BANCO SABADELL GROUP

Independent auditor's report, condensed interim consolidated financial statements for the six - month period ended June 30, 2018 and consolidated Directors' report for the first six months of the 2018 financial year

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 condensed interim consolidated financial statements

To the shareholders of Banco de Sabadell, S.A. at the request of Board of Directors:

Report on the condensed interim consolidated financial statements

Opinion

We have audited the condensed interim consolidated financial statements of Banco Sabadell, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the balance sheet as at June 30, 2018, the income statement, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six month period then ended.

In our opinion, the accompanying condensed interim consolidated financial statements present fairly, in all material respects, the equity and financial position of the Group as at June 30, 2018, as well as its financial performance and cash flows, all condensed and consolidated, for the six month period then ended, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of complete interim financial statements, 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 condensed interim consolidated financial statements* 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 condensed interim consolidated financial statements 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 condensed interim consolidated financial statements of the current period. These matters were addressed in the context of our audit of the condensed interim consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters	How our audit addressed the key audit matter
Impairment due to credit risk and real estate assets arising from foreclosures	

Determining impairment due to credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying interim condensed consolidated financial statements. The evaluation of impairment due to credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Group's internal models.

In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. The Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral, estimating its fair value adjusted for its cost of sale, considering a discount to the reference value based on the Group's historical experience in the disposal of assets of similar characteristics. The estimation of the fair value of the real estate collateral is made from the information and / or appraised value provided by different companies and appraisal agencies.

Periodically the Group performs recalibrations of its internal models in order to optimize its predictive capacity by updating, where appropriate, the variables considered or the algorithms used. In this financial year 2018, these internal models have been updated in accordance with the new requirements arising from the entry into force of IFRS 9 "Financial Instruments". Note 1 of the accompanying interim condensed consolidated financial statements includes changes in policies, procedures and the Group's tools as a result of the entry into force of said standard, as well as the most significant impacts recorded as of January 1, 2018.

It should be noted that the estimation of the impairment of real estate assets originated from loan activities and which, through deed in lieu, purchase or judicial proceedings, are awarded to the Group, are subject to the same policies indicated above for real estate collateral.

Our work has focused on the analysis, evaluation and verification of the internal control system, as well as the performance of detailed tests on provisions, both for those estimated collectively and individually.

The procedures we performed on the internal control system included the following, among others:

- **Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Group's internal governance model.**
- **Review of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the deterioration.**

In addition, we carried out the following tests of details:

- **Review of the methodology for classifying credit assets in the three states defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified in stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.**
- **Review of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected loss, including: i) the estimation of the risk parameters throughout the life of the operation 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
Models and valuation methods used suppose a high component of judgment and estimation for the determination of losses due to deterioration. In addition to the guarantees established on the different operations, as a result of the acquisition of Banco CAM, the Asset Protection Scheme (hereinafter, EPA) entered into force for a predetermined portfolio of assets. Through said EPA, the Deposit Guarantee Fund (hereinafter, DGF) assumes 80% of the losses derived from said portfolio during a period of 10 years, once the provisions constituted on said date of acquisition have been absorbed. In this way, for the accounting impairment losses corresponding to these assets, Group Banco Sabadell estimates a collection right against the FGD for the guarantee granted under the heading "Financial assets at amortized cost". This collection right is subject to periodic settlements by the DGF. **See Notes 1, 2, 4.1 and 10 to the condensed interim consolidated financial statements with respect to impairment due to credit risk and Notes 1, 2, 4.1, 13 and 14 to the condensed interim consolidated financial statements with respect to the impairment of real estate assets deriving from foreclosures.**	• **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.** • **Review of the working of the "calculation engine" and re-execution of the calculation of collective provisions, for portfolios with structural models, and of the calculation of deterioration of real estate assets deriving from foreclosures based on the different asset categories.** • **Review of a sample of individualized credit files, as well as real estate assets from foreclosures, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment.** • **Review of the Group's consolidated equity impacts at January 1, 2018 due to the additional estimation of impairment deriving of entry into force of IFRS 9.** **We performed the following tests of details specifically on the estimate of the receivable entitlement from the DGF deriving from the Asset Protection Scheme:** • **Review of the reliability and the coherence of sources of the data concerning assets covered by the APS used in the calculation of the estimated receivable entitlement from the DGF.** • **Verification of the calculation of the estimated receivable entitlement from the DGF based on the various categories of assets and transactions carried out, as well as its alignment with the accounting records.** **Our tests of management's calculations and estimates did not identify any differences outside a reasonable range in the amount of the impairment due to credit risk and the foreclosed real estate assets recorded in the condensed interim consolidated financial statements.**

Key audit matters	How our audit addressed the key audit matter
Verification of the recoverability of goodwill	
On an annual basis, or when there are indications of impairment, Banco Sabadell Group performs an assessment to determine whether the goodwill recognized in its condensed interim consolidated financial statements 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 assets, 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 2 and 12 to the accompanying condensed interim consolidated financial statements.	With the assistance of our appraisal experts, we gained an understanding and performed a review of the estimation process carried out by the Group, as well as of the internal control environment, focusing our procedures on aspects such as: • Review of the criteria for defining the Group's CGUs associated with the various goodwill items. • Evaluation of the method used by to estimate the impairment of goodwill. • Review of the annual measurement reports on the impairment of goodwill prepared by the Group and by external experts. 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 condensed interim consolidated financial statements. As a result of the aforementioned procedures, we consider that the estimates made by Directors and management with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these condensed interim consolidated financial statements were prepared.

Key audit matters	How our audit addressed the key audit matter
Provisions for legal, regulatory and other nature litigations	
During the ordinary course of its business operations the Group may become involved in administrative, judicial or arbitration proceedings of a tax, legal and/or regulatory nature. There are therefore situations that are not subject to judicial proceedings but which, based on the Group's evaluation, require the recognition of provisions. These items may include those associated with possible impacts for the Group regarding the amounts payable as a result of the hypothetical cancellation by the Courts of floor clauses or the application of Royal Decree-Law 1/2017 on consumer protection with regard to floor clauses. So the client's claims associated to the incidents occurred as a consequence of the TSB Bank PLC technological branch migration's. These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the legislation prevailing in the various jurisdictions in wich the Group operates. The Group records a provision in this respect, therefore estimating the associated payment deemed probable and applying calculation procedures that are prudent and consistent with the uncertainty conditions inherent to the obligations they cover. Additionally are also consider all the disbursements to make in the process of incident analyse and its remediation, considered unavoidable. The recognition of provisions for litigation is one of the areas requiring the highest degree of judgments and estimates. See Notes 1, 2 and 18 providing details of the provisions created to cover the outcome of both contingencies in the accompanying condensed interim consolidated financial statements.	Our review of the process for estimating the provisions for legal, regulatory and other nature litigations carried out by the Group, and the analysis and evaluation of the internal controls over that process, consisted of the following procedures: • We familiarized ourselves with the policy for classifying litigation and provisions needed, in accordance with applicable accountant legislation. • We analysed the main individual and class-action lawsuits. • We obtained confirmation letters from internal attorneys who work with the Group to cross-check its assessment of the outcome of the litigation, the correct recognition of the provisions and the identification of potentially omitted liabilities. • With the support of our internal experts, we monitored ongoing tax inspections, we analysed the estimate of the expected outcomes of the most significant tax proceedings in progress. We also assessed possible contingencies relating to compliance with the Group's tax obligations for all the years open to inspection. • We analysed the recognition, estimation of, and movements in, the provisions recorded for accounting purposes and the movements therein. Specifically in connection with the provisions recorded to cover contingencies relating to floor clauses and the ones caused by client's claims associated to the incidents occurred as a consequence of the TSB Bank PLC technological branch migration's, our procedures focused on: • Understanding the control environment, assessing and checking the controls associated with the calculation and review of the provision recognized for customer compensation, including the process of generating and approving the model assumptions and results.

Key audit matters	How our audit addressed the key audit matter
	• Evaluating the methodology used by the Group, verifying that it is in line with market practice. • Performing a sensitivity analysis on the model's results to determine possible changes in key assumptions. The result of our work shows that, in general, the judgments and estimates applied by the Group when evaluating these types of provisions are supported and reasonable based on available information.
Automation of financial reporting systems	
Due to its nature, Banco Sabadell Group's business, particularly the preparation of financial and accounting information, is highly dependent on information technology (IT) 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 IT systems and, by extension, the data they process, increase. The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls. Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology area, software maintenance and development controls, physical and logical security and system operation.	With the help of our IT 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.

Key audit matters	How our audit addressed the key audit matter
	• Understanding and re-execution of some of the calculations performed by the Group considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits) and the fees received. The results of our procedures involving the samples added to our tests of controls and tests of details were satisfactory and we did not detect any material aspect affecting the financial information included in the accompanying condensed interim consolidated financial statements.

Emphasis of matter

We draw attention to Note 1 which describes that these condensed interim consolidated financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, therefore the accompanying condensed interim consolidated financial statements should be read together with the consolidated annual accounts of the Group for the year ended December 31, 2017. Our opinion is not modified in respect to this matter.

Other information: Interim consolidated directors' report

Other information comprises only the interim consolidated directors' report for the six month period ended June 30, 2018, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the interim consolidated financial statements.

Our audit opinion on the condensed interim consolidated financial statements does not cover the interim consolidated directors' report. Our responsibility regarding the interim consolidated directors' report, in accordance with legislation governing the audit practice, is to evaluate and report on the consistency between the interim consolidated directors' report and the condensed interim consolidated financial statements as a result of our knowledge of the Group obtained during the audit of the aforementioned financial statements, and does not include information different to that obtained as evidence during our audit. Likewise, our responsibility is to evaluate and report on whether the content and presentation of the interim consolidated directors' 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 in the previous paragraph, the information contained in the interim consolidated directors' report is consistent with that contained in the condensed interim consolidated financial statements for the six month period ended June 30, 2018 and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit and control committee for the condensed interim consolidated financial statements

The Parent company´s directors are responsible for the preparation of the accompanying condensed interim consolidated financial statements, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of complete interim financial information, 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 condensed interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the condensed interim consolidated financial statements, 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 a going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent Company's Audit and Control Committee is responsible for overseeing the process of preparation and presentation of the condensed interim consolidated financial statements.

Auditor's responsibilities for the audit of the condensed interim consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the condensed interim consolidated financial statements 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 condensed interim consolidated financial statements.

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 condensed interim consolidated financial statements, 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 condensed interim consolidated financial statements 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 condensed interim consolidated financial statements, including disclosures.

- Obtain sufficient appropriate audit evidence regarding the financial information regarding the entities or business activities within the Group to express an opinion on the condensed interim consolidated financial statements. 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 condensed interim consolidated financial statements 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

Appointment period

Shareholders at an ordinary general meeting held on April 19, 2018 appointed us as the Group's auditors and the auditor of the Group's consolidated annual accounts for 2018.

We were previously designated as the auditors by resolutions adopted by shareholders at general meetings and we have audited the accounts of the parent company without interruption since the year ended December 31, 1983.

Services provided

PricewaterhouseCoopers Auditores, S.L. has provided to the Group during the period between January 1, and June 30, 2018, after obtaining the relevant approval from the Audit and Control Committee, services other than audit, including the issuance of comfort letters, other regulatory reviews required from the auditor, as well as advisory and regulatory compliance services.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro (20210)

July 27, 2018

"Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see note 1). In the event of a discrepancy, the original Spanish-language version prevails".

Contents of the condensed interim consolidated financial statements of Banco Sabadell Group for the six-month period ended 30 June 2018

Consolidated interim financial statements

Explanatory notes

Consolidated Directors' Report

Glossary of terms on alternative performance measures

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2018 and 31 December 2017

Thousand euro

Assets	Note	30/06/2018	31/12/2017 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**19,755,567**	**26,362,807**
Financial assets held for trading		**2,137,683**	**1,572,504**
Derivatives		1,842,021	1,440,743
Equity instruments	9	6,322	7,432
Debt securities	8	289,340	124,329
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		51,654	20,245
Non-trading financial assets mandatorily at fair value through profit or loss		**121,505**	**39,526**
Equity instruments		-	39,526
Debt securities	8	121,505	-
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		**12,866,591**	**13,180,716**
Equity instruments	9	307,866	413,298
Debt securities	8	12,558,725	12,767,418
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		2,545,507	2,814,601
Financial assets at amortised cost		**162,279,789**	**160,723,766**
Debt securities	8	11,702,995	11,746,645
Loans and advances	10	150,576,794	148,977,121
Central banks		100,210	63,151
Credit institutions		6,210,369	5,316,004
Customers		144,266,215	143,597,966
Memorandum item: loaned or pledged as security with sale or pledging rights		3,654,929	7,701,852
Derivatives - Hedge accounting		**259,357**	**374,021**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**62,676**	**48,289**
Investments in joint ventures and associates		**527,626**	**575,644**
Jointly controlled entities		-	-
Associates		527,626	575,644
Assets under insurance or reinsurance contracts		-	-
Tangible assets	11	**3,361,446**	**3,826,523**
Property, plant and equipment		1,805,911	1,861,730
For own use		1,554,553	1,625,032
Leased out under operating leases		251,358	236,698
Investment property		1,555,535	1,964,793
Of which: leased out under operating leases		-	-
Memorandum item: acquired through finance leases		-	-
Intangible assets	12	**2,319,755**	**2,245,858**
Goodwill		1,025,615	1,019,440
Other intangible assets		1,294,140	1,226,418
Tax assets		**7,112,430**	**6,861,406**
Current tax assets		338,814	329,558
Deferred tax assets	32	6,773,616	6,531,848
Other assets	13	**2,674,801**	**2,975,511**
Insurance contracts linked to pensions		136,317	139,114
Inventories		1,987,081	2,076,294
Rest of other assets		551,403	760,103
Non-current assets and disposal groups classified as held for sale	14	**2,455,302**	**2,561,744**
TOTAL ASSETS		**215,934,528**	**221,348,315**

(*) Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

(**) See details in the consolidated cash flow statement of the Group.

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated balance sheet as at 30 June 2018.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2018 and 31 December 2017

Thousand euro

Liabilities	*Note*	*30/06/2018*	*31/12/2017 (*)*
Financial liabilities held for trading		***1,787,692***	***1,431,215***
Derivatives		*1,734,587*	*1,361,361*
Short positions		*53,105*	*69,854*
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		-	***39,540***
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	*39,540*
Memorandum item: subordinated liabilities		-	-
Financial liabilities measured at amortised cost		***199,596,050***	***204,045,482***
Deposits		*175,419,008*	*177,325,784*
Central banks	*15*	*27,813,529*	*27,847,618*
Credit institutions	*15*	*10,611,841*	*14,170,729*
Customers	*16*	*136,993,638*	*135,307,437*
Debt securities issued	*17*	*21,168,018*	*23,787,844*
Other financial liabilities		*3,009,024*	*2,931,854*
Memorandum item: subordinated liabilities		*2,521,554*	*2,552,417*
Derivatives - Hedge accounting		***702,893***	***1,003,854***
Fair value changes of the hedged items in portfolio hedge of interest rate risk		***(3,935)***	***(4,593)***
Liabilities under insurance or reinsurance contracts		-	-
Provisions	***18***	***516,404***	***317,538***
Pensions and other post-employment defined benefit obligations		*82,746*	*84,843*
Other long-term employee benefits		*11,504*	*16,491*
Pending legal issues and tax litigation		*21,332*	*36,293*
Commitments and guarantees given		*89,068*	*84,949*
Other provisions		*311,754*	*94,962*
Tax liabilities		***338,502***	***531,938***
Current tax liabilities		*111,252*	*106,482*
Deferred tax liabilities	*32*	*227,250*	*425,456*
Share capital repayable on demand		-	-
Other liabilities		***908,901***	***740,915***
Liabilities included in disposal groups classified as held for sale	***14***	***18,060***	***20,645***
TOTAL LIABILITIES		***203,864,567***	***208,126,534***

(*) Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated balance sheet as at 30 June 2018.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2018 and 31 December 2017

Thousand euro

Equity	*Note*	*30/06/2018*	*31/12/2017 (*)*
Own Funds	***19***	***12,476,304***	***13,425,916***
Capital		*703,371*	*703,371*
Paid up capital		*703,371*	*703,371*
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		*7,899,227*	*7,899,227*
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		*39,263*	*32,483*
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		*3,844,590*	*4,207,340*
Reserves or accumulated losses of investments in joint ventures and associates		*211,567*	*(13,633)*
Other		*3,633,023*	*4,220,973*
(-) Treasury shares		*(130,742)*	*(106,343)*
Profit/(loss) attributable to owners of the parent company		*120,595*	*801,466*
(-) Interim dividends		-	*(111,628)*
Accumulated other comprehensive income		***(467,548)***	***(265,311)***
Items that will not be reclassified to profit or loss		*(35,579)*	*49,443*
Actuarial gains or (-) losses on defined benefit pension plans		*6,767*	*6,767*
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		*(42,346)*	*42,676*
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Items that may be reclassified to profit or loss		*(431,969)*	*(314,754)*
Hedge of net investments in foreign operations (effective portion)		*207,005*	*236,647*
Foreign currency translation		*(638,435)*	*(678,451)*
Hedging derivatives. Cash flow hedges (effective portion)		*(38,552)*	*(80,402)*
Fair value changes of debt instruments measured at fair value through other comprehensive income		*26,756*	*195,869*
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		*11,257*	*11,583*
Minority interests (non-controlling interests)		***61,205***	***61,176***
Accumulated other comprehensive income		*188*	*207*
Other items		*61,017*	*60,969*
TOTAL EQUITY		***12,069,961***	***13,221,781***
TOTAL EQUITY AND TOTAL LIABILITIES		***215,934,528***	***221,348,315***

Memorandum item: off-balance sheet exposures			
Financial guarantees given	***20***	***2,036,397***	***1,983,143***
Loan commitments given	***20***	***22,062,122***	***20,906,053***
Other commitments given	***20***	***8,309,411***	***9,916,992***

(*) Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated balance sheet as at 30 June 2018.

Consolidated profit and loss accounts of Banco Sabadell Group

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	Note	30/06/2018	30/06/2017 (*)
Interest and other similar income	*21*	*2,356,797*	*2,479,973*
(Interest expense)	*21*	*(546,679)*	*(543,076)*
(Expense on share capital repayable on demand)		*-*	*-*
Net interest income		***1,810,118***	***1,936,897***
Dividend income		*5,533*	*5,774*
Share of profit or loss of entities accounted for using the equity method		*31,173*	*30,335*
Fee and commission income	*22*	*754,981*	*728,869*
(Fee and commission expense)	*22*	*(118,262)*	*(125,867)*
Net gains (losses) on financial assets and liabilities	*23*	*239,549*	*545,381*
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		*221,798*	*377,981*
Gains or (-) losses on financial assets and liabilities held for trading, net		*27,544*	*172,733*
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		*(19,902)*	*-*
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		*5*	*127*
Gains or (-) losses from hedge accounting, net		*10,104*	*(5,460)*
Exchange differences (gains or (-) losses), net		*6,273*	*4,879*
Other operating income	*24*	*148,158*	*155,233*
(Other operating expenses)	*25*	*(246,534)*	*(219,066)*
Income from assets under insurance and reinsurance contracts		*-*	*67,416*
(Expenses on liabilities under insurance and reinsurance contracts)		*-*	*(86,462)*
Gross income		***2,630,989***	***3,043,389***
(Administrative expenses)	*26*	*(1,479,208)*	*(1,378,341)*
(Staff expenses)		*(798,572)*	*(790,910)*
(Other administrative expenses)		*(680,636)*	*(587,431)*
(Depreciation)		*(176,633)*	*(197,350)*
(Provisions or (-) reversal of provisions)	*18*	*(83,631)*	*(3,500)*
(Impairment or (-) reversal of 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)	*27*	*(427,442)*	*(609,089)*
(Financial assets at fair value through other comprehensive income)		*(2,567)*	*(37,635)*
(Financial assets at amortised cost)		*(424,875)*	*(571,454)*
Profit/(loss) on operating activities		***464,075***	***855,109***
(Impairment of (-) reversal of impairment of investments in joint ventures and associates)		*(185)*	*(496)*
(Impairment or (-) reversal of impairment on non-financial assets)	*28*	*(36,415)*	*(153,155)*
(Tangible assets)		*(1,625)*	*(2,057)*
(Intangible assets)		*(282)*	*(2,722)*
(Other)		*(34,508)*	*(148,376)*
Gains or (-) losses on derecognition of non-financial assets, net	*29*	*7,300*	*(10,021)*
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	*30*	*(261,886)*	*(57,037)*
Profit or (-) loss before tax from continuing operations		***172,889***	***634,400***
(Tax expense or (-) income related to profit from continuing operations)		*(48,508)*	*(182,201)*
Profit or (-) loss after tax from continuing operations		***124,381***	***452,199***
Profit or (-) loss from discontinued operations		*-*	*-*
PROFIT FOR THE PERIOD		*124,381*	*452,199*
Attributable to minority interests (non-controlling interests)		*3,786*	*1,581*
Attributable to owners of the parent company		*120,595*	*450,618*
Earnings per share (in euro)	*3*	***0.02***	***0.08***
Basic (in euro)		*0.02*	*0.08*
Diluted (in euro)		*0.02*	*0.08*

(*) Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated profit and loss account corresponding to the six-month period ended 30 June 2018.

Consolidated statements of changes in net equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses
For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	30/06/2018	*30/06/2017 (*)*
Profit/(loss) for the period	***124,381***	***452,199***
Other comprehensive income (**)	***(261,402)***	***(292,983)***
Items that will not be reclassified to profit or loss	*(85,022)*	*(7,359)*
Actuarial gains or (-) losses on defined benefit pension plans	-	-
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	*(122,023)*	*(10,513)*
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	*37,001*	*3,154*
Items that may be reclassified to profit or loss	*(176,380)*	*(285,623)*
Hedge of net investments in foreign operations (effective portion)	*(29,642)*	*72,277*
Valuation gains or (-) losses taken to equity	*(29,642)*	*72,277*
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	*40,017*	*(146,656)*
Translation gains or (-) losses taken to equity	*40,017*	*(146,656)*
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	*59,480*	*(73,999)*
Valuation gains or (-) losses taken to equity	*133,179*	*(120,049)*
Transferred to profit or loss	*(73,699)*	*46,050*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments (not designated elements)	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	*(327,504)*	*(117,878)*
Valuation gains or (-) losses taken to equity	*(79,695)*	*161,632*
Transferred to profit or loss	*(247,809)*	*(279,511)*
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	*(104,082)*
Valuation gains or (-) losses taken to equity	-	*(104,082)*
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	*(326)*	*(4,073)*
Income tax relating to items that may be reclassified to profit or (-) loss	*81,595*	*88,788*
Total comprehensive income for the period	***(137,021)***	***159,217***
Attributable to minority interest (Non-controlling interest)	*3,767*	*1,511*
Attributable to owners of the parent company	*(140,788)*	*157,706*

(*) Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

(**) Includes "Other comprehensive income" obtained between 1 January 2018 (date of first implementation of IFRS 9) and 30 June 2018.

The consolidated statement of recognised income and expense and the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated statement of changes in equity corresponding to the six-month period ended 30 June 2018.

Consolidated statements of changes in net equity of Banco Sabadell Group

Consolidated statements of total changes in equity
For the six-month periods ended 30 June 2018 and 2017

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
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 error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
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	-	-	-	-	-	-	-	-	120,595	-	(261,383)	(19)	3,786	**(137,021)**
Other changes in equity	-	-	-	6,780	-	-	344,655	(24,399)	(801,466)	111,628	-	-	(3,738)	**(366,540)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or remuneration paid to partners) (**)	-	-	-	-	-	-	(281,348)	-	-	-	-	-	-	**(281,348)**
Purchase of treasury shares	-	-	-	-	-	-	-	(152,385)	-	-	-	-	-	**(152,385)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	295	127,986	-	-	-	-	-	**128,281**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	-	-	689,838	-	(801,466)	111,628	-	-	-	**-**
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments based on shares	-	-	-	6,780	-	-	-	-	-	-	-	-	-	**6,780**
Other increases or (-) decreases in equity	-	-	-	-	-	-	(64,130)	-	-	-	-	-	(3,738)	**(67,868)**
Closing balance 30/06/2018	**703,371**	**7,899,227**	**-**	**39,263**	**-**	**-**	**3,844,590**	**(130,742)**	**120,595**	**-**	**(467,548)**	**188**	**61,017**	**12,069,961**

The consolidated statement of recognised income and expense and the consolidated statements of total changes in equity of Banco Sabadell Group, make up the statement of changes in equity.

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated statement of changes in equity corresponding to the six-month period ended 30 June 2018.

(*) See reconciliation between consolidated equity as at 31 December 2017 and the date of entry into force of IFRS 9 (Note 1).

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

Consolidated statements of changes in net equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

												Minority interests		
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/(loss) attributable to owners of the parent company	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	**Total**
Opening balance 31/12/2016	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2017	**702,019**	**7,882,899**	**-**	**38,416**	**-**	**-**	**3,805,065**	**(101,384)**	**710,432**	**(111,281)**	**107,142**	**172**	**49,496**	**13,082,976**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	450,618	-	(292,912)	(70)	1,581	**159,217**
Other changes in equity	-	-	-	6,798	-	-	409,499	(6,125)	(710,432)	111,281	-	-	19,329	**(169,650)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or remuneration paid to partners) (*)	-	-	-	-	-	-	(168,485)	-	-	-	-	-	-	**(168,485)**
Purchase of treasury shares	-	-	-	-	-	-	-	(180,302)	-	-	-	-	-	**(180,302)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	1,224	174,177	-	-	-	-	-	**175,401**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components (**)	-	-	-	-	-	-	599,151	-	(710,432)	111,281	-	-	-	**-**
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments based on shares	-	-	-	6,798	-	-	-	-	-	-	-	-	-	**6,798**
Other increases or (-) decreases in equity	-	-	-	-	-	-	(22,391)	-	-	-	-	-	19,329	**(3,062)**
Closing balance 30/06/2017	**702,019**	**7,882,899**	**-**	**45,214**	**-**	**-**	**4,214,564**	**(107,509)**	**450,618**	**-**	**(185,770)**	**102**	**70,406**	**13,072,543**

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

(**) Distribution of 2016 earnings (see Note 3).

Presented solely and exclusively for the purposes of comparison (see section "Comparability" in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated statement of changes in equity corresponding to the six-month period ended 30 June 2018.

Consolidated cash flow statements of Banco Sabadell Group

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	Note	30/06/2018	30/06/2017 (*)
Cash flows from operating activities		**(6,699,232)**	**6,616,201**
Profit/(loss) for the period		124,381	452,199
Adjustments to obtain cash flows from operating activities		1,029,017	1,190,907
Depreciation		176,633	197,350
Other adjustments		852,384	993,557
Net increase/decrease in operating assets		(3,402,678)	(5,919,231)
Financial assets held for trading		(565,179)	1,547,764
Non-trading financial assets mandatorily at fair value through profit or loss		38,226	-
Financial assets designated at fair value through profit or loss		-	(8,177)
Financial assets at fair value through other comprehensive income		2,012,682	(1,418,702)
Financial assets at amortised cost		(5,284,296)	(6,872,313)
Other operating assets		395,889	832,197
Net increase/decrease in operating liabilities		(4,364,579)	6,393,560
Financial liabilities held for trading		356,477	(423,694)
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		(4,450,010)	7,084,883
Other operating liabilities		(271,046)	(267,629)
Collections/Payments due to income tax		(85,373)	(67,726)
Cash flows from investment activities		**412,482**	**(4,589,297)**
Payments		(406,004)	(643,917)
Tangible assets	11	(172,470)	(296,399)
Intangible assets		(214,034)	(115,735)
Investments in joint ventures and associates		(13,350)	(126,972)
Subsidiaries and other business units	Schedule I	(6,150)	(104,810)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		818,486	621,110
Tangible assets		240,147	148,642
Intangible assets		-	-
Investments in joint ventures and associates		85,804	15,208
Subsidiaries and other business units		-	6,500
Non-current assets and liabilities classified as held for sale		492,535	450,760
Other collections related to investment activities		-	-

(*) Presented solely and exclusively for the purposes of comparison (see section “Comparability” in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated cash flow statement corresponding to the six-month period ended 30 June 2018.

Consolidated cash flow statements of Banco Sabadell Group

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	Note	30/06/2018	30/06/2017 (*)
Cash flows from financing activities		***(331,091)***	***506,143***
Payments		*(459,371)*	*(419,258)*
Dividends	*3*	*(281,348)*	*(168,485)*
Subordinated liabilities		*-*	*(66,050)*
Amortisation of own equity instruments		*-*	*-*
Acquisition of own equity instruments		*(152,385)*	*(180,303)*
Other payments related to financing activities		*(25,638)*	*(4,421)*
Collections		*128,280*	*925,401*
Subordinated liabilities		*-*	*750,000*
Issuance of own equity instruments		*-*	*-*
Disposal of own equity instruments		*128,280*	*175,401*
Other collections related to financing activities		*-*	*-*
Effect of exchange rate fluctuations		***10,601***	***(15,164)***
Net increase (decrease) in cash and cash equivalents		***(6,607,240)***	***2,517,883***
Cash and cash equivalents at beginning of the period	*7*	***26,362,807***	***11,688,250***
Cash and equivalents at end of the period	*7*	***19,755,567***	***14,206,133***
Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		*2,428,514*	*2,771,593*
Interest paid		*575,115*	*707,649*
Dividends received		*5,533*	*5,774*
CASH COMPONENTS AND CASH EQUIVALENTS AT CLOSE OF THE PERIOD			
Cash	*7*	*652,405*	*682,854*
Balances of cash equivalents in central banks	*7*	*18,597,695*	*12,648,312*
Other demand deposits	*7*	*505,467*	*874,968*
Other financial assets		*-*	*-*
Less: bank overdrafts reimbursable on demand		*-*	*-*
TOTAL CASH AND CASH EQUIVALENTS AT CLOSE OF THE PERIOD		***19,755,567***	***14,206,133***
Of which: held by Group entities but not drawable by the Group		*-*	*-*

(*) Presented solely and exclusively for the purposes of comparison (see section “Comparability” in Note 1).

