,361)	(58,948)	95,384	(51,925)
Balance as at 31 December 2019		**516,561**	**175,386**	**176,629**	**868,577**

As at 31 December 2019 and 2018, 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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
By heading:		
Financial liabilities measured at amortised cost	31,535,828	40,798,721
Total	**31,535,828**	**40,798,721**
By nature:		
Demand deposits	470,512	399,836
Deposits with agreed maturity	23,153,219	32,517,567
Repurchase agreements	7,607,237	7,600,498
Deposits redeemable at notice	-	-
Hybrid financial liabilities	58,800	59,504
Other accounts	229,414	198,300
Valuation adjustments	16,646	23,016
Total	**31,535,828**	**40,798,721**
By currency:		
In euro	23,680,458	30,422,046
In foreign currency	7,855,370	10,376,675
Total	**31,535,828**	**40,798,721**

Note 19 – Customer deposits

The customer deposits heading on the consolidated balance sheets as at 31 December 2019 and 2018 breaks down as follows:

Thousand euro

	2019	2018
By heading:		
Financial liabilities measured at amortised cost	147,362,353	139,078,942
Total	**147,362,353**	**139,078,942**
By nature:		
Demand deposits	118,868,376	107,665,339
Deposits with agreed maturity	25,174,407	26,705,427
Fixed term	22,815,482	23,925,215
Non-marketable covered bonds and bonds issued	1,476,891	1,962,867
Rest	882,034	817,345
Hybrid financial liabilities	2,164,716	2,003,569
Repurchase agreements	951,258	2,532,968
Valuation adjustments	203,596	171,639
Total	**147,362,353**	**139,078,942**
By sector:		
General governments	6,609,279	5,943,438
Other sectors	140,549,479	132,963,865
Other valuation adjustments (interest, fees and commissions, other)	203,595	171,639
Total	**147,362,353**	**139,078,942**
By currency:		
In euro	102,177,287	97,230,637
In foreign currency	45,185,066	41,848,305
Total	**147,362,353**	**139,078,942**

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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Straight bonds/debentures	6,329,322	3,979,311
Straight bonds	6,219,012	3,759,097
Structured bonds	110,310	220,214
Commercial paper	1,094,222	3,276,336
Covered bonds	8,925,100	9,525,100
Covered Bonds (TSB)	1,469,205	558,953
Asset-backed bonds	1,691,596	2,247,953
Subordinated marketable debt securities	3,010,465	2,986,344
Subordinated liabilities	1,860,465	1,836,344
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	49,986	24,656
Total	**22,569,896**	**22,598,653**

Schedule V shows details of the outstanding issuances at 2019 and 2018 year-end.

Two issues of preference shares contingently convertible into the Bank's ordinary shares (Additional Tier 1), offered exclusively to qualified investors, were 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 fixed 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 fixed 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.

Expenses relating to the remuneration for preference shares contingently convertible into ordinary shares amount to 73,250 thousand euros as at 31 December 2019 (73,250 thousand euros as at 31 December 2018) and are recognised under the heading *"Other reserves"* of consolidated equity.

Note 21 – Other financial liabilities

The breakdown of the balance of other financial liabilities in the consolidated balance sheet as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019	2018
By heading:		
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	4,167,941	3,600,544
Total	**4,167,941**	**3,600,544**
By nature:		
Debentures payable	247,622	421,562
Guarantee deposits received	83,494	77,907
Clearing houses	537,099	647,274
Collection accounts	1,584,924	1,789,344
Other financial liabilities (*)	1,714,802	664,457
Total	**4,167,941**	**3,600,544**
By currency:		
In euro	3,801,986	3,421,501
In foreign currency	365,955	179,043
Total	**4,167,941**	**3,600,544**

(*) Includes balances payable to suppliers. At 31 December 2019, the balance also includes a lease liability for an amount of 1,103,834 thousand euro due to application of IFRS 16 (see section on 'IFRS 16 - Leases' in note 1).

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

	2019	2018
Days		
Average time taken to pay suppliers (*)	37.28	32.89
Ratio of paid operations	37.28	32.89
Ratio of operations pending payment	29.65	42.73
Amount		
Total payments made	1,165,832	1,115,620
Total payments pending	171	11

(*) Refers to the average period of payment to suppliers by consolidated undertakings based in Spain.

Note 22 – Provisions and contingent liabilities

Movements during 2019 and 2018 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 2017	84,843	16,491	76,958	84,949	54,297	317,538
Impact of first application of IFRS 9	-	-	-	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 (*)	1,771	4	-	-	-	1,775
Allowances not charged to income statement	-	-	-	14,360	-	14,360
Allowances charged to income statement - provisions	(896)	1,586	14,202	(5,516)	151,330	160,706
Allocation of provisions	217	1,880	16,976	85,996	158,344	263,413
Reversal of provisions	-	-	(2,773)	(91,512)	(7,015)	(101,300)
Actuarial losses / (gains)	(1,113)	(294)	-	-	-	(1,407)
Exchange differences	-	-	-	(369)	(630)	(999)
Utilisations:	(8,590)	(6,595)	(32,948)	-	(195,400)	(243,533)
Contributions by the sponsor	29	1	-	-	-	30
Pension payments	(8,619)	(6,596)	-	-	-	(15,215)
Other	-	-	(32,948)	-	(195,400)	(228,348)
Other movements	10,126	804	14	6,676	189,128	206,748
Balance as at 31 December 2018	88,456	12,404	58,226	108,568	198,725	466,379
Scope additions / exclusions	-	-	-	-	-	-
Interest and similar charges - pension commitments	1,574	169	-	-	-	1,743
Allowances charged to income statement - staff expenses (*)	2,596	145	-	-	35,932	38,673
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement - provisions	1,667	1,758	23,088	4,787	(4,705)	26,595
Allocation of provisions	517	817	36,925	129,393	13,863	181,515
Reversal of provisions	-	-	(13,837)	(124,606)	(18,568)	(157,011)
Actuarial losses / (gains)	1,150	941	-	-	-	2,091
Exchange differences	182	62	-	(486)	1,717	1,475
Utilisations:	(8,841)	(5,549)	(22,911)	-	(111,589)	(148,890)
Net contributions by the sponsor	(136)	2	-	-	-	(134)
Pension payments	(8,705)	(5,551)	-	-	-	(14,256)
Other	-	-	(22,911)	-	(111,589)	(134,500)
Other movements	13,712	(2,051)	8,486	(2,123)	26,435	44,459
Balance as at 31 December 2019	99,346	6,938	66,889	110,746	146,515	430,434

(*) See Note 33.

The headings "*Pensions and other post-employment defined benefit obligations*" and "*Other long term employee benefits*" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "*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 and, where appropriate, provisions are recognised under the headings "*Pending legal issues and tax litigation*" and "*Other provisions*". As at 31 December 2019 and 2018, these headings mainly include:

- Provisions for tax contingencies amounting to 4 million euros as at 31 December 2019 (5 million euros as at 31 December 2018) which mainly include inspections by the tax authority signed on a contested basis (see Note 39) and contested tax settlements.

- Operational losses in the commercialisation of products for TSB customers for the amount of 14 million euros (17 million euros as at 31 December 2018). 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 "*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 incidents which occurred subsequent to the migration to TSB's new technology platform in April 2018 for the amount of 4 million euros as at 31 December 2019 (46 million euros as at 31 December 2018).

- Liabilities for legal contingencies amounting to 38 million euros at the end of 2019 (33 million euros at the end of 2018).

- Provisions to cover the anticipated costs relating to reduction of personnel and branch closures at TSB in 2020 amounting to 34 million euros.

- 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 euros 76.7 million euros as at 31 December 2019 (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 481.2 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, S.A. 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, S.A. 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 presented 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

	2019	2018	2017	2016	2015
Obligations arising from pension and similar commitments	803,905	768,695	793,871	862,218	858,877
Fair value of defined benefit plan assets	(697,621)	(667,835)	(692,537)	(749,295)	(744,256)
Net liability recognised on balance sheet	**106,284**	**100,860**	**101,334**	**112,923**	**114,621**

The return on the Banco Sabadell pension plan was 2.33% and that of E.P.S.V. was 1.15% in 2019.

The return on the Banco Sabadell pension plan was negative at 2.57% and that of E.P.S.V. was also negative at 0.06% in 2018.

Movements during 2019 and 2018 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 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**
Interest costs	11,487	-
Interest income	-	9,745
Normal cost in year	2,741	-
Past service cost	1,301	-
Benefits paid	(50,291)	(36,035)
Settlements, curtailments and terminations	5,013	3,483
Net contributions by the institution	-	(44)
Actuarial gains or losses from changes in demographic assumptions	-	-
Actuarial gains or losses from changes in financial assumptions	65,454	-
Actuarial gains or losses from changes in actuarial assumptions	3,016	-
Yield on defined benefit plan assets excluding interest income	-	57,389
Other movements	(3,511)	(4,752)
Balance as at 31 December 2019	**803,905**	**697,621**

The breakdown of Group pension commitments and similar obligations as at 31 December 2019 and 2018, based on its financing vehicle, coverage and the interest rate applied in its calculation is listed below:

Thousand euro

		2019	
Financing vehicle	Coverage	Amount	Interest rate
Pension plans		**415,354**	
Insurance policies with related parties	Matched	35,067	0.75%
Insurance policies with unrelated parties	Matched	380,287	0.75%
Insurance policies		**377,386**	
Insurance policies with related parties	Matched	86,958	0.75%
Insurance policies with unrelated parties	Matched	290,428	0.75%
Internal funds	Without cover	**11,165**	0.75%
Total obligations		**803,905**	

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**	

The amount of the commitments covered by matched insurance policies at 31 December 2019 stands at 792,740 thousand euros (756,391 thousand euros as at 31 December 2018) and therefore in 98.61% of its commitments (98.40% as at 31 December 2018) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates throughout the year has not had an impact on the bank's financial situation.

The sensitivity analysis for each key actuarial assumption, as at 31 December 2019 and 2018, shows how the obligation would have been affected, and the cost of the services during the current year, by reasonably likely changes on such date.

%

	2019	2018
Sensitivity analysis	**Percentage change**	
Discount rate		
Discount rate -50 basis points:		
Assumption	0.25%	1.00%
Change in obligation	6.16%	5.68%
Change of service cost in current year	10.09%	8.48%
Discount rate +50 basis points:		
Assumption	1.25%	2.00%
Change in obligation	(5.52%)	(5.31%)
Change of service cost in current year	(8.87%)	(7.49%)
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.25%)	(0.31%)
Change of service cost in current year	(3.29%)	(3.62%)
Rate of salary increase +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	0.28%	0.33%
Change of service cost in current year	3.80%	3.72%

The estimate of probable present values, as at 31 December 2019, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Total
Future benefit payments	11,837	10,086	8,773	8,310	8,073	8,633	8,328	8,029	7,724	7,415	**87,208**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amount to 133,960 thousand euros as at 31 December 2019 and 132,299 thousand euros as at 31 December 2018 (see Note 17).

The principal categories of the plan assets as a percentage of the total plan assets are listed below:

%

	2019	2018
Equity instruments issued by Banco Sabadell	0.02%	0.01%
Debt securities	0.21%	1.39%
Mutual funds	2.03%	1.53%
Deposits and guarantees	0.10%	0.05%
Derivatives	0.01%	-
Other (non-linked insurance policies)	97.63%	97.02%
Total	**100%**	**100%**

The following financial instruments issued by the Bank are included in the fair value of the plan assets:

Thousand euro

	2019	2018
Equity instruments	105	100
Debt securities	-	1,000
Deposits and guarantees	397	314
Total	502	1,414

Contingent commitments

- In its ruling of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH (Spanish mortgage market index) as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. The criterion established in this Supreme Court ruling has been followed in practically all national courts and tribunals that have considered that the use of IRPH as a reference index does not imply a lack of transparency for the consumer.

  Barcelona's Court no. 38, deviating from the criteria of the Supreme Court and most Courts and Tribunals, has referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

  Although the Bank considers that the criterion established by the Supreme Court is the correct one, in the event that the CJEU resolves the issue differently from the case law established by the Supreme Court, the impact that this change of criterion could have would depend on multiple factors that the CJEU judgement would have to resolve, such as the applicable interest rate in that case; whether it would have some retroactive effect (issue not raised in the case referred for a preliminary ruling); and in any case, the conditions that the hypothetical lack of transparency would require. As at 31 December 2019, the outstanding balance of mortgage loans to IRPH-indexed consumers was 751 million euros.

- As at the date of preparation of these consolidated annual financial statements, the investigation by the British authorities into the incidents that occurred subsequent to the migration to TSB's new technology platform in April 2018 is still under way. 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 23 – Own funds

The breakdown of the balance of own funds recognised on the consolidated balance sheets as at 31 December 2019 and 2018 is the following:

Thousand euro

	2019	2018
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Equity instruments issued other than capital	-	-
Other equity	39,742	35,487
Retained earnings	4,858,681	-
Revaluation reserves	-	-
Other reserves	(977,687)	3,832,935
(-) Treasury shares	(8,533)	(143,452)
Profit or loss attributable to owners of the parent	767,822	328,102
(-) Interim dividends	(110,817)	(110,739)
Total	**13,171,806**	**12,544,931**

Capital

The bank’s share capital as at 31 December 2019 and 2018 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 are fully paid-up 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.

The other companies included in the consolidated Group are not listed, with the exception of Duncan de Inversiones, S.I.C.A.V., S.A., which is listed on the Mercado Alternativo Bursátil (MAB).

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession.

There were no changes in share capital in 2019 and 2018.

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 the capital of Banco Sabadell as at 31 December 2019:

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	5.08%	0.13%	5.21%	Blackrock Inc.
Fintech Europe S.A.R.L.	3.49%	-	3.49%	David Martínez Guzmán
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 (CNMV) or directly to the institution.

Share premium

The balance of the share premium as at 31 December 2019 amounted to 7,899,227 thousand euros, remaining unchanged from the amount as at 31 December 2018.

Retained earnings and Other reserves

The balance of these headings are broken down as follows on the consolidated balance sheets as at 31 December 2019 and 2018:

Thousand euro

	2019	2018
Restricted reserves:	**322,094**	**325,020**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	133,149	136,459
Capitalisation reserve Law 27/2014	35,985	35,985
Canary Island investment reserve	9,171	8,787
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,334,925**	**3,301,766**
Reserves of entities valued using the equity method	**223,975**	**206,149**
Total	**3,880,994**	**3,832,935**

Information on the reserves for each of the consolidated companies is indicated in Schedule I.

Other equity

Items incorporated under Other equity include share-based remuneration pending settlement which as at 31 December 2019 and 2018 amounted to 39,743 and 35,487 thousand euros, respectively.

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 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**
Purchases	225,036,359	28,129.54	0.93	4.00
Sales	307,818,009	38,477.25	0.98	5.47
Balance as at 31 December 2019	**6,006,864**	**750.86**	**1.42**	**0.11**

Net gains and losses arising from transactions in own equity have been included under the heading "*Own funds - Other reserves*" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2019 TSB owns 19,297 Banco Sabadell shares (2,488,704 at the end of 2018), at a cost of 30 thousand euros (3,692 thousand euros at the end of 2018), which are recognised as own shares on the consolidated balance sheet.

As at 31 December 2019, the number of shares of the Bank pledged as collateral for transactions amounted to 128,027,778, with a nominal value of 16,003 thousand euros (136,390,382 shares with a nominal value of 17,049 thousand euros as at 31 December 2018).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by different Group companies, amounts to 21,638,760 and 21,506,506 securities as at 31 December 2019 and 2018, respectively. Their nominal value amounts to 2,705 thousand euros and 2,688 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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Items that will not be reclassified to profit or loss	(44,677)	(52,564)
Actuarial gains or (-) losses on defined benefit pension plans	(2,361)	(329)
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	(42,316)	(52,235)
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	(222,069)	(438,906)
Hedge of net investments in foreign operations [effective portion] (*)	114,237	213,031
Foreign currency translation	(445,169)	(640,720)
Hedging derivatives. Cash flow hedges [effective portion] (**)	89,845	4,306
Amount deriving from outstanding operations	38,280	6,002
Amount deriving from discontinued operations	51,565	(1,696)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(2,137)	(22,958)
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	21,155	7,435
Total	(266,746)	(491,470)

(*) 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 relation to each heading on the statement of recognised income and expense as at 31 December 2019 and 2018 is shown below:

Thousand euro

	2019			2018		
	Gross amount	Tax effect	Net	Gross amount	Tax effect	Net
Items that will not be reclassified to profit or loss	(2,709)	10,597	7,888	(145,616)	43,609	(102,007)
Actuarial gains or (-) losses on defined benefit pension plans	(2,902)	871	(2,031)	(10,138)	3,041	(7,097)
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	193	9,726	9,919	(135,478)	40,568	(94,910)
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	261,283	(44,323)	216,960	(264,197)	80,810	(183,387)
Hedge of net investments in foreign operations [effective portion]	(98,793)	-	(98,793)	(23,616)	-	(23,616)
Foreign currency translation	195,549	-	195,549	38,813	(1,082)	37,731
Hedging derivatives. Cash flow hedges reserve [effective portion]	122,152	(36,614)	85,538	121,163	(36,455)	84,708
Fair value changes of debt instruments measured at fair value through other comprehensive income	28,654	(7,709)	20,945	(396,409)	118,347	(278,062)
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	13,721	-	13,721	(4,148)	-	(4,148)
Total	**258,574**	**(33,726)**	**224,848**	**(409,813)**	**124,419**	**(285,394)**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading as at 31 December 2019 and 2018 are the following:

Thousand euro

	2019			2018		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	44,199	*5,213*	49.03%	40,265	*4,073*
Business Services for Operational Support, S.A.U.	20.00%	389	*689*	20.00%	381	*553*
Aurica Coinvestment, S.L.	38.24%	23,646	*3,105*	38.24%	21,831	2,488
Rest		1,112	*49*		1,062	*14*
Total		**69,346**	***9,056***		**63,539**	***7,128***

The movements in the balance of this heading in 2019 and 2018 were as follows:

Thousand euro

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**
Valuation adjustments	124
Rest	5,683
Scope additions / exclusions	-
Percentage shareholding and other	(3,373)
Changes in consolidation method	-
Profit or loss for the year	9,056
Balances as at 31 December 2019	**69,346**

The dividends distributed to minority shareholders of Group companies in 2019 amounted to 3,503 thousand euros (1,533 thousand euros to BancSabadell d'Andorra, S.A., 1,290 thousand euros to Aurica Coinvestment, S.L. and 680 to Business Services for Operational Support, S.A.U.) and 1,533 thousand euros in 2018 (to BancSabadell d'Andorra, S.A.).

In 2019, the companies Aurica Coinvestment S.L., Business Services for Operational Support, S.A.U. Duncan de Inversiones SICAV, S.A., Ederra S.A and BancSabadell d'Andorra, S.A. and their investees are allocated to banking business Spain (see note 38).

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the annual periods ended 31 December 2019 and 2018 is the following:

Thousand euro

Commitments and guarantees given	Note	2019	2018
Loan commitments provided		**27,563,836**	**22,645,948**
Of which, amount classified as Stage 2		*889,215*	*501,605*
Of which, amount classified as Stage 3		*56,253*	*55,932*
Can be drawn by third parties		27,563,836	22,645,948
By credit institutions		96	549
By general governments		1,213,587	638,858
By other resident sectors		16,341,791	15,640,631
By non-residents		*10,008,362*	6,365,910
Amount recognised within liabilities on the balance sheet	22	48,204	45,759
Financial guarantees provided (*)		**2,107,412**	**2,040,786**
Of which, amount classified as Stage 2		*90,063*	*125,649*
Of which, amount classified as Stage 3		*41,534*	*25,890*
Amount recognised within liabilities on the balance sheet (**)	22	21,041	22,617
Other commitments provided		**10,398,913**	**8,233,226**
Of which, amount classified as Stage 2		*315,842*	*397,675*
Of which, amount classified as Stage 3		*156,918*	*55,305*
Other guarantees given		7,506,189	7,341,297
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		806,348	921,336
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,679,841	6,399,961
Other contingent risks		-	-
Other commitments provided		2,892,724	891,929
Financial asset forward purchase commitments		2,468,533	557,375
Conventional financial asset purchase contracts		275,922	158,985
Capital subscribed but not paid up		1,939	1,939
Underwriting and subscription commitments		-	-
Other loan commitments given		146,330	173,630
Amount recognised within liabilities on the balance sheet	22	41,501	40,192
Total		**40,070,161**	**32,919,960**

(*) Includes 135,624 thousand euros and 137,481 thousand euros as at 31 December 2019 and 2018, respectively, relating to financial guarantees given in relation to construction and real estate development.
(**) Includes 5,225 thousand euros and 6,410 thousand euros as at 31 December 2019 and 2018, respectively, in relation to construction and real estate development.