Explanatory notes 1 to 35 and accompanying schedules I to V form an integral part of the consolidated cash flow statement corresponding to the six-month period ended 30 June 2018.

EXPLANATORY NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF BANCO SABADELL GROUP

For the six-month period ended 30 June 2018.

Note 1 – Activity, accounting policies and practices

Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell or the bank), with registered office in Alicante, Avenida Óscar Esplá 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a corporate group (see Schedule I and Note 2 to the 2017 consolidated annual accounts) whose activity it controls directly or indirectly and which comprise, together with the bank, Banco Sabadell Group ("the Group").

Basis of presentation

The Group's consolidated annual accounts for 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2017, taking into account Bank of Spain Circular 4/2004 of 22 December and amendments thereto and other financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2017 and the results of its consolidated operations, changes in equity and cash flows in 2017.

Note 1 to the 2017 consolidated annual accounts summarises the most significant accounting principles, policies and valuation criteria applied by the Group. Those consolidated annual accounts were authorised by the directors of Banco Sabadell at a meeting of the Board on 1 February 2018 and were approved by the shareholders at the Annual General Meeting on 19 April 2018.

These condensed interim consolidated financial statements as at 30 June 2018 have been prepared and are presented in accordance with IAS 34 “Interim Financial Reporting", as set out in the IFRS, and they were authorised by the bank’s Directors on 26 July 2018, taking into account Bank of Spain Circular 4/2017, of 27 November, replacing Circular 4/2004, of 22 December, on 1 January 2018, and Spanish National Securities Market Commission (CNMV, for its acronym in Spanish) Circular 3/2018, of 28 June, repealing CNMV Circular 1/2008 of 30 January and CNMV Circular 5/2018 of 28 October. The financial statements included in these condensed interim consolidated financial statements will be included in the selected financial information corresponding to the first half of 2018, which shall be submitted to the CNMV, in line with the disclosure criteria set forth in Circular 5/2015 pursuant to the single transitional provision of Circular 3/2018.

In accordance with IAS 34, interim financial information is prepared exclusively for the purpose of describing material events and variations that occurred during the half-year and is not intended to duplicate the information published previously in the latest authorised consolidated annual accounts. For a proper comprehension of the information included in these condensed interim consolidated financial statements, they should be read together with the Group's consolidated annual accounts for 2017.

The Bank is also required to submit to the CNMV the data referred to as “selected financial information” corresponding to the first half of 2018, in accordance with requirements set forth in CNMV Circular 3/2018. This information, which is public in nature, has been prepared using the criteria set forth in the single transitional provision of the aforementioned Circular, therefore its content differs from that included in these consolidated condensed interim consolidated financial statements.

Except as otherwise indicated, these condensed interim consolidated 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) coming into effect in 2018

During the first half of 2018, the standards and interpretations adopted by the European Union, together with amendments thereto, which have been applied by the Group due to their entry into force or their expected application, are as follows:

Standards and Interpretations	*Title*
IFRS 9	*Financial instruments*
IFRS 15	*Revenue from contracts with customers*
Clarifications of IFRS 15	*Revenue from contracts with customers*
Amendments to IFRS 4	*Application of IFRS 9 "Financial Instruments" with IFRS 4 "Insurance contracts"*
Amendments to IFRS 2	*Classification and measurement of share-based payment transactions*
Annual improvements to IFRS	*Cycle 2014 - 2016*
Amendments to IAS 40	*Investment property transfers*
Interpretation of IFRIC 22	*Foreign currency transactions and advance consideration*

With the exception of the impact arising from the implementation of IFRS 9 (see section “Implementation of IFRS 9 “Financial instruments”” in this Note), the implementation of the aforementioned standards has not given rise to any significant effects in terms of these condensed interim consolidated financial statements.

IASB-issued standards and interpretations not yet in effect

At the date of authorisation of these condensed interim consolidated financial statements, the most significant standards and interpretations published by the IASB but which have not yet entered into force, either because their effective implementation date is after the date of these condensed interim consolidated financial statements, or because they had not yet been adopted by the European Union are the following:

Standards and Interpretations	*Title*	*Mandatory for years beginning:*
Approved for application in the EU		
IFRS 16 (*)	*Leases*	*1 January 2019*
Amendments to IFRS 9 (*)	*Prepayment features with negative compensation*	*1 January 2019*
Not approved for application in the EU		
Interpretation of IFRIC 23 (*)	*Uncertainty over income tax treatments*	*1 January 2019*
Amendments to IAS 28 (*)	*Long-term interests in associates and joint ventures*	*1 January 2019*
IFRS 17 (*)	*Insurance contracts*	*1 January 2021*
Annual improvements to IFRS (*)	*Cycle 2015 - 2017*	*1 January 2019*
Amendments to IAS 19	*Plan amendment, settlement or curtailment*	*1 January 2019*
References to IFRS Conceptual Framework	*Amendment of references to IFRS Conceptual Framework*	*1 January 2020*

(*) The 2017 consolidated annual accounts include a brief description of these standards, amendments and interpretations.

Amendments to IAS 19 "Plan amendment, settlement or curtailment"

This amendment to IAS 19 requires an entity to use updated 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.

This amendment will be applied on a forward-looking basis to all amendments, settlements or curtailments of defined benefit plans occurring as of 1 January 2019, as its early application is permitted.

Amendment of references to IFRS Conceptual Framework

The Conceptual Framework establishes the core concepts applied in the implementation of the new IFRS, and helps to ensure that these are consistent and that similar transactions are recognised in the same way, in order to provide useful information to users. It also helps institutions to develop accounting criteria where there are no developed standards applicable to a specific transaction.

Among other aspects, the revised Conceptual Framework, which entered into force in March 2018, reintroduces the concept of prudence, modifies the definitions of assets and liabilities, incorporates clarifications in relation to the recognition and derecognition of assets and liabilities and about the basis for measuring items in financial statements, and places the results as a key performance indicator of an institution.

Additionally, the IASB has published the document "Amendments to the Conceptual Framework for Financial Reporting of IFRS", which updates the references included in various IFRS to the new Conceptual Framework. These revisions and amendments shall be applicable as of 1 January 2020, and its early application is permitted.

The implementation of standards, amendments and interpretations issued by the IASB but not yet in effect is not expected to have any significant impact on the Group.

Implementation of IFRS 9 "Financial instruments"

IFRS 9 "Financial instruments" entered into force on 1 January 2018, in replacement of IAS 39 "Financial Instruments: recognition and valuation", and has entailed the amendment of the set of accounting requirements for the recognition and valuation of financial assets and liabilities. The implementation of this standard has also given rise to significant amendments to IFRS 7 "Financial instruments: disclosures".

The consolidated annual accounts for 2017 include a description of the main characteristics of the three-year implementation project carried out by the Group.

The key quantitative impacts of the first implementation of IFRS 9 as at 1 January 2018 are described below:

- The reconciliation of portfolios into which the Group's financial assets were included as at 31 December 2017 for the purpose of their presentation and valuation in the 2017 consolidated annual accounts against those set forth by IFRS 9 as at the date of its entry into force, is shown below:

€ million

Portfolios used in the consolidated annual accounts 2017 (IAS 39)	Measurement category IAS 39	Portfolios used after the entry into force of IFRS 9	Measurement category IFRS 9	Balance IAS 39 31/12/2017	Reclassification	Remeasurement	Balance IFRS 9 01/01/2018
Loans and receivables		**Financial assets at amortised cost**		**153,285**	**(94)**	**-**	**153,191**
Loans and advances		Loans and advances		152,709	-	-	152,709
Central banks and credit institutions	Amortised cost	Central banks and credit institutions	Amortised cost	5,384	-	-	5,384
Customer	Amortised cost	Customer	Amortised cost	147,325	-	-	147,325
Debt securities	Amortised cost	Debt securities	Amortised cost	576	(94)	-	482
Loans and receivables		**Non-trading financial assets mandatorily measured at fair value through profit or loss**		**-**	**94**	**-**	**94**
Debt securities	Amortised cost	Debt securities	FV-PL (*)	-	94	-	94
Held-to-maturity investments		**Financial assets at amortised cost**		**11,173**	**(2,050)**	**-**	**9,123**
Debt securities	Amortised cost	Debt securities	Amortised cost	11,173	(2,050)	-	9,123
Held-to-maturity investments		**Financial assets at fair value through other comprehensive income**		**-**	**2,037**	**84**	**2,121**
Debt securities	Amortised cost	Debt securities	FV-OCI (**)	-	2,037	84	2,121
Held-to-maturity investments		**Non-trading financial assets mandatorily measured at fair value through profit or loss**		**-**	**13**	**-**	**13**
Debt securities	Amortised cost	Debt securities	FV-PL (*)	-	13	-	13
Available-for-sale financial assets		**Financial assets at fair value through other comprehensive income**		**13,187**	**(54)**	**-**	**13,133**
Equity instruments	Available for sale	Equity instruments	FV-OCI (**)	413	-	-	413
Debt securities	Available for sale	Debt securities	FV-OCI (**)	12,774	(54)	-	12,720
Available-for-sale financial assets		**Non-trading financial assets mandatorily measured at fair value through profit or loss**		**-**	**54**	**-**	**54**
Debt securities	Available for sale	Debt securities	FV-PL (*)	-	54	-	54
Financial assets held for trading		**Financial assets held for trading**		**1,572**	**-**	**-**	**1,572**
Derivatives	FV-PL (*)	Derivatives	FV-PL (*)	1,441	-	-	1,441
Equity instruments	FV-PL (*)	Equity instruments	FV-PL (*)	7	-	-	7
Debt securities	FV-PL (*)	Debt securities	FV-PL (*)	124	-	-	124
Financial assets designated at fair value through profit or loss		**Non-trading financial assets mandatorily measured at fair value through profit or loss**		**40**	**-**	**-**	**40**
Equity instruments	FV-PL (*)	Equity instruments	FV-PL (*)	40	-	-	40
Gross carrying amount				**179,257**	**-**	**84**	**179,341**

(*) At fair value through profit or loss.
(**) At fair value through other comprehensive income.

- The reconciliation of value adjustments due to the impairment of the Group's financial assets and off-balance sheet exposures as at 31 December 2017 recognised in the 2017 consolidated annual accounts against those recognised pursuant to IFRS 9 as at the date of its entry into force is shown below:

€ million

Portfolios used in the consolidated annual accounts 2017 (IAS 39)	Measurement category IAS 39	Portfolios used after the entry into force of IFRS 9	Measurement category IFRS 9	Loss allowance IAS 39 31/12/2017	Remeasurement	Loss allowance IFRS 9 01/01/2018
Loans and receivables		**Financial assets at amortised cost**		**3,733**	**990**	**4,723**
Loans and advances		Loans and advances		3,732	989	4,721
Central banks and credit institutions	Amortised cost	Central banks and credit institutions	Amortised cost	5	(1)	4
Customer	Amortised cost	Customer	Amortised cost	3,727	990	4,717
Debt securities	Amortised cost	Debt securities	Amortised cost	1	1	2
Loans and receivables		**Financial assets at fair value through other comprehensive income**		**-**	**3**	**3**
Debt securities	Amortised cost	Debt securities	FV-OCI (*)	-	3	3
Held-to-maturity investments		**Financial assets at amortised cost**		**1**	**-**	**1**
Debt securities	Amortised cost	Debt securities	Amortised cost	1	-	1
Available-for-sale financial assets		**Financial assets at fair value through other comprehensive income**		**6**	**-**	**6**
Debt securities	Available for sale	Debt securities	FV-OCI (*)	6	-	6
Total asset impairment allowances				**3,740**	**993 (**)**	**4,733**
Loss allowances for off-balance sheet exposures				**85**	**8 (***)**	**93**
Total impairment allowances				**3,825**	**1,001**	**4,826**
Of which: Loss allowances for the purchase of credit-impaired assets				*45*	*45*	*90*

(*) At fair value through other comprehensive income.
(**) See note 10.
(***) See note 18.

- The reconciliation between consolidated equity as at 31 December 2017 and the date of entry into force of IFRS 9 is shown below:

€ million

	Balance IAS 39 31/12/2017	*Reclassification*	*Remeasurement*	*Tax Impact*	*Balance IFRS 9 01/01/2018*
Consolidated equity	*13,222*	*-*	*(917)*	*268*	*12,573*
Of which:					
Accumulated other comprehensive income	*(265)*	*(1)*	*84*	*(25)*	*(207)*
Other reserves	*4,207*	*1*	*(1,001)*	*293*	*3,500*

The entry into force of IFRS 9 has had no significant impacts on the classification and recognition of the Group's remaining financial assets and financial liabilities.

Accounting principles and criteria applied

a) Accounting principles and criteria applied for the first time in the first half of 2018

The accounting principles and policies used in preparing these condensed interim consolidated financial statements are consistent with those used in drawing up the Group's consolidated annual accounts for 2017, with the exception of that indicated hereafter.

As indicated in the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) coming into effect in 2018" of this Note, in the first half of this year the Group has implemented a number of standards and interpretations. Of these, IFRS 9 has entailed significant amendments to the classification of financial instruments for the purpose of their presentation and valuation, the classification of financial assets on the basis of their default status, and the estimation of impairment losses on financial assets, and therefore this standard has had the greatest impact on the Group's consolidated financial statements.

Below is a description of the accounting principles and policies in relation to the valuation and impairment of financial instruments that have been adopted by the Group since the entry into force of IFRS 9 and which have been applied to prepare these condensed interim consolidated financial statements, replacing Notes 1.3.3 "Valuation of financial instruments and recognition of changes arising in their subsequent valuation" and 1.3.4 "Impairment of financial assets" included in the 2017 consolidated annual accounts:

Valuation of financial instruments and recognition of changes arising in their subsequent valuation (replaces Note. 1.3.3 of the 2017 consolidated annual accounts)

In general, all financial instruments are initially recognised at fair value 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 amount is adjusted by adding or deducting the costs of the transaction directly attributable to their acquisition or issuance. In the case of financial instruments measured at fair value through profit or loss, the directly attributable costs of the transaction are recognised immediately in the consolidated profit and loss account. As a general rule, conventional purchases and sales of financial assets are recognised in the Group's consolidated balance sheet using the settlement date.

Changes in the value of financial instruments originating from the accrual of interest and similar items are recorded in the consolidated profit and loss account, under the headings "*Interest and other similar income*" or "*Interest expenses*", as applicable. Dividends received from other companies are recognised in the consolidated profit and loss account for the year in which the right to receive them is originated.

Any instruments included in hedges are treated pursuant to applicable hedge accounting regulations.

Changes in valuations arising after initial recognition due to reasons other than those mentioned previously are accounted for on the basis of the classification of financial assets and liabilities for the purpose of their valuation which, in general, is carried out based on the following aspects:

- The business model for the management of financial assets, and

- The characteristics of the contractual cash flows for financial assets.

Business model

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

The business models used by the Group are indicated below:

- Maintenance of financial assets to receive their contractual cash flows: under this model, financial assets are managed in order to collect specific contractual cash flows, rather than to obtain overall earnings by keeping and selling assets. Notwithstanding the foregoing, assets can be disposed of prior to maturity in certain circumstances. Sales that are potentially compatible with a model involving the maintenance of assets to receive contractual cash flows include infrequent and non-material sales, sales of assets close to maturity, sales executed due to an increase in credit risk, and those produced to manage concentration risk.

- Sale of financial assets.

- Combination of the two business models described above (maintenance of financial assets to receive their contractual cash flows and sale of financial assets): this business model involves sales of the most frequent and highest value assets, which are essential to the business model.

Characteristics of the contractual cash flows of financial assets

A financial asset first needs to be classified into one of the following two categories:

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

- Other financial assets.

For the purpose of this classification, the principal of a financial asset is its fair value at the time of its initial recognition, which can change during the life of the financial asset, e.g. if there are repayments of principal. Interest is understood as the sum of consideration for the time value of money, for the funding costs and structure, and for the credit risk associated with the amount of principal outstanding during a specific period, plus a profit margin.

Classification portfolios of financial instruments for the purpose of their valuation

Financial assets and liabilities are classified into the portfolios indicated below for the purpose of their valuation, in line with the aspects described above:

Financial assets measured at amortised cost

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

- They are managed using a business model whose objective is to hold them in order to receive their contractual cash flows, and

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

This category comprises investments associated with typical lending activities, such as amounts loaned to customers and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities meeting the two conditions indicated above, and 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 stated at amortised cost (which consists of the acquisition cost adjusted to take into account repayments of principal and the portion allocated in the consolidated profit and loss account, using the effective interest rate method) of the difference between the initial cost and the repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item of the same value.

The effective interest rate is the discount rate that equals the value of a financial instrument exactly to the estimated cash flows over the instrument's expected life, on the basis of the contractual conditions, such as early repayment options, but without taking into account 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, plus, where appropriate, the fees 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 interest and fees on the instrument, until the first interest rate revision.

Financial assets measured at fair value through other comprehensive income

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

- They are managed using a business model the objective of which is to combine the receipt of contractual cash flows and their sale, and

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

These financial assets mainly correspond to debt securities.

The Group may also choose, upon initial recognition and on an irrevocable basis, to include in its portfolio of financial assets measured at fair value through other comprehensive income investments in equity instruments that should not be classified as held for trading and that would otherwise be classified as financial assets mandatorily measured at fair value through profit or loss. This option is exercised instrument by instrument. The Group has exercised this option for almost all of these financial instruments in these condensed interim consolidated financial statements.

Income and expenses on financial assets measured at fair value through other comprehensive income are recognised pursuant to the following criteria:

- Interest accrued or, where applicable, dividends earned, in the consolidated profit and loss account.

- Exchange differences, in the consolidated profit and loss account where monetary financial assets are involved, and in other comprehensive income, where non-monetary financial assets are involved.

- Impairment losses on debt instruments or gains following their subsequent recovery, in the consolidated profit and loss account, and in the case of equity instruments, in other comprehensive income.

- Other changes in value, in other comprehensive income.

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the figure representing the change in value recognised under the "*Accumulated other comprehensive income*" heading on the consolidated statement of equity is reclassified into the consolidated profit and loss account. 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 profit and loss account, but is instead reclassified to reserves.

Financial assets and liabilities mandatorily measured at fair value through profit or loss

A financial asset is classified into the portfolio of financial assets mandatorily measured at fair value through profit or loss whenever the Group's business model for its management or the characteristics of its contractual cash flows determine that it should not be classified into any of the above portfolios.

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

  Financial assets held for trading are those which have been acquired to be sold in the short term, or which form part of a portfolio of financial instruments that are identified and managed on a collective basis and in which there has been recent action to obtain short-term profits. Derivative instruments that do not meet the contractual definition of financial guarantee and which have not been designated as hedging instruments are also considered to be financial assets held for trading.

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

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

Fair value changes are recognised directly in the consolidated profit and loss account. In the case of instruments other than derivatives, a distinction is made between, on one hand, the portion attributable to earnings on the instrument, which is recognised either as "*Interest and other similar income*" by applying the effective interest rate method or as dividends, depending on their nature, and on the other hand, all other items, which are recognised as trading income in the relevant heading.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities which have been issued to be repurchased in the short term, or which form part of a portfolio of financial instruments that are identified and managed on a collective basis and in which there has been recent action to achieve short-term profits. They also include short positions arising from firm sales of securities received in reverse repos, in securities lending, or as guarantees with purchase options, as well as derivative instruments not meeting the contractual definition of financial guarantee and which have not been designated as hedging instruments.

Fair value changes are recognised directly in the consolidated profit and loss account. In the case of instruments other than derivatives, a distinction is made between, on one hand, the portion attributable to earnings on the instrument, which is recognised as interest by applying the effective interest rate method, and on the other hand, all other items, which are recognised as trading income in the relevant heading.

Financial liabilities designated at fair value through profit or loss

This category includes financial liabilities not included in financial liabilities held for trading and which have been irrevocably designated upon their initial recognition. Such designation can only be made in the case of hybrid financial instruments (see section on "Hybrid financial instruments" in this Note) that meet the criteria for their designation, if (i) such designation eliminates or significantly reduces any accounting mismatches in the valuation or recognition which would otherwise be obtained by valuating assets or liabilities, or the gains or losses on the same, using different criteria; or (ii) if more relevant information is obtained as it involves a group of financial instruments that is managed and whose earnings are evaluated on the basis of their fair value in accordance with a documented risk management or investment strategy, and information is provided to key management staff concerning this group of instruments on the basis of their fair value.

Changes in fair value of these instruments are recognised in the consolidated profit and loss account.

Financial liabilities measured at amortised cost

This category comprises financial liabilities that cannot be classified under any of the above categories and which are associated with the typical deposit-gathering activities of financial institutions, irrespective of the arrangement involved or the term to maturity.

In particular, this category includes capital qualifying as a financial liability. This item corresponds to the amount of financial instruments issued by the Group which, although they are treated as capital for legal purposes, do not qualify for classification as consolidated equity for accounting purposes. They consist mainly of issued shares that do not carry voting rights on which a dividend is paid based on a fixed or variable rate of interest.

Following initial recognition they are stated at amortised cost applying criteria analogous to financial assets measured at amortised cost. Interest accrued calculated using the effective interest rate method is recorded in the consolidated profit and loss account. However, if the Group has discretionary powers with regard to the payment of coupons associated with financial instruments issued and classified as financial liabilities, the Group's accounting policy consists in recognising them by charging them to consolidated reserves.

Hybrid financial instruments

Hybrid financial instruments are those that combine a non-derivative host contract with a financial derivative, called an "implicit derivative", which cannot be independently transferred and has no different counterparty, and the effect of which involves some of the cash flows from the hybrid instrument changing in a similar way to the cash flows of the independently considered derivative.

Generally, when the host contract of a hybrid financial instrument is a financial asset, the implicit derivative is not segregated and the valuation rules are applied to the hybrid instrument considered in its entirety.

When the host contract of a hybrid financial instrument is a financial liability, the implicit derivatives of such contract are segregated, and treated independently for accounting purposes whenever the characteristics and economic risks of the implicit derivative are not closely related to those of the host contract, whenever a different financial instrument with the same conditions as those of the implicit derivative would qualify as a derivative instrument, and whenever the hybrid contract is not valued in its entirety at fair value through profit or loss.

The fair value of the Group's financial instruments as at 30 June 2018 and 31 December 2017 is included in Note 6.

Impairment of financial assets (replaces Note 1.3.4 of the 2017 consolidated annual accounts)

A financial asset or credit exposure is deemed to be impaired when there is objective evidence that an event has occurred, or that various events have occurred, and their combined effect has given 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 closed due to the materialisation of credit risk.

- In the case of off-balance sheet exposures with associated credit risk, expected cash flows which are lower than the contractual cash flows in the case of drawdowns, or lower than the expected payments in the case of financial guarantees given.

- In the case investments in joint ventures and associates, a situation in which their carrying values cannot 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 profit and loss account for the year in which the impairment has been estimated. Any recoveries of previously recognised impairment losses are also recognised in the consolidated profit and loss account for the year in which the impairment is reversed or reduced.

The impairment of financial assets is calculated depending on the type of instrument and other circumstances that could affect them, taking into account the effective guarantees received. For debt instruments measured at amortised cost, the Group recognises both allowance accounts, when insolvency provisions are established to cover impairment losses, and direct write-downs against the asset concerned when recovery is deemed to be remote. For debt instruments measured at fair value through other comprehensive income, impairment losses are recognised in the consolidated profit and loss account with a contra account in the "*Accumulated other comprehensive income*" heading of the consolidated statement of equity. Impairment loss allowances in 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 "Definition of classification categories" within this Note), accrued interests are recognised in the consolidated profit and loss account by applying the effective interest rate to their amortised cost adjusted by any value correction required due to impairment losses.

To determine impairment losses, the Group monitors borrowers on both an individual basis, at least those who are significant borrowers, and on a collective basis, for groups of financial assets with similar credit risk characteristics indicative of the capacity of borrowers to satisfy their outstanding payments. When a specific instrument cannot be included in any group of assets with similar risk characteristics, it is only analysed on an 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 losses that may arise as a result of its credit risks, both due to insolvency attributed to counterparties and due to country risk. These policies, methods and procedures are applied when granting and assessing debt instruments and off-balance sheet exposures, when identifying their possible impairment and when calculating the necessary amounts to cover any expected losses.

Classification of transactions on the basis of credit risk attributable to insolvency

The Group has set forth criteria that allow borrowers showing significant increases in credit risk, weaknesses or objective evidence of impairment to be identified and classified in line with their credit risk.

The following paragraphs explain the classification principles and methodology used by the Group.

Definition of classification categories

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

- Stage 1: transactions which do not meet the requirements to enable them to be classified into other categories.

- Stage 2: this category includes all transactions which, while not meeting the criteria to be individually classified as Stage 3 or write-offs, show a significant increase in credit risk since initial recognition. Transactions with amounts over one month past due are included in this category.

- Stage 3: includes debt instruments, whether past due or not, for which, while not meeting the criteria to be classified as write-offs, there are reasonable doubts as to their full repayment (principal and interest) by the borrower, in addition to 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 in the guaranteed transaction. It also includes the amounts of all of a borrower's transactions with amounts which are generally, as previously indicated, more than 90 days past due, and which exceed 20% of the amounts pending collection (outstanding).

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

- Write-offs:

  The Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is considered remote after an individual assessment. This category includes risks of customers who are involved in bankruptcy proceedings in which they have filed for liquidation, as well as transactions classified into Stage 3 as a result of borrower arrears which are older than four years, or less, when the amount not covered by effective collateral has been held with a credit risk allowance of 100% for over two years, with the exception of balances with sufficient effective collateral. 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 portion of transactions with amounts derecognised (partial derecognition) because the Group's claims are extinguished due to debt forgiveness or debt reductions ("definitive loss"), or because they are deemed irrecoverable without extinguishment of the Group's claims ("partial write-off"), shall be classified in full in the category corresponding to it on the basis of the credit risk.

  In the above situations, the Group derecognises write-offs along with their associated provisions from the consolidated balance sheet, notwithstanding any actions taken to collect payment, until no more rights to collect payment exist, whether due to transfer, forgiveness or any other reasons.

Purchased or originated credit-impaired transactions

Expected credit losses on the purchase or origination of these assets shall not form part of either the impairment loss allowance or the gross carrying amount upon initial recognition. In the case of purchased or originated credit-impaired transactions, the allowance will be equal to the accumulated amount of changes in expected credit losses throughout the life of the transactions subsequent to their initial recognition, and the interest on such assets shall be calculated by applying the effective interest rate adjusted by the credit quality at the amortised cost of the financial asset.

<u>Classification criteria for transactions</u>

The Group applies diverse criteria to classify borrowers and transactions into different categories based on their credit risk. These criteria include:

- Automatic criteria;

- Specific refinancing criteria; and

- Criteria based on triggers.

The automatic factors and classification criteria specific to refinanced exposures constitute the algorithm for classifying loans as non-performing or write-offs and for their reclassification as performing, and they are applied to the entire portfolio.

In order to allow any significant increase in credit risk or any weaknesses or impairment of the transactions to be detected early, the Group has established triggers, based on the number of days past due, forbearance indicators and indicators of insolvency situations and of any significant increase in credit risk, amongst others, making a distinction between significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the criteria based on which they would be classified into Stages 2 or 3 are evaluated using indicators which aim to identify any significant increases in credit risk or signs of weakness that could lead to the incurrence of losses greater than those on other similar transactions classified as Stage 1.

Transactions classified as Stage 3 are reclassified into Stages 1 or 2 when, as a consequence of the full or partial collection of unpaid amounts in the case of transactions classified as Stage 3 as a result of borrower arrears, or because they have completed the cure period in the case of transactions classified as Stage 3 for reasons other than arrears, the reasons for which they were originally classified into Stage 3 no longer exist, unless other reasons make it advisable to keep them in this category.

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

Individual classification

The Group has established an exposure threshold to determine which borrowers are significant based on their exposure at default (EAD) parameter. It also individually considers exposures of borrowers corresponding to the largest risk groups, as well as borrowers not associated with a standard risk group and whose classification and allowances cannot therefore be estimated collectively.

For significant borrowers, a system of triggers has been established which allows any significant increase in credit risk, weaknesses or signs of impairment to be identified. The system of triggers comprises signs of impairment or weakness 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, on the basis of the various early warning thresholds.

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

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently to the general performance of the loan book. 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 of 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.

- To identify a significant increase in credit risk or an impairment event, it is necessary to consider both variables which are indicative of a deterioration or a poor economic and financial situation and variables that are the potential cause or which anticipate this impairment.

  For example:

  - Adverse changes in the financial situation, as well as a significant increase in the levels of indebtedness, significant declines in business figures or a significant contraction of operating income.

  - Adverse changes in the economy or market indicators, such as a significant decline in share prices or a fall in the prices of issued debt. In the case of sovereign debt issues, the pricing gaps in terms of the benchmark German government bond (risk premium) are also analysed.

  - Significant real or expected downgrade in the internal credit rating of the transaction or the borrower, or a decline in the behavioural score as a result of internal credit risk monitoring.

  - For transactions secured with collateral, a worsening of the ratio between the transaction amount and the value of the collateral, due to unfavourable developments in the value of the collateral, or to the outstanding amount remaining at its current levels or increasing due to the established repayment terms.

  - Significant increase in credit risk or evidence of impairment of other transactions in the name of the same borrower, or in institutions related to the risk group of the borrower.

- Contractual breaches, defaults or delays in the payment of principal or interests: in addition to defaults longer than 90 days past due, which form part of the automatic classification algorithm, non-payments and delays less than 90 days past due are also identified, as these can be a sign of impairment or a significant increase in credit risk. The assessment also considers breaches of any covenants and records of default declared in other credit institutions within the financial system.

- Borrowers are granted concessions or benefits due to their financial difficulties that would not otherwise be considered: the act of refinancing loans owed by obligors in financial difficulties may prevent or delay their failure to comply with their obligations whilst at the same time preventing or delaying the recognition of the impairment associated with the financial asset linked to that obligor.

- Probability of the borrower becoming insolvent: in cases in which there is a high probability of borrowers going bankrupt or entering restructuring proceedings, the solvency of the issuers and obligors is ostensibly affected, and could give rise to a loss event depending on the impact on estimated future cash flows pending collection.

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

The Group reviews the reasonability of the thresholds and the scopes of the individual assessments obtained by applying such thresholds on an annual basis.

<u>Collective classification</u>

The Group has defined a synthetic indicator for borrowers who have been classified below the materiality threshold and who, in addition, have not been classified into Stage 2 or 3 by the automatic classification algorithm. The Group uses this indicator to identify exposures that exhibit a significant increase in credit risk or weaknesses that could potentially result in losses higher than losses on other similar transactions classified as Stage 1.

For borrowers assessed collectively, the Group has set certain thresholds based on a comparison between the current lifetime Probability of Default (PD) and the lifetime PD at origination for each period. These thresholds have been set in such a way that the observed default rates during a sufficiently long period of time are statistically different. The rupture of these thresholds entails the automatic classification into Stage 2 due to a significant increase in credit risk or associated weaknesses.

Forbearance

The credit risk management policies and procedures applied by the Group guarantee a detailed monitoring of borrowers, and demonstrate the need to allocate provisions when there is evidence of a deterioration in their solvency (see Note 4 to the 2017 consolidated annual accounts). The Group allocates loan loss provisions for transactions requiring them due to the borrower's circumstances, prior to proceeding to implement forbearance. Forborne transactions include refinanced and restructured transactions, which should be understood as follows:

- Refinanced transactions: refinancing is granted or used for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower to settle one or more transactions granted by the Group, or to bring outstanding payments on such transactions fully or partially up to date. Transactions are refinanced to enable borrowers to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in due time and form.

- Restructured transactions: financial terms and conditions of a transaction are modified for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower in order to facilitate the repayment of their debt (principal and interest) when they are unable, or will predictably soon be unable, to comply with such terms and conditions in due time and form, even when such modification is already envisaged in the contract. Restructured transactions are those in which the terms and conditions are amended to extend the term to maturity, amend the repayment schedule to reduce the amounts of short-term repayment instalments or reduce the repayment frequency, or to establish or extend the deferment period for the payment of principal, interest, or both, unless it can be proven that the terms and conditions are being amended for reasons other than borrowers' financial difficulties and which are equivalent to the terms that would be applied by other institutions in the market for similar risks.

The formalisation of amendments to contractual terms and conditions does not entail any significant additional deterioration of the borrowers' circumstances that will require the allocation of additional provisions.

If a transaction is classified into a specific risk category, the refinancing of a transaction does not entail any automatic improvement in its risk classification. In terms of refinanced transactions, the algorithm initially classifies them based on their characteristics, mainly on the basis of any financial difficulties being experienced by borrowers (for example, an inappropriate business plan), the existence of certain clauses such as long deferment periods, or on the basis of any amounts derecognised from the balance sheet as they are considered non-recoverable. The algorithm then changes its initial classification in line with the set cure periods. A reclassification into a lower risk category shall only be considered if there is a quantitative or qualitative increase in efficient guarantees backing the transaction and if there has been a significant improvement in the continuous recovery of the debt over time, therefore the act of refinancing does not in itself produce any immediate improvements.

Forborne transactions, whether refinanced or restructured, remain in Stage 2 during a probation period, until all of the following requirements have been satisfied:

- It has been concluded, following a review of the borrower's equity and financial situation, that the borrower is not expected to face financial difficulties.
- A minimum of two years has passed since the later of the date of the restructuring or refinancing transaction or the date of its reclassification from Stage 3.
- The borrower, in general, has paid the accrued instalments of principal and interest since the later of the date of the refinancing or restructuring transaction or the date of its reclassification from Stage 3.
- The borrower does not have any other transactions with amounts more than one month past due at the end of the probation period.

Forborne transactions, whether refinanced or restructured, will remain in Stage 3 until the general criteria that determine the reclassification of transactions from Stage 3 have been verified, and in particular, until such a time as the following requirements are met:

- One year has passed since the refinancing or restructuring;
- The borrower has paid the accrued instalments of principal and interest.
- The borrower does not have any other transactions with amounts more than ninety days past due at the date the forborne transaction was reclassified into Stage 2.

With regard to forborne (refinanced/restructured) loans reclassified as Stage 2, different types of transactions are specifically assessed in order to reclassify them, if applicable, into one of the higher risk categories described above (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 concerning their recoverability).

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

The methodology used to estimate losses for these portfolios is generally similar to that used for other financial assets measured at amortised cost, but it is considered that, in principle, a transaction that has had to be restructured to enable payment obligations to be satisfied should have a higher estimated loss than a transaction that has never suffered default (unless there are sufficient additional effective guarantees to justify otherwise).

Measurement of allowances

The Group applies the following criteria when calculating credit loss allowances.

The value of impairment loss allowances is calculated depending on whether or not there has been a significant increase in credit risk since the initial recognition of the transaction, and on whether there has been any breach of payment obligations. Thus, the value of impairment loss allowances is equal to:

- Expected credit losses over twelve months, when the risk of any breach of payment obligations associated with the transaction has not significantly increased since its initial recognition (assets classified as Stage 1).

- Expected credit losses over the life of the transaction, if the risk of any breach of payment obligations associated with the transaction has significantly increased since its initial recognition (assets classified as Stage 2).

- Expected credit losses, when there has been a breach of payment obligations in the transaction (assets classified as Stage 3).

A 0% allowance is applied to transactions with negligible risk (see section “Collective allowance estimations” in this Note), except in the case of transactions classified as Stage 3, for which an individual impairment estimate is carried out. During this estimation process, calculations are made of the amount required to cover credit risk attributable to the borrower on one hand and credit risk attributable to country risk on the other.

The exposure metrics considered by the Group to cover this risk are the currently drawn balances and the estimate of the amounts expected to be disbursed in the event of entry into default of off-balance sheet exposures through the application of a credit conversion factor (CCF).

The Group incorporates forward-looking information when calculating expected credit losses and determining whether there has been a significant increase in credit risk, for which purpose forward-looking scenario simulation models have been used.

To estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, an estimation is made of the provisioning requirements in different scenarios for which a probability of occurrence has been defined. Specifically, the Group has considered three macroeconomic scenarios: one central scenario, one adverse scenario and one favourable scenario. These have been defined at Group level and their probability of occurrence is 65%, 20% and 15%, respectively. To carry out the projections of these scenarios, 5-year time horizons are considered. The main variables considered are the evolution of GDP, the unemployment rate and housing prices.

The Group uses estimates of prepayment rates for different products and segments based on historical data observed (historical data from 2000 onwards). These prepayment rates are used to determine the lifetime expected loss of exposures classified as Stage 2. The agreed repayment schedule is applied to each transaction.

Subsequently, these expected losses are updated by applying the effective interest rate of the instrument (if the interest rate is fixed) or by applying the effective contractual interest rate on the date on which they are updated (if the interest rate is variable). The amount of effective guarantees received is also considered.

The following paragraphs describe the various methodologies applied by the Group to determine impairment loss allowances.

Individual allowances estimations

The following must be estimated individually:

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

- Where applicable, the transactions or borrowers whose characteristics do not allow a collective calculation of impairment to be carried out.

- Allowances of transactions identified as having negligible risk classified into 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 updated value of the estimated cash flows expected to be collected, discounted using the effective interest rate. For this purpose, effective guarantees and collateral received are taken into account (see section entitled “Guarantees” in this Note).

Three methods are established to calculate the recoverable value of assets which are assessed individually:

- Discounted cash flow: obligors who are estimated to be able to generate future cash flows through the performance of their own business activities and the economic and financial structure of the company, whereby they can either fully or partially repay the outstanding debt. This involves estimating cash flows generated by the borrower through their business activity.

- Recovery of collateral: obligors who do not have the capacity to generate cash flows through the performance of their own business activities and who are then forced to liquidate assets in order to honour their payment obligations. This entails estimating cash flows based on the enforcement of guarantees and collateral.

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

Collective allowance estimations

Exposures which are not analysed using individual allowance estimates are estimated on a collective basis.

When calculating collective impairment losses, the Group, pursuant to IFRS 9 and taking into account Bank of Spain Circular 4/2017, takes the following aspects into consideration:

- The process to estimate impairment takes all credit exposures into account, with the exception of exposures with negligible risk classed as Stage 3, for which, in general, the methods established by Bank of Spain are used, based on the data and statistical models which aggregate the average performance of banks in the banking sector. The Group recognises an impairment loss equal to the best estimation obtained from internal models, taking into account all of the relevant information which the Group holds on the current conditions at the end of the reported period. The Group has identified the following transactions with negligible risk for the estimation of credit risk allowances:

    - transactions with central banks;

    - transactions with general governments of European Union countries, including those deriving from reverse repurchase agreements on government debt securities;

    - transactions with central governments of countries classified in group 1 for the purpose of country risk;

    - transactions in the name of deposit guarantee schemes and resolution funds, provided their credit quality is such that they are equivalent to those of the European Union;

    - transactions in the name of credit institutions and specialised lending institutions of countries in the European Union and, in general, of countries classified in group 1 for the purpose of country risk;

    - transactions with Spanish reciprocal guarantee companies and government agencies or enterprises of other countries classified in group 1 for the purpose of country risk whose main activity is credit insurance or guarantees;

    - transactions with non-financial corporations qualifying as public sector entities;

    - advances on the following month's pensions or wages, provided the paying entity is a government agency and the wage or pension is directly credited to Banco Sabadell, and advances other than loans.

- For the purpose of carrying out a collective assessment of the impairment, financial assets are pooled together based on the similarity of their characteristics with regard to credit risk, in order to estimate differentiated risk parameters for each group of similar assets. This segmentation differs depending on the estimated risk parameter. To this end, the historical loss observed for a homogeneous group of assets is taken into account, once it has been adjusted to the current economic situation and the considered projection of the scenarios, which are representative of the expected credit losses in that segment. This segmentation identifies risk, is aligned with risk management and is used in the Group's internal models for various purposes by the internal control units and the supervisor. Additionally, it is subject to recurring back-testing exercises and the regular updates and reviews of the estimations in order to ensure that all of the information available is included.

Classification and coverage of credit risk attributable to country risk

Country risk is the risk arising in counterparties resident in a specific country for reasons other than ordinary commercial risk (sovereign risk, transfer risk or risks derived from international financial activity). The Group classifies transactions carried out with third parties into different groups depending on the economic development of countries, their political situation, the regulatory and institutional framework and their payment capacity and experience.

Debt instruments or off-balance sheet exposures with ultimate obligors resident in countries experiencing long-term difficulties to service their debt and for which the possibility of recovery is considered doubtful, are classified into Stage 3, unless they should be classified as write-offs.

Allowances are estimated in two stages: first, loan loss provisions are estimated, and then the additional country risk allowance must be estimated. Thus, the risk amount not covered by the recoverable amount of the effective collateral or with the amount of loan loss provisions is covered by applying the percentage set forth in Circular 4/2017 on the basis of the country-risk group in which the transaction has been included and its accounting classification on the basis of credit risk.

The provisioning levels for this item are not significant in terms of the impairment provisions allocated by the Group.

Guarantees

Effective guarantees are collateral and personal guarantees proven by the Group to be a valid means of mitigating credit risk.

Under no circumstances will guarantees whose effectiveness significantly depends on the credit quality of the obligor, or where applicable, the economic group of which the obligor forms part, be accepted as effective guarantees.

Based on the foregoing, the following types of guarantees can be considered as effective:

- Real estate guarantees arranged as real estate mortgages, provided that they are first mortgages.
    - Completed buildings and parts thereof:
        - Housing units.
        - Offices, commercial premises and multi-purpose industrial buildings.
        - Other buildings, such as non-multi-purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.

- Collateral in the form of pledged financial instruments:
    - Cash deposits.
    - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
    - Personal property received as collateral.
    - Subsequent mortgages on properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, whose solvency is sufficiently verified to ensure the full amortisation of the transaction under the terms set forth.

The Group has criteria for the valuation of collateral for assets located in Spain, which are aligned with current legislation. Specifically, the Group applies criteria for the selection and recruitment of providers of valuations, which are geared towards guaranteeing the independence of the foregoing and the quality of the valuations. All such providers are valuation companies and agencies registered with the Bank of Spain Special Registry for Valuation Companies. The valuations are carried out in accordance with the criteria set forth in Order ECO/805/2003 on valuation regulations for property and certain rights related to particular financial objectives.

Real estate guarantees for credit transactions and property are valued at their origination or registration date. In terms of property, they are valued irrespective of whether they are registered by means of purchase, foreclosure or payment in kind and whenever the asset suffers a significant reduction in value. Additionally, minimum updating criteria are applied, which guarantee an update every year in the case of impaired assets (assets classified into Stage 2 or 3 and assets foreclosed or received in lieu of debt), or every three years for large debts classified as Stage 1 with no signs of latent risk. Statistical methodologies are only used to update valuations for the assets described above when they have reduced exposure and risk, although a full ECO valuation (an official valuation) must be carried out at least every three years.

For assets located in the rest of the European Union, the valuation is carried out in accordance with that set forth in Royal Decree 716/2009 of 24 April, and in the rest of the world, by companies and/or experts with recognised expertise in the relevant country.

To estimate credit loss allowances, the Group has developed internal methodologies in order to determine the recoverable amount of real estate guarantees, which use the appraisal value as a starting point. This appraisal value is adjusted considering the time required to enforce such guarantees, price trends and the Group's capacity and experience in realising the value of similar properties in terms of prices and timeframes, as well as the costs of enforcement, maintenance and sale.

General comparison between credit risk provisions and real estate asset impairment provisions

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

As a result of this backtesting exercise, the Group has established amendments to the internal methodologies when the backtesting shows significant differences between the estimated losses and actual losses.

Investments in joint ventures and associates

The Group recognises impairment adjustments to investments in joint ventures and associates provided that there is objective evidence that the carrying value of an investment is non-recoverable. Objective evidence that equity instruments have become impaired is deemed to exist when, after their initial recognition, an event occurs, or a series of events occur, and their combined effect makes it evident that their carrying value will not be recovered.

The signs considered by the Group to determine whether there is evidence of impairment include:

- Significant financial difficulties.

- Disappearance of an active market for the instrument in question as a result of financial difficulties.

- Significant changes in performance compared with budgets, business plans or milestones.

- Significant changes in the market for the issuer's equity or its products or potential products.

- Significant changes in the global economy or the economic environment in which the issuer operates.

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

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

The Group determines the value in use of each equity interest based on their net asset value or based on projections of their results, pooling them into activity sectors (real estate, renewable energy, industrial, financial, etc.) and evaluating the macroeconomic factors specific to that sector that could affect the activity of such companies. Specifically, insurance investees are valued by applying the market consistent embedded value methodology, companies related to real estate are valued based on their net asset value, and financial investees are valued based on multiples of their book value and/or the profit from other comparable listed entities.

Impairment losses are recognised in the consolidated profit and loss account for the year in which they occurred and subsequent recoveries are recognised in the consolidated profit and loss account for the year in which they were recovered.

b) Use of judgement and estimates in preparing the financial statements

The preparation of the condensed interim consolidated financial statements requires certain accounting estimates to be made. It also requires the use of expert judgement in the process of applying the Group's accounting policies. Such estimates may affect the carrying amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed interim consolidated financial statements, as well as income and expenses in the period covered by the same. The main estimates made in these condensed interim consolidated financial statements refer to the following:

- Income tax expense, in accordance with IAS 34, is recognised in interim periods on the basis of the best estimate of the weighted average tax rate that the Group expects for the annual period.
- Losses due to the impairment of certain financial assets (see Notes 7, 8, 9, and 10).
- The assumptions used in actuarial calculations of liabilities and commitments in respect of post-employment remuneration (see Note 18).
- The useful life of tangible and intangible assets (see Notes 11 and 12).
- The valuation of consolidated goodwill (see Note 12).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 32).
- The provisions and consideration of contingent liabilities (see Note 18).
- The fair value of unquoted financial assets (see Note 6).
- Fair value of real estate assets held on the balance sheet (see Note 6).

Although estimates are based on the best information available regarding current and foreseeable circumstances, final results could differ from these estimates.

No significant changes in relation to the estimates carried out at the end of 2017 have taken place during the first half of 2018, other than those indicated in these condensed interim consolidated financial statements.

c) Comparability

The information presented in the condensed interim consolidated financial statements in connection with 2017 is provided solely and exclusively for purposes of comparison with the information for the six-month period ended 30 June 2018 (except for the consolidated balance sheet, which is presented as at 31 December 2017).

In accordance with that permitted by regulations, the Group has opted not to re-express the comparative information of 2017 by applying the classification and measurement criteria set forth in IFRS 9, instead recognising, as at 1 January 2018, the impact arising from the entry into force of the aforementioned standard on the Group's consolidated equity. The effects of the first implementation of IFRS 9 are shown in the section "Adoption of IFRS 9 – Financial instruments" in this Note.

Furthermore, Bank of Spain Circular 4/2017 of 27 November to credit institutions on financial reporting rules and formats was published on 6 December 2017, and entered into force on 1 January 2018. This Circular aims to adapt the accounting regime of Spanish credit institutions to changes in European accounting regulations arising from the implementation of IFRS 9 and IFRS 15. This Circular has modified the breakdowns and names of certain headings in the financial statements. In order for the information for 2017 to be comparable with the information presented in these condensed interim consolidated financial statements, the balances recognised under certain headings of the consolidated financial statements that have ceased to be used following the entry into force of the aforementioned Circular 4/2017 have been reclassified to the new headings established by this Circular. Thus, the balances recognised as at 31 December 2017 in the different portfolios for the purpose of the presentation and measurement of financial assets used to prepare the consolidated balance sheet as at 31 December 2017 have been reclassified into the valid portfolios in the consolidated balance sheet following the entry into force of Circular 4/2017, which are presented for comparative purposes, as shown below:

€ million

	Portfolios used after the entry into force of IFRS 9				
	Financial assets at amortised cost	*Financial assets at fair value through other comprehensive income*	*Non-trading financial assets mandatorily measured at fair value through profit or loss*	*Financial assets held for trading*	*Total*
Portfolios used in the consolidated annual accounts 2017 (IAS 39)					
Loans and receivables and held-to-maturity investments	*160,724*	-	-	-	*160,724*
Available-for-sale financial assets	-	*13,181*	-	-	*13,181*
Financial assets held for trading	-	-	-	*1,572*	*1,572*
Financial assets designated at fair value through profit or loss	-	-	*40*	-	*40*
Total	*160,724*	*13,181*	*40*	*1,572*	*175,517*

Similarly, the balances included in the headings of the remaining 2017 consolidated financial statements (consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement) which referred to, on one hand, the portfolio of “Available-for-sale financial assets” and, on the other hand, the “Loans and receivables” and “Held-to-maturity investments” portfolios, have been reclassified into the new financial statement headings introduced by the new regulations and which refer to the portfolios of “Financial assets measured at fair value through other comprehensive income” and “Financial assets measured at amortised cost”, respectively.

d) Seasonality of the Group's transactions

Given the activities in which the Group companies are engaged, its transactions are not cyclical or seasonal in nature. Consequently, these notes to the condensed interim consolidated financial statements for the six month period ended 30 June 2018 do not contain specific disclosures in this regard.

e) Materiality

In accordance with IAS 34, when determining the information to be disclosed on the various items in the financial statements and other matters, the Group has taken into account their materiality in relation to the condensed interim consolidated financial statements.

Note 2 – Banco Sabadell Group

Banco Sabadell is comprised of different financial institutions, brands, subsidiaries and affiliates that cover all aspects of financial business.

Schedule I to the consolidated annual accounts for the year ended 31 December 2017 contains material disclosures about the Group companies that were consolidated as at that date and those recognised by the equity method.

Schedule I to these condensed interim consolidated financial statements gives details of the business combinations, acquisitions and sales of shares held in other institutions (subsidiaries and/or investments in associates) conducted by the Group during the six-month period ended 30 June 2018.

Changes in the scope of consolidation in the first half of 2018

There have been no significant changes in the scope of consolidation in the first half of 2018.

Other corporate transactions occurring in the first half of 2018

No significant corporate transactions have occurred in the first half of 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) came into force with retroactive effect as from 31 July 2011, in accordance with the protocol on financial assistance for the restructuring of Banco CAM. Under the scheme, which covers a specified portfolio of assets with a gross value of €24,644 million at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") will bear 80% of losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to €3,882 million at that date, have been fully applied.

The portfolio of assets protected by the APS on the date it entered into force (31 July 2011) breaks down as follows:

€ million

	On individual balance sheet		*On Group balance sheet*	
	Balance	*Provision*	*Balance*	*Provision*
Loans and advances	*21,711*	*2,912*	*19,117*	*2,263*
Of which risk drawn down	*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 venture and associates	*193*	*52*	*504*	*163*
Written-off assets	*360*	*360*	*360*	*360*
Total	***24,644***	***3,882***	***24,644***	***3,882***

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 30 June 2018 are as follows:

€ million	
Balance at 31 July 2011	**18,460**
Acquisition of real-estate assets	(7,622)
Collections and subrogation	(4,920)
Increase in written-off assets	(1,550)
Credit draw-downs	75
Balance at 30 June 2018	**4,444**

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force until 30 June 2018 are as follows:

€ million	
Balance at 31 July 2011	**4.663**
Acquisition of real estate assets	5.578
Sales of real estate assets	(6.315)
Balance at 30 June 2018	**3.926**

The table below shows the breakdown of the portfolio of APS-protected assets as at 30 June 2018, the NPL ratios, NPL coverage ratios and the breakdown of financing awarded to construction and real estate development prior to the transfer of credit risk to the DGF:

€ million	On Group balance sheet		Of which stage 3	
	Balance	Provision	Balance	Provision
Loans and advances	4,452	1,661	2,377	1,640
Of which risk drawn down	4,444	1,660	2,376	1,640
Of which guarantees and contingent liabilities	8	1	1	-
Real estate assets (*)	3,926	2,483	-	-
Investments in joint venture and associates	40	32	-	-
Written-off assets	2,006	2,006	-	-
Total	**10,424**	**6,182**	**2,377**	**1,640**

(*) Real estate exposure for which credit risk has been transferred, applying the Asset Protection Scheme (see detail on the exposure to the sector of construction and real estate development in Schedule 5).

%	30/06/2018
NPL ratio	53.40
NPL coverage ratio	69.87

€ million				
	On Group balance sheet		***Of which stage 3***	
	Balance	***Provision***	***Balance***	***Provision***
Draw down risk loans and advances	*4,444*	*1,660*	*2,376*	*1,640*
Of which financing for construction and real estate development (business in Spain)	*1,743*	*1,075*	*1,452*	*1,073*
Credit risk has been transferred	*1,394*	*860*	*1,161*	*858*
Credit risk has not been transferred	*349*	*215*	*291*	*215*
Total	***4,444***	***1,660***	***2,376***	***1,640***

The criteria for recording and presenting assets guaranteed by the APS are described in Note 2 to the consolidated annual accounts of 31 December 2017. 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 at amortised cost – Loans and advances - Customers*" heading and recognised on the income statement, in order to reflect the rights of collection from the DGF as a result of its guarantee and to offset the impact of recorded losses related to assets covered by the APS on the income statement. The cumulative amount recorded as at 30 June 2018 amounts to close to €4,201 million.

TSB migration project

On 22nd April 2018 the data migration was carried out to the new technology platform of TSB Bank plc. (hereinafter "TSB"). The Group has received the payment agreed with LBG as part of the initial public offering in June 2014, in which LBG sold 50% of its capital in TSB for £318 million (£450 million, less the migration costs incurred by LBG). The amount recorded in the income statement for the six-month period ended 30 June 2018 includes the impact of migration costs, net of the payment described, amounting to €96 million. The Group has recorded TSB's new technology platform as an intangible asset during its construction and implementation.

Subsequent to the migration certain incidents arose in the running of the platform, affecting customers. These incidents are being investigated both by TSB, with the support of independent experts, as well as by British regulators. The breakdown of the estimated amount of the costs relating to these incidents recorded in the consolidated profit and loss statement is shown below:

€ million	***30/06/2018***
Waiver of interest and overdraft fees	*33*
Increase in interest on Classic Plus accounts to 5%	*3*
Income from interest, fees and commissions	***36***
Losses due to fraud and other	*40*
Other operating expenses	***40***
Services provided by independent professionals	*11*
Communication with customers	*4*
Funds	*20*
Administrative expenses	***35***
Provisions for customer remedies	*92*
Provisions	***92***
Total post-migration costs	***203***

At 30 June 2018 the Group maintains a provision for the amount of €92 million to compensate customers for the incidents which arise post-migration, which include operating costs which must be paid in order to comply with this requirement (see Note 18).

As at the date of authorisation of these condensed interim consolidated financial statements, the investigation mentioned above is still ongoing. Taking into account the information available relating to progress made in the investigation on such date, the Group's management considers that the circumstances do not require the allocation of a provision for potential sanctions.

Note 3 – Shareholder remuneration and earnings per share

The dividends paid by the bank in the six-month period ended 30 June 2018 are detailed below:

Thousand euro

	30/06/2018		
	% of par	*Euro per share*	*Amount*
Ordinary shares	40%	0.05	281,348
Other shares (non-voting, redeemable, etc.)	-	-	-
Total dividends paid			
a) Dividends charged to results	40%	0.05	281,348
b) Dividends charged to reserves or share premium	-	-	-
c) Dividends in kind	-	-	-

The General Meeting of Shareholders, held on 19 April 2018, approved shareholder remuneration supplementary to the dividend corresponding to 2017, of €0.05 per share, which was paid on 27 April 2018. Previously, in December 2017, shareholders received remuneration in the form of a dividend of €0.02 per share, charged to the income statement for 2017, which was paid on 29 December 2017.

The dividends paid by the bank in the six-month period ended 30 June 2017 are detailed below:

Thousand euro

	30/06/2017		
	% of par	*Euro per share*	*Amount*
Ordinary shares	24%	0.03	168,485
Other shares (non-voting, redeemable, etc.)	-	-	-
Total dividends paid			
a) Dividends charged to results	24%	0.03	168,485
b) Dividends charged to reserves or share premium	-	-	-
c) Dividends in kind	-	-	-

The General Meeting of Shareholders, held on 30 March 2017, approved shareholder remuneration supplementary to the dividend corresponding to 2016, of €0.03 per share, which was paid on 7 April 2017. Previously, in December 2016, shareholders received remuneration in the form of a dividend of €0.02 per share, charged to the income statement for 2016, which was paid on 30 December 2016.

Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Group (adjusted by remuneration in other equity instruments) by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares acquired by the Group. Diluted earnings per share are calculated by applying adjustments for the estimated effect of potential conversions of ordinary shares to the attributable profit or loss and the weighted average number of ordinary shares outstanding.

The Group's earnings per share calculations are shown in the following table:

	30/06/2018	*30/06/2017*
Net profit attributable to the owners of the parent company (€'000)	*120,595*	*450,618*
Adjustment: Remuneration of other equity instruments (€'000)	*(25,638)*	*(4,421)*
Profit or loss (-) after taxes deriving from discontinued operations	-	-
Weighted average number of ordinary shares outstanding (*)	*5,574,285,253*	*5,573,976,556*
Conversion undertaken of convertible debt and other equity instruments	-	*9,938,231*
Adjusted weighted average number of outstanding ordinary shares	*5,574,285,253*	*5,583,914,787*
Earnings per share (€)	*0.02*	*0.08*
Basic earnings per share adjusted for mandatorily convertible bonds (€)	*0.02*	*0.08*
Diluted earnings per share (€)	*0.02*	*0.08*

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

At 30 June 2018 and 2017, there were no other share-based financial instruments or commitments to employees with a material impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Note 4 – Financial risk management

Note 4 "*Financial risk management*" to the 2017 consolidated annual accounts gives information on the corporate risk culture, the risk appetite framework and the overall organisation of the risk function, as well as the management and monitoring of the main financial and non-financial risks.

Relevant information updated to 30 June 2018 relative to financial risk management is shown below.

4.1 Credit risk

Credit risk exposure

The tables below show the breakdown, by headings of the consolidated balance sheet, of off-balance sheet exposures and the Group's maximum gross exposure to credit risk at 30 June 2018 and 31 December 2017, without deducting collateral or credit upgrades received in order to ensure compliance with payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	30/06/2018	31/12/2017
Financial assets held for trading		**295,662**	**131,761**
Equity instruments	9	6,322	7,432
Debt securities	8	289,340	124,329
Loans and advances		-	-
Non-trading financial assets mandatorily at fair value through profit or loss		**121,505**	**39,526**
Equity instruments		-	39,526
Debt securities	8	121,505	-
Loans and advances		-	-
Financial assets designated at fair value through profit or loss		-	-
Debt securities		-	-
Loans and advances		-	-
Financial assets at fair value through other comprehensive income		**13,049,623**	**13,380,567**
Equity instruments	9	490,898	606,697
Debt securities	8	12,558,725	12,773,870
Loans and advances		-	-
Financial assets at amortised cost		**166,399,596**	**164,457,771**
Debt securities	8	11,703,717	11,748,660
Loans and advances	10	154,695,879	152,709,111
Derivatives		**2,101,378**	**1,814,764**
Total risk due to financial assets		**181,967,764**	**179,824,389**
Financial guarantees given	20	2,036,397	1,983,143
Loan commitments given	20	22,062,122	20,906,053
Other commitments given	20	8,309,411	9,916,992
Total off-balance sheet exposures		**32,407,930**	**32,806,187**
Total maximum credit risk exposure		**214,375,694**	**212,630,576**

The value of the collateral received to ensure collection, broken down into financial guarantees and other collateral, at 30 June 2018 and at 2017 year-end, is as follows:

Thousand euro

	30/06/2018	31/12/2017
Value of collateral	*89,443,680*	*89,271,478*
Of which: guarantees stage 3 risks	*3,297,959*	*3,983,614*
Value of other collateral	*11,910,411*	*12,462,899*
Of which: guarantees stage 3 risks	*255,662*	*355,839*
Total value of guarantees received	***101,354,091***	***101,734,377***

4.2 Liquidity risk

Assessment of liquidity requirements and funding policy

Banco Sabadell's liquidity management seeks to ensure funding for its commercial activity at an appropriate cost and term while minimising liquidity risk. The bank's funding policy is focused on maintaining a balanced funding structure, based mainly on customer deposits, and supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

In order to manage its liquidity, the Group applies a structure based on Liquidity Management Units (UGLs, for their acronym in Spanish). Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, in coordination with the Group's corporate functions. At present, the UGLs are Banco Sabadell (includes overseas branches), Banc Sabadell d'Andorra (BSA) and TSB.