The total contingent commitments drawable by third parties as at 31 December 2019 includes mortgage-secured lending commitments amounting to 4,773,615 thousand euros (4,415,019 thousand euros as at 31 December 2018). 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 given classed as stage 3 during 2019 was the following:

Thousand euro

Balances as at 31 December 2018	81,195
Additions	125,443
Disposals	(8,186)
Balances as at 31 December 2019	**198,452**

The breakdown by geography of the balance of guarantees given classed as stage 3 as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Spain	195,951	80,507
United Kingdom	5	-
Rest of European Union	437	387
Americas	1,726	131
Rest of the world	333	170
Total	**198,452**	**81,195**

Credit risk allowances corresponding to guarantees given as at 31 December 2019 and 2018, broken down by the method used to determine such allowances and the credit risk of off-balance sheet exposures, are as follows:

Thousand euro

	2019	2018
Specific individually measured allowances:	**38,939**	**36,008**
Stage 2	1,403	2,663
Stage 3	37,536	33,345
Specific collectively measured allowances:	**22,762**	**26,725**
Stage 1	8,399	11,727
Stage 2	4,571	5,153
Stage 3	9,284	9,432
Allowances for country risk	508	413
Total	**61,701**	**62,733**

The movement of this coverage during the periods 2019 and 2018, 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, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2019 and 2018 are shown below:

Thousand euro

	2019	2018
Managed by the Group:	**21,680,784**	**21,893,067**
Investment firms and funds	18,318,071	18,297,797
Asset management	3,362,713	3,595,270
Marketed by the Bank:	**21,482,232**	**22,140,730**
Mutual Funds	7,685,237	8,081,426
Pension funds	3,666,512	3,594,186
Insurance	10,430,483	10,465,118
Financial instruments deposited by third parties	**77,041,761**	**76,324,331**
Total	**120,204,777**	**120,358,128**

Note 28 – Interest income and expense

These headings in the consolidated income statement include interest 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. Interest is recorded at its gross value, without subtracting any tax withholdings deducted at 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 2019 and 2018 of the indicated balance sheet headings is shown below:

%

	2019		2018	
	Banco Sabadell Group	Ex TSB	Banco Sabadell Group	Ex TSB
Assets				
Cash, cash balances at central banks and other demand deposits	0.21	0.04	0.08	(0.11)
Debt securities	1.27	1.30	1.36	1.41
Loans and advances				
Customers	2.91	2.81	2.96	2.86
Liabilities				
Deposits				
Central banks and Credit institutions	0.15	(0.04)	0.11	(0.03)
Customers	0.27	0.22	0.22	0.15

The breakdown of quarterly net interest income for the years 2019 and 2018, as well as returns and average costs of the different components which comprise the total investment and funds, is as follows:

Thousand euro

2019	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**221,188,996**	**2.19**	**1,193,977**	**226,600,010**	**2.13**	**1,203,204**	**222,971,888**	**2.16**	**1,211,663**	**223,103,539**	**2.13**	**1,195,372**	**4,804,216**
Cash and cash equivalents (*)	31,206,664	0.19	14,989	33,178,163	0.21	17,454	27,695,451	0.26	18,269	26,688,855	0.19	12,770	**63,482**
Loans and advances	138,025,608	2.97	1,010,944	139,416,656	2.94	1,022,383	139,633,777	2.90	1,020,772	141,582,861	2.81	1,003,940	**4,058,039**
Fixed-income portfolio (**)	25,213,037	1.34	83,350	26,672,089	1.30	86,716	28,355,594	1.20	85,935	27,468,523	1.25	86,242	**342,243**
Equity portfolio	869,033	-	-	935,022	-	-	856,452	-	-	859,230	-	-	-
Tangible and intangible assets	5,331,343	-	-	5,364,135	-	-	5,405,272	-	-	5,492,564	-	-	-
Rest of other assets	20,543,311	1.67	84,694	21,033,945	1.46	76,651	21,025,342	1.64	86,687	21,011,506	1.75	92,420	**340,452**
Cost of resources	**221,188,996**	**(0.54)**	**(293,245)**	**226,600,010**	**(0.53)**	**(297,859)**	**222,971,888**	**(0.54)**	**(305,253)**	**223,103,539**	**(0.51)**	**(285,463)**	**(1,181,820)**
Credit institutions	32,238,040	(0.15)	(12,161)	31,913,401	(0.12)	(9,492)	26,510,777	(0.20)	(13,507)	23,988,625	(0.15)	(8,773)	**(43,933)**
Customer deposits (***)	144,271,153	(0.27)	(97,186)	148,279,109	(0.29)	(107,149)	147,936,923	(0.28)	(104,270)	149,653,131	(0.22)	(83,364)	**(391,969)**
Capital markets	24,639,120	(1.39)	(84,635)	24,855,118	(1.45)	(89,686)	24,527,227	(1.50)	(92,757)	24,932,361	(1.44)	(90,185)	**(357,263)**
Other liabilities	7,697,988	(5.23)	(99,263)	8,893,319	(4.13)	(91,532)	11,108,719	(3.38)	(94,719)	11,508,944	(3.56)	(103,141)	**(388,655)**
Own funds	12,342,695	-	-	12,659,063	-	-	12,888,242	-	-	13,020,478	-	-	**-**
Net interest income			**900,732**			**905,345**			**906,410**			**909,909**	**3,622,396**
Average total assets			**221,188,996**			**226,600,010**			**222,971,888**			**223,103,539**	**223,470,000**
Ratio (margin/ATA)			**1.65**			**1.60**			**1.62**			**1.62**	**1.62**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 1,410 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 68,868 and 111,807 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

2018	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
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	0.00	-	891,160	0.00	-	-
Tangible and intangible assets	3,873,886	-	-	4,061,192	-	-	4,178,935	0.00	-	4,220,475	0.00	-	-
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	0	-	12,105,527	0.00	-	**-**
Net interest income			**911,548**			**898,570**			**932,619**			**932,447**	**3,675,184**
Average total assets			**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.

In terms of annual average, net interest margin on average total assets stood at 1.62% (1.50% without TSB), declining by 7 basis points in comparison with the previous year (1.69% in 2018). With regards to the evolution of quarterly net interest margin, net interest margin on average total assets in the fourth quarter of 2019 stood at 1.62% (1.48% excluding TSB). In the fourth quarter of 2018 this margin stood at 1.70%.

Note 29 – Fee and commission income and expenses

Income and expenses arising from fees and commission for financial operations and the provision of services are as follows:

Thousand euro

	2019	2018
Fees from risk transactions	**252,262**	**240,612**
Lending operations	143,621	137,964
Sureties and other guarantees	108,641	102,648
Service fees	**809,565**	**722,296**
Payment cards	266,796	224,871
Payment orders	64,097	61,602
Securities	63,085	61,058
Sight accounts	193,151	220,962
Rest	222,436	153,803
Asset management fees	**376,914**	**372,393**
Mutual funds	152,855	157,740
Sale of pension funds and insurance products	194,042	185,463
Asset management	30,017	29,190
Total	**1,438,741**	**1,335,301**
Memorandum item		
Fee and commission income	1,628,892	1,558,648
Fee and commission expenses	(190,151)	(223,347)
Fees and commissions (net)	**1,438,741**	**1,335,301**

Note 30 – Gains or (-) losses on financial assets and liabilities, net

Net trading income groups together a series of headings from the consolidated income statement for the years ended 31 December 2019 and 2018 which are shown below:

Thousand euro

	2019	2018
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	152,483	208,106
Financial assets at fair value through other comprehensive income	87,269	292,256
Financial assets at amortised cost	65,277	(75,870)
Financial liabilities measured at amortised cost	(63)	(8,280)
Gains or (-) losses on financial assets and liabilities held for trading, net	(111,151)	10,568
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(2,470)	(13,902)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	19
Gains or (-) losses from hedge accounting, net	(915)	21,918
Total	**37,947**	**226,709**
By type of financial instrument:		
Net gain/(loss) on debt securities	93,697	203,620
Net gain/(loss) other equity instruments	1,800	(1,174)
Net gain/(loss) on derivatives	(117,319)	29,896
Net gain/(loss) on other items (*)	59,769	(5,633)
Total	**37,947**	**226,709**

(*) Includes mainly the proceeds from securitising consumer loans and from the sale of a number of portfolios during the year.

During the years 2019 and 2018 the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 87,215 thousand euros as at 31 December 2019 (292,249 thousand euros as at 31 December 2018). Of this profit, 81,723 thousand euros (289,366 thousand euros in 2018) derive from the sale of debt securities held with general governments.

On 20 September 2019, the bank securitised consumer loans with a principal amount of 1,000 million euros in the *Sabadell Consumo 1, Fondo de Titulización* securitisation vehicle; all of the asset-backed securities issued by this vehicle were acquired by third parties outside of the Group. In this transaction a substantial portion of the risks and profits from the securitised portfolio were transferred and the bank proceeded to derecognise the portfolio from the balance sheet, recognising a gain of 87,774 thousand euros under the heading "*Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost*" of the 2019 consolidated income statement.

Likewise, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading "*Gains or (-) losses on financial assets and liabilities held for trading, net*" of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "*Exchange differences (gain or (-) loss), net*" of the income statement.

Note 31 – Other operating income

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Income from use of investment properties (*)	49,981	84,907
Sales and other income from the provision of non-financial services	34,178	78,441
Other operating income (*)	150,081	93,334
Total	**234,240**	**256,682**

(*) The amounts relate mainly to revenues from operating leases in which the group acts as lessor.

The decrease in "Income from use of investment properties" and "Sales and other income from the provision of non-financial services" in 2019 compared to the previous year is mainly due to the sale of Solvia, a subsidiary company that generated income from this type of activities (see Note 2).

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" basically 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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Contribution to deposit guarantee schemes	(121,381)	(106,332)
Banco Sabadell	(110,673)	(103,317)
TSB	(694)	1,558
BS IBM México	(10,014)	(4,573)
Contribution to resolution fund	(58,647)	(49,744)
Other items	(370,794)	(390,989)
Monetisation rates (*)	(48,133)	(44,996)
Other	(322,661)	(345,993)
Total	**(550,822)**	**(547,065)**

(*) See Note 39.

The "*Other*" subheading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to 31,239 thousand euros in 2019 (30,650 thousand euros in 2018), 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 2019 and 2018 are as follows:

Thousand euro

	Note	2019	2018
Payrolls and bonuses for active staff		(1,197,000)	(1,159,614)
Social Security payments		(251,960)	(239,243)
Contributions to defined benefit pension plans	22	(2,741)	(1,775)
Contributions to defined contribution pension plans		(70,655)	(71,096)
Other staff expenses		(126,480)	(118,862)
Total		**(1,648,836)**	**(1,590,590)**

As at 31 December 2019 and 2018, the breakdown of the average workforce for all companies within the Group by category and by gender is as follows:

Average number of employees

	2019			2018		
	Men	Women	Total	Men	Women	Total
Management staff	523	175	698	507	173	680
Technical staff	9,687	10,694	20,381	10,015	10,812	20,827
Administrative staff	976	3,294	4,270	1,038	3,502	4,540
Total	**11,186**	**14,163**	**25,349**	**11,560**	**14,487**	**26,047**

The breakdown of the bank's average workforce by category as at 31 December 2019 and 2018 with a disability of 33% of more is as follows:

Average number of employees

	Banco Sabadell Group	
	2019	2018
Management staff	5	6
Technical staff	203	189
Administrative staff	51	19
Total	**259**	**214**

As at 31 December 2019 and 2018, the breakdown of Group workforce by category and gender is as follows:

Number of employees

	2019			2018		
	Men	Women	Total	Men	Women	Total
Management staff	511	168	679	501	173	674
Technical staff	9,418	10,494	19,912	10,025	10,855	20,880
Administrative staff	863	3,000	3,863	1,079	3,548	4,627
Total	**10,792**	**13,662**	**24,454**	**11,605**	**14,576**	**26,181**

Of the total workforce as at 31 December 2019, 531 had some form of recognised disability (188 as at 31 December 2018).

Non-recurring staff expenses in 2019 amounted to 59,027 thousand euros (61,009 thousand euros in 2018). Expenses which do not form part of the institution's ordinary activities are considered non-recurring. Staff expenses are those linked to business transformation and reduction of the workforce at TSB.

Long-term share-based complementary incentive scheme

The Group has various long-term complementary incentive schemes which are described below:

Share-based complementary incentive scheme

At the Annual General Meeting held on 31 March 2016, the shareholders approved an incentive scheme, 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). During the valid period of this scheme 264,972 stock options were derecognised with settlement by delivery of 91,262 shares. In March 2019 this scheme expired with no settlement since the exercise price (1.494 euros) was above the listed share price.

The Group has two long-term share-based complementary incentive schemes currently in effect, the ICLP 2017, approved on 30 March 2017 and the ICLP 2018, approved on 19 April 2018.

- 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 percentage (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, S.A. attains four indicators during the lifetime of the ICLP 2018. The period for evaluating the level of attainment will cover the years 2018, 2019 and 2020, and during this period 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 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 2017

Balance as at 31 December 2017	**31,229,996**
Granted	-
Cancelled	(1,158,003)
Balance as at 31 December 2018	**30,071,993**
Granted	-
Cancelled	(633,003)
Balance as at 31 December 2019	**29,438,990**

Rights - ICLP 2018

Balance at 30 April 2018	**21,000,000**
Granted	-
Cancelled	(400,000)
Balance as at 31 December 2018	**20,600,000**
Granted	-
Cancelled	(2,247,500)
Balance as at 31 December 2019	**18,352,500**

Employees of the TSB Banking Group have a complementary incentive scheme linked to the achievement of annual targets by 2026.

Long-term remuneration schemes

In line with the Group Remuneration Policy, in 2019 Long Term Remuneration was established for the period 2019 to 2021 aimed at Executive Directors, members of Senior Management and other management staff that form part of the Group's Identified Staff who may receive allocated remuneration, with the exception of any management staff assigned to TSB Banking Group plc or its subsidiaries.

The remuneration consists of the allocation of a certain amount to each beneficiary determined as a percentage of his/her fixed remuneration, calculated in two periods:

- In the first period, which ends on 31 December 2019, the initial amount is established according to the attainment of individual annual targets adjusted by a Risk Correction Factor, for capital (CET1) and liquidity (LCR) indicators. The amount obtained will be subject to the conditions of the second period and will be payable in cash (45%) and shares (55%). The number of shares to be granted will be calculated based on the share price of the last 20 trading sessions of 2019.

- In the second period, which ends on 31 December 2021, the final remuneration is established based on the attainment of the Group's multi-year targets related to the following indicators: the total shareholder return (25%); the Group's liquidity coverage ratio (25%); the CET1 capital ratio (25%); and the Group's return on risk-adjusted capital or 'RORAC' (25%). The amount and number of shares to be granted will also be adjusted by the Risk Correction Factor.

In addition to the aforesaid conditions, in order to receive the remuneration, beneficiaries must continue to be a member of the Identified Staff until 31 December 2019 and must have an employment or commercial relationship with the institution.

As regards the staff expenses associated with share-based incentives schemes (see Note 1.3.15), the contra account 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

	2019	2018
Settled in Shares	8,059	3,004
Settled in Cash	675	49
Total	8,734	3,053

Other administrative expenses

The composition of this item in the consolidated income statement for the years 2019 and 2018 was as follows:

Thousand euro

	2019	2018
Property, plant and equipment	(106,015)	(230,744)
Information technology	(334,868)	(439,292)
Communication	(41,123)	(46,820)
Publicity	(99,333)	(114,162)
Subcontracted administrative services	(156,280)	(109,533)
Contributions and taxes	(127,689)	(114,908)
Technical reports	(55,654)	(32,089)
Security services and fund transfers	(22,265)	(21,290)
Entertainment expenses and staff travel expenses	(21,531)	(23,531)
Membership fees	(44,512)	(31,181)
Other expenses	(85,353)	(166,210)
Total	(1,094,623)	(1,329,760)

Fees with Auditing Companies

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2019 for statutory auditing services and other audit-related services provided in Spain amounted to 1,940 and 992 thousand euros, respectively (1,839 and 659 thousand euros in 2018). Auditing services provided by other companies in the PwC network in relation to foreign branches and subsidiaries amounted to 4,983 thousand euros in 2019 (4,649 thousand euros in 2018).

Fees received by other auditors in 2019 for auditing and other audit-related services provided in Spain amounted to 31 and 0 thousand euros, respectively (31 and 0 thousand euros in 2018). Fees for audit and other audit-related services for foreign branches and subsidiaries amounted to 18 and 21 thousand euros, respectively, in 2019 (17 and 21 thousand euros in 2018).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2019 amounted to 0 and 134 thousand euros. The amounts recognised for these services in 2018 amounted to 68 and 507 thousand euros, respectively.

Non-recurring administrative expenses in 2019 amounted to 44,483 thousand euros (230,506 thousand euros in 2018) including costs related to the TSB post-IT-migration process and commercial transformation.

The cost-to-income ratio as at 2019 year-end (staff and general expenses/gross income) stood at 55.63% (58.29% in 2018).

Information about the Group's branches and offices is given below:

Number of branches

	2019	2018
Branches	**2,402**	**2,457**
Spain	1,822	1,865
Outside Spain	580	592

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 2019 and 2018 is as follows:

Thousand euro

	Note	2019	2018
Financial assets at fair value through other comprehensive income		3,748	(2,472)
Debt securities	8	3,748	(2,472)
Other equity instruments		-	-
Financial assets at amortised cost	11	(670,773)	(753,620)
Debt securities		109	3,381
Loans and advances		(670,882)	(757,001)
Total		**(667,025)**	**(756,092)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this item of the consolidated income statement for the years ended 31 December 2019 and 2018 is as follows:

Thousand euro

	Note	2019	2018
Property, plant and equipment	15	(16)	907
Investment properties	15	4,733	(61,335)
Goodwill and other intangible assets	16	(6,964)	(286)
Inventories	17	(83,989)	(339,934)
Total		**(86,236)**	**(400,648)**

The total allowance for the impairment of investment properties in 2019 and 2018 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 425,163 and 602,004 thousand euros in 2019 and 2018, respectively.

Of the total inventory impairment allowances for 2019 and 2018, 57,642 and 54,296 thousand euros were allocated based on Level 2 valuations, respectively, and 26,347 and 285,637 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 686,976 and 730,494 thousand euros as at the end of 2019 and 2018.

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 2019 and 2018 is as follows:

Thousand euro

	2019	2018
Property, plant and equipment	(6,396)	(2,398)
Investment properties	4,001	32,172
Intangible assets	252	(1,027)
Interests (*)	16,951	5,826
Other capital instruments	-	-
Other items	26,549	-
Total	**41,357**	**34,573**

(*) See Note 2 and Schedule I – Companies no longer consolidated.

The sale of tangible assets under finance leases in which the Group acts as the lessor did not have a material impact on the 2019 consolidated income statement.

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 2019 and 2018 is as follows:

Thousand euro

	Note	2019	2018
Property, plant and equipment for own use and foreclosed		(168,471)	(22,793)
Gains/losses on sales		742	49,506
Impairment/Reversal	13	(169,213)	(72,299)
Investment properties		103	(12,353)
Intangible assets		-	100
Interests (*)	2	132,741	(194)
Other capital instruments		-	-
Other items		(41)	39
Total		**(35,668)**	**(35,201)**

(*) Refers to the profit obtained on the sale of Solvia Servicios Inmobiliarios, S.L.

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 2019 y 2018 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 426,361 and 3,449,290 thousand euros as at the end of 2019 and 2018, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

This year, Banking Business Spain and the business of Other Geographies were reorganised. The Real Estate Asset Transformation business is integrated in Banking Business Spain thanks to the clean-up of real estate assets on the balance sheet. In addition, the foreign branches and representative offices also fall under the scope of Banking Business Spain within the perimeter of Corporate Banking, since their customers are mainly of Spanish origin.

For 2019, the criteria that Banco Sabadell Group uses to report on results for each segment are:

- Three geographies: Banking Business Spain, United Kingdom and Mexico.
- Each business unit is allocated capital equivalent to 11% of its risk-weighted assets (capital divided by RWAs) and the surplus of own funds is allocated to Banking Business Spain.

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 for risk-weighted assets. This regulatory minimum requirement depends on the body responsible for supervising each business.