The Group's primary source of funding is customer deposits (mainly sight accounts and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the bank 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 Group maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to financing operations with the European Central Bank (ECB).

During the first half of 2018, the generation of the customer funding gap at Group level amounted to €700 million, mainly due to the positive evolution of customer funds.

In the first half of 2018, Banco Sabadell's maturities in the wholesale market amounted to €1,742 million (excluding securitisations) and it did not carry out any issuances in the capital markets.

In the second half of 2018, Banco Sabadell anticipates maturing medium- and long-term wholesale market debt of €424 million (excludes partial and total amortisations derived from securitisations placed in the market).

At 30 June 2018, the drawn balance on the facility held with Bank of Spain for monetary policy transactions with the European Central Bank stood at €20,500 million (€21,501 million at 31 December 2017), which correspond in their entirety to the TLTRO II (Targeted longer term refinancing operations) liquidity auction.

During the first half of 2018, TSB has accessed the Term Funding Scheme (TFS), the new funding scheme announced by the Bank of England in mid-2016, which ended in February 2018, amounting to €959 million as at 30 June 2018, with the total balance drawn amounting to €7,302 million.

The table below shows the breakdown by contractual balance maturity, excluding, in some cases, value adjustments and impairment losses, of certain balance totals on the consolidated balance sheet at 30 June 2018, under business-as-usual market conditions:

Thousand euro

	30/06/2018									
Time to Contractual Maturity	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**TOTAL**
Money Market	179,545	21,444,809	1,068,276	935,971	28,642	-	-	-	-	**23,657,243**
Lending	752,638	6,137,082	5,585,192	13,997,605	10,693,712	9,864,425	9,703,936	10,123,083	67,200,543	**134,058,216**
Debt securities	-	46,229	250,093	3,044,743	709,141	517,606	599,171	263,990	18,121,266	**23,552,239**
Other assets	-	-	-	-	-	-	149	475	4,796	**5,420**
Total assets	**932,183**	**27,628,120**	**6,903,561**	**17,978,319**	**11,431,495**	**10,382,031**	**10,303,256**	**10,387,548**	**85,326,605**	**181,273,118**
Money Market	5,937	6,259,311	1,617,714	1,022,504	10,155,356	15,774,428	2,224,663	74,031	17,041	**37,150,985**
Of which: Repos	-	*5,483,829*	*1,174,128*	*800,538*	*145,076*	*119,015*	-	-	-	***7,722,586***
Customer funds	102,934,961	3,551,293	3,738,585	16,149,706	2,594,573	241,639	107,495	551,453	7,512	**129,877,217**
Debits represented by marketable securities	-	423,231	860,634	4,952,845	2,638,984	2,889,996	2,822,112	3,196,811	5,953,258	**23,737,871**
Of which: Secured senior debt	-	-	-	-	-	*658,805*	-	*564,302*	-	***1,223,107***
Of which: Subordinated liabilities	-	-	-	-	*424,600*	*434,513*	*750,000*	*400,000*	*515,025*	***2,524,138***
Other liabilities	-	70,310	97,266	506,755	405,064	275,849	177,892	121,859	425,548	**2,080,543**
Total liabilities:	**102,940,898**	**10,304,145**	**6,314,199**	**22,631,810**	**15,793,977**	**19,181,912**	**5,332,162**	**3,944,154**	**6,403,359**	**192,846,616**
Of which:										
Secured liabilities	-	*5,483,829*	*1,157,272*	*800,538*	*145,076*	*6,353,124*	*2,161,277*	*564,302*	-	***16,665,418***
Unsecured liabilities	*102,940,897*	*4,820,317*	*5,156,927*	*21,831,271*	*15,648,900*	*12,828,787*	*3,170,885*	*3,379,852*	*6,403,359*	***176,181,195***
Trading and Hedging Derivatives										
Receivable	-	6,853,743	11,111,770	22,653,652	12,170,749	11,167,240	11,223,069	13,508,407	66,442,009	**155,130,639**
Payable	-	5,944,888	11,316,005	24,516,053	12,212,177	14,855,443	11,431,303	13,911,918	66,830,892	**161,018,679**
Net	**-**	**908,855**	**(204,235)**	**(1,862,401)**	**(41,428)**	**(3,688,203)**	**(208,234)**	**(403,511)**	**(388,883)**	**(5,888,040)**
Contingent risks										
Financial guarantees	29,438	46,029	72,805	380,476	172,887	143,403	86,579	51,305	1,515,557	**2,498,479**

Thousand euro

	31/12/2017									
Time to Contractual Maturity	**Demand**	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**TOTAL**
Money Market	98,234	28,722,208	657,491	1,044,861	22,238	-	-	-	-	**30,545,032**
Lending	745,849	5,927,569	5,093,749	12,928,020	10,292,763	9,492,673	9,014,589	8,722,157	67,624,312	**129,841,681**
Debt securities	2,000	2,126,329	522,038	957,593	442,519	601,843	1,593,241	459,736	16,735,917	**23,441,216**
Other assets	4	2	-	25	1	13	115	308	4,099	**4,567**
Total assets	**846,087**	**36,776,108**	**6,273,278**	**14,930,499**	**10,757,521**	**10,094,529**	**10,607,945**	**9,182,201**	**84,364,328**	**183,832,496**
Money Market	3	10,614,572	3,336,963	2,497,925	21,559	10,307,232	16,878,502	42,554	24,506	**43,723,816**
Of which: Repos	-	*8,916,680*	*2,737,601*	*2,437,884*	-	*264,091*	-	-	-	***14,356,256***
Customer funds	96,403,851	4,011,728	6,068,825	16,129,945	2,460,154	464,116	51,679	534,378	7,835	**126,132,511**
Debits represented by marketable securities (*)	-	1,712,134	1,664,857	3,317,464	3,116,107	3,647,214	2,869,381	3,055,315	7,244,767	**26,627,239**
Of which: Secured senior debt	-	*1,074,548*	*203,007*	*700,993*	*1,540,181*	*2,678,627*	*2,322,562*	*1,807,315*	*5,715,075*	***16,042,308***
Of which: Unsecured senior debt	-	-	*5,125*	*1,531,682*	*1,575,926*	*543,987*	*112,884*	*98,000*	*1,014,667*	***4,882,271***
Of which: Subordinated liabilities	-	-	-	-	-	*424,600*	*433,935*	*1,150,000*	*515,025*	***2,523,560***
Other liabilities	-	69,001	108,638	603,812	528,657	331,588	228,519	145,445	485,948	**2,501,608**
Total liabilities:	**96,403,854**	**16,407,435**	**11,179,283**	**22,549,146**	**6,126,477**	**14,750,150**	**20,028,081**	**3,777,692**	**7,763,056**	**198,985,174**
Of which:										
Secured liabilities	-	*9,991,228*	*2,931,408*	*3,132,369*	*1,540,181*	*2,948,353*	*9,085,180*	*1,807,315*	*5,715,075*	***37,151,109***
Unsecured liabilities	*96,403,853*	*6,416,207*	*8,247,875*	*19,416,777*	*4,586,297*	*11,801,797*	*10,942,901*	*1,970,377*	*2,047,981*	***161,834,065***
Trading and Hedging Derivatives										
Receivable	-	9,295,770	7,137,872	21,000,797	12,599,015	10,661,451	13,577,220	12,749,192	58,599,454	**145,620,771**
Payable	-	6,608,953	7,232,680	22,519,319	12,605,849	14,793,592	13,509,551	13,218,907	59,013,772	**149,502,623**
Net	-	**2,686,817**	**(94,808)**	**(1,518,522)**	**(6,834)**	**(4,132,141)**	**67,669**	**(469,715)**	**(414,318)**	**(3,881,852)**
Contingent risks										
Financial guarantees	20,848	37,839	95,317	300,100	210,704	98,594	107,150	43,590	1,489,956	**2,404,098**

(*) See information on the maturity of issues aimed at institutional investors in section 4.4.2.4 of the consolidated annual accounts for 2017.

Note 4 *"Financial risk management"* of the 2017 consolidated annual accounts describes the policies and procedures used by the Group to manage liquidity risk:

Liquid Assets

In addition to these sources of funding, Banco Sabadell maintains a liquidity buffer in the form of liquid assets with which to meet possible liquidity needs:

€ million

	30/06/2018	*31/12/2017*
Cash(*) + Net Interbank Position	*15,753*	*22,361*
Funds available in Bank of Spain facility	*5,642*	*5,393*
Pledged assets in facility (**)	*26,142*	*26,894*
Drawn-down balance on Bank of Spain facility(***)	*20,500*	*21,501*
Eligible ECB assets not included in the policy	*8,913*	*4,013*
Other tradable assets not eligible for the central bank(****)	*1,724*	*1,398*
Memorandum item: Balance drawn from Bank of England Term Funding Scheme	*7,302*	*6,334*
Total Liquid Assets Available	***32,033***	***33,165***

(*) Excess reserves at Central Banks.

(**) Market value and once the ECB discount has been applied for monetary policy operations.

(***) Includes TLTRO-II

(****) Market value and once the Liquidity Coverage Ratio (LCR) discount has been applied. Includes Fixed Income considered as a high quality and liquid asset according to LCR (HQLA and other tradable assets from different Group entities).

In the case of TSB, the first line of liquidity at 30 June 2018 is mainly comprised of gilts amounting to €1,224 million (€761 million at 31 December 2017) and a surplus of reserves in the Bank of England (BoE) amounting to €7,582 million (€8,286 million at 31 December 2017).

In addition to the first line of liquidity, a buffer is maintained comprising real estate assets and loans to general governments eligible as collateral of covered mortgage bonds and covered territorial bonds respectively, which at the end of the first half of 2018 contributed €5,094 million in terms of the capacity to issue new treasury bonds eligible as collateral in return for access to the ECB facility (€2,666 million at 2017 year-end). At the end of June 2018, available liquidity amounted to €37,127 million in cash equivalent, corresponding to the amount of the first line of liquidity plus the issuing capacity of the institution's covered bonds at the end of the six-month period (€35,831 million in cash equivalent at 31 December 2017).

Capital Markets

The level of funding in capital markets has declined in recent years, due to, amongst other aspects, the positive evolution of the customer funding gap. The details of funding in capital markets by type of product as at 30 June 2018 and 31 December 2017 is shown below:

€ million

	30/06/2018	*31/12/2017*
Performing Balance	***20,332***	***22,390***
Covered Bonds	*12,204*	*13,335*
Of which: TSB	*564*	*564*
Promissory notes and ECP	*1,814*	*2,037*
Senior debt	*1,074*	*1,669*
Subordinated debt and preference shares	*2,497*	*2,497*
Of which: TSB	*435*	*434*
Securitisation bonds	*2,727*	*2,820*
Of which: TSB	*810*	*925*
Other medium/long term financial instruments	*15*	*33*

Maturities of issuances (excluding securitisations, ECP and promissory notes) aimed at institutional investors by product type at 30 June 2018 are analysed below:

€ million

	3T18	*4T18*	*2019*	*2020*	*2021*	*2022*	*2023*	*>2023*	*Performing*
Covered bonds (*)	-	*424*	*1,124*	*2,015*	*1,808*	*1,684*	*1,388*	*3,761*	*12,204*
Senior Debt (**)	-	-	*51*	-	-	*25*	*998*	-	*1,074*
Subordinated debt and preference shares (**)	-	-	-	*403*	*435*	-	-	*1,660*	*2,497*
Other medium/long term financial instruments (**)	-	-	-	-	*10*	-	-	*5*	*15*
TOTAL	-	***424***	***1,175***	***2,418***	***2,253***	***1,709***	***2,386***	***5,426***	***15,791***

(*) Secured issues.

(**) Unsecured issues.

The Group is an active participant in, and maintains up to date, a number of funding programmes in capital markets in order to diversify the various sources of funding which are available to the entity. Specifically, where short-term funding is concerned, it has a corporate promissory notes programme registered with the Spanish National Securities Market Commission (CNMV) and a Euro Commercial Paper (ECP) programme aimed at domestic and international customers, respectively. As regards medium and long-term funding, the entity has a scheme for the issuance of non-equity securities registered with the Spanish National Securities Market Commission (CNMV) and a Euro Medium Term Notes (EMTN) programme registered with the Irish Stock Exchange.

During the first half of 2018, the outstanding balance of the securities scheme and the Euro Commercial Paper programme net of positions subscribed by Group companies has been slightly reduced, from a balance of €2,037 million at 31 December 2017 to a balance of €1,814 million at 30 June 2018.

During the first half of 2018, Banco Sabadell has carried out, under the Fixed Income Scheme in effect at each given time, four issuances of non-convertible bonds aimed at retail investors with a term of between 5 and 7 years and totalling €19 million.

4.3. Market risk

Structural exchange rate risk

Structural exchange rate risk arises in the event that changes in market rates between different currencies generate losses on financial investments and on permanent investments in overseas branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural exchange rate risk is to minimise its impact on the value of the portfolio / the entity's equity due to adverse movements in currency markets. The risk appetite defined in the RAS takes precedence and the established levels for the risk metrics must be complied with at all times.

Exchange rate risk is monitored on a daily basis and reports on current risk levels and compliance with the limits assigned to each unit are sent to the risk control bodies established by the Risk Committee. The main metric is currency exposure (as a percentage of Tier 1), which measures the sum of the entity's net open position (assets less liabilities) maintained by the institution in each currency through any type of financial instrument (FX spot, forward and option transactions), measured in euro and in terms of Tier 1.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Risk Committee and to the Audit and Control Committee, respectively.

The bank's Financial Division, through the ALCO, designs and executes strategies for the hedging of foreign exchange structural positions with the primary aim of minimising the impact on CET1 capital ratios caused by exchange rate fluctuations. The bank hedges its structural positions using net foreign investment such that the impact on capital ratios of exchange rate fluctuations can be reduced.

As regards permanent investments in US dollars, the structural position in this currency has exceeded 442 million as at 31 December 2017 and 884 million as at 30 June 2018.

In terms of permanent investments in Mexican pesos, given the uncertainty surrounding NAFTA and the increase in political risk in Mexico due to the presidential elections in July 2018, the capital buffer has continued to be adjusted from MXN 7,474 million as at 31 December 2017 to MXN 9,120 million as at 30 June 2018, still representing 71% of the total investment made.

The structural position in pounds, in a scenario in which a political agreement between the European Union and the United Kingdom has been announced regarding the transition period prior to Brexit, which shall remain in place until the end of 2020, with no changes to the status quo, the bank continuously monitors the EUR/GBP exchange rate. The Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that could be experienced as a result of fluctuations in the aforementioned EUR/GBP exchange rate. Thus, the bank has an economic hedge of profits and flows expected from its subsidiary TSB through an open position in GBP to offset exchange rate fluctuations of this currency, recognised as a trading position.

Considering the foregoing, during the first half of 2018 adjustments have been made to the capital buffer, from GBP 1,268 million as at 31 December 2017 to GBP 818 million as at 30 June 2018, representing 45% of total investments (see Note 12 to the 2017 consolidated annual accounts entitled *"Hedge of net investments in foreign operations"*).

Currency hedges are continuously monitored in light of market fluctuations.

The net position of foreign currency assets and liabilities includes the structural position of the bank valued at historic exchange rates which amounted to €2,109 million, which includes 1,145 million corresponding to permanent shareholdings in GBP, €758 million corresponding to permanent shareholdings in USD and €166 million to shareholdings in MXN. Net assets and liabilities valued at a historic exchange rate are hedged with forwards transactions and options denominated in foreign currencies in line with the Group's risk management policy.

At the end of June 2018, equity exposure sensitivity ahead of a 1% devaluation in exchange rates against the euro of the main currencies to which the bank is exposed amounted to €21 million, of which 54% correspond to the pound sterling, 36% to the US dollar and 8% to the Mexican peso.

Note 5 – Minimum own funds and capital management

The Group calculates minimum capital requirements based on Directive 2013/36/EU (generally known as CRD-IV) and Regulation (EU) 575/2013 (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: (i) Royal Decree-Law 14/2013 on urgent measures for the transposition into Spanish law of EU regulations on supervision and solvency of financial institutions, (ii) Law 10/2014 on the organisation, supervision and solvency of credit institutions, (iii) Royal Decree 84/2015, which implements the aforementioned Law 10/2014, as well as other lower-ranking provisions and (iv) Bank of Spain Circulars 2/2014 and 2/2016.

Under those requirements, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority under the new regulatory framework and require institutions to maintain additional capital.

On 14 December 2017 the bank received a communication from the European Central Bank, subsequent to the Supervisory Review and Evaluation Process (SREP), with regards to the minimum prudential requirements applicable to the Entity for 2018, based on which the Group must maintain a Common Equity Tier 1 (CET1) ratio of 8.3125%, measured through phased-in regulatory capital. This requirement includes the minimum required by Pillar 1 (4.50%) and Pillar 2 (1.75%), the capital conservation buffer (1.875%) and the systemic buffer (O-SIIs) (0.1875%).

Additionally, the Group must comply with the requirement deriving from the calculation of the Entity's anti-cyclical capital buffer, which, as at June 2018, stands at 0.0715%.

At 30 June 2018, the Group’s CET1 ratio stands at 11.9%, comfortably exceeding the aforementioned requirements.

The following table shows the capital ratios and eligible own funds of the Group as at 30 June 2018 and 31 December 2017:

Thousand euro

	30/06/2018	31/12/2017	Year-on year change (%)
Capital	*703,371*	*703,371*	*(0.00)*
Reserves	*11,743,817*	*12,106,567*	*(3.00)*
Bonds convertible into shares	-	-	-
Non-controlling interests	*11,209*	*16,909*	*(33.71)*
Deductions	*(2,852,272)*	*(2,403,752)*	*18.66*
CET1 resources	***9,606,124***	***10,423,095***	***(7.84)***
CET1 (%)	*11.9*	*13.4*	*(10.90)*
Preference shares, convertible bonds and deductions	*1,152,402*	*697,882*	*65.13*
Tier 1 aditional resources	***1,152,402***	***697,882***	-
Tier 1 adicional (%)	*1.4*	*0.9*	*58.89*
Tier 1 resources	***10,758,526***	***11,120,977***	***(3.26)***
Tier 1 (%)	*13.4*	*14.3*	*(6.50)*
Tier 2 resources	***1,303,956***	***1,403,274***	***(7.08)***
Tier 2 (%)	*1.6*	*1.8*	*(10.00)*
Capital base	***12,062,483***	***12,524,251***	***(3.69)***
Minimum capital requirement	*6,436,375*	*6,211,052*	*3.63*
Capital surplus	***5,626,108***	***6,313,199***	***(10.88)***
Profit attributed to the Group (%)	***15.0***	***16.1***	***(6.88)***
Risk weighted assets (RWA)	***80,454,688***	***77,638,150***	***3.63***

Core capital accounted for 79.64% of qualifying capital resources.

Tier 1 of Basilea III is composed of preferential shares and represents 9.55% of total capital.

Secondary or Tier II capital provides a further 10.81% of the solvency ratio and is made up very largely of subordinated debt and generic provisions (subject to regulatory limits as to eligibility), and other required deductions.

The Leverage Ratio (LR) aims to strengthen capital requirements by providing a supplementary measure which is not linked to the level of risk. The leverage ratio is the ratio between eligible primary capital (Tier 1) and exposure, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015.

Part seven of the CRR sets forth calculation and information requirements, and the disclosure of the ratio in Article 451 of part eight. It does not set forth a minimum requirement, although the European Commission's amendment proposal to the CRR, of 23 November 2016, sets forth a minimum requirement of 3%. At present, the bank reports to the supervisor on a quarterly basis.

The leverage ratio at 30 June 2018 and 31 December 2017 is shown below:

Thousand euro

	30/06/2018	*31/12/2017*
Tier 1 capital	*10,758,526*	*11,120,977*
Exposure	*216,312,290*	*223,785,758*
Leverage ratio	***4.97%***	***4.97%***

The capital and leverage ratios as at 30 June 2018 include losses due to additional provisions required by sales of non-performing asset portfolios mentioned in Note 35. However, these ratios do not reflect the improvement due to lower non-performing exposures as a result of such sales as the transactions have not yet been definitively closed, as they are pending receipt of the corresponding authorisations. If this impact had been included, the CET1 ratio would stand at 12.2%, the Tier 1 ratio would stand at 13.7%, the total capital ratio at 15.3% and the total pro forma leverage ratio would stand at 5.06%

In May 2018 Banco Sabadell received a communication from Bank of Spain, in its capacity as a national authority for preventive resolution, regarding the decision adopted by the Single Resolution Board (SRB) regarding minimum own funds requirements and eligible liabilities (MREL) which are applicable to Sabadell. This decision established a minimum MREL, on a consolidated basis, of 22.7% of risk weighted assets calculated at 31 December 2016 and a transition period for compliance, maturing on 1 January 2020. The decision was based on current legislation, it shall be updated every year and may be subject to subsequent amendments by the resolution authority. The MREL decision is aligned with Banco Sabadell forecasts and it is included in the funding plan, which forms part of its strategic plan for 2020.

Note 6 – Fair value of assets and liabilities

Financial assets and liabilities

The methodology and classification of fair value by level is explained in detail in the Group's 2017 consolidated annual accounts.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and the related fair value is as follows:

Thousand euro

		30/06/2018		31/12/2017	
	Note	*Accounting balance*	*Fair value*	*Accounting balance*	*Fair value*
Assets:					
Cash and cash balances at central banks and other demand deposits	*7*	*19,755,567*	*19,755,567*	*26,362,807*	*26,362,807*
Financial assets held for trading	*8, 9*	*2,137,683*	*2,137,683*	*1,572,504*	*1,572,504*
Non-trading financial assets mandatorily at fair value through profit or loss	*8*	*121,505*	*121,505*	*39,526*	*39,526*
Financial assets at fair value through profit or loss		-	-	-	-
Financial assets at fair value through other comprehensive income	*8, 9*	*12,866,591*	*12,866,591*	*13,180,716*	*13,180,716*
Financial assets at amortised cost	*8, 10*	*162,279,789*	*168,038,242*	*160,723,766*	*167,818,359*
Derivatives - Hedge accounting		*259,357*	*259,357*	*374,021*	*374,021*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		*62,676*	*62,676*	*48,289*	*48,289*
Total assets		***197,483,168***	***203,241,621***	***202,301,629***	***209,396,222***

Thousand euro

		30/06/2018		31/12/2017	
	Note	*Accounting balance*	*Fair value*	*Accounting balance*	*Fair value*
Liabilities:					
Financial liabilities held for trading		*1,787,692*	*1,787,692*	*1,431,215*	*1,431,215*
Financial liabilities designated at fair value through profit or loss		-	-	*39,540*	*39,540*
Financial liabilities measured at amortised cost	*15, 16, 17*	*199,596,050*	*198,544,495*	*204,045,482*	*203,506,188*
Derivatives - Hedge accounting		*702,893*	*702,893*	*1,003,854*	*1,003,854*
Fair value changes of the hedged items in portfolio hedge of interest rate risk		*(3,935)*	*(3,935)*	*(4,593)*	*(4,593)*
Total liabilities		***202,082,700***	***201,031,145***	***206,515,498***	***205,976,204***

In relation to financial instruments the book value of which differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "*Cash and cash balances with central banks and other demand deposits*" has been likened to its book value, as these are mainly short-term balances.

– The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities measured at amortised cost*" has been estimated by the discounted cash flow method, using market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices.

– Under the heading *"Fair value changes of the hedged items in portfolio hedge of interest rate risk"* of the accompanying consolidated balance sheet sheets, adjustments are recorded (positive or negative) measured at the fair value of the financial assets or liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. Fair value is calculated using internal models and observable market data variables.

The following table shows the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

		30/06/2018			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets:					
Financial assets held for trading		248,347	1,889,336	-	2,137,683
Derivatives		7	1,842,014	-	1,842,021
Equity instruments	9	-	6,322	-	6,322
Debt securities	8	248,340	41,000	-	289,340
Loans and advances - Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		25,685	22,071	73,749	121,505
Equity instruments		-	-	-	-
Debt securities	8	25,685	22,071	73,749	121,505
Loans and advances		-	-	-	-
Financial assets at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances - Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		12,281,176	531,069	54,346	12,866,591
Equity instruments	9	74,108	179,412	54,346	307,866
Debt securities	8	12,207,068	351,657	-	12,558,725
Loans and advances		-	-	-	-
Derivatives - Hedge accounting		12,928	246,429	-	259,357
Total assets		***12,568,136***	***2,688,905***	***128,095***	***15,385,136***

Thousand euro

		30/06/2018			
	Note	*Level 1*	*Level 2*	*Level 3*	*Total*
Liabilities:					
Financial liabilities held for trading		53,105	1,734,587	-	1,787,692
Derivatives		-	1,734,587	-	1,734,587
Short positions		53,105	-	-	53,105
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives - Hedge accounting		1,116	701,777	-	702,893
Total liabilities		***54,221***	***2,436,364***	***-***	***2,490,585***

Thousand euro					
		31/12/2017			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		110,358	1,462,146	-	1,572,504
Derivatives		325	1,440,418	-	1,440,743
Equity instruments	9	-	7,432	-	7,432
Debt securities	8	110,033	14,296	-	124,329
Loans and advances - Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		-	39,526	-	39,526
Equity instruments	9	-	39,526	-	39,526
Debt securities		-	-	-	-
Loans and advances		-	-	-	-
Financial assets at fair value through profit or loss		-	-	-	-
Debt securities		-	-	-	-
Loans and advances - Credit institutions		-	-	-	-
Financial assets at fair value through other comprehensive income		12,529,039	475,395	176,282	13,180,716
Equity instruments	9	56,717	180,299	176,282	413,298
Debt securities	8	12,472,322	295,096	-	12,767,418
Loans and advances		-	-	-	-
Derivatives - Hedge accounting		41,039	332,982	-	374,021
Total assets		**12,680,436**	**2,310,049**	**176,282**	**15,166,767**

Thousand euro					
		31/12/2017			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		70,165	1,361,050	-	1,431,215
Derivatives		311	1,361,050	-	1,361,361
Short positions		69,854	-	-	69,854
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	39,540	-	39,540
Derivatives - Hedge accounting		22,502	981,352	-	1,003,854
Total liabilities		**92,667**	**2,381,942**	**-**	**2,474,609**

The movements in the balances of the financial assets and liabilities classified as Level 3 that are disclosed in the accompanying consolidated balance sheets are as follows:

Thousand euro	Assets	Liabilities
Balance at 31 December 2017	**176,282**	**-**
Valuation adjustments recorded to profit and loss (*)	(13,482)	-
Valuation adjustments not recorded to profit and loss	(126,077)	-
Purchases, sales and write-offs	(3,181)	-
Net additions/(exits) on Level 3	94,550	-
Exchange differences and other	3	-
Balance at 30 June 2018	**128,095**	**-**

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

Net level 3 entries primarily correspond to debt instruments, which on the first application of IFRS 9, are no longer recorded in the amortised cost portfolio, and are now recorded in portfolios of instruments measured at fair value.

At 30 June 2018, income from sales of financial instruments classified as Level 3, recognised in the consolidated profit and loss statement, was not material.

In the first half of 2018 no transfers have materialised between different levels of valuation. Details of financial instruments that were transferred between valuation levels in 2017 are as follows:

Thousand euro

	31/12/2017					
From:	*Level 1*		*Level 2*		*Level 3*	
To:	*Level 2*	*Level 3*	*Level 1*	*Level 3*	*Level 1*	*Level 2*
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	*353,314*	*8,193*	-	-
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives - hedge accounting	-	-	-	-	-	-
Total	-	-	*353,314*	*8,193*	-	-

At 30 June 2018, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) in the range that is considered likely, is not significant.

The instruments considered as level 3 mainly correspond to the investment (capital and subordinated debt) that the entity holds in the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB), and also because, given the singularity of this investment, it is measured at fair value calculated based on the business plan and financial projections of that entity.

Loans and financial liabilities designated at fair value through profit or loss

As at 30 June 2018 and 31 December 2017, there were no loans or financial liabilities recognised at fair value through profit or loss.

Financial instruments at cost

Figures as at 30 June 2018 do not differ from those reported in the 2017 consolidated annual accounts.

During the period between 31 December 2017 and 30 June 2018, there were no sales of financial instruments recorded at cost.

Non-financial assets

Real estate assets

The methodology used by the Group to determine the fair value of real estate assets is explained in detail in the Group's 2017 consolidated annual accounts.

The methods used in the valuation of the Group's portfolio based on the type of asset are summarised below:

- 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).

Significant non-observable 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 non-observable variables used reflect the assumptions frequently used by all valuation firms. Regarding the weight of the non-observable variables in the appraisals, these represent almost all of the value of these appraisals.

At 30 June 2018, the net book values of these assets do not differ significantly from the fair values.

The Group determines the fair value of tangible assets for own use in order to detect any indications of impairment, based on the difference between their appraisal value and their value in use. At 30 June 2018, accounting values do not differ significantly from the fair values of these assets.