Details of profit attributable to the Group and other key figures for each business unit for the years 2019 y 2018, 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

	2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**2,527**	**979**	**117**	**3,622**
Fees and commissions (net)	1,304	117	19	1,439
Net banking revenues	**3,830**	**1,095**	**136**	**5,061**
Net trading income and exchange differences	110	15	1	126
Equity-accounted affiliates and dividends	61	-	-	61
Other operating income/expense	(288)	(20)	(9)	(317)
Gross income	**3,714**	**1,091**	**127**	**4,932**
Operating expenses and depreciation and amortisation	(2,070)	(1,052)	(91)	(3,213)
Pre-provisions income	**1,644**	**39**	**36**	**1,719**
Provisions and impairments	(850)	(72)	(16)	(938)
Capital gains on asset sales and other revenue	174	(4)	0	170
Profit/(loss) before tax	**968**	**(38)**	**20**	**951**
Corporation tax	(165)	(8)	(2)	(174)
Profit or loss attributed to minority interests	9	-	-	9
Profit attributable to the Group	**794**	**(45)**	**19**	**768**
ROE (profit / average shareholders' equity)	7.3%	-	3.5%	5.9%
Cost-to-income (general administrative expenses / gross income)	47.%	84.%	62.9%	55.6%
NPL ratio	4.7%	1.2%	1.2%	3.8%
NPL coverage ratio	50.5%	43.1%	108.9%	49.6%
Employees	16,610	7,394	450	24,454
Domestic and foreign branches	1,847	540	15	2,402

(*) Exchange rates applied in the income statement: GBP 0.8782 (average), MXN 21.5648 (average), USD 1.1170 (average) and MAD 10.6881 (average).

Million euro

	2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**172,610**	**46,449**	**4,695**	**223,754**
Outstanding gross loans and advances	104,436	36,496	3,640	144,572
Non-performing real estate assets (net)	791	-	-	791
Liabilities	**161,695**	**44,924**	**4,160**	**210,779**
On-balance sheet customer funds	108,890	35,423	1,996	146,309
Wholesale Funding Capital Markets	19,912	2,423	-	22,335
Allocated capital	**10,915**	**1,525**	**535**	**12,974**
Off-balance sheet customer funds	**43,163**	**-**	**-**	**43,163**

(*) Exchange rates applied in the balance sheet: GBP 0.8508, MXN 21.2202, USD 1.1234 and MAD 10.7438.

Million euro

	2018 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**2,585**	**1,000**	**91**	**3,675**
Fees and commissions (net)	1,239	85	11	1,335
Net banking revenues	**3,824**	**1,085**	**102**	**5,010**
Net trading income and exchange differences	207	18	1	225
Equity-accounted affiliates and dividends	64	-	1	65
Other operating income/expense	(224)	(60)	(6)	(290)
Gross income	**3,870**	**1,042**	**97**	**5,010**
Operating expenses and depreciation and amortisation	(2,049)	(1,148)	(76)	(3,273)
Pre-provisions income	**1,821**	**(106)**	**21**	**1,737**
Provisions and impairments	(1,066)	(231)	(23)	(1,320)
Capital gains on asset sales and other revenue	1	1	-	2
Profit/(loss) before tax	**757**	**(335)**	**(2)**	**419**
Corporation tax	(189)	95	10	(84)
Profit or loss attributed to minority interests	7	-	-	7
Profit attributable to the Group	**561**	**(240)**	**8**	**328**
ROE (profit / average shareholders' equity)	5.2%	-	1.9%	2.6%
Cost-to-income (general administrative expenses / gross income)	46.0%	101.6%	77.2%	58.3%
NPL ratio	5.2%	1.3%	0.4%	4.2%
NPL coverage ratio	53.9%	50.4%	284.5%	54.1%
Employees	17,373	8,353	455	26,181
Domestic and foreign branches	1,892	550	15	2,457

(*) Exchange rates used in the income statement: GBP 0.8851 (average), MXN 22.6901 (average), USD 1.1851 (average) and MAD 10.8753 (average)

Million euro

	2018 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**172,246**	**46,182**	**3,894**	**222,322**
Outstanding gross loans and advances	102,550	33,634	3,181	139,366
Non-performing real estate assets (net)	959	-	-	959
Liabilities	**162,167**	**44,662**	**3,377**	**210,205**
On-balance sheet customer funds	103,613	32,484	1,246	137,343
Wholesale funding in the capital markets	19,833	1,688	-	21,520
Allocated capital	**10,080**	**1,520**	**517**	**12,117**
Off-balance sheet customer funds	**44,034**	**-**	**-**	**44,034**

(*) Exchange rates used in the balance sheet: GBP 0.8945, MXN 22.4921, USD 1,145 and MAD 10,953

Average total assets for the institution as a whole as at 31 December 2019 amounted to 223,470,000 thousand euros, compared with 217,168,348 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**, which 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. Private Banking offers value-added products and services for customers.

- Corporate Banking offers specialised lending services together with a comprehensive offering of solutions ranging from transaction banking services to more complex and tailored solutions relating to the fields of financing and treasury, such as import and export activities, amongst others.

- Asset Transformation comprehensively manages NPA risk and real estate exposures. It focuses on developing its asset transformation strategy and integrating the general overview of the Group's real estate balance sheet in order to maximise its value.

- **Banking Business United Kingdom:**

The TSB franchise includes business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

- **Banking Business Mexico:**

Offers Corporate Banking and Commercial Banking financial services.

Details of income from ordinary activities, mainly for customers, and the pre-tax profit/(loss) generated by each business unit, are set out here below for 2019 and 2018:

Thousand euro

	Consolidated			
	Income from ordinary activities		Profit/(loss) before tax	
SEGMENTS	**2019**	**2018**	**2019**	**2018**
Banking Business Spain	4,265,557	4,100,770	968,225	756,534
Banking Business UK	1,258,042	1,291,223	(37,561)	(335,266)
Banking Business Mexico	287,470	243,066	20,413	(2,404)
(-) Adjustments and disposals of ordinary income between segments	(68,576)	(98,804)	-	-
Total	**5,742,493**	**5,536,255**	**951,077**	**418,864**

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 2019 and 2018:

%

	2019				
	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	72.2%	65.9%	74.4%	30.9%	89.7%
Banking Business UK	25.2%	27.3%	24.2%	35.2%	9.3%
Banking Business Mexico	2.6%	6.8%	1.4%	33.9%	1.0%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Percentage by segment of total fees and commissions.

%

	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	74.0%	66.5%	75.4%	37.6%	89.3%
Banking Business UK	23.8%	28.0%	23.7%	46.5%	10.0%
Banking Business Mexico	2.2%	5.5%	0.9%	15.9%	0.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

(*) Percentage by segment of total fees and commissions.

Furthermore, a breakdown by geography of the *Interest income* heading of the 2019 and 2018 income statements is shown below:

Thousand euro

	Breakdown of interest income by geography			
Geography	Individual		Consolidated	
	2019	2018	2019	2018
Domestic market	3,142,780	3,168,683	3,133,184	3,138,138
International market	308,251	256,764	1,851,707	1,723,805
European Union	90,556	73,096	1,288,626	1,281,538
Euro zone	32,735	22,420	32,735	22,420
Non Euro zone	57,821	50,676	1,255,891	1,259,118
Other	217,695	183,668	563,081	442,267
Total	**3,451,031**	**3,425,447**	**4,984,891**	**4,861,943**

The Directors' Report (see section 4 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

	2019	2018
Profit/(loss) before tax	951,077	418,865
Increases in taxable income	779,695	982,757
From profits	779,695	982,757
From equity	-	-
Decreases in taxable income	(1,485,555)	(1,927,772)
From profits	(1,412,305)	(1,286,215)
From equity	(73,250)	(641,557)
Taxable income	**245,217**	**(526,150)**
Tax payable (30%)	**73,565**	**(157,845)**
Deductions for double taxation, training and other	(11,476)	(4,292)
Tax payable (less tax credits)	**62,089**	**(162,137)**
Due to timing differences (net)	121,570	247,407
Other adjustments (net)	(9,460)	(1,635)
Tax expense or (-) income related to profit or loss from continuing operations	**174,199**	**83,635**

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

	2019	2018
Profit or loss before tax	951,076	418,865
Domestic tax rate (30%)	285,323	125,660
Tax-exempt profit or loss on sales of equity interests	(42,853)	(3,741)
Remuneration of preference shares (*)	(21,975)	-
Income from associates	(16,928)	(16,966)
Difference in effective tax rate on companies outside Spain (**)	(5,540)	(15,273)
Generated deductions/Non-deductible expenses	(14,368)	(4,410)
Rest	(9,460)	(1,634)
Tax expense or (-) income related to profit or loss from continuing operations	**174,199**	**83,636**
Effective tax rate	*18.32%*	*19.97%*

(*) See Note 1.2

(**) 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

	2019	2018
Permanent difference	14,417	-
Temporary difference arising during the year	708,842	913,561
Temporary difference arising in previous years	56,436	69,196
Increases	**779,695**	**982,757**
Permanent difference	(315,044)	(120,326)
Temporary difference arising during the year	(115,929)	(563,449)
Temporary difference arising in previous years	(1,054,582)	(1,243,997)
Decreases	**(1,485,555)**	**(1,927,772)**

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, Spain made provision (Royal Decree-Law 14/2013) for 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 corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, “monetisable tax assets”).

Monetisable tax assets can be converted into credit enforceable against 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. To retain the State guarantee, in order to keep their status as monetisable tax assets, deferred tax assets generated before January 1, 2016 (see note 32) are subject to an annual capital contribution of 1.5% of the deferred tax assets that comply with the legal requirements.

The sources of the deferred tax assets / liabilities recognised in the consolidated balance sheets as at 31 December 2019 and 2018 are as follows:

Thousand euro

Deferred tax assets	2019	2018
Monetisable	**5,127,453**	**5,185,285**
Due to credit impairment	3,356,167	3,491,405
Due to real estate asset impairment	1,643,538	1,569,466
Due to pension funds	127,748	124,414
Non-monetisable	**979,288**	**1,025,949**
Tax credits for losses carried forward	**394,422**	**317,932**
Deductions not applied	**14,769**	**17,967**
Total	**6,515,932**	**6,547,133**

Deferred tax liabilities	2019	2018
Property restatements	62,576	65,449
Adjustments to value of wholesale debt issuances arising in business combinations	29,336	43,394
Other financial asset value adjustments	53,802	40,714
Other	52,452	17,673
Total	**198,166**	**167,230**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2019		2018	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,341,527	183,745	6,387,014	158,865
United Kingdom	116,754	14,334	123,433	8,365
US	7,780	12	59	-
Mexico	41,674	-	36,238	-
Other	8,197	75	389	-
Total	**6,515,932**	**198,166**	**6,547,133**	**167,230**

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 9 years.

Monetisable tax assets are guaranteed by the 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 Spanish 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 adjustment proposals on 9 January 2019:

Tax	Period	Assessment status
Tax withholdings/prepayments from wages and professional	07/2012 a 12/2014	Accepted
Tax withholdings/prepayments from income from movable	07/2012 a 12/2014	Accepted
Income tax	01/2011 a 12/2014	Disputed
Value added tax	07/2012 a 12/2014	Disputed and Accepted

The current situation concerning the corresponding procedures are summarised below:

- The procedures related to withholdings and payments on account are complete following final settlement of the notices of tax assessment approval within the one-month legal period established for that purpose. The total adjustment amount was 385 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Corporation Tax, on 5 March 2019 a notice of settlement agreement was issued in which the the arguments raised against the signed notice of disputed tax assessment were fully addressed. The amount to be repaid pursuant to this agreement was 2,772 thousand euros, including the corresponding late payment interest.

- With regard to the procedures related to Value Added Tax (07/2012 to 12/2014), the signed notice of tax assessment approval was settled in full and final settlement within the one-month legal period established for that purpose, bringing the total adjusted amount to 4,823 thousand euros (including the corresponding late payment interest). In relation to the signed notice of disputed tax assessment, which contained an adjustment for 6,938 thousand euros in relation to various sectoral matters, a Tax Appeal was filed with the Central Tax Appeal Board (Tribunal económico-administrativo Central) on 25 March 2019, having submitted the corresponding arguments on 15 October 2019; as of 31 December 2019, the aforesaid body had not yet issued a decision in that regard.

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 of Banco Sabadell S.A. 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 VAT for 2014-2015 for an amount 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 it is considered may arise in relation to these tax settlements.

In relation to other tax periods and items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that 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 entities related to the Bank's administrators or Senior Management staff.

The most significant balances recognised in dealings with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2019					2018
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	295,686	8,170	115,038	418,894	305,272
Liabilities:						
Customer deposits and other financial liabilities	-	422,284	9,824	53,505	485,613	664,968
Off-balance sheet exposures:						
Financial guarantees provided	-	494	-	941	1,435	24,226
Loan commitments given	-	1,105	753	23,236	25,094	11,254
Other commitments provided	-	8,368	-	880	9,248	23,634
Income statement:						
Interest and similar income	-	5,772	83	1,383	7,238	3,342
Interest and similar charges	-	(1,992)	(12)	(6)	(2,010)	(4,257)
Return on capital instruments	-	-	-	-	-	-
Fees and commissions (net)	-	137,340	28	456	137,824	123,409
Other operating income	-	39,679	1	39	39,719	7,229

(*) Includes employee pension schemes.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2019 and 2018, 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	
	2019	2018	2019	2018	2019	2018
José Oliu Creus (*)	234	234	35	35	269	269
José Javier Echenique Landiribar	205	205	-	-	205	205
Jaime Guardiola Romojaro (*)	100	100	-	-	100	100
Anthony Frank Elliott Ball (1)	141	127	-	-	141	127
Aurora Catá Sala	160	160	-	-	160	160
Pedro Fontana García	195	127	-	-	195	127
María José García Beato (*) (2)	100	34	-	-	100	34
Maria Teresa Garcia-Milà Lloveras	161	192	-	-	161	192
George Donald Johnston	186	137	-	-	186	137
José Manuel Lara García (3)	-	47	-	-	-	47
David Martínez Guzmán	100	100	-	-	100	100
José Manuel Martínez Martínez	185	180	-	-	185	180
José Ramón Martínez Sufrategui	129	120	-	-	129	120
José Luis Negro Rodríguez (*)	100	100	18	18	118	118
Manuel Valls Morató	160	160	-	-	160	160
David Vegara Figueras (*) (4)	106	170	-	-	106	170
Total	**2,262**	**2,193**	**53**	**53**	**2,315**	**2,246**

(*) Perform executive functions.

(1) On 28 March 2019, he was appointed Lead Independent Director, succeeding Maria Teresa Garcia-Milà Lloveras.

(2) 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.

(3) Submitted their withdrawal from the position of Director, effective on 24 May 2018.

(4) Executive director since 15 February 2019.

Aside from the items mentioned above, members of the Board of Directors have received 31 thousand euros as fixed remuneration in 2019 (46 thousand euros in 2018) 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 2019 amounted to 1,740 thousand euros (1,516 thousand euros in 2018), of which 53 thousand euros are detailed in the table above and 1,687 thousand euros correspond to directors for the discharge of their executive duties.

Remuneration earned by Directors for discharging their executive duties during 2019 amounted to 7,382 thousand euros (4,224 thousand euros in 2018).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 2,284 thousand euros as at 31 December 2019, of which 2,067 thousand euros corresponded to loans and receivables and 217 thousand euros related to loan commitments given (7,722 thousand euros in 2018, consisting of 2,607 thousand euros in loans and receivables and 5,115 thousand euros in loan commitments given). The average interest rate charged was 1.38% (1.16% in 2018). Liabilities amounted to 8,839 thousand euros as at 31 December 2019 (7,609 thousand euros as at 31 December 2018).

Total Senior Management remuneration earned during 2019 amounted to 7,022 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 6,556 thousand euros as at 31 December 2019 (10,028 thousand euros in 2018), comprising 6,020 thousand euros in loans and receivables and 536 thousand euros related to loan commitments given (and in 2018, 7,917 thousand euros relate to loans and receivables and 2,111 thousand euros to loan commitments given). Liabilities amounted to 985 thousand euros as at 31 December 2019 (987 thousand euros as at 31 December 2018).

In addition, stock appreciation rights granted under incentive schemes and the long-term remuneration scheme to members of Senior Management, including Executive Directors (see Note 33) in 2019, gave rise to staff expenses amounting to 2.0 million euros (2.0 million euros in 2018).

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, indicating the positions they hold in the Bank as at 31 December 2019:

Executive Directors	
José Oliu Creus	Chair
Jaime Guardiola Romojaro	Sabadell Group CEO
María José García Beato	Director Secretary General
José Luis Negro Rodríguez	Director-General Manager
David Vegara Figueras	Director-General Manager
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 Tresànchez Montaner	Deputy General Manager
José Nieto de la Cierva	Deputy General Manager
Jaime Matas Vallverdú	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 2019, 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. Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

c. Have not made use of corporate assets, including the company's confidential information, for personal purposes.

d. Have not taken undue advantage of the company's business opportunities.

e. 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. Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a liability insurance policy for 2019 that covers the bank's administrators and Senior Management staff. The total premium paid was 752 thousand euros (722 thousand euros in 2018).

Note 42 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2019 and 2018.

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 2019, 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 consolidated Directors' Report.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, the SAC) and its head, who is appointed by the Board of Directors, report directly to the Secretary General. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good financial practices and uses, in accordance with Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The SAC, in accordance with its Regulations, handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A., as well as those deriving from other entities associated with it: Bansabadell Financiación, E.F.C., S.A., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. y Sabadell Consumer Finance, S.A.U.

In addition to its main activity, which is to resolve complaints and claims, the SAC also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Ministry of Economy Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Users of Financial Services of Banco Sabadell.

In 2019 a total of 34,789 complaints, claims and requests were received, 26.51% less than in 2018, of which 2,035 were complaints (5.85%), 31,662 were claims (91.01%) and 1,092 were requests (3.14%), in addition to a further 1,665 cases that were pending as at 31 December 2018.

Of this overall total, 35,677 were managed in 2019, of which a total of 27,315 were processed and resolved, 8,362 were rejected and 777 were pending as at 31 December 2019.

Complaints and claims processed by the SAC at first instance

During 2019, the SAC received 31,794 complaints and claims, of which 25,021 were accepted for processing and resolved, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. Of the 1,092 requests received, all were handled at first instance and 891 were accepted for processing and resolved.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 14,266 (57.02%) were resolved in the customer’s favour and 10,755 (42.98%) in the institution’s favour.

Of the total number of complaints and claims accepted for processing and resolved, 10,878 (43.48%) were processed within a period of 15 working days, 13,129 (52.47%) within a period of less than 1 month and 1,014 (4.05%) within a period in excess of 1 month. All were within the 2-month turnaround specified as the maximum response period Finance Ministry Order 734/2004, of 11 March.

To address the provisions of Royal Decree-Law 19/2018, of 23 November, on payment services and urgent measures on financial matters, which entered into force on 24 February 2019, the period for resolution of claims of this kind related to payment services was reduced from 2 months to 15 working days.

Complaints and claims managed by the Customer and Stakeholder Ombudsman

At Banco Sabadell, 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 de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC.

In 2019, the Customer Ombudsman received a total of 1,441 complaints and claims, 5.38% fewer than in 2018, of which 941 were accepted for processing and resolved during the year.

Of the claims and complaints accepted for processing and resolved, the Ombudsman decided in favour of the customer in 28 (2.98%) cases, and in favour of the institution in 251 (26.67%) cases. Furthermore, the SAC agreed to the claimant’s request in 494 (52.50%) cases and in 1 (0.11%) single case the customer withdrew his/her claim. The other 167 complaints and claims (17.74%), remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

Complaints and claims managed by the Bank of Spain, the Spanish National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Plans

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Plans, subject to the essential prerequisite of having previously addressed their complaint or claim to the institution.

In 2019, the SAC received a total of 462 claims referred by the Bank of Spain, the CNMV or the Directorate General for Insurance and Pension Plans, 41% fewer than in 2018. During the year 462 claims were accepted for processing and resolved.

Note 43 – Subsequent events

Since 31 December 2019, there have been no significant events worthy of mention, with the exception of those indicated here below:

On 21 January 2020, Banco Sabadell and Amundi Asset Management (Amundi) entered into a long-term strategic partnership for the distribution of Amundi products through Banco Sabadell’s commercial network in Spain. The agreement includes the sale of 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C, Sociedad Unipersonal (SabAM) for 430 million euros. The agreement makes provision for an additional amount of up to 30 million euros payable in 2024 in respect of assets under management pertaining to customers of Banco Sabadell at that time.

As at 2019 year-end, the scope of SabAM’s assets under management was approximately 21,800 million euros, excluding third-party funds, and it obtained net profit of 34 million euros (derived from, among other items, 65 million euros of net fees and commissions and 17 million euros of operating and staff expenses). The transfer of SabAM includes its subsidiary, Sabadell Asset Management Luxembourg, S.A., but excludes Sabadell Urquijo Gestión, S.A., S.G.I.I.C. Sociedad Unipersonal, which continues to belong to Banco Sabadell Group.