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 at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	*31/12/2017*
By nature:		
Cash	*652,405*	*733,923*
Cash balances at central banks	*18,597,695*	*25,097,038*
Other demand deposits	*505,467*	*531,846*
Total	***19,755,567***	***26,362,807***

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheet at 30 June 2018 and 31 December 2017 are analysed below:

Thousand euro

	30/06/2018	*31/12/2017*
By heading		
Financial assets held for trading	*289,340*	*124,329*
Non-trading financial assets mandatorily at fair value through profit or loss	*121,505*	*-*
Financial assets designated at fair value through profit or loss	*-*	*-*
Financial assets at fair value through other comprehensive income	*12,558,725*	*12,767,418*
Financial assets at amortised cost	*11,702,995*	*11,746,645*
Total	***24,672,565***	***24,638,392***
By nature:		
Central Banks	*-*	*-*
General Governments	*21,957,812*	*21,979,861*
Credit institutions	*947,450*	*856,208*
Other sectors	*1,564,767*	*1,435,635*
Stage 3 assets	*357*	*13,124*
Impairment adjustments	*(722)*	*(8,467)*
Other valuation adjustments (interest, fees and commissions, other)	*202,901*	*362,031*
Total	***24,672,565***	***24,638,392***

In the first half of 2018 the Group has sold debt instruments issued by Italy which had a book value of €1,549 million, and €2,832 million respectively, classified under the heading "*Financial assets at amortised cost*" and "*Financial assets measured at fair value through other comprehensive income*" of the consolidated balance sheet, respectively. These sales have been carried out for the purpose of managing the increase in credit risk of debt instruments issued by Italy, deriving from changes in the political and economic situation in Italy. Therefore, the Group considers that debt instruments measured at amortised cost are consistent with the business model under which these assets were managed (maintained with the objective of receiving cash flow). The results obtained from these disposals have been recorded under the heading of "*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*" and "*Gains or losses (-) on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at fair value through other comprehensive income*" of the consolidated profit and loss statement for the six month period ended 30 June 2018, respectively (see Note 23).

The breakdown of the debt securities classified based on their credit risk and movement of value adjustments due to impairment associated with these instruments are included, together with those of other financial assets, in Note 10.

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheet at 30 June 2018 and 31 December 2017 are analysed below:

Thousand euro

	30/06/2018	*31/12/2017*
By heading:		
Financial assets held for trading	*6,322*	*7,432*
Non-trading financial assets mandatorily at fair value through profit or loss	*-*	*39,526*
Financial assets at fair value through other comprehensive income	*307,866*	*413,298*
Total	***314,188***	***460,256***
By nature:		
Resident sector	*139,688*	*266,119*
Credit institutions	*8,348*	*8,461*
Other	*131,340*	*257,658*
Non resident sector	*119,045*	*100,889*
Credit institutions	*58,812*	*59,733*
Other	*60,233*	*41,156*
Participations in investment vehicles	*55,455*	*93,248*
Total	***314,188***	***460,256***

In the first half of 2018, 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 entity by €128,639 thousand, which has been recognised in the consolidated statement of equity. At 30 June 2018, changes in the fair value of this investment recognised under *"Accumulated other comprehensive income"* of the consolidated statement of recognised income and expenses amounted to €128,639 thousand (expenses), and its book value amounted to €4,535 thousand (€133,174 thousand at 31 December 2017). Furthermore, the Group has reduced the book value of the subordinated debt it holds in this company by €20,801 thousand, which has been charged to the heading "Gains or (-) losses on n*on-trading financial assets mandatorily measured at fair value through profit or loss net"* of the consolidated profit and loss statement for the six month period ending 30 June 2018. At 30 June 2018, the book value of subordinated debt in SAREB amounted to €73,749 thousand (€94,550 thousand at 31 December 2017).

Note 10 – Loans and advances

Central banks and Credit institutions

The breakdown of the headings *"Loans and advances - Central banks"* and *"Loans and advances - Credit institutions"* in the consolidated balance sheets at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	*31/12/2017*
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	*6,310,579*	*5,379,156*
Total	***6,310,579***	***5,379,156***
By nature:		
Deposits with agreed maturity	*1,963,206*	*1,769,568*
Assets acquired under repurchase agreements	*4,031,228*	*2,965,960*
Hybrid financial assets	-	*106*
Other	*316,116*	*644,885*
Stage 3 assets	*298*	*364*
Impairment adjustments	*(3,716)*	*(5,306)*
Other valuation adjustments (interest, fees and commissions, other)	*3,447*	*3,579*
Total	***6,310,579***	***5,379,156***

Customers

The breakdown of the heading *"Loans and advances - Customers"* (General governments and Other sectors) of the consolidated balance sheet at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	31/12/2017
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	144,266,215	143,597,966
Total	**144,266,215**	**143,597,966**
By nature:		
On-demand loans and other	7,058,687	7,567,029
Trade credit	6,148,309	5,801,602
Finance leases	2,504,758	2,316,285
Secured loans	86,471,249	86,581,398
Assets acquired under repurchase agreements	447,727	2,001,437
Other term loans	38,484,289	35,255,351
Stage 3 assets	7,289,524	7,867,154
Impairment adjustments	(4,115,371)	(3,726,682)
Other valuation adjustments (interest, fees and commissions, other)	(22,957)	(65,608)
Total	**144,266,215**	**143,597,966**
By sector:		
General governments	9,874,421	9,802,679
Other sectors	131,240,598	129,720,423
Stage 3 assets	7,289,524	7,867,154
Impairment adjustments	(4,115,371)	(3,726,682)
Other valuation adjustments (interest, fees and commissions, other)	(22,957)	(65,608)
Total	**144,266,215**	**143,597,966**

Financial assets classified on the basis of their credit risk

The breakdown of financial assets classified on the basis of their credit risk as at 30 June 2018 and at 1 January 2018 (first date of application of IFRS 9) is as follows:

Thousand euro

Stage 1	30/06/2018	01/01/2018
Debt securities	24,470,029	24,635,013
Loans and advances	137,124,986	137,142,828
Customers	130,814,523	131,785,242
Central Banks and Credit Institutions	6,310,464	5,357,586
Total	**161,595,015**	**161,777,841**
By sector:		
General governments	9,865,446	9,796,220
Central Banks and Credit Institutions	6,310,464	5,357,586
Other private sectors	145,419,105	146,624,034
Total	**161,595,015**	**161,777,840**

Thousand euro

Stage 2	*30/06/2018*	*01/01/2018*
Debt securities	-	-
Loans and advances	*10,300,583*	*7,505,184*
Customers	*10,300,496*	*7,482,251*
Central Banks and Credit Institutions	*86*	*22,933*
Total	*10,300,583*	*7,505,184*
By sector:		
General governments	*8,975*	*6,458*
Central Banks and Credit Institutions	*86*	*22,933*
Other private sectors	*10,291,522*	*7,475,793*
Total	*10,300,583*	*7,505,184*

Thousand euro

Stage 3	*30/06/2018*	*01/01/2018*
Debt securities	*357*	*11,846*
Loans and advances	*7,289,822*	*8,123,127*
Customers	*7,289,524*	*8,122,763*
Central Banks and Credit Institutions	*298*	*364*
Total	*7,290,179*	*8,134,973*
By sector:		
General governments	*20,543*	*12,432*
Central Banks and Credit Institutions	*298*	*364*
Other private sectors	*7,269,338*	*8,122,177*
Total	*7,290,179*	*8,134,973*

The movement of assets classified as stage 3 during the six month period ending 30 June 2018 are as follows:

Thousand euro

Balance at 1 January 2018	*8,134,973*
Additions	*869,670*
Disposals	*(1,193,041)*
Amortisations	*(516,710)*
Exchange differences and other	*(4,713)*
Balance at 30 June 2018	*7,290,179*

The net carrying value of loans acquired with credit impairment amounts to 351,623 thousand euros at 30 June 2018 (346,031 thousand euros at 1 January 2018, the date of the entry into force of IFRS 9).

Value adjustments

The following table shows the impairment adjustments of financial assets broken down by consolidated balance sheet heading as at 30 June 2018 and 31 December 2017:

Thousand euro

	30/06/2018	*31/12/2017*
Debt securities	*722*	*8,467*
Loans and advances		
Customers	*4,115,371*	*3,726,682*
Central Banks and Credit Institutions	*3,716*	*5,306*
Total	***4,119,809***	***3,740,455***

The movement of value adjustments due to impairment constituted by the Group for credit risk hedging during the six month period ended 30 June 2018 is as follows:

Thousand euro

	Determined individually		*Determined collectively*			*Total*
	Stage 2	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*	
Balance at 1 January 2018 (*)	***39,594***	***857,590***	***638,877***	***360,671***	***2,836,309***	***4,733,041***
Movements reflected in impairment losses (**)	***4,223***	***80,707***	***(7,343)***	***2,476***	***238,823***	***318,886***
Increases due to origination	-	-	*89,808*	-	-	*89,808*
Changes due to credit risk variance	*5,281*	*186,730*	*(59,005)*	*14,466*	*242,703*	*390,175*
Changes in calculation approach	-	-	-	-	-	-
Other movements	*(1,058)*	*(106,023)*	*(38,146)*	*(11,990)*	*(3,880)*	*(161,097)*
Movements not reflected in impairment losses	***(24,427)***	***(80,859)***	***(198,177)***	***40,392***	***(664,807)***	***(927,878)***
Migrations between stages	*(24,427)*	*6,886*	*2,538*	*64,374*	*(49,371)*	-
Utilisation of allowances	-	*(30,351)*	*(100)*	*(23,982)*	*(592,925)*	*(647,358)*
Other movements (***)	-	*(57,394)*	*(200,615)*	-	*(22,511)*	*(280,520)*
Adjustments for exchange differences	***(11)***	***(693)***	***(2,414)***	***(309)***	***(813)***	***(4,240)***
Balance at 30 June 2018	***19,379***	***856,745***	***430,943***	***403,230***	***2,409,512***	***4,119,809***

(*) Incorporates impact of first implementation of IFRS 9, which has entailed an increase in impairment adjustments of €992,586 thousand (see section "Implementation of IFRS 9 Financial instruments" in Note 1).

(**) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading "Impairment or (-) reversal of 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 27).

(***) Mainly corresponds to the transfer of €200,615 thousand in impairment adjustments to cover the occurrence of contingencies related to mortgage floor clauses (see Note 18).

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

%

	4Q17	*Proforma 2Q18 (*)*	*2Q18*
Real-estate development and construction	*21.30*	*17.66*	*17.60*
Non-real-estate construction	*6.86*	*6.42*	*6.42*
Companies	*3.33*	*3.12*	*3.12*
SMEs and independent contractors	*8.04*	*7.40*	*7.36*
Private individuals with 1st mortgage guarantee	*3.97*	*6.04*	*3.81*
BS Group NPL ratio	*5.14*	*5.77*	*4.71*

(*) Corresponds to the NPL ratio excluding the addition of TSB.

Note 11 – Tangible assets

The composition of this item in the consolidated balance sheets at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018				31/12/2017			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, Plant and Equipment	**3,272,269**	**(1,451,172)**	**(15,186)**	**1,805,911**	**3,378,020**	**(1,490,374)**	**(25,916)**	**1,861,730**
For own use:	2,950,957	(1,381,533)	(14,871)	1,554,553	3,078,409	(1,427,883)	(25,494)	1,625,032
Computer equipment and related facilities	500,067	(369,374)	-	130,693	534,237	(391,481)	-	142,756
Furniture, vehicles and other facilities	1,285,444	(697,160)	(8,648)	579,636	1,329,670	(724,675)	(8,580)	596,415
Buildings	1,128,080	(301,036)	(6,223)	820,821	1,178,037	(298,627)	(16,914)	862,496
Work in progress	4,622	(1)	-	4,621	1,844	(1)	-	1,843
Other	32,744	(13,962)	-	18,782	34,621	(13,099)	-	21,522
Leased out under operating leases	321,312	(69,639)	(315)	251,358	299,611	(62,491)	(422)	236,698
Investment property	**1,892,808**	**(108,357)**	**(228,916)**	**1,555,535**	**2,483,103**	**(122,586)**	**(395,724)**	**1,964,793**
Buildings	1,842,316	(104,357)	(215,872)	1,522,087	2,427,264	(119,394)	(377,275)	1,930,595
Rural property, plots and sites	50,492	(4,000)	(13,044)	33,448	55,839	(3,192)	(18,449)	34,198
Total	**5,165,077**	**(1,559,529)**	**(244,102)**	**3,361,446**	**5,861,123**	**(1,612,960)**	**(421,640)**	**3,826,523**

Changes in the balance of the *"Tangible assets"* heading during the first half of 2018 were as follows:

Thousand euro

	Note	Property	Furnishings and equipment	Investment property	Assets leased out under operating leases	Total
Cost:						
Balances at 31 December 2017		1,214,502	1,863,907	2,483,103	299,611	5,861,123
Additions		6,215	40,361	75,993	49,902	172,470
Disposals		(19,881)	(118,887)	(252,308)	(27,993)	(419,069)
Other transfers		(35,964)	-	(407,749)	-	(443,713)
Transfer of credit losses (*)		-	-	(6,231)	-	(6,231)
Exchange rate		574	130	-	(207)	497
Balances at 30 June 2018		1,165,446	1,785,511	1,892,808	321,313	5,165,077
Accumulated depreciation:						
Balances at 31 December 2017		311,727	1,116,156	122,586	62,491	1,612,960
Additions		16,708	55,132	24,127	19,567	115,534
Disposals		(7,084)	(104,815)	(15,464)	(12,423)	(139,786)
Other transfers		(6,433)	-	(22,892)	-	(29,325)
Exchange rate		81	61	-	4	146
Balances at 30 June 2018		314,999	1,066,534	108,357	69,639	1,559,529
Impairment losses:						
Balances at 31 December 2017		16,914	8,580	395,724	422	421,640
Impairment through profit or loss	28	-	-	60,221	-	60,221
Reversal of impairment through profit or loss	28	(985)	-	(57,611)	-	(58,596)
Utilisations		-	68	(40,494)	(107)	(40,533)
Other transfers		(9,706)	-	(128,924)	-	(138,630)
Balances at 30 June 2018		6,223	8,648	228,916	315	244,102
Balances at 31 December 2017		885,861	739,171	1,964,793	236,698	3,826,523
Balances at 30 June 2018		844,224	710,329	1,555,535	251,359	3,361,446

(*) Allowance arising from value adjustments made in relation to credit risk allowance.

Details of the net carrying value of transfers shown under the heading "*Tangible assets*" in the above table during the first half of 2018 are as follows:

Thousand euro

	Note	30/06/2018	31/12/2017
Inventories	13	4,242	112,860
Non-current assets and disposal groups classified as held for sale	14	(270,555)	(297,243)
Credit losses		(6,231)	(21,301)
Total		(272,544)	(205,684)

Note 12 – Intangible assets

The composition of this item at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	31/12/2017
Goodwill:	**1,025,615**	**1,019,440**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	21,069	14,894
Other intangible assets:	**1,294,140**	**1,226,418**
With a finite useful life:	1,294,140	1,226,418
Contractual relations with customers and brand (Banco Urquijo)	309	2,115
Contractual relations with customers (Banco Guipuzcoano)	13,262	15,983
Private Banking Business, Miami	21,240	22,457
Contractual relations with TSB customers and brand	221,604	241,481
Computer applications	1,036,173	942,766
Other	1,552	1,616
Total	**2,319,755**	**2,245,858**

Changes in goodwill in the first half of 2018 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance at 31 December 2017	**1,019,440**	**-**	**1,019,440**
Additions	6,175	-	6,175
Disposals	-	-	-
Exchange differences	-	-	-
Scope additions / exclusions	-	-	-
Balance at 30 June 2018	**1,025,615**	**-**	**1,025,615**

In the first half of 2018 no changes have materialised in the hypotheses or estimates as a consequence of the evolution of the Group's businesses, or the events described in Note 2 which have required the provisions to be recorded due to impairment in the value of goodwill, or other intangible assets recorded in the consolidated balance sheet.

Note 13 – Other assets

The composition of the *"Other assets"* heading as at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	31/12/2017
Insurance contracts linked to pensions	136,317	139,114
Inventories	1,987,081	2,076,294
Rest of other assets	551,403	760,103
Total	**2,674,801**	**2,975,511**

Changes in inventories in the first half of 2018 were as follows:

Thousand euro

	Notes	Land	Buildings under construction	Finished buildings	Total
Balance at 31 December 2017		**1,207,350**	**218,500**	**650,444**	**2,076,294**
Additions		40,566	39,980	107,156	187,702
Disposals		(88,381)	(14,813)	(134,971)	(238,165)
Impairment through profit or loss	28	(123,516)	(34,488)	(102,458)	(260,462)
Reversal of impairment through profit or loss	28	110,683	31,667	83,604	225,954
Other transfers	11	(21,810)	8,438	9,129	(4,242)
Balance at 30 June 2018		**1,124,893**	**249,284**	**612,904**	**1,987,081**

Note 14 – Non-current assets and assets and liabilities included in disposal groups classified as held for sale

The composition of these items in the consolidated balance sheets at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	31/12/2017
Assets	**3,754,010**	**3,559,232**
Cash, cash balances at central banks and other demand deposits	4	4,169
Loans and advances	1,122	83,620
Credit institutions	-	1,346
Customers	1,122	82,274
Debt securities	-	-
Equity instruments	-	-
Tangible assets	3,702,685	3,411,451
Tangible assets for own use	80,903	54,556
Real state investments	20,752	34,408
Foreclosed tangible assets	3,595,945	3,319,131
Leased out under operating leases	5,086	3,355
Rest of other assets	50,199	59,992
Impairment adjustments	**(1,298,708)**	**(997,488)**
Non-current assets and disposal groups classified as held for sale	**2,455,302**	**2,561,744**
Liabilities		
Financial liabilities measured at amortised cost	-	-
Tax liabilities	-	-
Liabilities under insurance or reinsurance contracts	-	-
Rest	18,060	20,645
Liabilities included in disposal groups classified as held for sale	**18,060**	**20,645**

Changes in the "*Non-current assets and disposal groups classified as held for sale*" heading in the first half of 2018 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances at 31 December 2017		**3,559,232**
Additions		450,966
Disposals		(589,289)
Other transfers/reclassifications	11	406,775
Transfer of credit losses (*)		(73,674)
Balances at 30 June 2018		**3,754,010**
Value adjustments due to impairment:		
Balances at 31 December 2017		**997,488**
Impairment through profit or loss	30	307,206
Reversal of impairment through profit or loss	30	(51,236)
Utilisations		(90,970)
Other transfers/reclassifications	11	136,220
Balances at 30 June 2018		**1,298,708**
Net balances at 31 December 2017		**2,561,744**
Net balances at 30 June 2018		**2,455,302**

(*) Allowance arising from value adjustments made in relation to credit risk hedging.

Note 15 – 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 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	31/12/2017
By heading:		
Financial liabilities measured at amortised cost	38,425,371	42,018,348
Total	**38,425,371**	**42,018,348**
By nature:		
Demand deposits	393,649	235,076
Deposits with agreed maturity	32,159,206	31,964,417
Repurchase agreements	5,627,192	9,591,000
Deposits redeemable at notice	-	-
Hybrid financial liabilities	63,503	62,605
Other accounts	162,998	151,394
Valuation adjustments	18,823	13,856
Total	**38,425,371**	**42,018,348**

Note 16 – Customer deposits

The breakdown of customer deposits in the consolidated balance sheets as at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018	*31/12/2017*
By heading:		
Financial liabilities measured at amortised cost	*136,993,638*	*135,307,437*
Total	***136,993,638***	***135,307,437***
By nature:		
Demand deposits	*105,399,788*	*98,019,789*
Deposits with agreed maturity	*26,900,524*	*30,377,798*
Deposits redeemable at notice	*-*	*-*
Hybrid financial liabilities	*2,364,217*	*2,047,546*
Repurchase agreements	*2,187,817*	*4,749,634*
Valuation adjustments	*141,292*	*112,670*
Total	***136,993,638***	***135,307,437***
By sector:		
General governments	*5,401,699*	*5,437,779*
Other sectors	*131,450,647*	*129,756,988*
Other valuation adjustments (interest, fees and commissions, other)	*141,292*	*112,670*
Total	***136,993,638***	***135,307,437***

Note 17 – Debt securities issued

Details of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets as at 30 June 2018 and 31 December 2017 are as follows:

Thousand euro

	30/06/2018	*31/12/2017*
Straight bonds	*3,875,194*	*4,843,573*
Straight bonds	*3,615,078*	*4,408,506*
Structured bonds	*260,116*	*435,067*
Government guaranteed ordinary bonds	*-*	*-*
Promissory notes	*2,532,241*	*3,179,100*
Covered bonds	*9,135,100*	*10,099,200*
Territorial bonds	*-*	*-*
Covered Bond	*564,302*	*563,552*
Securitisation funds	*2,584,055*	*2,544,173*
Subordinated marketable debt securities	*2,485,320*	*2,481,835*
Subordinated liabilities	*1,335,320*	*1,331,835*
Preference shares	*1,150,000*	*1,150,000*
Valuation and other adjustments	*(8,194)*	*76,411*
Total	***21,168,018***	***23,787,844***

Schedule IV shows the breakdown of issues carried out by the Group in the first half of 2018.

Note 18 – Provisions and contingent liabilities

Movements in the "*Provisions*" heading during the six-month period ended 30 June 2018 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 at 1 January 2018 (a)	***84,843***	***16,491***	***36,293***	***93,417***	***94,962***	***326,006***
Interest and similar charges - pension commitments	***602***	***56***	***-***	***-***	***-***	***658***
Allowances charged to income statement - staff expenses (c)	***997***	***3***	***-***	***-***	***-***	***1,000***
Allowances not charged to income statement	***-***	***-***	***-***	***-***	***-***	***-***
Allowances charged to income statement - provisions	***-***	***579***	***(8)***	***(7,591)***	***90,650***	***83,630***
Provisions	*-*	*579*	*8*	*56,352*	*97.188 (b)*	*154,127*
Reversal of provisions	*-*	*-*	*(16)*	*(63,943)*	*(6,538)*	*(70,497)*
Actuarial losses / (gains)	*-*	*-*	*-*	*-*	*-*	*-*
Exchange differences	***-***	***-***	***-***	***270***	***(507)***	***(237)***
Utilisations:	***(4,219)***	***(6,160)***	***(14,953)***	***-***	***(74,070)***	***(99,402)***
Contributions of the promoter	*219*	*(155)*	*-*	*-*	*-*	*64*
Pension payments	*(4,438)*	*(6,005)*	*-*	*-*	*-*	*(10,443)*
Other	*-*	*-*	*(14,953)*	*-*	*(74,070)*	*(89,023)*
Other movements	***523***	***535***	***-***	***2,972***	***200.719 (d)***	***204,749***
Balance at 30 June 2018	***82,746***	***11,504***	***21,332***	***89,068***	***311,754***	***516,404***

(a) Includes impact of first implementation of IFRS 9, which has entailed an increase in provisions amounting to €8,468 thousand (see section "Implementation of IFRS 9 Financial instruments" in Note 1).

(b) Mainly corresponds to provisions allocated to compensate customers for the incidents which occurred following the migration to TSB's new IT platform (see Note 2).

(c) See Note 26.

(d) Includes transfer of €200,615 thousand in provisions allocated to cover materialisation of contingencies related to floor clauses. As at 30 June 2018, the Group has provisioned a total of €132,615 thousand for this item (see note 10).

Note 19 – Own funds

Share capital at the end of the first half of 2018

The bank's share capital amounted to €703,370,587.63, represented by 5,626,964,701 registered shares with a par value of €0.125 each, all of which are fully subscribed and paid.

Changes in share capital in the first half of 2018

No changes in share capital have taken place in the first half of 2018.

Significant investments in the bank's capital in the first half of 2018

Norges Bank acquired a significant stake in the bank's share capital of 3.1%, which was registered with the CNMV on 28 May 2018.

Note 20 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

Commitments and guarantees given	*Note*	*30/06/2018*	*31/12/2017*
Financial guarantees given (*)		***2,036,397***	***1,983,143***
Of which classified as stage 3		*40,593*	*48,163*
Amount recorded under liabilities on the balance sheet (**)	*18*	*32,055*	*32,500*
Loan commitments given		***22,062,122***	***20,906,053***
Of which classified as stage 3		*39,935*	*61,719*
Drawable by third parties		*22,062,122*	*20,906,053*
By credit institutions		*541*	*468*
By general governments		*782,200*	*677,317*
By other resident sectors		*14,239,454*	*13,750,112*
By non-residents		*7,039,927*	*6,478,156*
Amount recorded under liabilities on the balance sheet	*18*	*22,802*	*23,677*
Other commitments and guarantees given		***8,309,411***	***9,916,992***
Of which classified as stage 3		*54,821*	*9,729*
Other financial guarantees		*6,920,839*	*6,743,704*
Assets under third party obligations		*-*	*-*
Non-revocable documentary credit		*903,208*	*838,922*
Additional settlement guarantee		*20,000*	*20,000*
Other bonds and guarantees given		*5,997,631*	*5,884,782*
Other contingent liabilities		*-*	*-*
Other commitments given		*1,388,572*	*3,173,287*
Financial asset forward purchase commitments		*880,818*	*2,825,731*
Conventional financial asset purchase contracts		*281,576*	*126,999*
Subscribed securities pending disbursement		*1,939*	*1,939*
Securities placement and subscription commitments		*-*	*-*
Other loan commitments given		*224,239*	*218,618*
Amount recorded under liabilities on the balance sheet	*18*	*34,211*	*28,772*
Total		***32,407,930***	***32,806,188***

(*) Of which, granted in relation to construction and real estate development amounting to €86,143 and €89,881 thousand as at 30 June 2018 and 31 December 2017, respectively.

(**) Of which, amount recognised on liabilities side of balance sheet related to construction and real estate development amounting to €5,852 and €5,451 thousand as at 30 June 2018 and 31 December 2017, respectively.

Guarantees given classified as Stage 3

The balance of guarantees given classified as Stage 3 as at 30 June 2018 amounted to €95,414 thousand (€57,892 thousand as at 31 December 2017).

Credit risk allowances corresponding to guarantees given as at 30 June 2018 and 1 January 2018 (first implementation of IFRS 9) broken down by the method used to determine such coverage and the credit risk of off-balance sheet exposures, are as follows:

Thousand euro

	30/06/2018	*01/01/2018*
Specific coverage determined individually:	***36,785***	***36,293***
Stage 2	*1,060*	*16,735*
Stage 3	*35,725*	*19,557*
Specific coverage determined collectively:	***29,481***	***25,691***
Stage 1	*14,518*	*9,520*
Stage 2	*5,201*	*3,477*
Stage 3	*9,207*	*10,727*
Allowances for country risk	*554*	*1,967*
Total	***66,266***	***61,983***

These allowances are recognised under the *"Provisions"* heading on the liabilities side of the balance sheet (see Note 18).

Note 21 – Interest and other similar income and interest expenses

These headings on the consolidated profit and loss account include interests accrued during the period for all financial assets and financial liabilities whose yield, 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 and allowances. Interests are recognised at their gross value, without deducting any tax withholdings exercised at the source.

The majority of interest and similar income and interest expenses are generated by the Group's financial assets measured either at amortised cost or at fair value through equity.

The quarterly net interest income for the six-month period ended 30 June 2018 and the six-month period ended 30 June 2017 and the average earnings and costs of the various components that make up total lending and customer funds break down as follows:

Thousand euro

	30/06/2018						
	1st quarter			2nd quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Yield of the investment	**216,880,053**	**2.11**	**1,129,155**	**217,038,607**	**2.11**	**1,140,688**	**2,269,843**
Cash and cash equivalents (*)	29,544,269	0.01	507	28,180,392	0.01	542	**1,049**
Loans and advances	133,924,261	3.00	991,874	135,992,318	2.90	983,334	**1,975,208**
Fixed-income portfolio (**)	25,407,251	1.49	93,112	26,158,261	1.49	97,128	**190,240**
Equity portfolio	988,827	-	-	1,021,333	-	-	**-**
Tangible and intangible assets	3,873,886	-	-	4,061,192	-	-	**-**
Rest of other assets	23,141,559	0.77	43,662	21,625,111	1.11	59,684	**103,346**
Cost of resources	**216,880,053**	**(0.41)**	**(217,607)**	**217,038,607**	**(0.45)**	**(242,118)**	**(459,725)**
Credit institutions	31,880,652	(0.11)	(8,877)	32,137,191	(0.09)	(6,978)	**(15,855)**
Customer deposits (***)	138,805,488	(0.20)	(68,878)	140,271,284	(0.22)	(76,126)	**(145,004)**
Capital markets	25,588,125	(1.41)	(88,850)	25,004,552	(1.37)	(85,233)	**(174,083)**
Other liabilities	7,848,422	(2.64)	(51,002)	7,326,734	(4.04)	(73,781)	**(124,783)**
Own funds	12,757,366	-	-	12,298,846	-	-	**-**
Net interest income			**911,548**			**898,570**	**1,810,118**
Total ATAs			**216,880,053**			**217,038,607**	**216,959,768**
Ratio (margin/ATA)			**1.70**			**1.66**	**1.68**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes € 1,323 thousand correponding to interest on financial assets held for trading

(***) Includes repos.

Los ingresos o gastos financieros derivados de la aplicación de tipos negativos se imputan al instrumento asociado. En este sentido, los resultados de las inversiones y el coste de los recursos recogen gastos e ingresos financieros por importe de 25,984 y 60,970 miles de euros, respectivamente, derivados de dicha imputación. En particular, la línea de entidades de crédito del pasivo recoge los ingresos financieros por intereses negativos de los saldos de entidades de crédito del pasivo, principalmente los relativos a la TLTRO II.

Thousand euro

	30/06/2017						
	1st quarter			2nd quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Yield of the investment	**211,690,107**	**2.33**	**1,217,554**	**219,081,800**	**2.19**	**1,195,386**	**2,412,940**
Cash and cash equivalents (*)	12,711,586	0.05	1,701	18,198,341	(0.01)	(536)	**1,165**
Loans and advances	138,670,199	3.02	1,033,973	139,175,529	3.02	1,048,683	**2,082,656**
Fixed-income portfolio (**)	29,762,880	2.15	158,055	31,800,063	1.59	126,279	**284,334**
Equity portfolio	982,684	-	-	911,215	-	-	**-**
Tangible and intangible assets	4,199,848	-	-	4,270,256	-	-	**-**
Rest of other assets	25,362,910	0.38	23,825	24,726,396	0.34	20,960	**44,785**
Cost of resources	**211,690,107**	**(0.49)**	**(255,129)**	**219,081,800**	**(0.41)**	**(220,914)**	**(476,043)**
Credit institutions	20,161,775	(0.29)	(14,207)	31,187,504	(0.06)	(4,617)	**(18,824)**
Customer deposits (***)	141,349,314	(0.23)	(80,212)	141,058,478	(0.20)	(71,461)	**(151,673)**
Capital markets	26,575,834	(1.74)	(113,822)	25,299,212	(1.44)	(91,001)	**(204,823)**
Other liabilities	10,656,159	(1.78)	(46,888)	8,488,318	(2.54)	(53,835)	**(100,723)**
Own funds	12,947,025	-	-	13,048,288	-	-	**-**
Net interest income			**962,425**			**974,472**	**1,936,897**
Total ATAs			**211,690,107**			**219,081,800**	**215,406,373**
Ratio (margin/ATA)			**1.84**			**1.78**	**1.81**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes € 4,052 thousand correponding 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 €17,788 and €49,245 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.

Net interest income as a percentage of average total assets declined due to the reduction in the customer spread following TSB's commercial actions, the lower returns on the fixed-income portfolio due to asset rotations and an enhanced liquidity position. As a result, the net interest income as a percentage of average total assets was 1.68% in the first half of 2018 (1.81% in the first half of 2017).

The *"Interest and other similar income"* heading for the six-month period ended 30 June 2018, broken down on the basis of the portfolios into which financial assets are classified, is shown below:"

Thousand euro

	30/06/2018
Interest on financial assets at amortised cost (*)	*2,178,529*
Interest on financial assets measured at fair value through other comprehensive income (*)	*108,710*
Interest on other financial assets and liabilities	*69,558*
Total	***2,356,797***

(*) Includes hedge accounting effect.

Note 22 – Fee and commission income and expenses

Fee and commission income and expenses on financial transactions and the provision of services for the six-month periods ended 30 June 2018 and 2017 were as follows:

Thousand euro

	30/06/2018	30/06/2017
Fees derived from risk operations	***118,753***	***155,216***
Asset operations	*69,534*	*104,907*
Guarantees	*49,219*	*50,309*
Service fees	***327,614***	***286,156***
Cards	*101,024*	*97,750*
Payment orders	*30,921*	*26,915*
Securities	*31,274*	*30,498*
Sight accounts	*105,157*	*64,220*
Rest	*59,238*	*66,773*
Asset management fees	***190,352***	***161,630***
Investment funds	*78,202*	*75,484*
Sale of pension funds and insurance products	*96,886*	*76,581*
Asset management	*15,264*	*9,565*
Total	***636,719***	***603,002***
Memorandum item		
Fee-related income	*754,981*	*728,869*
Fee-related expenses	*(118,262)*	*(125,867)*
Net fees and commissions	***636,719***	***603,002***

Note 23 – Net gains (losses) on financial assets and liabilities

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	30/06/2018	30/06/2017
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	221,798	377,981
Financial assets at fair value through other comprehensive income	291,978	359,497
Financial assets at amortised cost	(67,005)	20,363
Financial liabilities measured at amortised cost	(3,175)	(1,878)
Gains or (-) losses on financial assets and liabilities held for trading, net	27,544	172,733
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(19,902)	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	5	127
Gains or (-) losses from hedge accounting, net	10,104	(5,460)
Total	**239,549**	**545,381**
By type of financial instrument:		
Net gain/(loss) on debt securities	271,935	357,117
Net gain/(loss) other equity instruments	231	12,431
Net gain/(loss) on derivatives	37,563	157,349
Net gain/(loss) on other items (*)	(70,180)	18,484
Total	**239,549**	**545,381**

(*) Mainly includes income from the sale of various credit portfolios sold during the year.

Throughout the first half of 2018, the Group has carried out sales of certain debt securities that it held in the portfolio of financial assets measured at fair value through other comprehensive income, generating earnings of €291,978 thousand during the six-month period ended 30 June 2018. Of these earnings, €289,379 thousand derives from the sale of debt securities held with general governments.

Additionally, throughout the first half of 2018, the Group has carried out sales of certain debt securities that it held in the portfolio of financial assets measured at amortised cost, in order to manage the increase in credit risk (see Note 8).

Note 24 – Other operating income

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	30/06/2018	30/06/2017
Income from operation of investment properties	53,963	49,314
Sales and other income from the provision of non-financial services	40,755	62,956
Other operating income	53,440	42,963
Total	**148,158**	**155,233**

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios from other entities (the Spanish company for the management of assets proceeding from the restructuring of the banking system (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*, SAREB).

The income recognised in other operating income mostly corresponds to income from group entities engaged in non-financial activities (mostly operating leases).

Note 25 – Other operating expenses

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	30/06/2018	30/06/2017
Contribution to deposit guarantee funds	(5,384)	(2,221)
Banco Sabadell	(1,197)	(37)
TSB	(2,500)	(1,220)
Sabadell United Bank	-	(369)
BS IBM México	(1,687)	(595)
Other items	(241,150)	(216,845)
Contribution to resolution fund	(49,744)	(50,639)
Monetisable taxes	(20,082)	(30,654)
Other	(171,324)	(135,552)
Total	**(246,534)**	**(219,066)**

The *"Other"* subheading under other items mostly includes, in both years, expenses relating to non-financial activities.

Note 26 – Administrative expenses

Staff expenses

Staff expenses recognised in the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 were as follows:

Thousand euro

	Note	30/06/2018	30/06/2017
Payrolls and bonuses for active staff		(596,276)	(594,582)
Social Security payments		(119,865)	(121,289)
Contributions to defined benefit pension schemes	18	(1,000)	(1,250)
Contributions to defined contribution pension schemes		(34,796)	(32,810)
Other staff expenses		(46,635)	(40,979)
Total		**(798,572)**	**(790,910)**

The average workforce of the bank and group in the six-month periods ended 30 June 2018 and 2017 is detailed below:

Number of employees

	Banco de Sabadell, S.A.		Banco Sabadell Group	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Average of employees	**15,310**	**15,398**	**26,004**	**26,353**
Men	7,531	7,617	11,528	11,590
Women	7,779	7,781	14,476	14,763

At 30 June 2018 and 2017, the distribution of employees by category and gender is as follows:

Number of employees

	30/06/2018			30/06/2017		
	Men	*Women*	*Total*	*Men*	*Women*	*Total*
Management staff	*504*	*175*	*679*	*478*	*150*	*628*
Technical staff	*9,997*	*10,782*	*20,779*	*10,119*	*11,063*	*21,182*
Administrative staff	*1,009*	*3,448*	*4,457*	*1,034*	*3,540*	*4,574*
Total	***11,510***	***14,405***	***25,915***	***11,631***	***14,753***	***26,384***

The average workforce for the six-month period ended 30 June 2018 for the Group as at that date is lower, mostly due to the reduction in TSB's workforce and the sale of Sabadell United Bank, which had a total of 428 employees, and which materialised in August 2017.

These reductions have been offset by the increase in the workforce of Solvia Servicios Inmobiliarios, S.L. and the growth of the international business of the Mexican subsidiary Bansabadell IBM, S.A.

Non-recurring staff expenses amounted to €21,316 thousand in the period ended 30 June 2018 (€12,773 thousand at 30 June 2017). Expenses considered as non-recurring are those that do not form part of the Entity's ordinary activities. Staff expenses include expenses linked to TSB's technological integration process and commercial transformation.

Other administrative expenses

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	30/06/2018	*30/06/2017*
Property, plant and equipment	*(116,953)*	*(118,272)*
Information technology	*(275,909)*	*(202,927)*
Communication	*(27,691)*	*(22,800)*
Publicity	*(54,052)*	*(54,721)*
Subcontracted administrative services	*(34,394)*	*(51,249)*
Contributions and taxes	*(53,901)*	*(51,989)*
Technical reports	*(15,642)*	*(24,610)*
Security services and fund transfers	*(11,234)*	*(13,946)*
Business entertainment expenses and staff travel expenses	*(10,761)*	*(10,787)*
Membership fees	*(12,402)*	*(9,705)*
Other expenses	*(67,697)*	*(26,425)*
Total	***(680,636)***	***(587,431)***

As at 30 June 2018, non-recurring administrative expenses amounted to €121,922 thousand (€23,126 thousand as at 30 June 2017), which include all expenses linked to TSB's technological integration process.

The cost-to-income ratio stood at 57.11% as at 30 June 2018 (51.33% as at 30 June 2017).

Information about the Group's branches is given below:

Number of branches

	30/06/2018	*30/06/2017*
Branches	***2,471***	***2,548***
Spain	*1,877*	*1,931*
Outside Spain	*594*	*617*

Note 27 – Impairment or (-) reversal of 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

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	Note	30/06/2018	30/06/2017
Financial assets at fair value through other comprehensive income		(2,567)	(37,635)
Debt securities		(2,567)	(600)
Equity instruments		-	(37,035)
Financial assets at amortised cost	10	(424,875)	(571,454)
Debt securities		2,872	(884)
Loans and advances		(427,747)	(570,570)
Total		**(427,442)**	**(609,089)**

Note 28 – Impairment or (-) reversal of impairment of non-financial assets

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	Note	30/06/2018	30/06/2017
Property plant and equipment	11	985	(7,566)
Investment property	11	(2,610)	5,509
Goodwill and other intangible assets		(282)	(2,722)
Inventories	13	(34,508)	(148,376)
Total		**(36,415)**	**(153,155)**

Note 29 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this item of the consolidated profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	30/06/2018	30/06/2017
Property, Plant and Equipment	(1,976)	(2,064)
Investment Properties	3,371	(11,055)
Intangible assets	-	(892)
Interests (*)	5,905	2,403
Other capital instruments	-	-
Other items	-	1,587
Total	**7,300**	**(10,021)**

(*) See and Schedule I - Companies no longer consolidated.

Note 30 – 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 profit and loss accounts for the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousand euro

	Note	30/06/2018	30/06/2017
Property, plant and equipment for own use and foreclosed		*(261,734)*	*(72,636)*
Gains/losses on sales		*(5,764)*	*(21,210)*
Impairment/Reversal (*)	*14*	*(255,970)*	*(51,426)*
Investment properties		*-*	*(1,000)*
Intangible assets		*-*	*-*
Interests (**)		*(132)*	*16,613*
Other capital instruments		*-*	*-*
Other items		*(20)*	*(14)*
Total		***(261,886)***	***(57,037)***

(*) This heading includes provisions for impairment adjustments corresponding to the real estate asset portfolios that the Group has agreed to transfer after 30 June 2018 (see Note 35).

(**) See and Schedule I - Companies no longer consolidated.

The impairment of non-current assets held for sale excludes income from the increase in fair value less sale costs.

Note 31 – Segment information

Segmentation criteria

The criteria that the Group uses to report on results for each segment are:

- There are four separate geographies: Banking Business Spain, Asset Transformation, Banking Business United Kingdom and Other Geographies.
- Each business is allocated 11% of capital over its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.
- Banking Business United Kingdom includes TSB’s contribution to the Group.
- Other geographies mostly comprises Mexico, overseas branches and representative offices. For the purpose of comparison, changes have been calculated for investment, funds and the income statement, excluding Sabadell United Bank.

In terms of the other criteria applied, segment information is first structured with a breakdown by geography and then broken down based on the customers to which each segment is aimed.

Segmentation by geography and business units

The current structure is comprised of:

– ***Banking Business Spain***, which includes the following customer-driven business units:

Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and loans is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension schemes. Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others.

Corporate Banking offers specialised financing services together with a comprehensive offering of solutions from transactional banking services to more complex and tailored solutions relating to the fields of financing and treasury, such as import and export activities, amongst others.

Markets and Private Banking offers and designs products and services with a high added value with a view to achieving a good rate of return for customers, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with good-quality management, while providing multi-channel access.

– *Real Estate Asset Transformation:*
Real Estate Asset Transformation comprehensively manages early arrears and real estate exposure, and also sets out and implements the strategy of real estate investee companies, such as Solvia. In terms of NPA risk and real estate exposure, the unit 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 retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

– *Other geographies:*
This item mostly comprises Mexico, overseas branches and representative offices which offer all types of banking and financial services, from the most complex and specialist services for large corporations, such as project finance operations, to products for individual customers, offering all products and services that professionals and companies of any size might need.

The information presented herein is based on the separate financial statements of each Group company, with the corresponding disposals and adjustments in the scope of consolidation and the analytical accounting of income and expenses in cases in which a business is spread over one or more legal entities, to enable revenues and costs to be allocated for each customer depending on the business unit to which that customer is assigned.

Each business unit is treated as an independent business, therefore commissioning takes place between businesses for the provision of services involving the distribution of products, services and systems. The final impact of commissioning between business units is zero.

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.

Key data relating to the segmentation of the Group's activity are given hereafter:

€ Million

	30/06/2018				
	Banking Business Spain	*RE asset transformation*	*Banking Business UK (*)*	*Other geographies (**)*	*Total Group*
Net interest income	**1,220**	**(14)**	**487**	**117**	**1,810**
Results calculated using the equity method and dividends	36	-	-	1	37
Net fees and commissions	576	1	35	25	637
Net gains (losses) on financial assets and liabilities and exchange differences	205	9	26	6	246
Other operating income and expenses	(131)	70	(44)	6	(99)
Gross income	**1,906**	**66**	**504**	**155**	**2,631**
Administrative and depreciation expenses	(897)	(64)	(605)	(90)	(1,656)
Operating income	**1,009**	**2**	**(101)**	**65**	**975**
Provisions and impairments	(262)	(377)	(139)	(28)	(806)
Gains /(Losses) on asset derecognition and others	3	-	1	-	4
Profit/(Loss) before taxes	**750**	**(375)**	**(239)**	**37**	**173**
Income tax	(206)	119	42	(3)	(48)
Profit/(Loss) after tax	**544**	**(256)**	**(197)**	**34**	**125**
Profit/(Loss) attributed to the minority interests	2	-	-	2	4
Total profit/(loss) of reported Group segments	**542**	**(256)**	**(197)**	**32**	**121**
ROE (earnings divided by average equity)	11.2%	-	(25.7)%	8.9%	1.5%
Cost-to-income (administrative expenses divided by gross income)	42.3%	-	112.1%	55.2%	57.1%
NPL ratio	5.5%	27.7%	1.1%	0.6%	4.7%
Stage 3 loans coverage ratio	54.3%	64.0%	53.9%	241.1%	57.0%

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to income statement: GBP 0.880 (average).

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to income statement: GBP 0.880, MXN 23.067, USD 1.215 and MAD 11.083 (average).

€ Million

	30/06/2018				
	Banking Business Spain	*RE asset transformation*	*Banking Business UK (*)*	*Other geographies (**)*	*Total Group*
Assets	**140,570**	**12,850**	**47,159**	**15,356**	**215,935**
Customer lending (net) excluding repos	96,099	2,613	35,472	9,634	143,818
Real estate exposure	-	3,180	-	-	3,180
Liabilities	**132,021**	**11,797**	**45,656**	**14,391**	**203,865**
On-balance sheet customer funds	96,568	182	33,373	5,572	135,695
Wholesale Funding Capital Markets	18,348	-	1,809	-	20,157
Allocated capital	**8,548**	**1,053**	**1,503**	**966**	**12,070**
Off-balance sheet customer funds	**45,800**	**34**	**-**	**1,067**	**46,901**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.886.

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.886, MXN 22.881, USD 1.165 and MAD 11.068).

€ Million

	30/06/2017				
	Banking Business Spain	***RE asset transformation***	***Banking Business UK (*)***	***Other geographies (**)***	***Total Group***
Net interest income	***1,270***	***(22)***	***523***	***165***	***1,936***
Results calculated using the equity method and dividends	*35*	*(1)*	*-*	*2*	*36*
Net fees and commissions	*526*	*1*	*47*	*29*	*603*
Net gains (losses) on financial assets and liabilities and exchange differences	*489*	*(35)*	*89*	*7*	*550*
Other operating income and expenses	*(145)*	*66*	*(7)*	*5*	*(81)*
Gross income	***2,175***	***9***	***652***	***208***	***3,044***
Administrative and depreciation expenses	*(852)*	*(84)*	*(518)*	*(122)*	*(1,576)*
Operating income	***1,323***	***(75)***	***134***	***86***	***1,468***
Provisions and impairments	*(448)*	*(357)*	*(44)*	*(2)*	*(851)*
Gains /(Losses) on asset derecognition and others	*11*	*-*	*6*	*-*	*17*
Profit/(Loss) before taxes	***886***	***(432)***	***96***	***84***	***634***
Income tax	*(247)*	*123*	*(31)*	*(27)*	*(182)*
Profit/(Loss) after tax	***639***	***(309)***	***65***	***57***	***452***
Profit/(Loss) attributed to the minority interests	*1*	*-*	*-*	*-*	*1*
Total profit/(loss) of reported Group segments	***638***	***(309)***	***65***	***57***	***451***
ROE (earnings divided by average equity)	*15.5%*	*--*	*3.5%*	*10.0%*	*6.3%*
Cost-to-income (administrative expenses divided by gross income)	*38.2%*	*--*	*78.7%*	*55.9%*	*51.3%*
NPL ratio	*6.5%*	*25.1%*	*0.5%*	*0.8%*	*5.5%*
Stage 3 loans coverage ratio	*43.0%*	*52.9%*	*49.9%*	*213.0%*	*47.1%*

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to income statement: GBP 0.860 (average).

(**) Mainly includes Mexico, United States, overseas branches and representative offices. Exchange rate applied to income statement: GBP 0.859, MXN 20.976, USD 1.082 (average).

€ Million

	30/06/2017				
	Banking Business Spain	RE asset transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Assets	**133,047**	**17,398**	**47,195**	**19,819**	**217,459**
Customer lending (net) excluding repos	92,361	5,603	35,343	8,671	141,978
Real estate exposure	-	4,622	-	31	4,653
Liabilities	**124,664**	**15,367**	**45,696**	**18,658**	**204,385**
On-balance sheet customer funds	92,933	160	34,064	5,167	132,324
Wholesale Funding Capital Markets	19,163	-	1,489	-	20,652
Allocated capital	**8,383**	**2,032**	**1,499**	**1,160**	**13,074**
Off-balance sheet customer funds	**42,954**	**14**	**-**	**1,029**	**43,997**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.879.

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.879, MXN 20.583, USD 1.141.

Ordinary income generated by each business unit at 30 June 2018 and 2017 is as follows:

Thousand euro

	Consolidated					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
SEGMENTS	**30/06/2018**	**30/06/2017**	**30/06/2018**	**30/06/2017**	**30/06/2018**	**30/06/2017**
Banking Business Spain	1,855,650	1,695,209	107,212	107,664	1,962,862	1,802,873
Asset Transformation	157,317	184,814	166	254	157,483	185,068
Banking Business UK	642,126	815,963	-	-	642,126	815,963
Other geographies	238,000	291,031	941	1,251	238,941	292,282
(-) Adjustments and disposals of ordinary income between segments	-	-	(108,319)	(109,169)	(108,319)	(109,169)
Total	**2,893,093**	**2,987,017**	**-**	**-**	**2,893,093**	**2,987,017**

The Directors' Report gives a more detailed assessment of each of these business units.

The distribution of interest income by geography for the period between 1 January and 30 June 2018, and the comparison with the same period of the preceding year, is as follows:

Thousand euro

	Distribution of interest income by geography			
	Individual		Consolidated	
	30/06/2018	30/06/2017	30/06/2018	30/06/2017
Domestic market	1,559,837	1,597,937	1,547,733	1,605,369
Exports:				
European Union	33,476	28,076	617,291	657,203
OECD countries	79,810	63,611	183,660	208,589
Other countries	1,776	2,264	8,113	8,812
Total	**1,674,899**	**1,691,888**	**2,356,797**	**2,479,973**

Note 32 – Deferred tax assets and liabilities

Under current tax regulations, certain timing differences must be taken into account when quantifying the income tax expense. The origins of the deferred tax assets / liabilities recognised in the consolidated balance sheet at 30 June 2018 and 31 December 2017 are as follows:

Thousand euro

Deferred tax assets	*30/06/2018*	*31/12/2017*
Monetisable	***5,338,205***	***5,336,979***
Due to credit impairment	*3,629,201*	*3,524,948*
Due to real estate asset impairment	*1,574,971*	*1,674,955*
Due to pension funds	*134,033*	*137,076*
Non-monetisable	***1,055,772***	***821,117***
Tax credits for losses carried forward	***347,481***	***350,927***
Deductions not applied	***32,158***	***22,825***
Total	*6,773,616*	*6,531,848*

Deferred tax liabilities	*30/06/2018*	*31/12/2017*
Property restatements	*67,145*	*67,865*
Adjustments to value of wholesale debt issuances arising on business combinations	*51,312*	*59,511*
Other financial asset value adjustments	*87,989*	*278,182*
Other	*20,804*	*19,898*
Total	*227,250*	*425,456*

Note 33 – Related-party transactions

During the first half of 2018, no material transactions took place with the Group's related parties as defined in Order EHA/3050/2004. Those that did take place were in the normal course of the company's business and were performed at market prices.

The most significant balances recognised by the Group in its dealings with related parties, and the effect on the income statement of related-party transactions, are shown below:

Thousand euro

	30/06/2018					31/12/2017
	Joint control or signif. Influence (in B.Sab)	*Associates*	*Key personnel*	*Other related parties (*)*	*TOTAL*	*TOTAL*
Assets:						
Customer lending and other financial assets	-	*274,829*	*9,672*	*40,595*	***325,096***	***362,803***
Liabilities:						
Customer deposits and other financial liabilities	-	*430,522*	*8,049*	*193,342*	***631,913***	***826,693***
Memorandum accounts:						
Contingent exposures	-	*42,306*	-	*12,241*	***54,547***	***59,198***
Commitments		*6,973*	*7,471*	*6,467*	***20,911***	***28,962***
Profit and loss account:						
Interest and similar income	-	*592*	*68*	*1,118*	***1,778***	***6,642***
Interest and similar charges	-	*(2,160)*	*(7)*	*(4)*	***(2,171)***	***(4,588)***
Return on capital instruments	-	-	-	-	-	-
Net fees and commissions	-	*60,996*	*34*	*243*	***61,273***	***109,877***
Other operating income	-	*4,140*	-	-	***4,140***	***9,879***

(*) Includes employee pension schemes.

Note 34 – Remuneration of and balances with members of the Board of Directors and Senior Management

The remuneration collected by, and balances with, members of the Board of Directors, and the remuneration received by senior management members in the six-month periods ended 30 June 2018 and 30 June 2017 are shown below:

Thousand euro

Directors	***30/06/2018***	***30/06/2017***
Type of remuneration		
Fixed remuneration	*2,078*	*2,063*
Variable remuneration	*1,375*	*1,375*
Set forth in Articles of Association	*1,069*	*938*
Other	*46*	*41*
Total	***4,568***	***4,417***

Thousand euro

	30/06/2018	***30/06/2017***
Other earnings		
Loans granted	*1,860*	*5,270*
Pension Funds and Schemes: Contributions	*3*	*3*
Guarantees established in favour of Directors (*)	*5,132*	*2,524*

Thousand euro

Management staff	***30/06/2018***	***30/06/2017***
Total remuneration	*3,853*	*3,628*

(*) Includes undrawn balances of credit cards and credit facilities.

The “Management staff” category includes members of senior management and the Internal Audit Department, in accordance with the criteria set out in CNMV Circular 5/2013, of 12 June.

The amounts of variable remuneration at 30 June 2018 are 50% of the theoretical variable remuneration for 2018, but this does not entail any vested right claimable under this heading, and it is possible that such remuneration may not materialise.

Note 35 – Subsequent events

Since 30 June 2018, there have been no events worthy of mention, with the exception of the following:

On 19 July 2018, Banco Sabadell agreed to transfer practically all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. (hereinafter, Cerberus). The overall gross book value of the real estate assets involved in the transaction amounted to approximately €9,100 million, and their overall net book value amounted to approximately €3,900 million.

The transaction has been structured through the transfer of two real estate asset portfolios, called Challenger and Coliseum, to one or more newly incorporated companies (hereinafter, NewCo(s)). The capital of the latter will be contributed and/or sold, as required, in such a way as to ensure that Cerberus ends up directly or indirectly holding an interest of 80% of such capital, with Banco Sabadell holding the remaining 20%. Banco Sabadell and Cerberus shall enter into an agreement to govern their relationship as partners of the NewCo(s).

Solvia Servicios Inmobiliarios, S.L.U., which will continue to be wholly-owned by Banco Sabadell, will continue to provide its comprehensive management services (known as 'servicing') for the real estate assets involved in the transaction on an exclusive basis.

The closing of the transaction, once the corresponding authorisations have been received and the terms and conditions of each of the portfolios have been met, will entail the transfer of control over the real estate assets and, consequently, their derecognition from the consolidated balance sheet.

The transaction contributes to improving the Group's profitability, requiring the recognition of additional provisions with a net impact of approximately €92 million, with a positive impact on Banco Sabadell's fully-loaded CET1 ratio of approximately 13 basis points.

Additionally, on 24 July 2018, Banco Sabadell reached an agreement to transfer a portfolio of loans, comprised in turn of three sub-portfolios, mostly mortgage loans, with an outstanding balance of approximately €2,295 million, to Deutsche Bank and Carval Investors. The transaction will be completed once the corresponding authorisations have been received and the relevant terms and conditions have been met.

The transaction will have a negative impact on Banco Sabadell's fully-loaded Common Equity Tier 1 capital ratio of 3 basis points, which includes additional provisions with a net impact on results of approximately €32 million.

Schedule I – Changes in the scope of consolidation

Additions to the scope of consolidation in the first half of 2018:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method
Solvia Desarrollos Inmobiliarios, S.L.	Subsidiary	13/04/2018	15	-	100.00%	100.00%	Direct	Full consolidation
LSP Finance , S.L. (**)	Subsidiary	14/06/2018	6,150	-	100.00%	100.00%	Indirect	Full consolidation
Termosolar Borges. S.L. (*)	Associate	28/06/2018	11,800	-	47.50%	47.50%	Direct	Equity method
Villoldo Solar, S.L. (*)	Associate	28/06/2018	-	-	50.00%	50.00%	Direct	Equity method
Total newly consolidated subsidiaries			**6,165**					
Total newly consolidated associates			**11,800**					

(*) See cash flow statement - investment activities, under Investment Payments/Collections in joint ventures and associates.

(**) See cash flow statement – investment activities, rows Payments/Collections on investments in subsidiaries and other business units.

Removals from to the scope of consolidation in the first half of 2018:

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
HI Partners Starwood Capital Holdco Value Added, S.L.U.	Associate	31/01/2018	30.00	30.00	-	Indirect	Equity method	b
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.	Subsidiary	31/01/2018	100.00	100.00	-	Direct	Full consolidation	b
Cape Funding No.1 PLC	Subsidiary	30/04/2018	100.00	100.00	-	Indirect	Full consolidation	b
Cape Holdings No.1 Limited	Subsidiary	30/04/2018	100.00	100.00	-	Indirect	Full consolidation	b
TSB Scotland (Investment) Nominees Limited	Subsidiary	30/04/2018	100.00	100.00	-	Indirect	Full consolidation	b
TSB Scotland Nominees Limited	Subsidiary	30/04/2018	100.00	100.00	-	Indirect	Full consolidation	b
Parque Eólico Los Ausines, S.L	Associate	23/05/2018	50.00	50.00	5,594	Indirect	Equity method	a
Other					179			
Total					**5,773**			

(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 – Financial statements of Banco Sabadell

Interim financial statements of Banco de Sabadell, S.A.

The bank's balance sheets as at 30 June 2018 and 31 December 2017 are shown below, together with the profit and loss accounts, the statements of changes in equity and the cash flow statements, corresponding to the six-month periods ended 30 June 2018 and 2017.

Balance sheets of Banco de Sabadell, S.A.

At 30 June 2018 and 31 December 2017

Thousand euro

Assets	30/06/2018	31/12/2017
Cash, cash balances at central banks and other demand deposits	**11,328,219**	**17,411,543**
Financial assets held for trading	**1,873,600**	**1,457,675**
Derivatives	1,627,502	1,355,327
Equity instruments	-	-
Debt securities	246,098	102,348
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	51,654	20,245
Non-trading financial assets mandatorily at fair value through profit or loss	**110,413**	-
Equity instruments	-	-
Debt securities	110,413	-
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	**10,174,342**	**10,413,409**
Equity instruments	236,967	349,648
Debt securities	9,937,375	10,063,761
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	2,545,507	2,814,601
Financial assets at amortised cost	**133,524,668**	**132,863,681**
Debt securities	11,591,682	11,625,339
Loans and advances	121,932,986	121,238,342
Central banks	-	-
Credit institutions	7,424,245	7,239,612
Customers	114,508,741	113,998,730
Memorandum item: loaned or pledged as security with sale or pledging rights	3,654,929	7,701,852
Derivatives - Hedge accounting	**65,497**	**121,137**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**113,245**	**73,310**
Investments in subsidiaries, joint ventures and associates	**5,293,440**	**5,167,223**
Group entities	5,162,059	5,036,262
Group associates	131,381	130,961
Tangible assets	**1,567,134**	**1,854,344**
Property, plant and equipment	1,200,234	1,264,787
For own use	1,200,234	1,264,787
Leased out under operating leases	-	-
Investment property	366,900	589,557
Of which: leased out under operating leases	-	-
Memorandum item: acquired through finance leases	-	-
Intangible assets	**258,267**	**293,582**
Goodwill	206,301	232,886
Other intangible assets	51,966	60,696
Tax assets	**5,466,540**	**5,309,775**
Current tax assets	164,004	223,932
Deferred tax assets	5,302,536	5,085,843
Other assets	**402,363**	**381,109**
Insurance contracts linked to pensions	136,317	139,114
Inventories	-	-
Rest of other assets	266,046	241,995
Non-current assets and disposal groups classified as held for sale	**2,232,523**	**2,295,964**
TOTAL ASSETS	172,410,251	177,642,752

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2018 and 31 December 2017

Thousand euro

Liabilities	*30/06/2018*	*31/12/2017*
Financial liabilities held for trading	***1,612,614***	***1,427,323***
Derivatives	*1,559,509*	*1,357,469*
Short positions	*53,105*	*69,854*
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 measured at amortised cost	***159,334,077***	***163,806,074***
Deposits	*136,422,843*	*138,669,743*
Central banks	*20,500,000*	*21,501,162*
Credit institutions	*10,351,675*	*13,908,348*
Customers	*105,571,168*	*103,260,233*
Debt securities issued	*19,776,732*	*22,373,290*
Other financial liabilities	*3,134,502*	*2,763,041*
Memorandum item: subordinated liabilities	*2,095,989*	*2,122,288*
Derivatives - Hedge accounting	***252,091***	***247,856***
Fair value changes of the hedged items in portfolio hedge of interest rate risk	***(26,218)***	***(52,140)***
Provisions	***510,638***	***335,083***
Pensions and other post-employment defined benefit obligations	*82,746*	*84,843*
Other long-term employee benefits	*5,957*	*10,291*
Pending legal issues and tax litigation	*20,432*	*35,394*
Commitments and guarantees given	*213,343*	*150,415*
Other provisions	*188,160*	*54,140*
Tax liabilities	***203,754***	***414,823***
Current tax liabilities	*7,059*	*28,937*
Deferred tax liabilities	*196,695*	*385,886*
Share capital repayable on demand	-	-
Other liabilities	***339,952***	***402,587***
Liabilities included in disposal groups classified as held for sale	-	-
TOTAL LIABILITIES	***162,226,908***	***166,581,606***

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2018 and 31 December 2017

Thousand euro

Equity	*30/06/2018*	*31/12/2017*
Own Funds	***10,252,948***	***10,950,838***
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	*11,462*	*7,785*
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	*1,443,712*	*2,020,866*
(-) Treasury shares	*(114,503)*	*(87,953)*
Profit for the period	*309,679*	*519,170*
(-) Interim dividends	-	*(111,628)*
Accumulated other comprehensive income	***(69,605)***	***110,308***
Items that will not be reclassified to profit or loss	*(47,845)*	*40,180*
Actuarial gains or (-) losses on defined benefit pension plans	*6,767*	*6,767*
Non-current assets and disposal groups classified as held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	*(54,612)*	*33,413*
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	*(21,760)*	*70,128*
Hedge of net investments in foreign operations (effective portion)	-	-
Foreign currency translation	*13,521*	*(6,866)*
Hedging derivatives. Cash flow hedges (effective portion)	*(34,516)*	*(98,030)*
Fair value changes of debt instruments measured at fair value through other comprehensive income	*(765)*	*175,024*
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	***10,183,343***	***11,061,146***
TOTAL EQUITY AND TOTAL LIABILITIES	***172,410,251***	***177,642,752***

Memorandum item: off-balance sheet exposures		
Financial guarantees given	***2,454,550***	***2,358,198***
Loan commitments given	***17,660,116***	***16,865,777***
Other commitments given	***8,207,572***	***9,845,969***

Profit and loss account of Banco de Sabadell, S.A.