The closing of the transaction, which is subject to obtaining the relevant authorisations, is expected to take place in the third quarter of 2020. The transaction will generate a capital gain of approximately 351 million euros, net of tax, which will strengthen the capital position of Banco Sabadell by adding 43 basis points to its fully-loaded Common Equity Tier 1 (CET1) ratio.

Of the aforesaid capital gain, 58 million euros (corresponding to 7 basis points of fully-loaded CET1) are subject to certain guarantees in force throughout the 10-year duration of the distribution agreement and, as such, that amount will be recognised proportionately over the next 10 years. The remaining 293 million euros will be recognised upon closing of the transaction.

The strategic partnership entered into between Banco Sabadell and Amundi will enable customers of Banco Sabadell to access new investment opportunities and a more extensive and internationally recognised range of products, thereby building out the current offering of savings and investment products, without involving any change to the institution’s existing mutual funds and pension plans. This agreement strengthens Banco Sabadell’s commitment to continue leading the customer satisfaction and customer experience rankings, one of Banco Sabadell’s commercial priorities for 2020.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2019 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	100	10,237	(21)	-	10,341	20,038	(9,644)	326	12/19
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	No	602	419	215	-	45,786	602	214	110	12/19
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal	UCITS management company	Barcelona - Spain	100.00	-	Yes	3,601	(435)	1,169	3,450	5,158	4,342	(226)	1,169	12/19
Aurica Coinvestments S.L.	Holding	Barcelona - Spain	-	61.76	Yes	50,594	(1,475)	1,910	2,083	51,032	31,247	(911)	(3,112)	12/19
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	No	1,598	849	(39)	-	3,134	2,439	(243)	(54)	09/19
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	-	-	Yes	703,371	9,559,869	1,053,267	-	178,398,801	-	11,239,253	701,793	12/19
Banco Sabadell, S.A., Institución De Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	No	554,267	(22,998)	9,744	-	3,718,149	598,718	(45,015)	(3,431)	12/19
Bancsabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	-	No	30,069	49,929	10,092	1,594	863,158	15,326	24,997	5,242	12/19
Bansabadell Factura, S.L.U.	Other investees with their own business	Sant Cugat del Valles - Spain	100.00	-	Yes	100	(1,264)	605	-	2,229	299	(1,462)	605	12/19
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	-	Yes	24,040	4,895	337	24,300	781,267	24,040	4,895	337	12/19
Bansabadell Inversió Desenvolupament, S.A.U	SPE	Barcelona - Spain	100.00	-	Yes	16,975	73,457	26,585	53,000	161,805	108,828	41,004	4,412	12/19
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	-	100.00	Yes	301	(3,940)	6,748	8,306	48,472	524	(164)	6,748	12/19
Bansabadell Renting, S.L.U.	Other investees with their own business	Sant Cugat del Valles - Spain	100.00	-	Yes	2,000	(5,214)	7,181	57,500	693,670	3,861	(7,075)	7,803	12/19
Bitarte, S.A.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	6,506	1,464	(440)	-	34,660	9,272	(1,187)	(465)	12/19
Bstartup 10, S.L.U.	SPE	Barcelona - Spain	-	100.00	Yes	1,000	702	1,268	-	7,102	1,000	(1,395)	(289)	12/19
Business Services For Operational Support, S.A.U.	Services	Sant Cugat del Valles - Spain	80.00	-	Yes	530	(2,647)	3,194	2,720	31,350	1,160	(2,357)	2,754	12/19
Caminsa Urbanismo, S.A.U.	Real estate	Alicante - Spain	-	100.00	Yes	2,000	(1,712)	(3)	-	1,304	800	(417)	(4)	12/19
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	Santo Domingo - Dominican Republic	-	100.00	No	5,016	(4,272)	(330)	-	431	-	18	(330)	12/19
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Elche - Spain	-	100.00	No	1,942	(90,851)	(215)	-	9	1,919	(79,142)	(215)	12/19
Duncan 2016 -1 Holdings Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	-	-	12/19
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	-	No	7,842	(5,148)	(47)	-	2,652	2,560	(208)	(41)	12/19
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	21	-	12/19
Duncan Holdings 2020-1-Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	-	-	-	12/19
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	-	No	2,036	31,253	2,826	-	35,198	36,062	(3,240)	2,508	12/19
Sabadell Asset Management Luxembourg, S.A.	Other regulated companies	Luxembourg - Luxembourg	-	100.00	No	125	649	(191)	-	907	437	438	(191)	12/19
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	-	No	20,843	(1,013)	(314)	-	22,254	20,843	(3,305)	(377)	12/19
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other investees with their own business	Alicante - Spain	100.00	-	Yes	1,232	630	909	2,201	5,990	2,771	(632)	1,186	12/19
Subtotal									**155,154**		**887,090**	**11,154,217**	**726,484**	

Banco Sabadell Group companies as at 31 December 2019 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Fuerza Eólica de San Matías, S de RL de CV	Wind power generation	Nuevo León - Mexico	-	99.99	No	7,115	(7,089)	(3,429)	-	60,684	6,036	-	(2,792)	12/19
Galeban 21 Comercial, S.L.U.	SPE	A Coruña - Spain	100.00	-	Yes	10,000	(4,289)	(2)	-	5,709	14,477	(8,766)	(2)	12/19
Gate Huerta Solar 44, S.L	Other power generation	Vitoria-Gasteiz - Spain	-	100.00	No	87	165	19	-	694	205	-	83	11/19
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	Yes	53	(20,442)	(230)	-	5,735	23,891	(44,280)	(228)	12/19
Gest 21 Inmobiliaria, S.L.U	SPE	Sant Cugat del Valles - Spain	100.00	-	Yes	7,810	17	591	-	8,430	80,516	(35,626)	2,706	12/19
Gestión de Proyectos Urbanísticos Del Mediterráneo, S.L. en liquidación	Real estate	Sant Cugat del Valles - Spain	-	100.00	No	33,850	(31,448)	(13)	-	10,341	32,832	(17,588)	(13)	12/19
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante - Spain	100.00	-	Yes	13,000	2,604	13,715	-	29,343	78,971	(58,961)	5,305	12/19
Grecoholdco, S.A.U.	Holding company	Madrid - Spain	100.00	-	Yes	60	-	-	-	60	60	-	-	12/19
Grecopropco 1, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 2, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 3, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 4, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 5, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 6, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 7, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 8, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 9, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 10, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 11, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 12, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 13, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 14, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Grecopropco 15, S.L.U.	Real estate development	Madrid - Spain	100.00	-	Yes	3	-	-	-	3	3	-	-	12/19
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastián - Spain	-	100.00	No	53	(76,040)	(288)	-	7,127	7,160	(78,008)	(278)	12/19
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	Yes	4,514	2,946	(6)	-	7,518	10,833	(3,376)	12	12/19
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	-	100.00	Yes	29,074	(29,204)	4,034	-	60,569	27,611	(17,984)	977	12/19
Hobalear, S.A.U.	Real estate	Barcelona - Spain	-	100.00	Yes	60	46	5	650	111	414	46	5	12/19
Hondarriberri, S.L.	SPE	San Sebastián - Spain	99.99	0.01	No	41	(11,553)	(1,748)	-	64,709	120,669	122,491	225	12/19
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	135,730	31,977	(1,081)	-	166,756	136,335	54,847	3,319	12/19
Hotel Value Added Primera, S.L.U.	Real estate development	Sant Cugat del Valles - Spain	-	100.00	Yes	3	20,823	3,555	-	25,810	27,527	(6,701)	3,540	12/19
Interstate Property Holdings, Llc.	SPE	Miami - United States	100.00	-	No	7,293	(2,938)	64	-	6,364	3,804	6,289	64	12/19
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	Yes	90	(11,894)	(162)	-	22,670	45,090	(56,894)	(168)	12/19
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante - Spain	100.00	-	Yes	308,000	194,349	1,719	-	505,243	589,523	(88,586)	1,719	12/19
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Torre Pacheco - Murcia	-	55.06	No	299,089	(301,160)	(1,206)	-	68	175,124	-	-	12/19
Inversiones Samiac 14, S.L.	Wind power generation	Vitoria-Gasteiz - Spain	-	100.00	No	-	-	-	-	-	178	16	(37)	11/19
LSP Finance, S.L.	Provision of technology services	Barcelona - Spain	-	100.00	Yes	252	(555)	(569)	-	1,955	6,484	(565)	(572)	12/19
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	33,357	(12,760)	(49)	-	20,513	33,357	(15,430)	3,412	12/19
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	Yes	62	(51,299)	(1,389)	-	39,106	55,013	(106,225)	(1,389)	12/19
Mediterráneo Sabadell, S.L.	SPE	Alicante - Spain	50.00	50.00	Yes	85,000	17,028	106	120	102,201	510,882	(408,882)	106	12/19
Subtotal									**770**		**1,987,037**	**(764,183)**	**15,994**	

Banco Sabadell Group companies as at 31 December 2019 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	795	(3,048)	48	-	5,162	986	(3,239)	48	12/19
Orión Energía 1, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(136)	5	-	94	36	(72)	4	12/19
Orión Energía 10, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	8	-	95	36	(79)	7	12/19
Orión Energía 11, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	99	36	(80)	4	12/19
Orión Energía 12, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	4	-	98	36	(79)	3	12/19
Orión Energía 13, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(145)	5	-	97	36	(82)	4	12/19
Orión Energía 14, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(141)	5	-	96	36	(78)	4	12/19
Orión Energía 15, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	96	36	(79)	4	12/19
Orión Energía 16, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(145)	5	-	97	36	(81)	4	12/19
Orión Energía 17, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	97	36	(79)	4	12/19
Orión Energía 18, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	97	36	(79)	4	12/19
Orión Energía 19, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	96	36	(79)	4	12/19
Orión Energía 2, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(138)	5	-	94	36	(75)	4	12/19
Orión Energía 20, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	97	36	(79)	4	12/19
Orión Energía 21, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	98	36	(80)	4	12/19
Orión Energía 22, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	97	36	(79)	4	12/19
Orión Energía 23, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	100	36	(80)	5	12/19
Orión Energía 24, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	97	36	(79)	5	12/19
Orión Energía 25, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	97	36	(80)	4	12/19
Orión Energía 26, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(139)	2	-	97	36	(76)	1	12/19
Orión Energía 27, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(139)	2	-	99	36	(76)	1	12/19
Orión Energía 28, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(141)	2	-	103	36	(77)	1	12/19
Orión Energía 29, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(139)	1	-	97	36	(76)	1	12/19
Orión Energía 3, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(143)	5	-	89	36	(80)	4	12/19
Orión Energía 30, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(141)	2	-	99	36	(78)	1	12/19
Orión Energía 4, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	95	36	(79)	4	12/19
Orión Energía 5, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	4	-	97	36	(79)	3	12/19
Orión Energía 6, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	99	36	(79)	4	12/19
Orión Energía 7, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	95	36	(79)	4	12/19
Orión Energía 8, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(144)	4	-	94	36	(81)	3	12/19
Orión Energía 9, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	98	(142)	5	-	97	36	(79)	5	12/19
Parque Eólico Jaufil, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	163	(2,717)	125	-	5,183	163	(2,699)	107	12/19
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	83	(1,241)	136	-	2,497	83	(1,236)	131	12/19
Parque Eólico Lecrín, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	4,003	(8,466)	397	-	14,498	4,003	(8,430)	361	12/19
Parque Eólico Lomas De Manteca, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	163	(2,160)	194	-	5,363	163	(2,152)	186	12/19
Parque Eólico Tahuna, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	3	(10,371)	285	-	12,240	-	(10,151)	68	12/19
Parque Eólico Zorreras, S.L.U.	Wind power generation	Barcelona - Spain	100.00	-	Yes	3	(9,290)	306	-	10,646	-	(9,089)	108	12/19
PayTPV On Line Entidad de Pago, S.L.	Other financial services	Bilbao - Spain	-	100.00	No	150	5	(1)	-	2,436	7,500	-	(75)	12/19
Subtotal									-		**13,978**	**(39,354)**	**1,042**	

Banco Sabadell Group companies as at 31 December 2019 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Plataforma de Innovación Sabadell, S.L.U.	Hosting, data processing and related activities	Sant Cugat del Valles - Spain	100.00	-	Yes	3	-	(1)	-	3	3	-	(1)	12/19
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	20	(2)	(285)	-	194,457	20	(2)	(285)	12/19
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	-	Yes	3	(11)	(3)	-	556,255	3	(11)	(3)	12/19
Sabadell Asset Management, S.A., S.G.I.I.C	Other regulated companies	Madrid - Spain	100.00	-	Yes	601	(17,509)	36,027	135,000	96,149	607	14,485	35,113	12/19
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg - Luxembourg	100.00	-	No	12,316	(80)	-	-	12,386	4,926	-	(124)	10/19
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	São Paulo - Brazil	99.99	0.01	No	905	(821)	-	-	106	250	393	-	12/19
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	No	154,915	4,271	24,153	13,595	1,076,508	144,158	25,880	24,437	12/19
Sabadell Consumer Finance, S.A.U	Credit institution	Sabadell - Spain	100.00	-	Yes	35,720	29,902	16,095	63,000	1,586,516	72,232	13,022	15,386	12/19
Sabadell Corporate Finance, S.L.	Other investees with their own business	Sant Cugat del Valles - Spain	100.00	-	Yes	70	2,062	2,209	-	6,131	9,373	567	2,259	12/19
Sabadell d'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	-	50.97	No	300	1,090	132	100	2,131	300	607	67	12/19
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	-	No	12,036	22,072	558	-	78,564	41,296	(8,342)	558	12/19
Sabadell Information Systems , S.A.	Other investees with their own business	Sabadell - Spain	100.00	-	Yes	40,243	50,475	(4,013)	-	1,614,303	143,695	43,567	(143,971)	12/19
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	-	100.00	Yes	1,000	6,977	(681)	-	41,455	1,000	(382)	(681)	12/19
Sabadell Innovation Cells, S.L.U.	Other business management consulting activities	Sant Cugat del Valles - Spain	100.00	-	Yes	3	(1,852)	(1,857)	-	2,184	3	(2,123)	(1,586)	12/19
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	30,116	825,897	(6,788)	-	924,793	863,895	5,914	(20,584)	12/19
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	100,060	234,750	(1,907)	-	333,298	500,622	(161,120)	(1,706)	12/19
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	15,807	(2,234,020)	(102,884)	-	2,528,948	2,147,442	(3,996,919)	(98,215)	12/19
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	2,073	1,084	(531)	-	29,547	14,292	(11,135)	(531)	12/19
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami - United States	100.00	-	No	551	3,488	849	-	5,104	551	3,096	849	12/19
Sabadell Strategic Consulting, S.L.U.	Other investees with their own business	Sant Cugat del Valles - Spain	100.00	-	Yes	3	7	133	650	737	3	7	133	12/19
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	-	100.00	Yes	3	7,490	(929)	-	45,499	3	(623)	336	12/19
Sinia Capital S.A. De C.V.	Holding	Mexico DF - Mexico	-	100.00	No	20,830	(3,257)	(294)	-	60,933	19,795	1,869	3,825	12/19
Sinia Renovables, S.A.U.	Other regulated companies	Barcelona - Spain	100.00	-	Yes	15,000	(9,279)	(403)	-	33,765	15,000	(8,488)	(804)	12/19
Sdin Residencial S.L.U.(3)	Real estate development	Madrid - Spain	100.00	-	Yes	25	1,798	791	-	10,317	15	1,809	8,303	12/19
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.(2)	Real estate	Alicante - Spain	100.00	-	Yes	3	7,968	1,713	-	13,502	7,980	7,968	1,713	12/19
Puerto Pacific Vallarta, S.A. de C.V.(1)	Real estate	Mexico DF - Mexico	-	100.00	No	28,947	(15,551)	(11)	-	13,384	29,164	(11,502)	(11)	12/19
Promontoria Challenger Industrial Assets, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	4	-	-	-	4	4	-	-	12/19
Promontoria Challenger Land, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	4	-	-	-	4	4	-	-	12/19
Subtotal									**212,345**		**4,016,636**	**(4,081,463)**	**(175,523)**	

Banco Sabadell Group companies as at 31 December 2019 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Promontoria Challenger Real Estate, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	4	-	-	-	4	4	-	-	12/19
Promontoria Challenger Residential S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	4	-	-	-	4	4	-	-	12/19
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	-	Yes	60,729	(9,726)	(744)	-	50,269	60,729	(15,370)	7,654	12/19
Tasaciones de Bienes Mediterráneo, S.A. (En Liquidación)	Other investees with their own business	Alicante - Spain	99.88	0.12	Yes	1,000	1,388	-	-	2,394	5,266	(2,879)	1	12/19
Tenedora de Inversiones Y Participaciones, S.L.	SPE	Alicante - Spain	100.00	-	Yes	296,092	(515,434)	(7,120)	-	629,958	2,564,914	(2,605,545)	(6,330)	12/19
Tierras Vega Alta Del Segura, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	Yes	4,550	(13,949)	(52)	-	6,099	16,823	(26,222)	(53)	12/19
TSB Bank Plc	Credit institution	Edinburgh - United Kingdom	-	100.00	No	90,710	2,115,492	75,173	-	45,979,210	1,814,636	208,655	158,340	12/19
TSB Banking Group Plc	Holding	London - United Kingdom	100.00	-	No	7,028	1,844,280	368	-	2,326,053	2,231,817	(107,401)	(39,385)	12/19
TSB Banking Group plc Employee Share Trust	Other regulated companies	Jesrsey - United Kingdom	-	100.00	No	1	(9,904)	(1)	-	3,070	-	(9,089)	-	12/19
TSB Coverd Bonds Holdings Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	-	-	12/19
TSB Covered Bonds (LM) Limited	Other regulated companies	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	-	-	12/19
TSB Covered Bonds LLP	Other regulated companies	London - United Kingdom	-	100.00	No	1	7	3	-	46	1	7	3	12/19
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid - Spain	-	100.00	Yes	3,606	3,022	3,309	2,000	16,654	3,084	3,544	1,538	12/19
Urumea Gestión, S.L. (en liquidación)	Other investees with their own business	San Sebastián - Spain	-	100.00	No	9	(9)	(2)	-	1	9	(9)	(2)	12/19
VeA Rental Homes , S.A	Letting of own property	Sant Cugat del Valles - Spain	100.00	-	Yes	5,000	(10,031)	(8,647)	-	50,500	5,000	(10,030)	(8,647)	12/19
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	Yes	12,000	(44,302)	(193)	-	14,782	11,664	(43,966)	(211)	12/19
Vitigudina Fv, S.L.	Engineering	Barcelona - Spain	-	100.00	Yes	1,629	(977)	17	-	17,300	-	1,549	194	12/19
Xunqueira Eolica, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	3	(5,180)	2	-	11,373	400	(5,442)	(133)	12/19
Subtotal									**2,000**		**6,714,353**	**(2,612,198)**	**112,969**	
Total									**370,269**		**13,619,094**	**3,657,019**	**680,966**	

(1) formerly Solvia Pacific S.A de CV

(2) formerly Solvia Gestora de Vivienda Social S.L.U.

(3) formerly Solvia Desarrollos Inmobiliarios S.L.

Banco Sabadell Group companies as at 31 December 2019 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Capital	Company data (a) Other equity	Company data (a) Profit/(loss) (b)	Company data (a) Dividends paid (c)	Company data (a) Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)	Balance sheet date
Aurica III, Fondo De Capital Riesgo	Other regulated companies	Barcelona - Spain	-	48.15	48,855	(3,037)	387	-	46,211	23,525	(1,463)	186	12/19
Aurica IIIB, Soc. De Capital Riesgo, S.A	Other regulated companies	Barcelona - Spain	-	43.43	33,020	(2,076)	255	-	31,206	14,354	(914)	111	12/19
Atrian Bakers, S.L.	Other associates	Castellgali - Spain	-	22.41	26,249	(6,243)	(1,030)	-	38,734	2,000	140	85	09/19
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,200	597	-	49,105	40,378	(18,883)	298	12/19
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Other associates	Sabadell - Spain	48.46	-	4,818	(535)	273	-	4,586	397	1,679	132	12/19
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	61,706	17,587	-	258,002	34,000	1,375	8,793	12/19
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	548,242	78,732	48,500	11,202,448	27,106	231,844	46,207	12/19
Energia Renovables Terra Ferma, S.L.	Engineering	Barcelona - Spain	-	50.00	6	-	-	-	-	3	-	-	11/19
Esus Energía Renovable, S.L.	Services	Vigo - Spain	-	45.00	50	(678)	(22)	-	2,625	23	(23)	-	12/19
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	13,862	2,987	-	84,368	19,144	4,162	1,493	12/19
Flex Equipos De Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	22,396	9,166	-	252,946	50,930	3,756	8,127	11/19
Gate Solar Gestión, S.L.	Services	Vitoria-Gasteiz - Spain	50.00	-	300	2,612	(9)	-	3,684	1,860	(626)	(7)	09/19
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante - Spain	-	40.00	1,000	(9,600)	(472)	-	2,457	7,675	(7,486)	(189)	12/19
Hydrophytic, S.L.	Real estate	Vitoria-Gasteiz - Spain	-	50.00	186	142	21	-	451	93	71	10	09/19
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia - Spain	28.70	-	5,399	(1,351)	(892)	-	3,202	2,026	(1,566)	(63)	09/19
Nueva Pescanova, S.L.	Wholesale trade	Redondela - Spain	24.53	-	147,614	(32,743)	(33,689)	-	962,481	1,641	210	(1,851)	09/19
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,266)	(4)	-	31,986	2,951	(2,951)	-	11/19
Promontoria Challenger I, S.A.	Holding company	Madrid - Spain	20.00	-	60	869,142	(17,784)	-	2,496,996	161,958	-	-	12/19
Redes 2 Promotoro Unica S.L.	Holding	Madrid - Spain	-	20.00	8,481	96,602	(1,175)	-	110,098	21,091	(74)	(235)	12/19
Sabadell Asabys Health Innovation Investment, S.A.	Holding	Barcelona - Spain	-	37.39	9,370	(172)	(1,155)	-	8,237	3,500	(61)	(432)	09/19
Sbd Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	411	(1,707)	-	5,299	3,524	(2,054)	(393)	11/19
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante - Spain	20.00	-	660	173,726	(22,270)	-	196,175	16,517	16,839	24,583	10/19
Termosolar Borges S.L.	Engineering	Barcelona - Spain	47.50	-	14,700	(37,021)	3,213	-	144,113	11,800	-	-	09/19
Villoldo Solar S.L.	Engineering	Barcelona - Spain	50.00	-	3	44	38	-	207	-	-	-	09/19
Total								**48,500**		**446,496**	**223,975**	**86,855**	

"Balance sheet date" lists the date of the latest available figures.

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(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 1,368,317 thousand euros as at 31 December 2019. The liabilities balance as at the end of 2019 totalled 3,181,583 thousand euros. See the key figures as at 2019 year-end for BanSabadell Vida in Note 14.

Changes in the scope of consolidation in 2019

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Duncan Holdings 2020-1 Limited	Subsidiary	08/04/2019	-	-	100.00%	100.00%	Indirect	Full consolidation	a
Solvia Servicios Inmobiliarios, S.L.U.	Associate	23/04/2019	57,930	-	20.00%	20.00%	Direct	Equity method	d
Plataforma de Innovación Sabadell, S.L.U.	Subsidiary	26/02/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Challenger Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	30/07/2019	4	-	100.00%	100.00%	Direct	Full consolidation	a
Gate Huerta Solar 44, S.L	Subsidiary	30/07/2019	205	-	100.00%	100.00%	Indirect	Full consolidation	b
Inversiones Samiac 14, S.L.	Subsidiary	31/10/2019	178	-	100.00%	100.00%	Indirect	Full consolidation	b
Promontoria Challenger I, S.A.	Associate	20/12/2019	161,958	-	20.00%	20.00%	Direct	Equity method	b
Energíes Renovables Terra Ferma, S.L.	Associate	11/11/2019	3	-	50.00%	50.00%	Indirect	Equity method	c
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Subsidiary	29/11/2019	4,926	-	55.44%	55.44%	Direct	Full consolidation	d
Grecoholdco, S.A.U.	Subsidiary	19/12/2019	60	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	19/12/2019	3	-	100.00%	100.00%	Direct	Full consolidation	a
Total newly consolidated subsidiaries			**5,449**						
Total newly consolidated associates			**219,891**						

(a) Incorporation of subsidiaries.
(b) Acquisition of subsidiaries.
(c) Acquisition or incorporation of associates
(d) Change in consolidation method.

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
CAM Global Finance, S.A. en liquidación	Subsidiary	14/01/2019	100.00%	-	-	Direct	Full consolidation	b
Grupo Luxiona, S.L.	Associate	29/03/2019	20.00%	-	(141)	Indirect	Equity method	a
Malbrouck, S.I.C.A.V	Subsidiary	13/06/2019	100.00%	-	(10)	Direct	Full consolidation	b
Placements Immobiliers France, S.A.S.	Subsidiary	01/01/2019	100.00%	-	811	Indirect	Full consolidation	b
Societat d'Inversió dels Enginyers, S.L.	Associate	27/05/2019	47.00%	-	766	Indirect	Equity method	b
Ac Dos Lerida, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	(142)	Indirect	Full consolidation	b
Hotel Calle de los Molinos 10, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	19	Indirect	Full consolidation	b
Hotel Calle Mayor 34, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	43	Indirect	Full consolidation	b
Hotel Mirador del Valle, S.L.U. en liquidación	Subsidiary	27/06/2019	100.00%	-	25	Indirect	Full consolidation	b
Ribera Salud, S.A.	Associate	28/06/2019	40.00%	10.00%	5,255	Indirect	Equity method	a
Tratamientos y Aplicaciones, S.L.U. en liquidación	Subsidiary	27/05/2019	100.00%	-	(22)	Direct	Full consolidation	b
Solvia Servicios Inmobiliarios, S.L.U.	Subsidiary	23/04/2019	80.00%	20.00%	132,776	Direct	Full consolidation	a
Emte Renovables, S.L.	Associate	05/08/2019	62.11%	-	(9)	Indirect	Equity method	b
Bansabadell Securities Services, S.L.U	Subsidiary	21/11/2019	100.00%	-	(47)	Direct	Full consolidation	b
Aurica XXI, S.C.R. de R.S., S.A.U.	Subsidiary	20/11/2019	100.00%	-	(1,218)	Direct	Full consolidation	b
Promontoria Coliseum Real Estate, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Industrial Assets, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Land, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Promontoria Coliseum Residential, S.L.U.	Subsidiary	20/12/2019	100.00%	-	-	Direct	Full consolidation	a
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Associate	29/11/2019	44.56%	-	-	Direct	Equity method	c
Other					11,585			
Total					**149,691**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Derecognised due to reclassification to dependent 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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
AC Dos Lérida, 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 la Vella - 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	Nassau - 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 DF - 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 la Vella - 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	Sant Cugat del Valles - 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	Sabadell - 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 Grupo Banco Sabadell, S.A.	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	Sant Cugat del Valles - 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.	Real estate	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	Santo Domingo - Dominican Republic	-	100.00	No	5,016	(4,288)	-	-	745	-	18	-	12/18
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Elche - Spain	-	100.00	No	1,942	(90,357)	(493)	-	10	1,919	(78,648)	(493)	12/18
Duncan 2016 -1 Holdings Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	1	-	12/18
Duncan de Inversiones SICAV, S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	-	No	7,842	1,084	(46)	-	2,701	2,560	(167)	(40)	12/18
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	1	-	12/18
Ederra, S.A.	Real estate	San Sebastián - 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 - 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 Direct	% Shareholding Indirect	Consolidated taxation	Company data (a) Capital	Other equity	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
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	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	Nuevo León - 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	Sant Cugat del Valles - Spain	-	100.00	Yes	53	(20,423)	(19)	-	6,413	23,890	(44,261)	(19)	12/18
Gest 21 Inmobiliaria, S.L.U	SPE	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	San Sebastián - Spain	-	100.00	No	53	(75,349)	(691)	-	7,450	7,160	(77,671)	(337)	12/18
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - 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.(3)	Real estate	Sant Cugat del Valles - 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	San Sebastián - 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.(4)	Real estate	Sant Cugat del Valles - 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	Sant Cugat del Valles - Spain	-	100.00	Yes	3	21,411	(588)	-	20,858	27,527	(6,113)	(588)	12/18
Interstate Property Holdings, Llc.	SPE	Miami - 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	Sant Cugat del Valles - 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	Torre Pacheco - Murcia	-	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	Sant Cugat del Valles - Spain	100.00	-	Yes	33,357	(12,843)	83	-	20,808	33,357	(14,593)	(837)	12/18
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	-	100.00	Yes	62	(48,026)	(3,248)	-	49,383	55,013	(102,977)	(3,248)	12/18
Mediterráneo Sabadell, S.L.	SPE	Alicante - Spain	50.00	50.00	Yes	85,000	17,052	241	48,638	102,422	506,342	(449,864)	241	12/18
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	-	Yes	795	(2,971)	(78)	-	5,203	986	(4,143)	904	12/18
Orión Energía 1, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(151)	16	-	84	36	(89)	16	12/18
Orión Energía 10, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	17	-	84	36	(95)	17	12/18
Orión Energía 11, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(96)	16	12/18
Orión Energía 12, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	87	36	(95)	17	12/18
Orión Energía 13, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(160)	17	-	88	36	(98)	17	12/18
Orión Energía 14, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	17	-	86	36	(95)	17	12/18
Orión Energía 15, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 16, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	15	-	86	36	(97)	15	12/18
Orión Energía 17, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	87	36	(95)	17	12/18
Orión Energía 18, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	86	36	(96)	16	12/18
Orión Energía 19, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	16	-	85	36	(95)	16	12/18
Subtotal									**81,911**		**2,031,118**	**(858,415)**	**28,320**	

Banco Sabadell Group companies as at 31 December 2018 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Consolidated taxation	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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Orión Energía 2, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(154)	17	-	84	36	(92)	17	12/18
Orión Energía 20, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 21, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(96)	16	12/18
Orión Energía 22, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Orión Energía 23, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	93	36	(96)	16	12/18
Orión Energía 24, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	88	36	(95)	16	12/18
Orión Energía 25, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	86	36	(96)	16	12/18
Orión Energía 26, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	92	36	(95)	20	12/18
Orión Energía 27, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	92	36	(96)	20	12/18
Orión Energía 28, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	19	-	95	36	(97)	19	12/18
Orión Energía 29, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	20	-	93	36	(96)	20	12/18
Orión Energía 3, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	86	36	(96)	17	12/18
Orión Energía 30, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(159)	19	-	95	36	(97)	19	12/18
Orión Energía 4, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(157)	16	-	87	36	(95)	16	12/18
Orión Energía 5, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(95)	16	12/18
Orión Energía 6, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	17	-	89	36	(95)	17	12/18
Orión Energía 7, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	85	36	(95)	16	12/18
Orión Energía 8, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	14	-	86	36	(95)	14	12/18
Orión Energía 9, S.L.	Photovoltaic solar energy	Barcelona - Spain	-	100.00	Yes	98	(158)	16	-	87	36	(96)	16	12/18
Parque Eólico Jaufil, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(2,835)	136	-	5,604	163	(2,901)	202	12/18
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	83	(1,340)	104	-	2,671	83	(1,330)	94	12/18
Parque Eólico Lecrín, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	4,003	(9,171)	740	-	15,069	4,003	(9,079)	648	12/18
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	163	(2,371)	219	-	5,658	163	(2,360)	208	12/18
Parque Eólico Tahuna, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	3	(10,447)	273	-	13,790	-	(8,737)	(1,414)	12/18
Parque Eólico Zorreras, S.L.U.	Wind energy	Barcelona - Spain	100.00	-	Yes	3	(9,545)	433	-	12,242	-	(8,405)	(684)	12/18
PayTPV On Line Entidad de Pago, S.L.	Other financial services	Bilbao - Spain	-	100.00	No	150	57	-	-	663	36	-	-	12/18
Placements Immobiliers France, S.A.S.	Real estate	Paris - 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	São Paulo - 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 DF - 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	Sabadell - 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 la Vella - Andorra	-	50.97	No	300	999	191	-	2,065	300	596	98	12/18
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	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	Sabadell - 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	Sant Cugat del Valles - 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		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	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets				
Sabadell Innovation Cells, S.L.U.	Other business management consulting activities	Sant Cugat del Valles - Spain	100.00	-	Yes	3	(269)	(1,854)	-	3,366	3	(269)	(1,854)	12/18
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	Miami - 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	Sant Cugat del Valles - 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 DF - 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 development	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	Mexico DF - Mexico	-	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	Sant Cugat del Valles - 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	Sant Cugat del Valles - 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	Edinburgh - United Kingdom	-	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	London - United Kingdom	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	Jesrsey - United Kingdom	-	100.00	No	1	(5,902)	(2,624)	-	1,247	-	(6,136)	(1,659)	12/18
TSB Coverd Bonds Holdings Limited	Holding	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	-	-	12/18
TSB Covered Bonds (LM Limited)	Other regulated companies	London - United Kingdom	-	100.00	No	1	-	-	-	1	1	-	-	12/18
TSB Covered Bonds LLP	Other regulated companies	London - United Kingdom	-	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	San Sebastián - Spain	-	100.00	No	9	(7)	(2)	-	1	9	(7)	(2)	12/18
VeA Rental Homes , S.A (5)	Letting of own property	Sant Cugat del Valles - Spain	100.00	-	Yes	5,000	(2,169)	(7,862)	-	66,540	5,000	(2,158)	(7,872)	12/18
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	-	97.20	Yes	12,000	(43,502)	(800)	-	16,536	11,664	(43,149)	(817)	12/18
Vitigudina FV, S.L.	Engineering	Barcelona - Spain	-	100.00	Yes	-	1,629	(880)	(275)	-	18,032	1,777	(228)	12/18
Xunqueira Eólica, S.L.	Other power generation	Barcelona - Spain	-	100.00	Yes	3	(5,179)	134	-	11,751	400	(4,540)	(903)	12/18
Subtotal									**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, HI Partners Holdco Gestión Activa, S.L.
(4) Formerly, Hotel Investment Partners, S.L.
(5) Formerly, VeA Rental Homes SOCIMI, S.A

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	Other equity	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	Castellgali - 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	Vigo - Spain	-	45.00	50	(539)	(134)	-	2,133	23	(23)	-	11/18
Financiera Iberoamericana, S.A.	Credit institution	Havana - 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	Getafe - 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	Vitoria-Gasteiz - 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	Vitoria-Gasteiz - 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	Redondela - 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 - 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	Sabadell - 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	Sabadell - 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	Barcelona - Spain	47.50	-	14,700	(34,853)	609	-	133,841	11,800	-	-	10/18
Villoldo Solar S.L.	Engineering	Barcelona - Spain	50.00	-	3	49	(5)	-	98	-	-	-	10/18
Other												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 amounted to 1,807,552 thousand euros as at 31 December 2018. The liabilities balance of associates as at the end of 2018 totalled 1,779,922 thousand euros.

Changes in the 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		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Solvia Desarrollos Inmobiliarios, S.L.	Subsidiary	13/04/2018	15	-	100.00%	100.00%	Direct	Full consolidation	a
LSP Finance , S.L.	Subsidiary	14/06/2018	6,150	-	100.00%	100.00%	Indirect	Full consolidation	b
Termosolar Borges. S.L.	Associate	28/06/2018	11,800	-	47.50%	47.50%	Direct	Equity method	c
Villoldo Solar, S.L.	Associate	28/06/2018	-	-	50.00%	50.00%	Direct	Equity method	c
Redes 2 Promotora Única, S.L.	Associate	03/07/2018	20,191	-	20.00%	20.00%	Indirect	Equity method	c
PayTPV On Line Entidad de Pago, S.L.	Subsidiary	26/07/2018	7,500	-	100.00%	100.00%	Indirect	Full consolidation	b
Sabadell Asabys Health Innovation Investments S.A.	Associate	14/11/2018	2,260	-	49.92%	49.92%	Indirect	Equity method	c
Fuerza Eólica de San Matías, S de RL de CV	Subsidiary	15/11/2018	2,597	-	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	30/04/2018	100.00%	-	-	Indirect	Full consolidation	b
Cape Holdings No.1 Limited	Subsidiary	30/04/2018	100.00%	-	-	Indirect	Full consolidation	b
TSB Scotland (Investment) Nominees Limited	Subsidiary	30/04/2018	100.00%	-	-	Indirect	Full consolidation	b
TSB Scotland Nominees Limited	Subsidiary	30/04/2018	100.00%	-	-	Indirect	Full consolidation	b
Parque Eólico Los Ausines, S.L	Associate	30/06/2018	50.00%	-	5,574	Indirect	Equity method	a
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Associate	31/01/2018	30.00%	-	-	Indirect	Equity method	b
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.	Subsidiary	31/01/2018	100.00%	-	13	Direct	Full consolidation	b
CAM International Issues, S.A.U.	Subsidiary	27/09/2018	100.00%	-	8	Direct	Full consolidation	b
HIP Francia 184, S.L.U. en liquidación	Subsidiary	28/12/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel María Tarrida 6, S.L.U. en liquidación	Subsidiary	28/12/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Autovía del Mediterráneo 165, S.L.U. en liquidación	Subsidiary	28/12/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Carretera de Taull, S.L.U. en liquidación	Subsidiary	28/12/2018	100.00%	-	-	Indirect	Full consolidation	b
Hotel Cavall de Mar 25, S.L.U. en liquidación	Subsidiary	28/12/2018	100.00%	-	-	Indirect	Full consolidation	b
Gala Domus, S.A. (en concurso de acreedores)	Subsidiary	17/10/2018	100.00%	-	(23)	Indirect	Full consolidation	b
Other			-	-	60			
Subtotal					**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.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2019
2004	GC SABADELL 1, F.T.H	Banco Sabadell	94,043
2005	TDA 23, F.T.A	Banco Guipuzcoano	26,653
2005	TDA CAM 4 F.T.A	Banco CAM	224,827
2005	TDA CAM 5 F.T.A	Banco CAM	423,315
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	74,554
2006	TDA CAM 6 F.T.A	Banco CAM	297,038
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	107,522
2006	TDA CAM 7 F.T.A	Banco CAM	451,853
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	193,392
2007	TDA 29, F.T.A	Banco Guipuzcoano	94,931
2007	TDA CAM 8 F.T.A	Banco CAM	433,642
2007	TDA CAM 9 F.T.A	Banco CAM	423,251
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	41,854
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	152,921
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	62,348
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	6,210
2015	DUNCAN FUNDING 2015-1 PLC	TSB	1,400,690
2016	DUNCAN FUNDING 2016-1 PLC	TSB	2,452,783
2016	IM SABADELL PYME 10	Banco Sabadell	427,291
2017	TDA SABADELL RMBS 4, FT	Banco Sabadell	5,061,085
2017	IM SABADELL PYME 11, FT	Banco Sabadell	796,263
Total			**13,246,466**

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2019
2001	TDA 14-MIXTO, F.T.A	Banco Guipuzcoano	1,918
2001	TDA 14-MIXTO, F.T.A	BMN- Penedés	10,761
2002	TDA 15-MIXTO, F.T.A	Banco Guipuzcoano	6,031
2006	TDA 25, FTA (*)	Banco Gallego	4,832
2010	FTPYMES 1 LIMITED	Banco CAM	157,289
2019	SABADELL CONSUMO 1,FT	Banco Sabadell	880,762
Total			**1,061,593**

(*) 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) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2019 and 2018 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)

	2019	2018
Total mortgage loan and credit portfolio	**51,704,089**	**53,708,998**
Participation mortgages issued	**2,333,714**	**2,737,340**
Of which: Loans held on balance sheet	*2,267,172*	*2,652,901*
Mortgage transfer certificates	**6,505,016**	**7,126,535**
Of which: Loans held on balance sheet	*6,405,988*	*7,024,075*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**42,865,358**	**43,845,123**
Ineligible loans	11,478,524	13,712,492
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	10,838,235	12,694,995
Rest	640,289	1,017,497
Eligible loans	31,386,834	30,132,631
Non-qualifying portions	68,264	80,012
Qualifying portions	31,318,570	30,052,619
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	31,318,570	30,052,619
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