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	30/06/2018	*30/06/2017*
Interest and other similar income	*1,674,899*	*1,691,888*
(Interest expense)	*(446,668)*	*(422,172)*
(Expense on share capital repayable on demand)	-	-
Net interest income	***1,228,231***	***1,269,716***
Dividend income	*153,495*	*148,083*
Fee and commission income	*570,558*	*531,828*
(Fee and commission expense)	*(63,642)*	*(50,861)*
Net gains (losses) on financial assets and liabilities	*235,575*	*446,186*
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	*197,573*	*296,316*
Gains or (-) losses on financial assets and liabilities held for trading, net	*58,085*	*150,460*
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	*(19,959)*	-
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	*(124)*	*(590)*
Exchange differences (gains or (-) losses), net	*1,371*	*6,252*
Other operating income	*49,295*	*41,015*
(Other operating expenses)	*(113,425)*	*(124,700)*
Gross income	***2,061,458***	***2,267,519***
(Administrative expenses)	*(912,532)*	*(884,528)*
(Staff expenses)	*(522,439)*	*(512,334)*
(Other administrative expenses)	*(390,093)*	*(372,196)*
(Depreciation)	*(90,349)*	*(96,646)*
(Provisions or (-) reversal of provisions)	*(53,586)*	*57,567*
(Impairment or (-) reversal of 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)	*(345,387)*	*(805,292)*
(Financial assets at fair value through other comprehensive income)	*(2,564)*	*(38,431)*
(Financial assets at amortised cost)	*(342,823)*	*(766,861)*
Profit/(loss) on operating activities	***659,604***	***538,620***
(Impairment of (-) reversal of impairment of investments in joint ventures and associates)	*(14,448)*	*39,542*
(Impairment or (-) reversal of impairment on non-financial assets)	*1,960*	*(1,195)*
(Tangible assets)	*1,960*	*(1,195)*
(Intangible assets)	-	-
(Other)	-	-
Gains or (-) losses on derecognition of non-financial assets, net	*(2,186)*	*(7,235)*
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	*(259,186)*	*(72,621)*
Profit or (-) loss before tax from continuing operations	***385,744***	***497,111***
(Tax expense or (-) income related to profit from continuing operations)	*(76,065)*	*(193,666)*
Profit or (-) loss after tax from continuing operations	***309,679***	***303,445***
Profit or (-) loss from discontinued operations	-	-
PROFIT FOR THE PERIOD	***309,679***	***303,445***
Earnings per share (in euro)	***0.05***	***0.05***
Basic (in euro)	*0.05*	*0.05*
Diluted (in euro)	*0.05*	*0.05*

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of recognised income and expenses

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	30/06/2018	*30/06/2017*
Profit/(loss) for the period	***309,679***	***303,445***
Other comprehensive income (*)	***(239,059)***	***(205,007)***
Items that will not be reclassified to profit or loss	*(88,027)*	*1,658*
Actuarial gains or (-) losses on defined benefit pension plans	-	-
Non-current assets and disposal groups held for sale	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income	*(125,541)*	*2,369*
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	*37,514*	*(711)*
Items that may be reclassified to profit or loss	*(151,032)*	*(206,665)*
Hedge of net investments in foreign operations (effective portion)	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	*21,471*	*(26,759)*
Translation gains or (-) losses taken to equity	*21,471*	*(26,759)*
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	*90,734*	*(77,548)*
Valuation gains or (-) losses taken to equity	*168,828*	*(132,626)*
Transferred to profit or loss	*(78,094)*	*55,078*
Transferred to initial carrying amount of hedged items	-	-
Other reclassifications	-	-
Hedging instruments (not designated elements)	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Debt instruments at fair value through other comprehensive income	*(336,726)*	*(179,462)*
Valuation gains or (-) losses taken to equity	*(79,695)*	*149,304*
Transferred to profit or loss	*(257,031)*	*(328,766)*
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	-	-
Income tax relating to items that may be reclassified to profit or (-) loss	*73,489*	*77,104*
Total comprehensive income for the period	***70,620***	***98,438***

(*) Includes "Other comprehensive income" obtained between 1 January 2018 (date of first implementation of Bank of Spain Circular 4/2017) and 30 June 2018.

The statement of recognised income and expense and the of total changes in equity of Banco Sabadell, make up the statement of changes in equity.

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of total changes in equity

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the period	(-) Interim dividends	Accumulated other comprehensive income	Total
Opening balance 31/12/2017	**703,371**	**7,899,227**	**-**	**7,785**	**-**	**-**	**2,020,866**	**(87,953)**	**519,170**	**(111,628)**	**110,308**	**11,061,146**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies (*)	-	-	-	-	-	-	(631,013)	-	-	-	59,146	**(571,867)**
Opening balance 01/01/2018	**703,371**	**7,899,227**	**-**	**7,785**	**-**	**-**	**1,389,853**	**(87,953)**	**519,170**	**(111,628)**	**169,454**	**10,489,279**
Total comprehensive income for the year	-	-	-	-	-	-	-	-	309,679	-	(239,059)	**70,620**
Other changes in equity	-	-	-	3,677	-	-	53,859	(26,550)	(519,170)	111,628	-	**(376,556)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or remuneration paid to partners) (**)	-	-	-	-	-	-	(281,348)	-	-	-	-	**(281,348)**
Purchase of treasury shares	-	-	-	-	-	-	-	(151,874)	-	-	-	**(151,874)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	285	125,324	-	-	-	**125,609**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	-	-	407,542	-	(519,170)	111,628	-	**-**
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments based on shares	-	-	-	3,677	-	-	-	-	-	-	-	**3,677**
Other increases or (-) decreases in equity	-	-	-	-	-	-	(72,620)	-	-	-	-	**(72,620)**
Closing balance 30/06/2018	**703,371**	**7,899,227**	**-**	**11,462**	**-**	**-**	**1,443,712**	**(114,503)**	**309,679**	**-**	**(69,605)**	**10,183,343**

(*) Corresponds to the impact of the first implementation of Bank of Spain Circular 4/2017.

(**) Includes the distribution of profit/(loss) for the period and complementary remuneration in addition to the dividend (see Note 3).

The statement of recognised income and expense and the statement of total changes in equity make up the statement of changes in equity.

Statements of changes in equity of Banco de Sabadell, S.A.

Statements of total changes in equity

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit/(loss) for the period	(-) Interim dividends	Accumulated other comprehensive income	**Total**
Opening balance 31/12/2016	**702,019**	**7,882,899**	**-**	**23,818**	**-**	**-**	**3,490,819**	**(89,380)**	**379,839**	**(111,281)**	**266,576**	**12,545,309**
Effects of error corrections	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2017	**702,019**	**7,882,899**	**-**	**23,818**	**-**	**-**	**3,490,819**	**(89,380)**	**379,839**	**(111,281)**	**266,576**	**12,545,309**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	303,445	-	(205,007)	**98,438**
Other changes in equity	-	-	-	4,466	-	-	91,406	1,623	(379,839)	111,281	-	**(171,063)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or maturity of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt into equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or remuneration paid to partners) (*)	-	-	-	-	-	-	(168,484)	-	-	-	-	**(168,484)**
Purchase of treasury shares	-	-	-	-	-	-	-	(172,553)	-	-	-	**(172,553)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	1,224	174,176	-	-	-	**175,400**
Reclassification of financial instruments from equity to liabilities	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liabilities to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers between equity components	-	-	-	-	-	-	268,558	-	(379,839)	111,281	-	**-**
Increase or (-) decrease in equity arising from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Payments based on shares	-	-	-	4,466	-	-	-	-	-	-	-	**4,466**
Other increases or (-) decreases in equity	-	-	-	-	-	-	(9,892)	-	-	-	-	**(9,892)**
Closing balance 30/06/2017	**702,019**	**7,882,899**	**-**	**28,284**	**-**	**-**	**3,582,225**	**(87,757)**	**303,445**	**-**	**61,569**	**12,472,684**

(*) Remuneration supplementary to dividend (see Note 3).

Cash flow statements of Banco Sabadell, S.A.

For the six-month periods ended 30 June 2018 and 2017

Thousand euro

	30/06/2018	*30/06/2017*
Cash flows from operating activities	***(6,136,041)***	***(1,740)***
Profit/(loss) for the period	*309,679*	*303,445*
Adjustments to obtain cash flows from operating activities	*843,046*	*1,084,777*
Depreciation	*90,349*	*96,646*
Other adjustments	*752,697*	*988,131*
Net increase/decrease in operating assets	*(2,757,310)*	*(5,174,621)*
Financial assets held for trading	*(415,926)*	*1,507,579*
Non-trading financial assets mandatorily at fair value through profit or loss	*35,939*	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	*1,928,603*	*141,689*
Financial assets at amortised cost	*(4,284,466)*	*(6,667,094)*
Other operating assets	*(21,460)*	*(156,795)*
Net increase/decrease in operating liabilities	*(4,456,756)*	*3,830,217*
Financial liabilities held for trading	*185,291*	*(363,920)*
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	*(4,471,998)*	*4,520,876*
Other operating liabilities	*(170,049)*	*(326,740)*
Collections/Payments due to income tax	*(74,700)*	*(45,557)*
Cash flows from investment activities	***395,363***	***229,723***
Payments	*(303,154)*	*(173,013)*
Tangible assets	*(58,805)*	*(92,070)*
Intangible assets	*(2,216)*	*(853)*
Investments in subsidiaries, joint ventures and associates	*(420)*	-
Other business units	*(241,713)*	*(80,090)*
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investment activities	-	-
Collections	*698,517*	*402,736*
Tangible assets	*23,212*	*12,128*
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	*76,167*	*15,208*
Other business units	*206,783*	*169,072*
Non-current assets and liabilities classified as held for sale	*392,355*	*206,327*
Other collections related to investment activities	-	-
Cash flows from financing activities	***(333,252)***	***579,942***
Payments	*(458,861)*	*(345,460)*
Dividends	*(281,348)*	*(168,485)*
Subordinated liabilities	-	-
Amortisation of own equity instruments	-	-
Acquisition of own equity instruments	*(151,875)*	*(172,555)*
Other payments related to financing activities	*(25,638)*	*(4,421)*
Collections	*125,609*	*925,401*
Subordinated liabilities	-	*750,000*
Issuance of own equity instruments	*125,609*	-
Disposal of own equity instruments	-	*175,401*
Other collections related to financing activities	-	-
Effect of exchange rate fluctuations	***(9,394)***	***6,798***
Net increase (decrease) in cash and cash equivalents	***(6,083,324)***	***814,724***
Cash and cash equivalents at beginning of the period	***17,411,543***	***6,464,915***
Cash and equivalents at end of the period	***11,328,219***	***7,279,639***

CASH COMPONENTS AND CASH EQUIVALENTS AT CLOSE OF THE PERIOD		
Cash	*492,886*	*487,270*
Balances of cash equivalents in central banks	*10,633,332*	*6,589,868*
Other demand deposits	*202,001*	*202,501*
Other financial assets	-	-
Less: bank overdrafts reimbursable on demand	-	-

Schedule III –Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009, as required by Bank of Spain Circular 5/2011 is as follows, without taking account of the guarantee provided by the DGF.

A) Lending transactions

Details of the aggregate nominal values of mortgage loans and credit as at 30 June 2018 and 31 December 2017 backing issuances, 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)	*30/06/2018*	*31/12/2017*
Total mortgage loan and credit portfolio	***54,858,436***	***55,956,292***
Participation mortgages issued	***2,940,885***	***3,370,130***
Of which : Loans held on balance sheet	*2,853,108*	*3,174,791*
Mortgage transfer certificates	***7,452,162***	***7,860,991***
Of which : Loans held on balance sheet	*7,347,763*	*7,734,256*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	***44,465,389***	***44,725,171***
Ineligible loans	*14,869,498*	*15,943,345*
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	*13,709,914*	*13,965,022*
Rest	*1,159,584*	*1,978,323*
Eligible loans	*29,595,891*	*28,781,826*
Non-qualifying portions	*68,752*	*83,249*
Qualifying portions	*29,527,139*	*28,698,577*
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	*29,527,139*	*28,698,577*
Substitution assets for covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues	*30/06/2018*		*31/12/2017*	
	Total	*Of which: Eligible loans*	*Total*	*Of which: Eligible loans*
Loans backing issues of mortgage bonds and covered bonds	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Origin of operations	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Originated by the Bank	*43,767,533*	*29,216,965*	*43,999,139*	*28,398,509*
Subrogated from other entities	*245,765*	*191,517*	*237,588*	*180,011*
Rest	*452,091*	*187,409*	*488,444*	*203,306*
Currency	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Euro	*44,364,399*	*29,520,610*	*44,619,869*	*28,702,376*
Other currencies	*100,990*	*75,281*	*105,302*	*79,450*
Payment status	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Satisfactory payment	*38,896,729*	*28,051,156*	*38,240,207*	*27,002,079*
Other situations	*5,568,660*	*1,544,735*	*6,484,964*	*1,779,747*
Average residual period to maturity	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Up to 10 years	*12,214,538*	*8,343,552*	*12,566,865*	*8,170,011*
10 to 20 years	*17,497,112*	*12,655,532*	*17,416,966*	*12,343,583*
20 to 30 years	*12,472,677*	*7,850,604*	*12,156,652*	*7,425,285*
More than 30 years	*2,281,062*	*746,203*	*2,584,688*	*842,947*
Interest rate	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Fixed	*11,631,295*	*8,567,190*	*10,240,956*	*7,418,574*
Variable	*32,834,094*	*21,028,701*	*34,484,215*	*21,363,252*
Mixed	-	-	-	-
Holders	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Legal entities and individual entrepreneurs	*15,473,789*	*8,707,566*	*16,428,024*	*8,882,296*
Of which: Real estate developments	*4,031,018*	*1,434,966*	*4,555,082*	*1,546,541*
Other individuals and NPISHs	*28,991,600*	*20,888,325*	*28,297,147*	*19,899,530*
Type of guarantee	***44,465,389***	***29,595,891***	***44,725,171***	***28,781,826***
Assets /finished buildings	*42,331,016*	*28,880,308*	*42,086,553*	*27,930,395*
Residential	*33,752,542*	*23,235,568*	*33,344,659*	*22,390,471*
Of which: Subsidised housing	*1,594,381*	*1,238,109*	*1,500,528*	*1,153,703*
Commercial	*8,403,331*	*5,524,155*	*8,559,381*	*5,421,465*
Other	*175,143*	*120,585*	*182,513*	*118,459*
Assets/ buildings under construction	*212,825*	*129,026*	*277,855*	*149,543*
Residential	*188,672*	*110,013*	*262,645*	*139,681*
Of which: Subsidised housing	*155*	*155*	*62*	*1*
Commercial	*23,805*	*18,665*	*14,247*	*8,899*
Other	*348*	*348*	*963*	*963*
Land	*1,921,548*	*586,557*	*2,360,763*	*701,888*
Developed	*903,562*	*139,638*	*1,210,598*	*220,792*
Rest	*1,017,986*	*446,919*	*1,150,165*	*481,096*

The nominal values of drawable funds (i.e. undrawn commitments) within the total mortgage loans and credit portfolio were as follows:

Thousand euro

Drawable balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds	*30/06/2018*	*31/12/2017*
Potentially eligible	*948,441*	*925,789*
Ineligible	*2,714,175*	*2,506,240*

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage loans and credit portfolio eligible for the issue 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	*30/06/2018*	*31/12/2017*
Secured on residential property	***23,396,249***	***22,613,853***
Of which LTV < 40%	*7,183,983*	*7,075,581*
Of which LTV 40%-60%	*8,477,675*	*8,353,242*
Of which LTV 60%-80%	*7,734,591*	*7,185,030*
Of which LTV > 80%	-	-
Secured on other properties	***6,199,642***	***6,167,973***
Of which LTV < 40%	*3,665,469*	*3,754,551*
Of which LTV 40%-60%	*2,534,173*	*2,413,422*
Of which LTV > 60%	-	-

Changes during the first half of 2018 in the nominal values of mortgage loans that collateralise issuances of covered bonds and mortgage-backed securities (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	***Eligible***	***Ineligible***
Balance at 31 December 2017	***28,781,826***	***15,943,345***
Derecognised during the year	***(3,392,973)***	***(3,095,849)***
Terminations at maturity	*(1,160,147)*	*(242,015)*
Early terminations	*(586,437)*	*(280,175)*
Subrogations by other entities	*(5,820)*	*(845)*
Rest	*(1,640,569)*	*(2,572,814)*
Additions during the year	***4,207,038***	***2,022,002***
Originated by the Bank	*647,642*	*788,987*
Subrogations from other entities	*6,275*	*4,215*
Rest	*3,553,121*	*1,228,800*
Balance at 30 June 2018	***29,595,891***	***14,869,498***

B) Borrowing 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	*30/06/2018*	*31/12/2017*
Covered bonds isued	***19,552,544***	***20,727,543***
Of which: Not reflected under liabilities on the balance sheet	*7,877,900*	*7,913,800*
Debt securities. Issued through public offering	***6,200,000***	***7,200,000***
Time to maturity up to one year	-	*1,000,000*
Time to maturity from one to two years	*750,000*	-
Time to maturity from two to three years	*1,000,000*	*1,750,000*
Time to maturity from three to five years	*1,350,000*	*1,350,000*
Time to maturity from five to ten years	*3,100,000*	*3,100,000*
Time to maturity more than ten years	-	-
Debt securities. Other issues	***10,813,000***	***10,813,000***
Time to maturity up to one year	*3,300,000*	*150,000*
Time to maturity from one to two years	*1,500,000*	*3,150,000*
Time to maturity from two to three years	*2,980,000*	*4,380,000*
Time to maturity from three to five years	*1,595,000*	*1,445,000*
Time to maturity from five to ten years	*1,438,000*	*1,688,000*
Time to maturity more than ten years	-	-
Deposits	***2,539,544***	***2,714,543***
Time to maturity up to one year	*438,710*	*593,710*
Time to maturity from one to two years	*669,980*	*524,146*
Time to maturity from two to three years	*300,000*	*145,833*
Time to maturity from three to five years	*694,444*	*994,444*
Time to maturity from five to ten years	*436,410*	*436,410*
Time to maturity more than ten years	-	*20,000*

	30/06/2018		*31/12/2017*	
	Nominal value *(thousand euro)*	*Average residual period to maturity* *(years)*	*Nominal value* *(thousand euro)*	*Average residual period to maturity* *(years)*
Mortgage transfer certificates	***7,452,162***	***23***	***7,860,991***	***23***
Issued through public offering	-	-	-	-
Other issues	*7,452,162*	*23*	*7,860,991*	*23*
Participation mortgages	***2,940,885***	***13***	***3,370,130***	***13***
Issued through public offering	-	-	-	-
Other issues	*2,940,885*	*13*	*3,370,130*	*13*

Banco de Sabadell, S.A.'s over-collateralisation ratio (the nominal value of all the mortgage loans and credit backing the issue of mortgage bonds and covered bonds, divided by the nominal value of outstanding covered bonds) stood at 227% as at 30 June 2018.

The policies and procedures aimed at guaranteeing compliance with the regulations governing the mortgage market are described in Schedule III to the 2017 consolidated annual accounts.

With regard to funding activities, Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see Schedule III to the 2017 consolidated annual accounts). As one element of its 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 mortgage and financial system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves maintaining special accounting records of all mortgage loans and credit — and any assets that replace them — used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans and other assets meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV - Information on issues during the six-month period

Details of the Group's issues during the first half of 2018 were as follows:

Thousand euro

Issuing entity	*Type of issuance*	*Date of issue*	*Amount 30/06/2018*	*Interest rate ruling as at 30/06/2018*	*Maturity date*	*Issue currency*	*Target of offering*
Banco de Sabadell, S.A.	*Straight bond*	*26/02/2018*	*4,000*	*0.40%*	*27/02/2023*	*Euros*	*Retail*
Banco de Sabadell, S.A.	*Straight bond*	*16/03/2018*	*6,000*	*0.67%*	*17/03/2025*	*Euros*	*Retail*
Banco de Sabadell, S.A.	*Straight bond*	*03/04/2018*	*6,000*	*0.40%*	*03/04/2023*	*Euros*	*Retail*
Banco de Sabadell, S.A.	*Straight bond*	*31/05/2018*	*3,000*	*0.30%*	*31/05/2023*	*Euros*	*Retail*

Schedule V – Other risk information

Credit risk exposure

Loans 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 30 June 2018 and 31 December 2017, respectively, is as follows:

Thousand euro

	30/06/2018							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,873,644**	**48,379**	**10,662**	**13,227**	**20,256**	**9,496**	**2,803**	**13,259**
Other financial companies and individual entrepreneurs (financial business activity)	**1,282,136**	**270,010**	**37,571**	**61,595**	**154,291**	**52,634**	**8,137**	**30,924**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**57,888,582**	**18,309,794**	**6,182,886**	**6,429,992**	**6,316,746**	**4,765,641**	**2,642,508**	**4,337,793**
Real estate construction and development (including	5,355,831	2,855,408	1,116,159	882,719	962,721	541,221	441,156	1,143,750
Civil engineering construction	797,312	57,793	70,614	24,226	22,549	14,622	16,198	50,812
Other purposes	51,735,439	15,396,593	4,996,113	5,523,047	5,331,476	4,209,798	2,185,154	3,143,231
Large companies	20,677,554	1,407,546	1,201,459	683,378	505,223	321,212	391,501	707,691
SMES and individual entrepreneurs	31,057,885	13,989,047	3,794,654	4,839,669	4,826,253	3,888,586	1,793,653	2,435,540
Rest of households	**74,137,416**	**65,621,440**	**713,245**	**13,491,970**	**18,628,610**	**20,431,098**	**8,243,658**	**5,539,349**
Housing	62,529,620	61,698,647	45,195	12,244,217	17,485,750	19,569,855	7,689,237	4,754,783
Consumer loans	9,481,664	3,526,351	375,639	1,078,267	992,550	758,166	437,703	635,304
Other purposes	2,126,132	396,442	292,411	169,486	150,310	103,077	116,718	149,262
TOTAL	**143,181,778**	**84,249,623**	**6,944,364**	**19,996,784**	**25,119,903**	**25,258,869**	**10,897,106**	**9,921,325**
MEMORANDUM ITEM **Refinancing, refinanced and restructured loans**	4,600,595	3,026,155	430,515	570,494	711,360	648,743	543,353	982,720

Thousand euro

	31/12/2017							
				Collateralised loans. Carrying amount based on the last valuation available. Loan to value				
	TOTAL	Of which: Secured on real estate	Of which: other financial collateral	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,802,135**	**50,981**	**8,963**	**9,554**	**26,553**	**19,800**	**24**	**4,013**
Other financial companies and individual entrepreneurs (financial business activity)	**3,355,667**	**304,495**	**11,125**	**43,973**	**151,308**	**78,950**	**12,425**	**28,964**
Non-financial companies and individual entrepreneurs (non-financial business activity)	**55,758,816**	**18,632,862**	**5,868,346**	**6,198,454**	**6,112,944**	**4,512,975**	**2,354,041**	**5,322,794**
Real estate construction and development (including	5,505,009	3,205,020	1,319,307	833,687	1,049,651	604,155	473,793	1,563,041
Civil engineering construction	805,568	63,450	51,238	28,783	24,464	13,459	8,189	39,793
Other purposes	49,448,239	15,364,392	4,497,801	5,335,984	5,038,829	3,895,361	1,872,059	3,719,960
Large companies	19,185,085	1,429,726	1,190,354	570,409	499,501	406,639	242,561	900,970
SMES and individual entrepreneurs	30,263,154	13,934,666	3,307,447	4,765,575	4,539,328	3,488,722	1,629,498	2,818,990
Rest of households	**73,307,725**	**65,061,087**	**480,952**	**13,432,034**	**18,429,515**	**19,880,861**	**7,980,464**	**5,819,165**
Housing	61,796,990	60,893,612	48,967	12,158,321	17,353,196	19,028,824	7,454,909	4,947,329
Consumer loans	9,142,389	3,913,943	183,563	1,168,729	988,946	762,093	464,122	713,616
Other purposes	2,368,346	253,532	248,422	104,984	87,373	89,944	61,433	158,220
TOTAL	**142,224,343**	**84,049,425**	**6,369,386**	**19,684,015**	**24,720,320**	**24,492,586**	**10,346,954**	**11,174,936**
MEMORANDUM ITEM **Refinancing, refinanced and restructured loans**	5,598,948	3,556,115	536,656	657,191	818,657	791,768	662,169	1,162,986

Forbearance

Information on refinancing and restructuring operations at 30 June 2018 and 2017 year-end is shown below. The Group's refinancing policy and strategy is described in Note 4 on "*Financial risk management*" in the 2017 consolidated annual accounts.

Thousand euro

	30/06/2018						
	Credit institutions	**General governments**	**Other financial companies and individual entrepreneurs (financial business activities)**	**Non-financial companies and individual entrepreneurs (non-financial business activity)**	***Of which: finance for construction and real estate development (including land)***	**Rest of households**	**TOTAL**
TOTAL							
Unsecured							
Number of operations	-	25	63	19,858	*1,282*	51,306	**71,252**
Gross carrying amount	-	19,240	39,579	1,620,691	*230,772*	360,650	**2,040,160**
With financial collateral							
Number of operations	-	5	21	12,276	*2,876*	29,981	**42,283**
Gross carrying amount	-	624	24,648	1,996,990	*490,710*	1,960,653	**3,982,915**
Impairment adjustments	**-**	**4,014**	**10,785**	**998,333**	***282,462***	**409,350**	**1,422,482**
Of which doubtful risk							
Unsecured							
Number of operations	-	*19*	*28*	*9,603*	*1,123*	*25,586*	***35,236***
Gross carrying amount	-	*19,137*	*594*	*892,394*	*209,971*	*204,424*	***1,116,549***
With financial collateral							
Number of operations	-	*5*	*13*	*7,345*	*2,517*	*16,512*	***23,875***
Gross carrying amount	-	*624*	*14,522*	*1,103,774*	*341,850*	*1,040,738*	***2,159,658***
Impairment adjustments	**-**	***4,014***	***10,664***	***835,664***	***275,727***	***350,341***	***1,200,683***
TOTAL							
Number of operations	-	30	84	32,134	*4,158*	81,287	**113,535**
Gross amount	-	19,864	64,227	3,617,681	*721,482*	2,321,303	**6,023,075**
Impairment adjustments	-	4,014	10,785	998,333	*282,462*	409,350	**1,422,482**
Additional information: finance classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

Thousand euro

	31/12/2017						
	Credit institutions	General governments	Other financial companies and individual entrepreneurs (financial business activities)	Non-financial companies and individual entrepreneurs (non-financial business activity)	*Of which: finance for construction and real estate development (including land)*	Rest of households	TOTAL
TOTAL							
Unsecured							
Number of operations	-	17	1,485	18,579	*2,208*	50,332	**70,413**
Gross carrying amount	-	11,694	66,256	2,320,530	*502,404*	456,378	**2,854,858**
With financial collateral							
Number of operations	-	5	70	12,464	*3,104*	25,731	**38,270**
Gross carrying amount	-	439	15,361	1,848,443	*402,286*	2,123,692	**3,987,935**
Impairment adjustments	**-**	**2,613**	**13,739**	**900,329**	***301,944***	**327,166**	**1,243,847**
Of which doubtful risk							
Unsecured							
Number of operations	-	*13*	*25*	*9,706*	*2,016*	*27,361*	***37,105***
Gross carrying amount	-	*9,170*	*14,263*	*1,335,529*	*427,225*	*276,460*	***1,635,422***
With financial collateral							
Number of operations	-	*4*	*9*	*7,494*	*2,615*	*14,270*	***21,777***
Gross carrying amount	-	*440*	*14,692*	*1,047,340*	*300,708*	*1,162,091*	***2,224,563***
Impairment adjustments	**-**	***2,613***	***13,575***	***861,480***	***298,760***	***303,457***	***1,181,125***
TOTAL							
Number of operations	-	22	1,555	31,043	*5,312*	76,063	**108,683**
Gross amount	-	12,133	81,617	4,168,973	*904,690*	2,580,070	**6,842,793**
Impairment adjustments	-	2,613	13,739	900,329	*301,944*	327,166	**1,243,847**
Additional information: finance classified as non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

The value of the guarantees received to ensure collection associated with refinancing and restructuring operations, broken down into collateral and other guarantees, at 30 June 2018 and 2017 year-end, are as follows:

Thousand euro

Guarantees received	*30/06/2018*	*31/12/2017*
Value of collateral	*3,325,163*	*3,884,087*
Of which: guarantees doubtful risks	*1,624,574*	*2,040,788*
Value of other collateral	*548,410*	*650,696*
Of which: guarantees doubtful risks	*168,856*	*205,177*
Total value of guarantees received	***3,873,573***	***4,534,783***

Detailed movements of the balance of refinancing and restructuring operations during the first half of 2018 and 2017 are as follows:

Thousand euro

	30/06/2018	*30/06/2017*
Opening balance	*6,842,793*	*9,263,705*
(+) Refinancing and restructuring in the period	*611,907*	*774,798*
Memorandum item: impact recorded on the income statement for the period	*99,522*	*65,032*
(-) Debt amortisations	*(521,410)*	*(748,273)*
(-) Foreclosure	*(84,978)*	*(227,545)*
(-) Derecognised from the balance sheet (reclassified as write-off)	*(201,048)*	*(108,732)*
(+)/(-) Other changes (*)	*(624,189)*	*(944,902)*
Balance at the end of the year	***6,023,075***	***8,009,051***

(*) Includes operations which are no longer identified as refinancing, refinanced or restructured, as they comply with requirements for their reclassification into stage 1 given that they exceed the cure period.