	2019		2018	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Total mortgage loan and credit portfolio	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Origin of operations	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Originated by the institution	42,270,777	*30,974,128*	43,165,526	*29,696,214*
Subrogated from other entities	278,494	*233,425*	312,754	*257,131*
Rest	316,087	*179,281*	366,843	*179,286*
Currency	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Euro	42,797,267	*31,349,794*	43,758,869	*30,083,348*
Other currencies	68,091	*37,040*	86,254	*49,283*
Payment status	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Satisfactory payment	37,958,995	*28,923,510*	39,344,180	*28,875,322*
Other situations	4,906,363	*2,463,324*	4,500,943	*1,257,309*
Average residual maturity	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Up to 10 years	10,530,752	*8,364,734*	11,749,774	*8,416,923*
10 to 20 years	16,913,750	*13,114,430*	17,276,398	*12,762,148*
20 to 30 years	13,554,446	*9,372,057*	12,633,196	*8,286,463*
More than 30 years	1,866,410	*535,613*	2,185,755	*667,097*
Interest rate	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Fixed	15,649,048	*12,302,334*	12,871,219	*9,796,935*
Variable	27,216,310	*19,084,500*	30,973,904	*20,335,696*
Mixed	-	-	-	-
Borrowers	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Legal entities and individual entrepreneurs	13,064,592	*8,615,114*	14,750,289	*8,641,999*
Of which: Real estate developments	*2,592,657*	*1,168,147*	*3,602,883*	*1,393,704*
Other individuals and NPISHs	29,800,766	*22,771,720*	29,094,834	*21,490,632*
Type of guarantee	42,865,358	*31,386,834*	43,845,123	*30,132,631*
Assets /finished buildings	41,648,120	*30,766,388*	41,816,188	*29,375,324*
Residential	*33,886,692*	*25,263,855*	*33,588,699*	*23,944,284*
Of which: Subsidised housing	*1,595,969*	*1,253,735*	*1,670,994*	*1,306,243*
Commercial	*7,544,133*	*5,341,589*	*8,038,216*	*5,298,139*
Other	*217,295*	*160,944*	*189,273*	*132,901*
Assets/ buildings under construction	197,324	*165,674*	254,599	*180,336*
Residential	*154,640*	*127,281*	*216,051*	*146,706*
Of which: Subsidised housing	*173*	*173*	*180*	*180*
Commercial	*41,050*	*36,759*	*37,945*	*33,027*
Other	*1,634*	*1,634*	*603*	*603*
Land	1,019,914	*454,772*	1,774,336	*576,971*
Developed	*322,786*	*69,652*	*738,779*	*121,329*
Rest	*697,128*	*385,120*	*1,035,557*	*455,642*

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	2019	2018
Potentially eligible	1,099,810	1,083,230
Ineligible	2,824,979	2,816,709

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	2019	2018
Secured on residential property	**25,411,025**	**24,114,006**
Of which LTV <= 40%	*7,362,006*	*7,235,411*
Of which LTV 40%-60%	*9,237,433*	*8,690,528*
Of which LTV 60%-80%	*8,811,586*	*8,188,067*
Of which LTV > 80%	-	-
		-
Secured on other property	**5,975,809**	**6,018,625**
Of which LTV <= 40%	*3,510,121*	*3,568,263*
Of which LTV 40%-60%	*2,465,688*	*2,450,362*
Of which LTV > 60%	-	-

Changes during 2019 and 2018 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 2017	**28,781,826**	**15,943,345**
Derecognised during the year	**(5,853,849)**	**(5,414,693)**
Terminations at maturity	(2,137,409)	(354,755)
Early terminations	(1,197,883)	(627,906)
Subrogations by other entities	(26,166)	(8,384)
Derecognised due to securitisations	-	-
Rest	(2,492,391)	(4,423,648)
Additions during the year	**7,204,654**	**3,183,840**
Originated by the institution	3,977,513	1,453,187
Subrogations by other entities	96,087	10,726
Rest	3,131,054	1,719,927
Balance as at 31 December 2018	**30,132,631**	**13,712,492**
Derecognised during the year	**(4,405,522)**	**(3,913,259)**
Terminations at maturity	(2,433,595)	(283,965)
Early terminations	(1,032,207)	(285,039)
Subrogations by other entities	(11,474)	(2,836)
Derecognised due to securitisations	(928,246)	(3,341,419)
Rest	-	-
Additions during the year	**5,659,725**	**1,679,291**
Originated by the institution	4,243,046	1,370,201
Subrogations by other entities	13,999	6,849
Rest	1,402,680	302,241
Balance as at 31 December 2019	**31,386,834**	**11,478,524**

B) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity.

Thousand euro

Nominal value	2019	2018
Covered bonds issued	**21,429,687**	**22,353,833**
Of which: Not reflected under liabilities on the balance sheet	*10,927,900*	*10,727,900*
Debt securities. Issued through public offering	**6,200,000**	**6,200,000**
Time to maturity up to one year	1,750,000	-
Time to maturity from one to two years	1,350,000	1,750,000
Time to maturity from two to three years	-	1,350,000
Time to maturity from three to five years	2,000,000	1,000,000
Time to maturity from five to ten years	1,100,000	2,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**13,653,000**	**14,053,000**
Time to maturity up to one year	5,380,000	3,150,000
Time to maturity from one to two years	3,000,000	5,380,000
Time to maturity from two to three years	1,695,000	3,000,000
Time to maturity from three to five years	1,938,000	783,000
Time to maturity from five to ten years	1,640,000	1,740,000
Time to maturity more than ten years	-	-
Deposits	**1,576,687**	**2,100,833**
Time to maturity up to one year	145,833	524,146
Time to maturity from one to two years	300,000	145,833
Time to maturity from two to three years	694,444	300,000
Time to maturity from three to five years	100,000	794,444
Time to maturity from five to ten years	336,410	336,410
Time to maturity more than ten years	-	-

	2019		2018	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**6,505,016**	**22**	**7,126,535**	**23**
Issued through public offering	-	-	-	-
Other issues	6,505,016	22	7,126,535	23
			-	-
Participation mortgages	**2,333,714**	**12**	**2,737,340**	**13**
Issued through public offering	-	-	-	-
Other issues	2,333,714	12	2,737,340	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 200% as at 31 December 2019 (196% as at 31 December 2018).

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 “General Principles of Risk Management”). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated 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 4.4.2.2 “Risk management models”. 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 appraisal value of the assets pledged as guarantees as well as the purchase value, if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, 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 4.4.2.2 “Risk management models”, 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 4.4.2.2 “Risk management models”. 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 in the approval process. 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

The bank's management of real estate assets is covered by the Strategy and Risk Management Division and management of real estate developer loans are the remit of the Real Estate Development Financing Division. These divisions are 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 and Investees 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 Development Financing Divisions to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment 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 analysis of the current risk situation, which may cover the finished development, plots or land or other developments.

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 section on "Funding strategy and evolution of liquidity in 2019" in note 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 keeping 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 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 register of public sector covered bonds

Details of the data from the special accounting register 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) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2019 which are used as collateral for issuances, their eligibility and the extent to which they qualify as eligible collateral for public sector covered bonds are presented in the following table:

Thousand euro

	2019		
	Total	Residents in Spain	Residents in other countries of the Economic Area
Central governments	217,896	217,896	-
Regional governments or governments in autonomous communities	2,396,736	2,396,736	-
Local governments	1,120,276	1,120,276	-
Social Security Trust Funds	-	-	-
Total loans and credit portfolio	**3,734,908**	**3,734,908**	**-**

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**	**-**

B) Liability-side transactions

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	2019	2018
Public sector covered bonds issued	**1,600,000**	**1,200,000**
Of which: Not reflected under liabilities on the balance sheet	-	-
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	**1,600,000**	**1,200,000**
Time to maturity up to one year	-	400,000
Time to maturity from one to two years	-	-
Time to maturity from two to three years	400,000	-
Time to maturity from three to five years	800,000	-
Time to maturity from five to ten years	400,000	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 233% as at 31 December 2019 (218% as at 31 December 2018).

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 "Risk management").

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated 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 2019 and 2018 is as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2019	Maturity/call date	Issue currency	Target of offering
		31/12/2019	31/12/2018				
Banco Gallego, S.A. (*)	28/10/2013	-	186	2.00%	29/12/2019	Euros	Retail
Banco de Sabadell, S.A.	10/03/2014	324	1,049	EURIBOR 6M + 3.50	10/03/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/03/2014	-	5,000	EURIBOR 3M + 1.35	18/03/2019	Euros	Institutional
Banco de Sabadell, S.A.	18/03/2014	-	11,500	EURIBOR 3M + 1.65	18/03,2019	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	461	1,354	4.42%	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2014	609	1,828	EURIBOR 6M + 3.50	10/05/2020	Euros	Institutional
Banco de Sabadell, S.A.	13/05/2014	-	20,000	EURIBOR 3M + 0.90	13/05/2019	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	261	871	EURIBOR 6M + 2.75	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2014	284	940	EURIBOR 6M + 3.00	10/06/2020	Euros	Institutional
Banco de Sabadell, S.A.	27/06/2014	-	20,000	EURIBOR 3M + 0.85	27/06/2019	Euros	Institutional
Banco de Sabadell, S.A.	10/07/2014	401	802	EURIBOR 6M + 2.75	10/07/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/08/2014	766	1,572	EURIBOR 6M + 2.75	10/08/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/10/2014	462	924	EURIBOR 6M + 2.35	10/10/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/11/2014	842	1,684	EURIBOR 6M + 2.35	10/11/2020	Euros	Institutional
Banco de Sabadell, S.A.	10/12/2014	789	1,940	EURIBOR 6M + 2.35	10/12/2020	Euros	Institutional
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	MAX(EURIBOR 3M; 0.5%)	12/12/2019	Euros	Retail
Banco de Sabadell, S.A.	07/03/2017	-	591,066	0.40%	07/03/2019	Euros	Retail
Banco de Sabadell, S.A.	24/04/2017	-	342,017	0.40%	24/04/2019	Euros	Retail
Banco de Sabadell, S.A.	21/06/2017	-	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	4,000	MAX(EURIBOR 3M; 0.4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0.67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0.4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0.3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.63%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1.1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1.5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	601,415	-	0.70%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	08/04/2019	300,000	-	0.45%	08/04/2021	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2019	1,000,000	-	1.75%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	-	0.88%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	-	1.13%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (**)	07/11/2019	500,000	-	0.63%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A.	15/11/2019	120,000	-	MAX(0%; EURIBOR 3M+0.6%)	15/05/2024	Euros	Institutional
Subscribed by Group companies		(126,902)	(42,699)				
Total straight bonds		**6,219,012**	**3,759,098**				

(*) Company merged with Banco Sabadell.

(**) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2019	Maturity date	Issue currency	Target of offering
		31/12/2019	31/12/2018				
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	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	ref . underlying assets	20/12/2019	Euros	Retail
Banco de Sabadell, S.A.	27/05/2014	-	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	ref . underlying assets	16/07/2019	Euros	Retail
Banco de Sabadell, S.A.	24/07/2014	-	4,000	ref . underlying assets	24/07/2019	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.	06/07/2015	1,300	1,800	ref . underlying assets	06/07/2020	Euros	Retail
Banco de Sabadell, S.A.	01/06/2016	-	6,000	ref . underlying assets	03/06/2019	Euros	Retail
Banco de Sabadell, S.A.	17/06/2016	-	75,000	ref . underlying assets	17/06/2019	Euros	Retail
Banco de Sabadell, S.A.	21/06/2016	-	8,500	ref . underlying assets	21/06/2019	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	10,000	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	13,200	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	18/02/2019	3,000	-	ref . underlying assets	18/02/2022	Euros	Retail
Banco de Sabadell, S.A.	04/04/2019	3,000	-	ref . underlying assets	04/10/2022	Euros	Retail
Subscribed by Group companies		(190)	(1,286)				
Total structured bonds		**110,310**	**220,214**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount		Average interest rate		Maturity date	Issue currency	Target of offering
		31/12/2019	31/12/2018	31/12/2019	31/12/2018			
Banco de Sabadell, S.A. (London office) (*)	18/12/2015	293,333	695,373	-0.16%	-0.07%	Multiple dates	Euros	Institutional
Banco de Sabadell, S.A. (**)	15/03/2018	1,612,490	5,111,812	-0.10%	0.04%	Multiple dates	Euros	Institutional
Subscribed by Group companies		(811,601)	(2,530,849)					
Total commercial paper		**1,094,222**	**3,276,336**					

(*) 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 (CNMV).

Thousand euro

Issuer	Date of issue	Amount 31/12/2019	Amount 31/12/2018	Interest rate ruling as at 31/12/2019	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 CAM, S.A. (*)	27/04/2010	30,000	30,000	4.60%	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	EURIBOR 3M + 2.60	11/01/2019	Euros	Institutional
Banco Guipuzcoano, S.A. (*)	19/01/2011	-	100,000	EURIBOR 3M + 2.75	19/01/2019	Euros	Institutional
Banco de Sabadell, S.A.	07/06/2011	-	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.	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	EURIBOR 12 M + 0.232	29/01/2019	Euros	Institutional
Banco de Sabadell, S.A.	23/04/2015	-	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	0.63%	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	0.63%	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	0.97%	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	1,000,000	EURIBOR 12M + 0.027	18/09/2020	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0.085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	1,000,000	1,000,000	EURIBOR 12M + 0.086	18/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euros	Institutional
Banco de Sabadell, S.A.	30/01/2019	1,250,000	-	EURIBOR 12M + 0.130	30/01/2022	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	-	EURIBOR 12M + 0.074	20/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	-	EURIBOR 12M + 0.104	22/12/2025	Euros	Institutional
Subscribed by Group companies		(10,927,900)	(10,727,900)				
Total covered bonds		**8,925,100**	**9,525,100**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount 31/12/2019	Amount 31/12/2018	Interest rate ruling as at 31/12/2019	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	16/12/2015	-	400,000	EURIBOR 12M + 0.33	16/12/2019	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	800,000	800,000	EURIBOR 12M + 0.242	18/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	400,000	-	EURIBOR 12M + 0.007	16/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	400,000	-	EURIBOR 12M + 0.104	16/12/2025	Euros	Institutional
Subscribed by Group companies		-1,600,000	-1,200,000				
Total public sector covered bonds		-	-				

Thousand euro

Issuer	Date of issue	Amount 31/12/2019	Amount 31/12/2018	Interest rate ruling as at 31/12/2019	Maturity date	Issue currency	Target of offering
TSB Banking Group Plc	07/12/2017	587,682	558,953	LIBOR 3M + 0.24	07/12/2022	Pounds sterling	Institutional
TSB Banking Group Plc	15/02/2019	881,523	-	SONIA + 0.870	15/02/2024	Pounds sterling	Institutional
Subscribed by Group companies		-	-				
Total Covered Bonds		**1,469,205**	**558,953**				

Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2019 and 2018, respectively:

Thousand euro

Year	Type of assets securitised	Quotation	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2019	Outstanding balance of liabilities: 2018	Yield
2004	GC SABADELL 1, F.T.H. (A)	RMBS	12,000	1,200,000	63,573	80,501	EURIBOR 3M + (between 0.06% and 0.78%)
2005	TDA CAM 4,FTA (A)	RMBS	20,000	2,000,000	131,953	167,845	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5,FTA (A)	RMBS	20,000	2,000,000	169,568	194,632	EURIBOR 3M + (between 0.12% and 0.35%)
2006	TDA CAM 6 F.T.A (A)	RMBS	13,000	1,300,000	115,058	132,076	EURIBOR 3M + (between 0.13% and 0.27%)
2006	TDA CAM 7 F.T.A (A)	RMBS	15,000	1,500,000	136,916	157,718	EURIBOR 3M + (between 0.14% and 0.30%)
2006	CAIXA PENEDES 1 TDA, FTA (A)	RMBS	10,000	1,000,000	51,384	61,021	EURIBOR 3M + (between 0.14% and 0.55%)
2006	FTPYME TDA CAM 4 F.T.A (A)	PYMES	11,918	1,191,800	51,668	61,996	EURIBOR 3M + (between 0.02% and 4%)
2007	TDA CAM 8 F.T.A (A)	RMBS	17,128	1,712,800	114,230	129,892	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	157,081	175,861	EURIBOR 3M + (between 0.12% and 3.50%)
2015	DUNCAN FUNDING 2015-1 PLC (B) (*)	RMBS	20,912	2,940,691	418,231	468,627	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	83,119	229,603	EURIBOR 3 M +0.40% and £ LIBOR 3 M + (between 0.77% and 2.5%)
2017	IM SABADELL PYME 11, F.T. (A)	PYMES	19,000	1,900,000	198,515	387,881	EURIBOR 3M + (between 0.75% and 0.90%)
Total					**1,691,596**	**2,247,953**	

(*) TSB securitisation linked to TSB.

(A) Issues quoted on AIAF (Spanish Brokers' Association) fixed income market.

(B) Issues quoted on the LSE market.

Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2019 and 2018 are as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2019	Maturity/call date	Issue currency	Target of offering
		31/12/2019	31/12/2018				
Banco de Sabadell, S.A.	26/04/2010	424,600	424,600	6.250%	26/04/2020	Euro	Institutional
TSB Banking Group Plc (*)	01/05/2014	452,515	430,394	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	Euro	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.375%	12/12/2023	Euro	Institutional
Subscribed by Group companies		(16,650)	(18,650)				
Total subordinated bonds		**1,860,465**	**1,836,344**				

(*) Subordinated issue. "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2019	Maturity/call date	Issue currency	Target of offering
		31/12/2019	31/12/2018				
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 issue. "Maturity/call date" refers to the first call date.

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)
Variation in subordinated liabilities subscribed by group companies.	8,050
Total subordinated liabilities as at 31 December 2018	**2,986,344**
New issuances	-
Amortised	-
Capitalisation	-
Exchange rate	22,121
Variation in subordinated liabilities subscribed by group companies.	2,000
Total subordinated liabilities as at 31 December 2019	**3,010,465**

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 2019 and 2018, respectively, is as follows:

Thousand euro

	2019							
	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	**10,524,898**	**45,589**	**6,425**	**14,233**	**22,478**	**2,709**	**2,078**	**10,516**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,016,161**	**345,606**	**81,667**	**109,731**	**229,585**	**43,815**	**38,954**	**5,188**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**56,181,367**	**14,244,242**	**9,687,652**	**8,532,188**	**5,889,168**	**3,407,264**	**2,414,739**	**3,688,535**
Construction and real estate development (including	3,184,046	2,225,353	645,191	758,141	937,242	476,725	182,227	516,209
Civil engineering construction	802,490	40,222	62,737	21,662	24,486	10,919	7,419	38,473
Other purposes	52,194,831	11,978,667	8,979,724	7,752,385	4,927,440	2,919,620	2,225,093	3,133,853
Large enterprises	22,886,000	1,140,591	3,688,598	2,367,475	600,043	353,985	553,439	954,247
SMES and individual entrepreneurs	29,308,831	10,838,076	5,291,126	5,384,910	4,327,397	2,565,635	1,671,654	2,179,606
Rest of households	**78,230,486**	**70,392,038**	**766,420**	**14,500,163**	**20,022,312**	**22,854,631**	**9,109,453**	**4,671,899**
Home loans	69,559,754	69,032,294	38,639	13,899,046	19,460,093	22,451,028	8,885,914	4,374,852
For consumption	5,166,943	69,133	580,875	145,094	190,038	117,918	73,141	123,817
Other purposes	3,503,789	1,290,611	146,906	456,023	372,181	285,685	150,398	173,230
TOTAL	**145,952,912**	**85,027,475**	**10,542,164**	**23,156,315**	**26,163,543**	**26,308,419**	**11,565,224**	**8,376,138**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	3,553,489	2,332,091	334,972	488,778	534,854	560,366	392,761	690,304

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)	**1,554,793**	**238,769**	**146,303**	**185,645**	**150,334**	**20,657**	**5,402**	**23,034**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**54,575,682**	**14,979,142**	**5,566,196**	**6,603,954**	**5,533,529**	**3,622,408**	**1,819,027**	**2,966,421**
Construction and real estate development (including	3,381,901	2,321,336	419,198	712,568	933,791	437,157	348,969	308,047
Civil engineering construction	850,098	47,360	62,503	24,681	20,619	16,757	10,909	36,897
Other purposes	50,343,683	12,610,446	5,084,495	5,866,705	4,579,119	3,168,494	1,459,149	2,621,477
Large enterprises	22,905,473	1,476,018	1,420,937	1,382,835	417,740	312,119	216,339	567,923
SMES and individual entrepreneurs	27,438,210	11,134,428	3,663,558	4,483,870	4,161,379	2,856,375	1,242,810	2,053,554
Rest of households	**74,833,439**	**66,639,215**	**723,446**	**13,792,603**	**19,000,096**	**20,951,511**	**8,399,367**	**5,219,085**
Home loans	65,875,838	65,248,761	44,107	13,197,972	18,460,481	20,582,247	8,167,370	4,884,799
For consumption	5,472,717	79,849	514,153	136,264	150,312	88,219	78,769	140,438
Other purposes	3,484,884	1,310,605	165,186	458,367	389,303	281,045	153,228	193,848
TOTAL	**141,867,748**	**81,902,773**	**6,453,319**	**20,594,561**	**24,703,375**	**24,602,842**	**10,232,054**	**8,223,262**
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

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.

Refinancing and restructuring operations

The outstanding balance of forborne and restructured loans as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019						
	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	-	12	71	17,928	*434*	48,601	**66,612**
Gross carrying amount	-	9,468	7,415	1,196,253	*126,165*	343,758	**1,556,894**
Secured with collateral							
Number of transactions	-	3	18	8,617	*615*	18,488	**27,126**
Gross carrying amount	-	914	21,731	1,431,372	*239,124*	1,543,459	**2,997,476**
Impairment allowances	-	1,306	10,418	714,477	*119,723*	274,681	**1,000,882**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*12*	*43*	*10,861*	*321*	*26,071*	***36,987***
Gross carrying amount	-	*9,468*	*780*	*836,649*	*118,037*	*200,883*	***1,047,780***
Secured with collateral							
Number of transactions	-	*3*	*15*	*6,122*	*456*	*11,823*	***17,963***
Gross carrying amount	-	*914*	*13,821*	*872,627*	*135,300*	*1,014,352*	***1,901,714***
Impairment allowances	-	*1,306*	*10,347*	*646,167*	*113,555*	*249,673*	***907,493***
TOTAL							
Number of transactions	-	15	89	26,545	*1,049*	67,089	**93,738**
Gross amount	-	10,382	29,146	2,627,625	*365,289*	1,887,217	**4,554,370**
Impairment allowances	-	1,306	10,418	714,477	*119,723*	274,681	**1,000,882**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-

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	76	16,400	*496*	55,503	**71,994**
Gross carrying amount	-	10,731	30,910	1,422,243	*208,112*	344,134	**1,808,018**
Number of transactions	-	4	20	11,112	*1,135*	22,479	**33,615**
Gross carrying amount	-	9,670	23,370	1,645,042	*347,100*	1,788,033	**3,466,116**
Impairment allowances	-	5,179	10,932	805,980	*192,023*	314,261	**1,136,352**
Of which, non-performing loans	-	-	-	-	-	-	**-**
Not secured with collateral	-	-	-	-	-	-	**-**
Number of transactions	-	*14*	*38*	*8,444*	*355*	*29,602*	***38,098***
Gross carrying amount	-	*10,634*	*874*	*839,869*	*167,338*	*196,804*	***1,048,182***
Number of transactions	-	*4*	*13*	*6,468*	*805*	*11,675*	***18,160***
Gross carrying amount	-	*9,670*	*14,234*	*990,850*	*237,438*	*976,575*	***1,991,329***
Impairment allowances	-	*5,179*	*10,854*	*694,986*	*182,132*	*280,987*	***992,006***
TOTAL							
Number of transactions	-	19	96	27,512	*1,631*	77,982	**105,609**
Gross amount	-	20,401	54,280	3,067,286	*555,212*	2,132,167	**5,274,134**
Impairment allowances	-	5,179	10,932	805,980	*192,023*	314,261	**1,136,352**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

The value of the guarantees received to ensure collection associated with forborne and restructured transactions, broken down into collateral and other guarantees, as at 31 December 2019 and 2018, is as follows:

Thousand euro

Guarantees received	2019	2018
Value of collateral	2,762,628	2,970,068
Of which: securing Stage 3 loans	*1,521,410*	*1,566,700*
		-
Value of other guarantees	441,249	461,294
Of which: securing Stage 3 loans	*225,534*	*223,528*
Total value of guarantees received	3,203,877	3,431,362

Detailed movements of the balance of forborne and restructured loans during 2019 and 2018 are as follows:

Thousand euro

	2019	2018
Opening balance	5,274,134	6,842,793
(+) Forbearance (refinancing and restructuring) in the period	1,031,681	1,158,444
Memorandum item: impact recognised on the income statement for the period	*111,070*	*162,060*
(-) Debt amortisations	(886,887)	(1,272,884)
(-) Foreclosures	(76,111)	(159,046)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(153,023)	(314,447)
(+)/(-) Other changes (*)	(635,424)	(980,726)
Year-end balance	4,554,370	5,274,134

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 risks (see note 1.3.4).

The table below shows the value of transactions which, after forbearance or restructuring, have been classified as stage 3 exposures during 2019 and 2018:

Thousand euro	2019 (*)	2018
General governments	-	-
Other legal entities and individual entrepreneurs	152,315	183,345
Of which: Lending for construction and real estate development	*11,876*	*12,419*
Other natural persons	341,041	250,686
Total	493,356	434,031

(*) Includes the impact of the application of Bank of Spain Circular 2/2018, of 21 December, amending item 102 of Circular 4/2017, which establishes a minimum cure period of 1 year for refinancing, refinanced or restructured transactions with amounts over thirty days past due.

The average probability of default on current forborne and restructured loans broken down by activity as at 31 December 2019 and 2018 is as follows:

%	2019	2018
General governments (*)	-	-
Other legal entities and individual entrepreneurs	8	8
Of which: Lending for construction and real estate development	*7*	*7*
Other natural persons	9	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 2019.

The probability of default (PD) of forborne exposures is the same as it was as at 31 December 2018.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration by activity and at global level as at 31 December 2019 and 2018 is as follows:

Thousand euro

	2019				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	31,188,227	9,284,592	8,154,854	13,460,595	288,186
General governments	35,372,796	24,234,966	9,960,740	1,057,996	119,094
Central governments	28,659,248	18,050,464	9,960,740	554,801	93,243
Rest	6,713,548	6,184,502	-	503,195	25,851
Other financial corporations and individual entrepreneurs	3,763,467	2,016,542	1,106,812	616,528	23,585
Non-financial corporations and individual entrepreneurs	60,413,597	46,139,954	5,047,220	8,571,417	655,006
Construction and real estate	3,319,641	2,934,240	10,498	290,401	84,502
Civil engineering construction	901,545	864,354	9,466	27,025	700
Other purposes	56,192,411	42,341,360	5,027,256	8,253,991	569,804
Large enterprises	26,244,735	14,919,231	4,510,013	6,476,444	339,047
SMEs and individual entrepreneurs	29,947,676	27,422,129	517,243	1,777,547	230,757
Rest of households	78,679,821	38,284,908	37,430,002	1,916,328	1,048,583
Home loans	69,864,435	32,203,418	34,809,627	1,853,325	998,065
For consumption	5,188,697	3,285,595	1,842,951	23,358	36,793
Other purposes	3,626,689	2,795,895	777,424	39,645	13,725
TOTAL	209,417,908	119,960,962	61,699,628	25,622,864	2,134,454

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	28,814,153	17,476,256	10,544,893	719,853	73,151
Rest	6,192,608	5,802,315	-	364,384	25,909
Other financial corporations and individual entrepreneurs	4,181,670	2,272,087	1,326,244	546,351	36,988
Non-financial corporations and individual entrepreneurs	57,792,891	45,387,201	4,244,419	7,525,521	635,750
Construction and real estate	3,520,222	3,203,431	33,004	199,736	84,051
Civil engineering construction	985,353	938,861	35,959	8,221	2,312
Other purposes	53,287,316	41,244,909	4,175,456	7,317,564	549,387
Large enterprises	25,229,294	14,526,525	3,543,004	6,869,579	290,186
SMEs and individual entrepreneurs	28,058,022	26,718,384	632,452	447,985	259,201
Rest of households	75,470,300	38,349,129	35,652,610	514,596	953,965
Home loans	66,076,478	31,702,369	33,307,632	161,014	905,463
For consumption	5,621,086	3,679,357	1,917,050	4,012	20,667
Other purposes	3,772,736	2,967,403	427,928	349,570	27,835
TOTAL	205,446,316	125,312,182	67,378,970	10,711,084	2,044,080

By autonomous communities

The risk concentration broken down by activity and at the level of Spanish autonomous communities as at 31 December 2019 and 2018, respectively, is as follows:

Thousand euro

		2019								
		AUTONOMOUS COMMUNITIES								
	TOTAL	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Central banks and Credit institutions	**9,284,592**	**7,867**	**1**	**37**	**6,105**	**3**	**584,764**	**2**	**35**	**321,105**
General governments	**24,234,966**	**132,854**	**25,109**	**250,550**	**250,242**	**32,135**	**34,779**	**74,523**	**501,109**	**1,167,624**
Central governments	18,050,464	-	-	-	-	-	-	-	-	-
Rest	6,184,502	132,854	25,109	250,550	250,242	32,135	34,779	74,523	501,109	1,167,624
Other financial corporations and individual entrepreneurs	**2,016,542**	**4,104**	**2,413**	**2,421**	**2,388**	**805**	**356**	**510**	**12,025**	**546,527**
Non-financial corporations and individual entrepreneurs	**46,139,954**	**2,396,251**	**945,194**	**1,390,499**	**2,131,098**	**1,392,454**	**242,384**	**610,089**	**1,111,539**	**14,058,351**
Construction and real estate	2,934,240	172,201	48,788	75,440	108,127	34,809	10,893	23,804	27,071	690,271
Civil engineering construction	864,354	27,954	27,086	20,447	4,646	3,605	2,961	3,822	15,623	120,571
Other purposes	42,341,360	2,196,096	869,320	1,294,612	2,018,325	1,354,040	228,530	582,463	1,068,845	13,247,509
Large enterprises	14,919,231	612,165	260,510	276,313	885,038	325,445	101,668	160,104	287,006	5,436,446
SMEs and individual	27,422,129	1,583,931	608,810	1,018,299	1,133,287	1,028,595	126,862	422,359	781,839	7,811,063
Rest of households	**38,284,908**	**2,646,155**	**500,660**	**1,184,455**	**1,393,873**	**580,771**	**107,762**	**512,165**	**760,032**	**14,510,918**
Home loans	32,203,418	2,197,795	417,083	941,575	1,225,265	420,564	90,873	422,052	605,048	12,288,338
For consumption	3,285,595	293,760	46,961	92,918	92,007	136,607	7,531	55,315	80,174	1,120,240
Other purposes	2,795,895	154,600	36,616	149,962	76,601	23,600	9,358	34,798	74,810	1,102,340
TOTAL	**119,960,962**	**5,187,231**	**1,473,377**	**2,827,962**	**3,783,706**	**2,006,168**	**970,045**	**1,197,289**	**2,384,740**	**30,604,525**

Thousand euro

	2019								
	AUTONOMOUS COMMUNITIES								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarra**	**Valencia**	**Basque Country**	**La Rioja**	**Ceuta and Melilla**
Central banks and Credit institutions	**-**	**3,968**	**7,656,942**	**16**	**180**	**166,542**	**537,025**	**-**	**-**
General governments	**69,491**	**200,394**	**1,724,337**	**40,956**	**241,551**	**658,006**	**664,432**	**78,261**	**38,149**
Central governments	-	-	-	-	-	-	-	-	-
Rest	69,491	200,394	1,724,337	40,956	241,551	658,006	664,432	78,261	38,149
Other financial corporations and individual entrepreneurs	**125**	**5,350**	**1,378,933**	**3,270**	**392**	**32,666**	**24,174**	**83**	**-**
Non-financial corporations and individual entrepreneurs	**138,741**	**2,006,521**	**11,220,806**	**1,098,702**	**451,494**	**4,507,992**	**2,230,047**	**191,230**	**16,562**
Construction and real estate	2,291	59,956	1,317,390	50,281	20,157	184,676	98,693	8,889	503
Civil engineering construction	2,917	59,799	415,282	6,887	4,580	35,871	111,784	519	-
Other purposes	133,533	1,886,766	9,488,134	1,041,534	426,757	4,287,445	2,019,570	181,822	16,059
Large enterprises	33,797	577,432	4,181,661	192,354	131,924	513,556	891,825	51,475	512
SMEs and individual	99,736	1,309,334	5,306,473	849,180	294,833	3,773,889	1,127,745	130,347	15,547
Rest of households	**134,177**	**791,874**	**5,015,644**	**2,081,432**	**162,817**	**6,576,926**	**1,178,491**	**78,893**	**67,863**
Home loans	99,285	583,112	4,162,789	1,809,437	127,980	5,674,616	1,015,379	58,025	64,202
For consumption	27,495	124,422	552,443	123,769	19,477	417,210	80,831	12,552	1,883
Other purposes	7,397	84,340	300,412	148,226	15,360	485,100	82,281	8,316	1,778
TOTAL	**342,534**	**3,008,107**	**26,996,662**	**3,224,376**	**856,434**	**11,942,132**	**4,634,169**	**348,467**	**122,574**

Thousand euro

	2018									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragón	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	17,476,256	-	-	-	-	-	-	-	-	-
Rest	5,802,315	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	**2,272,087**	**4,175**	**1,410**	**2,058**	**1,213**	**910**	**315**	**675**	**13,492**	**585,438**
Non-financial corporations and individual entrepreneurs	**45,387,201**	**2,392,741**	**830,013**	**1,281,308**	**1,758,705**	**1,206,604**	**262,286**	**542,171**	**1,144,897**	**13,957,619**
Construction and real estate development	3,203,431	233,267	60,335	82,045	94,592	39,799	12,185	15,590	28,671	991,403
Civil engineering construction	938,861	27,868	28,332	14,996	5,241	2,580	3,431	4,412	14,769	192,402
Other purposes	41,244,909	2,131,606	741,346	1,184,267	1,658,872	1,164,225	246,670	522,169	1,101,457	12,773,814
Large enterprises	14,526,525	571,558	205,531	257,905	545,914	328,137	109,888	99,164	308,803	4,358,669
SMEs and individual entrepreneurs	26,718,384	1,560,048	535,815	926,362	1,112,958	836,088	136,782	423,005	792,654	8,415,145
Rest of households	**38,349,129**	**2,617,767**	**495,100**	**1,226,063**	**1,402,881**	**577,340**	**110,002**	**526,007**	**748,917**	**14,340,386**
For house purchase	31,702,369	2,151,965	401,467	944,987	1,216,735	423,782	91,043	433,592	585,218	11,853,634
For consumption	3,679,357	303,617	51,667	128,912	108,321	128,976	9,254	57,110	82,277	1,293,620
Other purposes	2,967,403	162,185	41,966	152,164	77,825	24,582	9,705	35,305	81,422	1,193,132
TOTAL	**125,312,182**	**5,080,950**	**1,349,242**	**2,693,386**	**3,261,028**	**1,787,670**	**847,466**	**1,085,466**	**2,151,544**	**30,371,331**

Thousand euro

	2018								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarra	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**	**2,126,241**	**36,416**	**176,446**	**803,112**	**629,295**	**79,055**	**26,050**
Rest	50,837	64,378	2,126,241	36,416	176,446	803,112	629,295	79,055	26,050
Other financial corporations and individual entrepreneurs	**124**	**6,108**	**1,574,181**	**3,836**	**399**	**57,908**	**19,713**	**132**	**-**
Non-financial corporations and individual entrepreneurs	**139,572**	**1,910,473**	**10,933,844**	**1,167,020**	**455,821**	**4,336,609**	**2,871,382**	**177,671**	**18,465**
Construction and real estate development	1,885	54,928	1,169,283	69,852	21,976	220,264	99,826	7,268	262
Civil engineering construction	2,286	49,594	438,540	6,776	5,208	27,911	114,070	445	-
Other purposes	135,401	1,805,951	9,326,021	1,090,392	428,637	4,088,434	2,657,486	169,958	18,203
Large enterprises	30,103	569,405	4,408,790	212,387	146,909	996,670	1,336,505	40,007	180
SMEs and individual entrepreneurs	105,298	1,236,546	4,917,231	878,005	281,728	3,091,764	1,320,981	129,951	18,023
Rest of households	**125,436**	**780,781**	**4,819,131**	**2,170,452**	**166,565**	**6,950,685**	**1,145,867**	**81,514**	**64,235**
For house purchase	96,423	561,454	3,963,559	1,847,955	128,384	5,913,415	972,796	56,833	59,127
For consumption	22,275	127,292	550,348	162,701	22,035	528,274	84,581	14,922	3,175
Other purposes	6,738	92,035	305,224	159,796	16,146	508,996	88,490	9,759	1,933
TOTAL	**315,969**	**2,777,066**	**34,102,253**	**3,377,945**	**799,485**	**12,211,140**	**5,176,850**	**338,385**	**108,750**

Sovereign risk exposure

The breakdown of exposure to sovereign risk, by type of financial instrument, applying the criteria required by the European Banking Authority (EBA), as at 31 December 2019 and 2018, is as follows:

Thousand euro

	2019											
	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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	339,969	(788,822)	-	2,960,341	10,411,251	11,880,486	-	19,679	(54)	24,822,850	-	69.1%
Italy	20,150	(54,598)	-	-	5,712,700	-	-	-	-	5,678,253	-	15.8%
United States	-	-	2,719	465,155	218,095	1	-	-	-	685,970	-	1.9%
United Kingdom	-	-	-	-	120,958	3	-	-	-	120,961	-	0.3%
Portugal	-	-	-	616,724	1,621,113	-	-	-	-	2,237,836	-	6.2%
Mexico	-	-	-	179,339	-	-	-	-	-	179,339	-	0.5%
Rest of the world	11,398	-	-	2,050,868	28,665	89,862	-	-	-	2,180,793	-	6.1%
Total	**371,517**	**(843,419)**	**2,719**	**6,272,427**	**18,112,781**	**11,970,352**	**-**	**19,679**	**(54)**	**35,906,002**	**-**	**100%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (667 million euros as at 31 December 2019).

(***) Relates to commitments for cash purchases and sales of financial assets.

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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	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**	**12,612,204**	**11,618,770**	**-**	**13,587**	**(113)**	**35,628,988**	**557,375**	**100%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (798 million euros as at 31 December 2018).

(***) 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

	2019		
	Gross carrying amount	Excess value of the collateral	Adjustments due to impairment (*)
Lending for construction and real estate development (including land) (business in Spain)	3,105	747	221
Of which: non-performing	*437*	*161*	*197*

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

	Gross carrying amount	
Memorandum item	2019	2018
Write-offs (*)	145	251

Million euro

	Amount	Amount
Pro-memoria:	2019	2018
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	87,450	87,296
Total assets (total business) (carrying amount)	223,754	222,322
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	400	373

(*) 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 2019	Gross carrying amount 2018
Not secured with real estate	**519**	**645**
Secured with real estate	**2,585**	**2,848**
Buildings and other finished constructions	1,176	1,467
Housing	815	942
Rest	361	524
Buildings and other construction in progress	1,003	988
Housing	950	877
Rest	52	111
Land	407	393
Consolidated urban land	361	373
Other land	46	20
Total	**3,105**	**3,493**

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	2019	2018
Value of collateral	2,415	2,584
Of which: securing Stage 3 loans	*204*	*307*
Value of other guarantees	202	208
Of which: securing Stage 3 loans	*22*	*22*
Total value of guarantees received	**2,617**	**2,792**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2019	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**34,018**	***1,316***
Not secured with real estate	537	*113*
Secured with real estate	33,481	*1,203*

Million euro

	2018	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**33,475**	**1,390**
Not secured with real estate	604	*116*
Secured with real estate	32,871	*1,274*

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

	2019

	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**33,481**	***1,203***
LTV <= 40%	6,008	*120*
40% < LTV <= 60%	8,402	*169*
60% < LTV <= 80%	10,173	*245*
80% < LTV <= 100%	4,678	*231*
LTV > 100%	4,220	*438*

Million euro

	2018	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**32,871**	**1,274**
LTV <= 40%	5,780	*112*
40% < LTV <= 60%	7,961	*166*
60% < LTV <= 80%	9,258	*239*
80% < LTV <= 100%	4,789	*259*
LTV > 100%	5,083	*498*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated group entities, for transactions recorded by credit institutions within Spain, as at 31 December 2019 and 2018:

Million euro

	2019			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**2,382**	**1,007**	***676***	***234***
Finished buildings	759	168	*593*	*195*
Housing	521	110	*385*	*121*
Rest	238	57	*209*	*73*
Buildings under construction	328	111	*14*	*8*
Housing	327	111	*13*	*7*
Rest	1	-	*1*	*1*
Land	1,296	728	*69*	*32*
Building land	484	220	*27*	*10*
Other land	812	508	*42*	*22*
Real estate assets acquired through mortgage lending to households for house purchase	**442**	**86**	***509***	***160***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**25**	**9**	-	-
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	**2,849**	**1,102**	**1,185**	**394**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

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	**8,727**	**3,642**	**1,726**	**767**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales.

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered problematic by the Group, as at 31 December 2019:

Million euro

	2019		
	Gross amount	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**2,824**	**1,093**	**1,731**
Performing real estate (*)	(41)	(1)	(39)
Total operations outside the national territory and others	24	7	18
Provision allocated in original loan	275	275	-
Credit risk transferred in portfolio sales (**)	(1,897)	(980)	(918)
Total non-performing real estate	**1,185**	**394**	**791**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

(**) Relates mainly to the Solvia Desarrollos Inmobiliarios, S.L.U. sale (see note 2).

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 2019 financial year:

Thousand euro

	Revenue	No. full time equivalents	Gross income before tax	Corporation tax
Spain	3,298,380	15,949	597,082	(73,951)
United Kingdom	1,242,393	6,677	228,024	(74,582)
Mexico	124,805	457	26,010	(3,983)
United States	201,090	251	95,906	(23,259)
Rest	65,085	249	4,054	1,576
Total	**4,931,753**	**23,583**	**951,076**	**(174,199)**

As at 31 December 2019, the return on Group assets, calculated by dividing the consolidated gains/(losses) for the year by total assets, amounts to 0.34%.

This information is available in Schedule I to these Group consolidated annual financial statements for the year ended 31 December 2019, 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 2019. Data on full-time equivalent staff has been obtained from the workforce of each company/country as at the end of 2019.

The amount of public subsidies and aid received is not material.

Glossary of terms on performance measures

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

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

Equivalence of headings from the income statement of businesses and management units that appear in the Note on segmented information and in the Consolidated Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Net banking revenues:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income/expenses:

- Other operating income.
- Other operating expenses.

Operating expenses and depreciation and amortisation::

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains.
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets, net (including only gains or losses on the sale of investment property).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains.
- (Provisions or (-) reversal of provisions) (including only commitments and guarantees provided).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excluding commitments and guarantees provided).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment of investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets, net (including only gains or losses on the sale of investment property).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets, net (excluding gains or losses on the sale of investment property).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only profit or loss on the sale of equity holdings).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

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

BALANCE

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Outstanding gross loans and advances	Includes gross customer loans and advances, excluding repos, accrual adjustments and Stage 3 assets.	Mortgage loans & credit	83,720	80,872
		Loans and credit secured with other collateral	3,330	2,767
		Commercial loans	6,443	6,186
		Finance leases	2,558	2,565
		Overdrafts and other debtors	48,521	46,976
		Outstanding gross loans and advances	**144,572**	**139,366**
Loans and advances to customers, gross	Includes loans and advances to customers excluding impairment allowances.	Stage 3 assets (customers)	5,923	6,472
		Accruals	18	(13)
		Loans and advances to customers, gross, excluding repos	**150,513**	**145,824**
		Repos	236	596
		Loans and advances to customers, gross	**150,749**	**146,420**
		Impairment allowances	(2,933)	(3,433)
		Loans and advances to customers	**147,816**	**142,987**
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Financial liabilities measured at amortised cost	205,636	206,077
		Non-retail financial liabilities	59,327	68,734
		Deposits with central banks	20,065	28,799
		Deposits from credit institutions	11,471	12,000
		Institutional issues	23,623	24,334
		Other financial liabilities	4,168	3,601
		On-balance sheet customer funds	**146,309**	**137,343**

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, outstanding marketable debt securities (Bonds and other marketable securities and subordinated liabilities)	Customer deposits	147,362	139,079
		Sight accounts	118,868	107,665
		Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities	27,339	28,709
		Repos	951	2,533
		Accrual adjustments and hedging derivatives	204	172
		Bonds and other marketable securities	19,514	19,568
		Subordinated liabilities (*)	3,056	3,031
		On-balance sheet funds	**169,932**	**161,678**
Off-balance sheet customer funds	Incluye los fondos de inversión, gestión de patrimonios, fondos de pensiones y seguros comercializados.	Mutual funds	26,003	26,379
		Asset management	3,363	3,595
		Pension funds	3,367	3,594
		Insurance products sold	10,430	10,465
		Total off-balance sheet funds	**43,163**	**44,034**
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	**Funds under management**	**213,095**	**205,711**
Other assets	Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Derivatives – Hedge accounting	469	302
		Fair value changes of the hedged items in portfolio with interest rate hedge	250	57
		Tax assets	7,008	6,859
		Other assets	1,496	1,640
		Non-current assets and disposal groups classified as held for sale	764	4,587
		Other assets	**9,987**	**13,445**
Other liabilities	Comprises the following accounting items: derivatives - hedge accounting, fair value changes in hedged items in a portfolio with interest rate hedge, tax liabilities, other liabilities y liabilities included in disposal groups classified as held for sale.	Derivatives – Hedge accounting	729	634
		Fair value changes of the hedged items in portfolio with interest rate hedge	235	37
		Tax liabilities	241	176
		Other liabilities	784	995
		Liabilities included in disposal groups classified as held for sale	10	83
		Other liabilities	**1,998**	**1,924**

(*) Subordinated liabilities in connection with debt securities.

INCOME STATEMENT

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Customer spread (*)	Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution to net interest income solely from customer-related transactions. Calculated as the difference between the average rate that the bank charges its customers for loans and the average rate that the bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	Loans and advances to customers (net)		
		Average balance	139,674	135,903
		Profit/(loss)	4,058	4,017
		Rate (%)	2.91	2.96
		Customer deposits		
		Average balance	147,551	141,060
		Profit/(loss)	(392)	(309)
		Rate (%)	(0.27)	(0.22)
		Customer spread	**2.64**	**2.74**
Other operating income/expense	Comprises the following accounting items: other income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Other operating income	234	257
		Other operating expenses	(551)	(547)
		Income from assets under insurance or reinsurance contracts	-	-
		Expenses on liabilities under insurance or reinsurance contracts	-	-
		Other operating income and expenses	**(317)**	**(290)**

(*) Average calculated on the basis of average daily balances.

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Pre-provisions income	Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation.	Gross income	4,932	5,010
		Administrative expenses	(2,743)	(2,920)
		Staff	(1,649)	(1,591)
		Other general administrative expenses	(1,095)	(1,330)
		Depreciation and amortisation	(470)	(353)
		Pre-provisions income	**1,719**	**1,737**
Total provisions and impairments	Comprises the following accounting items: i) impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains, ii) provisions or reversal of provisions, iii) impairment or reversal of impairment of investments in joint ventures or associates, iv) impairment or reversal of impairment of non-financial assets, v) profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on sale of holdings), and vi) Gains or losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on the sale of investment property).	Impairment or reversal of impairment of investments in joint ventures and associates	7	0
		Impairment or reversal of impairment on non-financial assets	(86)	(401)
		Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(36)	(35)
		Gains on sale of equity holdings	(133)	(0)
		Profit/(loss) on sale of investment properties	4	32
		Other provisions and impairments	**(244)**	**(404)**
		Provisions or reversal of provisions	(27)	(161)
		Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(667)	(756)
		Provisions for loan losses and financial asse	**(694)**	**(917)**
		Total provisions and impairments	**(938)**	**(1,320)**
Capital gains on asset sales and other revenue	Comprises the following accounting items: gains or losses on derecognition of non-financial assets, net (excluding gains/losses on sale of investment properties) and gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (includes only gains or losses on the sale of equity holdings).	Gains or losses on derecognition of non-financial assets, net	41	35
		Gains on sale of equity holdings	133	-
		Profit/(loss) on sale of investment properties	(4)	(32)
		Capital gains on asset sales and other revenue	**170**	**2**

PROFITABILITY AND EFFICIENCY

Performance indicator		Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
ROA	(*) (**)	Consolidated profit or loss for the year / Average total assets. Considering the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average total assets: measure of assets calculated using daily balances.	Consolidated profit or loss for the year	777	335
			Average total assets	223,470	217,168
			ROA (%)	**0.35**	**0.15**
RORWA	(*)	Profit attributable to the Group / Risk weighted assets (RWA).The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end.	Net profit attributable to the Group	768	328
			Risk weighted assets (RWAs)	81,231	80,335
			RORWA (%)	**0.95**	**0.41**
ROE	(*) (***)	Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Net profit attributable to the Group	768	328
			Average shareholders' equity	12,926	12,643
			ROE (%)	**5.94**	**2.60**
ROTE	(*) (***)	Profit attributable to the Group / Average shareholders' equity The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end. Intangible assets are excluded from the denominator. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Net profit attributable to the Group	768	328
			Average shareholders' equity (excluding intangible ass	10,437	10,309
			ROTE (%)	**7.36**	**3.18**

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

(**) Average calculated on the basis of daily balances.

(***) Average calculated using the month-end positions since December of the previous year.

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Cost-to-income ratio (*)	Administrative expenses / Adjusted gross income. The denominator contains accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end.	Administrative expenses	(2,743)	(2,920)
		Adjusted gross income	4,932	5,010
		Cost-to-income ratio (%)	**55.63**	**58.29**

RISK MANAGEMENT

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Stage 3 exposures (doubtful)	The sum of the following accounting items: customer loans and advances classified as stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as stage 3.	Loans and advances to customers	5,942	6,472
		Stage 3 guarantees given	198	81
		Stage 3 exposures	**6,141**	**6,554**
Coverage ratio of stage 3 exposures	Percentage of exposures classified as stage 3 that are covered by provisions.Calculated as impairments of customer loans and advances not classified as current assets held for sale (including provisions for guarantees given) / Total risks classified as stage 3 (including guarantees given classified as stage 3).	Provisions for loan losses	3,045	3,544
		Stage 3 exposures	6,141	6,554
		Stage 3 coverage ratio	**49.6%**	**54.1%**
Coverage ratio on non-performing real estate	Provisions for non-performing real estate assets / Total non-performing real estate assets Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Provisions for non-performing real estate assets	394	767
		Non-performing real estate assets	1,185	1,726
		Coverage ratio on non-performing real estate	**33.3%**	**44.5%**

(*) Accrual on a straight-line basis of the contributions to the DGF and SRF and the tax on deposits at credit institutions was based on the Group's best estimates.

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Non-performing assets and non-performing assets coverage ratio	The sum of risks classified as stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt mainly in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment. The non-performing assets coverage ratio is obtained by dividing provisions for non-performing assets by total non-performing assets.	Stage 3 exposures	6,141	6,554
		Non-performing real estate assets	1,185	1,726
		Non-performing assets	**7,326**	**8,279**
		Provisions for non-performing assets	3,439	4,311
		Coverage ratio on non-performing assets	**46.9%**	**52.1%**
NPL ratio	Exposures classified as stage 3 expressed as a percentage of total exposures granted to customers that are not classified as non-current assets held for sale. All components of the calculation are headings or sub-headings of the financial statements. Calculated as impairments of exposures classified as stage 3, including guarantees given classified as stage 3 / Customer loans and advances not classified as current assets held for sale and guarantees given. See definition of assets classified as stage 3 elsewhere in this table.	Stage 3 exposures	6,141	6,554
		Loans and advances to customers and guarantees giv	160,127	155,206
		NPL ratio	**3.8%**	**4.2%**
Cost of risk (pbs)	Provisions for loan losses and other provisions and impairments / Gross customer loans and advances, excluding repos, plus non-performing real estate assets The numerator considers annualisation on a straight-line basis of provisions for loan losses and other provisions and impairments to date, adjusted for impairment or reversal of impairment on investments in joint ventures or associates. Additionally, provisions for institutional portfolio sales are adjusted. This metric is expressed in basis points.	**Provisions for loan losses and real estate, adjusted**	**(792)**	**(977)**
		Provisions for loan losses	(672)	(751)
		Other provisions and impairments	(244)	(404)
		Impairment or reversal of impairment of investments in joint ventures and associates	(7)	-
		Provisions for institutional portfolio sales	131	177
		Loans and advances to customers, gross, excluding repos	**150,513**	**145,824**
		Non-performing real estate assets	**1,185**	**1,726**
		Cost of risk (bp)	**52**	**66**

LIQUIDITY MANAGEMENT

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Loan to deposits ratio	Net loans and receivables in retail financing. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table.	Net loans and advances excluding repos, adjusted for brokered loans	144,246	139,583
		On-balance sheet customer funds	146,309	137,343
		Loan-to-deposit ratio	**98.6%**	**101.6%**

SHAREHOLDERS AND SHARES

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2019	31/12/2018
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date.	Average number of shares (million)	5,538	5,565
		Listed price	1.040	1.001
		Market capitalisation (million euros)	**5,760**	**5,568**
Earnings per share (EPS)	Profit attributed to the Group / Average number of shares outstanding at end of period. The numerator is the annualisation on a straight-line basis of profit to date, adjusted for the amount of the AT1 coupon recognised in equity and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end.	Adjusted profit attributable to the Group	695	277
		Profit attributable to the Group	768	328
		Adjustment for accrued AT1	(73)	(51)
		Average number of shares (million)	5,538	5,565
		Earnings per share (euros)	**0.13**	**0.05**
Book value per share	Book value / Average number of shares outstanding at end of period. Book value is the sum of shareholders' equity, adjusted for the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end.	Adjusted shareholders' equity	13,172	12,545
		Average number of shares (million)	5,538	5,565
		Book value per share (euro)	**2.38**	**2.25**
TBV per share (€)	Tangible book value / Average number of shares outstanding at end of period. Tangible book value is the sum of shareholders' equity, adjusted for intangible assets and the relative accrual of the contributions to the DGF and SRF and the tax on deposits at credit institutions, except at year-end.	Shareholders' equity	13,172	12,545
		Intangible assets	2,565	2,461
		Tangible book value (adjusted shareholders' equity)	10,607	10,084
		Average number of shares (million)	5,538	5,565
		TBV per share	**1.92**	**1.81**
Price/Book value	Share price or value / Book value per share.	Listed price	1.040	1.001
		Book value per share (euro)	2.38	2.25
		Price/Book value	**0.44**	**0.44**
Price / Earnings ratio (P/E)	Share price / Net attributed earnings per share	Listed price	1.040	1.001
		Earnings per share (euros)	0.13	0.05
		Price / Earnings ratio (P/E)	**8.29**	**20.11**

“This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.”

Independent auditor´s report on the consolidated annual accounts

To the shareholders of Banco de Sabadell, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognized income and expenses, statement of total changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the key audit matter

Impairment for credit risk of "Loans and advances", impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios

Determining impairment for credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying consolidated annual accounts. The evaluation of impairment for credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Group's internal models, and involves a process that implies judgments and estimates, and so it has been a key matter of our audit.

In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. In this sense, the Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral.

It should be noted that the estimation of the impairment of real estate assets originated from credit activities and which, through lieu in payment, purchase or judicial proceedings, are awarded to the Group, are subject to the same policies indicated above for real estate collateral.

The performance of the models used to calculate impairment for expected losses required by International Financial Reporting Standard 9 (IFRS 9) require a high level of judgment to determine these credit losses considering, amongst others, elements such as:

- Identification and classification in stages ("staging") of impaired assets or assets with a significant increase in credit risk.
- Use of concepts such as macroeconomic scenarios, expected life of the operation and segmentation criteria.
- Construction of parameters for these models such as probability of default (PD) and loss given default (LGD).

Our work has focused on the analysis, evaluation and testing of the internal control system, as well as the performance of test of details over credit risk impairment losses estimated collectively and individually.

With respect to internal control system we have performed the following procedures, among others:

- Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Group's internal governance model.
- Analysis of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the impairment.

In addition, we carried out the following tests of details:

- Analysis of the methodology for classifying credit assets in the three stages defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified as Stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.
- Evaluation of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected credit loss, including: i) the estimation of the risk parameters throughout lifetime or 12 months, depending on the corresponding stage; ii) the use of alternative scenarios in the projections carried out in the future; and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation.

Key audit matters	How our audit addressed the key audit matter
In 2019, the Group has executed the transfer of real estate assets included in the sales operations previously agreed. On 19 July 2018, the Group agreed to transfer almost all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. The real estate assets of the operation had a joint carrying amount of approximately €3,900 million at the date of the agreement. In addition, on 2 August 2019, the sale of an additional portfolio of real estate assets to the same company was agreed with a joint carrying amount of €342 million. On 20 December 2019, the Group has executed the transfer of most of the real estate assets of the aforementioned portfolios to companies wholly owned by a subsidiary of Cerberus that owns 80% of its capital, the remaining 20% being owned by Banco de Sabadell, S.A., with the corresponding derecognition of these real estate assets from the Group's balance sheet. The price of the operation is approximately €3,430 million. The transferred real estate assets include, amongst others, certain units subject to the exercising, in the short term, of rights of pre-emption by third parties totalling €1,149 million. In addition, there is a payment that has been deferred by the aforementioned subsidiary of the Cerberus Group totalling €447 million, which matures in 24 months. See Notes 1, 2, 4.4.2, 11 and Appendix VI to the accompanying consolidated annual accounts with respect to impairment for credit risk and Notes 1, 2, 4.4.2, 13, 15, 17 and Appendix VI to the accompanying consolidated annual accounts with respect to the impairment of real estate assets arising from foreclosured assets and sale of real estate portfolios.	• Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models. • Check referred to the working of the "calculation engine" and re-execution of the calculation of collective hedges, for portfolios with structural models, and of the calculation of impairment of real estate assets deriving from foreclosured assets based on the different asset categories. • Analysis of a sample of individualized credit files, as well as real estate assets deriving from foreclosured assets, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment. Regarding the sale of real estate portfolios, we have performed the following tests: • Verification and analysis of the support contractual documentation of the agreements reached, and the report prepared by an independent expert on the accounting treatment of the operation that has led to loss of control of the transferred real estate assets. • Verification of the accounting classification and of the analysis of recoverability of the deferred payment and the collection right associated with the assets subject to the exercising of the rights of pre-emption by third parties. As a result of our tests on the calculations and estimates of the amount of credit risk impairment and real estate assets deriving from foreclosured assets, we have not identified any differences outside a reasonable range in the amounts recorded in the accompanying consolidated annual accounts.

Key audit matters	How our audit addressed the key audit matter
Verification of the recoverability of goodwill Evaluation of the recoverability of goodwill is a complex exercise and requires a high level of judgment and estimation, and therefore it has been a key matter in our audit. On an annual basis, or when there are indications of impairment, the Group performs an assessment to determine whether the goodwill recognized in its consolidated annual accounts is impaired. Each goodwill item is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans within each CGU to estimate their recoverable value. The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgments and estimates given that it is based on assumptions concerning macroeconomics evolution and other matters such as key business assumptions (the evolution of credit, non-performing loans ratio, interest rates, etc…) that determine the cash flows, discount rates and long-term growth rates that are applied. The models are sensitive to the variables and assumptions used, and there is a risk of the inaccurate assessment of those items due to their nature. See Notes 1 and 16 to the accompanying consolidated annual accounts.	We gained an understanding and performed a review of the estimation process carried out by the Group, as well as the internal control environment, focusing our procedures on aspects such as: • Verification of the criteria for defining the Group's CGUs associated with the various goodwill items. • Evaluation of the method used by to estimate the impairment of goodwill. • Analysis of the annual measurement reports, prepared by both the Group and external experts, on the assessment of impairment of goodwill. We have performed tests to examine the cash flow projection models for the various CGUs utilized by the Group, taking into consideration the content of current legislation, market practices and the specific expectations for the banking sector. This assessment included the verification of assumptions such as growth rates and discount rates used, as well as an analysis of the budgetary monitoring of the primary CGUs and the impact of variations identified in the budgets and growth rates. Finally, we have also reviewed the adequacy of the information presented in the accompanying consolidated annual accounts. As a result of the aforementioned procedures, we consider that the estimates made by the Group with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these consolidated annual accounts are prepared.

Key audit matters	How our audit addressed the key audit matter
Financial information systems	

Key audit matters

Financial information systems

Due to its nature, Banco Sabadell Group's business, particularly the preparation of financial and accounting information, is highly dependent on information technology systems, such that adequate control of these systems is crucial to ensuring correct data processing.

Moreover, as the systems become more complex, the risks relating to the organization's information technology systems and, by extension, the data they process, increase.

The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls.

Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology Area, software maintenance and development controls, physical and logical security and system operation.

How our audit addressed the key audit matter

With the help of our information technology system experts, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Group's accounting recognition and closings. We have also gained an understanding of the functionalities and involvement of the various information systems at the Group within the accounting recognition and closing process.

We essentially performed the following procedures on the information systems considered relevant to the financial reporting process:

- Review of the general computer controls relating to aspects deriving from operations, the development and maintenance of applications, their security and the governance and organization of the Group's Information Systems Area.
- Review of the general controls to manage authorization to access financial reporting systems and controls relating to the authorization of personnel to make changes to computer processes.
- Understanding of key business processes, identifying automatic controls that exist in those processes and their validation.
- Understanding and review of the process for generating manual accounting entries considered to give rise to a risk. Extraction, completeness validation and filtering of the accounting entries.
- Understanding and re-execution of some of the calculations performed by the Group considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits).

In general terms, the results of our procedures were satisfactory and we did not detect any material aspect affecting the financial information included in the accompanying consolidated annual accounts.

Other information: Consolidated Director's report

Other information comprises only the consolidated Director's report for the 2019 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Director's report. Our responsibility regarding the information contained in the consolidated Director's report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Director's report or, if appropriate, that the Director's report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.

b) A general level applicable to the rest of the information included in the consolidated Director's report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated Director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated Director's report and that the rest of the information contained in the consolidated Director's report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the Audit and Control Committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s Audit and Control Committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s Audit and Control Committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s Audit and Control Committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's Audit and Control Committee dated January 28, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on March 28, 2019 appointed us as auditors of the Group for a period of 1 year, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have audited the accounts continuously since the year ended December 31, 1985.

Services provided

Services, different to the audit, provided to the Group are detailed in note 33 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by

Raúl Ara Navarro (20210)

January 31, 2020