The table below shows the value of transactions which, after refinancing or restructuring, have been reclassified as Stage 3 during the period:

Thousand euro

	30/06/2018	*31/12/2017*
General governments	-	***394***
Other corporate borrowers and individual entrepreneurs	***78,930***	***244,101***
Of which: Finance for construction and real estate development	*7,166*	*52,155*
Other individual borrowers	***85,051***	***205,198***
TOTAL	*163,981*	*449,693*

The average probability of default at 30 June 2018 and 31 December 2017 of current refinancing and restructuring operations per activity is as follows:

%

	30/06/2018	*31/12/2017*
Central governments (*)	-	-
Other corporate borrowers and individual entrepreneurs	*8*	*8*
Of which: Finance for construction and real estate development	*8*	*7*
Other individual borrowers	*10*	*10*

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated as at the end of the quarter immediately preceding the publication of results.

Concentration risk

Geographic exposure

Global

The breakdown of risks by activity and at global level at 30 June 2018 and 31 December 2017 is as follows:

Thousand euro

	30/06/2018				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Central banks and credit institutions	**29,962,201**	**12,044,685**	**16,191,885**	**1,409,014**	**316,617**
General Governments	**30,074,824**	**21,096,451**	**7,869,725**	**1,017,558**	**91,090**
Central Governments	23,652,225	15,048,134	7,869,725	671,820	62,546
Rest	6,422,599	6,048,317	-	345,738	28,544
Other financial institutions and individual entrepreneurs	**3,702,769**	**2,259,245**	**920,683**	**514,084**	**8,757**
Non-financial companies and individual entrepreneurs	**60,802,678**	**49,447,306**	**3,872,218**	**6,849,019**	**634,135**
Real estate construction and	5,441,783	4,431,427	63,551	848,081	98,724
Civil engineering construction	950,407	914,779	26,837	6,737	2,054
Other purposes	54,410,488	44,101,100	3,781,830	5,994,201	533,357
Large companies	22,749,966	14,466,609	2,945,863	5,011,305	326,189
SMEs and individual entrepreneurs	31,660,522	29,634,491	835,967	982,896	207,168
Non-profit institutions serving households	**74,789,639**	**36,299,127**	**37,117,130**	**479,107**	**894,275**
Housing	62,993,688	27,501,699	34,532,961	136,162	822,866
Consumer loans	9,481,666	7,077,293	2,352,755	11,376	40,242
Other purposes	2,314,285	1,720,135	231,414	331,569	31,167
TOTAL	**199,332,111**	**121,146,814**	**65,971,641**	**10,268,782**	**1,944,874**

Thousand euro

	31/12/2017				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Central banks and credit institutions	**33,301,907**	**18,525,878**	**13,118,641**	**1,121,174**	**536,214**
General Governments	**32,278,166**	**17,848,223**	**13,076,483**	**1,265,606**	**87,854**
Central Governments	26,641,501	12,574,456	13,076,483	932,383	58,179
Rest	5,636,665	5,273,767	-	333,223	29,675
Other financial institutions and individual entrepreneurs	**5,809,643**	**4,875,460**	**463,407**	**419,712**	**51,064**
Non-financial companies and individual entrepreneurs	**65,104,090**	**54,883,648**	**3,657,830**	**5,966,646**	**595,966**
Real estate construction and	6,341,800	5,688,532	17,564	548,302	87,402
Civil engineering construction	1,592,291	1,567,467	14,798	7,762	2,264
Other purposes	57,169,999	47,627,649	3,625,468	5,410,582	506,300
Large companies	24,907,996	17,064,563	2,873,635	4,730,518	239,280
SMEs and individual entrepreneurs	32,262,003	30,563,086	751,833	680,064	267,020
Non-profit institutions serving households	**74,328,108**	**35,872,277**	**36,993,336**	**468,275**	**994,220**
Housing	61,810,885	27,296,622	33,519,587	154,087	840,589
Consumer loans	9,142,390	6,511,751	2,482,036	9,656	138,947
Other purposes	3,374,833	2,063,904	991,713	304,532	14,684
TOTAL	**210,821,914**	**132,005,486**	**67,309,697**	**9,241,413**	**2,265,318**

By autonomous regions

The risk concentration broken down by activity and by Spanish autonomous regions as at 30 June 2018 and 31 December 2017, respectively, is as follows:

Thousand euro

	30/06/2018									
		AUTONOMOUS REGIONS								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and credit institutions	**12,044,685**	**111,907**	**15**	**210**	**164**	**68**	**176,843**	**-**	**62**	**546,450**
General Governments	**21,096,451**	**209,618**	**104,695**	**201,956**	**122,915**	**39,958**	**26,867**	**65,483**	**405,528**	**1,043,109**
Central Governments	15,048,134	-	-	-	-	-	-	-	-	-
Rest	6,048,317	209,618	104,695	201,956	122,915	39,958	26,867	65,483	405,528	1,043,109
Other financial institutions and individual entrepreneurs	**2,259,245**	**9,855**	**3,500**	**3,391**	**4,016**	**1,278**	**299**	**705**	**11,408**	**664,586**
Non-financial companies and individual entrepreneurs	**49,447,306**	**2,918,162**	**899,901**	**1,418,705**	**1,845,551**	**1,272,584**	**270,975**	**603,706**	**1,273,494**	**15,826,492**
Real estate construction and development	4,431,427	478,753	76,065	78,003	123,302	52,712	12,915	44,953	43,754	1,054,834
Civil engineering construction	914,779	29,636	29,594	18,841	8,465	2,269	4,420	4,839	14,869	205,923
Other purposes	44,101,100	2,409,773	794,242	1,321,861	1,713,784	1,217,603	253,640	553,914	1,214,871	14,565,735
Large companies	14,466,609	572,326	212,441	243,923	422,963	330,773	94,137	109,476	300,726	4,795,898
SMEs and individual entrepreneurs	29,634,491	1,837,447	581,801	1,077,938	1,290,821	886,830	159,503	444,438	914,145	9,769,837
Non-profit institutions serving households	**36,299,127**	**2,384,446**	**445,692**	**1,098,562**	**1,316,943**	**542,000**	**100,913**	**511,260**	**652,206**	**13,052,409**
Housing	27,501,699	1,838,947	339,698	763,272	1,035,077	365,801	77,941	401,273	488,969	9,954,561
Consumer loans	7,077,292	445,893	85,261	280,593	230,745	161,873	18,874	93,631	126,451	2,400,801
Other purposes	1,720,136	99,606	20,733	54,697	51,121	14,326	4,098	16,356	36,786	697,047
TOTAL	**121,146,814**	**5,633,988**	**1,453,803**	**2,722,824**	**3,289,589**	**1,855,888**	**575,897**	**1,181,154**	**2,342,698**	**31,133,046**

Thousand euro

	30/06/2018								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Central banks and credit institutions	**-**	**15,105**	**10,634,022**	**267**	**22**	**111,761**	**447,787**	**2**	**-**
General Governments	**85,825**	**192,867**	**1,608,151**	**69,872**	**202,971**	**865,224**	**697,262**	**78,493**	**27,523**
Central Governments	-	-	-	-	-	-	-	-	-
Rest	85,825	192,867	1,608,151	69,872	202,971	865,224	697,262	78,493	27,523
Other financial institutions and individual entrepreneurs	**233**	**7,427**	**1,456,634**	**8,333**	**603**	**58,779**	**28,039**	**67**	**92**
Non-financial companies and individual entrepreneurs	**152,563**	**1,888,856**	**10,942,314**	**1,403,095**	**483,825**	**5,045,960**	**3,001,350**	**177,026**	**22,747**
Real estate construction and development	6,019	60,835	1,283,365	321,889	22,509	650,811	107,566	12,459	683
Civil engineering construction	2,544	47,265	391,206	7,904	4,168	28,523	113,871	419	23
Other purposes	144,000	1,780,756	9,267,743	1,073,302	457,148	4,366,626	2,779,913	164,148	22,041
Large companies	23,679	465,292	4,141,477	198,282	146,797	1,030,552	1,340,250	37,328	289
SMEs and individual entrepreneurs	120,321	1,315,464	5,126,266	875,020	310,351	3,336,074	1,439,663	126,820	21,752
Non-profit institutions serving households	**117,301**	**708,224**	**4,530,607**	**2,364,087**	**143,878**	**7,186,046**	**1,008,749**	**75,298**	**60,506**
Housing	85,008	467,260	3,545,592	1,708,903	101,346	5,419,647	808,846	47,147	52,411
Consumer loans	29,243	192,652	726,396	582,456	27,236	1,506,210	148,597	13,360	7,020
Other purposes	3,050	48,312	258,619	72,728	15,296	260,189	51,306	14,791	1,075
TOTAL	**355,922**	**2,812,479**	**29,171,728**	**3,845,654**	**831,299**	**13,267,770**	**5,183,187**	**330,886**	**110,868**

Thousand euro

	31/12/2017									
		AUTONOMOUS REGIONS								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and credit institutions	**18,525,878**	**13,607**	**698**	**13,551**	**601**	**652**	**644,705**	**346**	**840**	**558,932**
General Governments	**17,848,223**	**204,913**	**104,168**	**202,122**	**81,582**	**41,909**	**27,476**	**41,709**	**430,272**	**1,001,741**
Central Governments	12,574,456	-	-	-	-	-	-	-	-	-
Rest	5,273,767	204,913	104,168	202,122	81,582	41,909	27,476	41,709	430,272	1,001,741
Other financial institutions and individual entrepreneurs	**4,875,460**	**10,586**	**1,990**	**3,808**	**4,008**	**1,285**	**304**	**861**	**10,595**	**1,122,616**
Non-financial companies and individual entrepreneurs	**54,883,647**	**3,201,444**	**965,477**	**1,833,539**	**1,835,267**	**1,171,970**	**274,862**	**619,751**	**1,386,714**	**16,582,974**
Real estate construction and development	5,688,532	603,106	88,607	111,348	139,393	109,371	18,292	63,792	64,207	1,269,409
Civil engineering construction	1,567,467	40,495	30,975	43,360	8,607	2,804	4,325	9,498	25,817	375,306
Other purposes	47,627,648	2,557,843	845,895	1,678,831	1,687,267	1,059,795	252,245	546,461	1,296,690	14,938,259
Large companies	17,064,564	648,422	234,025	512,258	445,844	285,272	93,835	118,329	361,321	4,576,115
SMEs and individual entrepreneurs	30,563,084	1,909,421	611,870	1,166,573	1,241,423	774,523	158,410	428,132	935,369	10,362,144
Non-profit institutions serving households	**35,872,277**	**2,371,057**	**445,479**	**1,058,701**	**1,319,844**	**544,694**	**99,246**	**514,987**	**625,214**	**12,750,609**
Housing	27,296,623	1,836,418	336,096	763,179	1,037,603	371,942	77,197	408,945	480,145	9,711,535
Consumer loans	6,511,750	425,922	81,904	187,509	236,245	157,934	16,710	87,866	101,356	2,273,210
Other purposes	2,063,904	108,717	27,479	108,013	45,996	14,818	5,339	18,176	43,713	765,864
TOTAL	**132,005,485**	**5,801,607**	**1,517,812**	**3,111,721**	**3,241,302**	**1,760,510**	**1,046,593**	**1,177,654**	**2,453,635**	**32,016,872**

Thousand euro

	31/12/2017								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Central banks and credit institutions	**50**	**17,170**	**16,726,676**	**3,722**	**71**	**101,015**	**442,922**	**269**	**51**
General Governments	**50,349**	**114,106**	**1,290,498**	**41,876**	**129,386**	**844,593**	**581,604**	**78,558**	**6,905**
Central Governments	-	-	-	-	-	-	-	-	-
Rest	50,349	114,106	1,290,498	41,876	129,386	844,593	581,604	78,558	6,905
Other financial institutions and individual entrepreneurs	**260**	**7,513**	**3,606,420**	**8,607**	**729**	**64,586**	**31,134**	**59**	**99**
Non-financial companies and individual entrepreneurs	**161,729**	**2,084,177**	**13,138,398**	**1,632,755**	**614,826**	**5,647,605**	**3,513,689**	**195,109**	**23,361**
Real estate construction and development	9,234	99,479	1,517,101	463,061	23,695	917,968	164,449	25,285	735
Civil engineering construction	3,858	92,607	716,017	9,219	9,993	53,199	140,757	628	2
Other purposes	148,637	1,892,091	10,905,280	1,160,475	581,138	4,676,438	3,208,483	169,196	22,624
Large companies	27,419	498,402	5,920,809	226,734	271,971	1,192,448	1,612,952	37,775	633
SMEs and individual entrepreneurs	121,218	1,393,689	4,984,471	933,741	309,167	3,483,990	1,595,531	131,421	21,991
Non-profit institutions serving households	**116,225**	**683,072**	**4,465,374**	**2,385,954**	**141,651**	**7,282,267**	**937,428**	**75,018**	**55,457**
Housing	86,124	461,221	3,469,657	1,740,296	99,734	5,572,368	748,039	47,619	48,505
Consumer loans	26,178	162,080	706,136	525,344	30,862	1,342,273	129,682	14,475	6,064
Other purposes	3,923	59,771	289,581	120,314	11,055	367,626	59,707	12,924	888
TOTAL	**328,613**	**2,906,038**	**39,227,366**	**4,072,914**	**886,663**	**13,940,066**	**5,506,777**	**349,013**	**85,873**

Sovereign risk exposure

The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), at 30 June 2018 and 31 December 2017, is as follows:

Thousand euro

	30/06/2018										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial assets 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 (**)	Direct exposure	Indirect exposure	TOTAL	Other exposures (***)	%
Spain	142,727	(46,140)	-	6,035,104	4,679,169	10,670,935	-	12,279	21,494,074	(103,183)	66.3%
Italy	20,864	-	-	-	5,877,999	-	-	-	5,898,863	-	18.3%
United Kingdom	24	-	-	1,800,371	-	8	-	-	1,800,403	-	5.6%
Portugal	5,251	-	-	1,269,034	565,054	-	-	(466)	1,838,873	5,253	5.7%
Mexico	-	-	-	578,359	-	-	-	-	578,359	-	1.8%
United States	-	-	-	168,248	-	2	-	-	168,250	-	0.5%
Rest of the world	19,185	(4,972)	-	499,803	28,144	65,804	-	-	607,964	(5,093)	1.9%
TOTAL	**188,051**	**(51,112)**	**-**	**10,350,919**	**11,150,366**	**10,736,749**	**-**	**11,813**	**32,386,786**	**(103,023)**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (798 million euros at 30 June 2018).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	31/12/2017										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial assets 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 (**)	Direct exposure	Indirect exposure	TOTAL	Other exposures (***)	%
Spain	43,319	(69,854)	-	5,026,477	2,595,434	10,504,135	-	274	18,099,785	(4,199)	55.9%
Italy	-	-	-	2,832,605	6,793,888	-	-	18,930	9,645,423	-	29.8%
United States	-	-	-	170,746	-	3	-	-	170,749	-	0.5%
United Kingdom	-	-	-	1,940,311	-	13	-	-	1,940,324	-	6.0%
Portugal	-	-	-	55,254	1,074,046	-	-	(502)	1,128,798	-	3.5%
Mexico	-	-	-	175,375	480,532	-	-	-	655,907	-	2.0%
Rest of the world	-	-	-	529,086	135,566	68,400	-	-	733,052	-	2.3%
TOTAL	**43,319**	**(69,854)**	**-**	**10,729,854**	**11,079,466**	**10,572,551**	**-**	**18,702**	**32,374,038**	**(4,199)**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (544 million euros at 31 December 2017).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending intended for construction and real estate development and its hedging and allowances are as follows:

€ million

	30/06/2018				
	Gross carrying amount	Of which: APS (*)	Excess value of the collateral	Of which: APS (*)	Impairment adjustments (**)
Finance for construction and real-estate development (including land)(business in Spain)	4,967	1,394	1,741	728	608
Of which: doubtful	1,026	-	497	-	582

(*) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.

(**) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€ million

	31/12/2017				
	Gross carrying amount	Of which: APS (*)	Excess value of the collateral	Of which: APS (*)	Impairment adjustments (**)
Finance for construction and real-estate development (including land)(business in Spain)	5,694	1,855	1,809	882	660
Of which: doubtful	1,363	-	579	-	641

(*) Exposure for which, by applying the Asset Protection Scheme (see Note 2), the credit risk has been transferred. Corresponds to 80% of the total value of the exposure.

(**) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

€ million

	Gross carrying amount	
Memorandum item	30/06/2018	31/12/2017
Written-off assets (*)	174	208

€ million

	Amount	Amount
Memorandum item	30/06/2018	31/12/2017
Loans to customers, excluding General Governments (Spanish operations) (carrying amount)	93,099	93,238
Total assets (total operations) (carrying amount)	215,935	221,348
Allowances and provisions for exposures classed as non-doubtful (total operations)	431	525

(*) Refers to loans intended for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending intended for construction and real estate development for operations registered by credit institutions (Spanish operations) is as follows:

€ million

	Gross carrying amount 30/06/2018	Of which: APS	Gross carrying amount 31/12/2017	Of which: APS
Unsecured	**856**	**81**	**1,124**	**286**
With collateral	**4,111**	**1,313**	**4,571**	**1,570**
Buildings and other finished constructions	2,229	757	2,451	860
Housing	1,519	564	1,715	646
Rest	710	193	736	214
Buildings and other construction under construction	951	106	891	116
Housing	832	96	785	100
Rest	119	10	106	15
Land	931	450	1,229	594
Consolidated urban land	815	370	1,061	475
Other land	116	80	169	119
TOTAL	**4,967**	**1,394**	**5,694**	**1,855**

The figures shown do not show the total value of guarantees received, but rather the net book value of the associated exposure.

Guarantees received associated with lending intended for construction and real estate development are shown hereafter, for both periods:

€ million

Guarantees received	30/06/2018	31/12/2017
Value of collateral	3,116	3,638
Of which: guarantees doubtful risks	399	632
Value of other collateral	1,511	1,245
Of which: guarantees doubtful risks	18	38
Total value of guarantees received	**4,627**	**4,883**

The breakdown of loans to households for the acquisition of property for transactions recorded by credit institutions (Spanish operations) is as follows:

€ million

	30/06/2018		
	Gross carrying amount	Of which: APS	Of which: doubtful
Loans for property purchase	**32,453**	**588**	**1,572**
Unsecured	1,087	39	183
With collateral	31,366	549	1,389

€ million

	31/12/2017		
	Gross carrying amount	*Of which: APS*	*Of which: doubtful*
Loans for property purchase	***32,609***	***619***	***1,786***
Unsecured	*1,147*	*42*	*234*
With collateral	*31,462*	*577*	*1,552*

The tables below show the breakdown of the mortgage loans granted to households for the purchase of properties by the gross carrying amount of the last available valuation expressed as a percentage of the total risk for transactions recorded by credit institutions (Spanish operations):

€ million

	30/06/2018		
	Gross amount	*Of which: APS*	*Of which: doubtful*
LTV ranges	***31,366***	***549***	***1,389***
LTV <= 40%	*5,839*	*51*	*113*
40% < LTV <= 60%	*7,570*	*102*	*173*
60% < LTV <= 80%	*7,803*	*118*	*261*
80% < LTV <= 100%	*4,514*	*96*	*286*
LTV > 100%	*5,640*	*182*	*556*

€ million

	31/12/2017		
	Gross amount	*Of which: APS*	*Of which: doubtful*
LTV ranges	***31,462***	***577***	***1,552***
LTV <= 40%	*5,613*	*48*	*116*
40% < LTV <= 60%	*7,491*	*106*	*192*
60% < LTV <= 80%	*7,944*	*123*	*301*
80% < LTV <= 100%	*4,718*	*106*	*324*
LTV > 100%	*5,696*	*194*	*619*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt of companies in the consolidated group for transactions recorded by credit institutions in Spain:

€ million

	30/06/2018			
	Gross carrying amount	Allowances	Gross amount (*)	Allowances (*)
Real estate assets deriving from financing of construction and real estate development	**6,919**	**3,275**	**5,209**	**3,111**
Finished buildings	2,897	940	2,613	1,185
Housing	1,517	417	1,285	570
Rest	1,380	523	1,328	616
Buildings under construction	613	223	253	151
Housing	579	213	224	136
Rest	34	10	29	15
Land	3,409	2,112	2,344	1,775
Building land	1,085	608	629	458
Other land	2,324	1,504	1,715	1,317
Real estate assets deriving from home loan mortgages	**1,951**	**573**	**1,962**	**880**
Rest of real-estate foreclosed assets or received in payment of debts	-	-	-	-
Foreclosed capital instruments or received in payment of debts	**5**	**5**	-	-
Equity instruments of entities holding foreclosed assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed assets or received in payment of debts	-	-	-	-
Total real-estate portfolio	**8,875**	**3,853**	**7,171**	**3,991**

(*) Problematic real-estate assets including properties outside of national territory, considering the hedging in the original financing and the credit risk transferred upon application of the APS.

€ million

	31/12/2017			
	Gross carrying amount	*Allowances*	*Gross amount (*)*	*Allowances (*)*
Real estate assets deriving from financing of construction and real estate development	***7,319***	***3,309***	***5,479***	***3,127***
Finished buildings	*3,063*	*892*	*2,681*	*1,119*
Housing	*1,596*	*360*	*1,302*	*505*
Rest	*1,467*	*533*	*1,379*	*614*
Buildings under construction	*568*	*197*	*289*	*165*
Housing	*514*	*173*	*245*	*137*
Rest	*54*	*24*	*44*	*28*
Land	*3,688*	*2,221*	*2,509*	*1,843*
Building land	*1,332*	*692*	*832*	*603*
Other land	*2,356*	*1,529*	*1,677*	*1,240*
Real estate assets deriving from home loan mortgages	***1,961***	***584***	***1,914***	***872***
Rest of real-estate foreclosed assets or received in payment of debts	-	-	-	-
Foreclosed capital instruments or received in payment of debts	***5***	***5***	-	-
Equity instruments of entities holding foreclosed assets or received in payment of debts	-	-	-	-
Financing to entities holding foreclosed assets or received in payment of debts	-	-	-	-
Total real-estate portfolio	***9,285***	***3,898***	***7,393***	***3,999***

(*) Problematic real-estate assets including properties outside of national territory, considering the hedging in the original financing and the credit risk transferred upon application of the APS.

Given that for part of these assets, the risk of incurring a loss of value is transferred by the Asset Protection Scheme, the tables below show the reconciliation with the amount corresponding to non-performing real estate assets, including amounts from outside Spain.

€ million

	30/06/2018		
	Gross Value	*Allowances*	*Net value*
Total operations national territory	***8,870***	***3,848***	***5,022***
Solvia Desarrollos Inmobiliarios business line	*(1,301)*	*(593)*	*(708)*
Total operations outside of national territory and others	*22*	*3*	*19*
Credit risk transferred upon application of APS	*(1,153)*	*-*	*(1,153)*
Hedging of the original funding	*733*	*733*	*-*
TOTAL	***7,171***	***3,991***	***3,180***

€ million	31/12/2017		
	Gross Value	*Allowances*	*Net value*
Total operations national territory	***9,280***	***3,893***	***5,387***
Solvia Desarrollos Inmobiliarios business line	*(1,282)*	*(591)*	*(691)*
Total operations outside of national territory and others	*23*	*3*	*20*
Credit risk transferred upon application of APS	*(1,322)*	*-*	*(1,322)*
Hedging of the original funding	*694*	*694*	*-*
TOTAL	***7,393***	***3,999***	***3,394***

As part of its ongoing risk management and, in particular, its policy on the construction and real estate development sectors, the Group has a number of specific policies in place for mitigating risks. See Schedule 6 "*Other risk information*" in the 2017 consolidated annual accounts.

CONSOLIDATED DIRECTORS' REPORT FOR THE FIRST SIX MONTHS OF 2018

The interim consolidated Directors' report is prepared with the sole purpose of describing the significant events and changes that occurred in the six-month period, without duplicating information already published in the most recent consolidated annual accounts. Consequently, for proper comprehension of the information contained in this interim Directors' report, it should be read together with the Group's 2017 consolidated annual accounts, which were prepared in accordance with the recommendations of the "Guide for the preparation of directors' reports of listed companies", published by the CNMV in July 2013.

Global economic, political and financial background

The political environment has attracted the attention of international investors during the first half of the year. In Italy, following an institutional crisis, a coalition government was eventually formed between the Five Star Movement and La Lega (the League). Both parties had proposed expansionary budget measures and a renegotiation of the tax rates required by Europe. In Spain, Pedro Sánchez, leader of the PSOE party, won the vote of no confidence filed against the government of the Partido Popular. In terms of Brexit, negotiations between the UK and the EU relating to the withdrawal agreement have continued to be at a stand-still, as no decision has yet been reached in terms of how to prevent a physical border between Northern and Southern Ireland after Brexit. In terms of trade, the United States has adopted an increasing number of protectionist measures. After the imposition of tariffs on steel and aluminium, Trump announced specific tariffs for strategic products from China, in addition to future restrictions on investments by this country in US technology. Meanwhile, Europe gave the go-ahead to the restructuring of Greek public debt, by extending maturities and increasing the grace period for the payment of interest and principal. As regards macroeconomic data, activity in the euro area has slowed in the first half of the year, partly influenced by isolated events (e.g. bad weather). Inflation, on the other hand, experienced a significant upturn to levels close to the central bank's targets, benefited by higher oil prices. In the US, the economy has performed extremely well, and inflation has been close to the Fed's target levels.

Central banks and fixed income markets

Central banks in the main developed economies have continued taking steps towards the normalisation of their monetary policies. The Fed raised its guiding interest rate in March and June to 1.75-2.00%, and anticipated that the official rate will be above the neutral rate by the end of 2019. In its June meeting, the ECB announced that it will end its asset purchase programme in December. In any case, it adopted an accommodating tone and indicated that it will keep interest rates at their current levels until at least summer 2019.

Financial markets began the year with the same positive tone of the second half of 2017, and risk assets performed well. In the first months of the year, yields on German and US long-term public debt experienced a significant upturn, supported by positive activity figures, the approval of the tax reform in the United States and higher oil prices, amongst other aspects. Towards the end of February, markets abandoned their state of complacency and yields on German public debt declined, losing the ground gained in the previous upturn. This was prompted by the Italian political crisis, global trade tensions, the accommodating tone of the ECB and worse-than expected activity in the euro area. In the United States, however, yields remained high, supported by the economic effects of the expansionary fiscal policy. Risk premia in periphery countries performed well during a large part of the six-month period, in some cases reaching levels as low as those recorded in 2010. This was helped by rating upgrades assigned to some of these countries. However, political tensions in Italy led to a significant growth in spreads, particularly in the transalpine country.

Currency market

The euro became devalued in its currency exchange with the US dollar during the first half of the year, although the currency pair has been subject to high volatility. After reaching levels of c.1.25 USD/EUR, the greater resilience of activity in the US, along with the increased interest rate spread, political noise in Italy and greater levels of risk aversion against a backdrop of growing fears of a trade war, resulted in an appreciation of the dollar to levels not seen since mid-2017, closing the six-month period at 1.17 USD/EUR. The pound sterling has remained relatively stable in the range of 0.87-0.90 in its currency pair with the euro. In addition to Brexit, exchange rate fluctuations involving the pound have been particularly susceptible to interest rate expectations generated by the Bank of England.

Emerging markets

Emerging markets have recorded a poor performance, affected by worldwide uncertainty in terms of trade, the upturn of returns in US dollars, the appreciation of the dollar and political idiosyncrasies in certain countries. This environment has particularly affected emerging countries with the largest economic imbalances, such as Argentina and Turkey. The central banks of both of these countries had no option but to significantly raise their official interest rates in order to stall the devaluations of their currencies. In the case of Argentina, the USD 15,000 million payout that it received from a loan arrangement with the IMF was not enough to prevent its poor market performance. The Mexican currency in particular priced in this environment along with domestic political uncertainty. The NAFTA renegotiations have still not come to any form of conclusion, while the left-wing candidate to the Mexican elections in July has emerged as the clear winner. Following the sharp devaluation of the Mexican peso, the Mexican central bank was forced to raise its official interest rate once more to 7.75%. In Brazil, political uncertainty ahead of elections at the end of the year became a predominant factor, which was added to the deterioration of economic outlooks which brought about the truckers' strike in May. In light of the sharp devaluation of the Brazilian real, the Brazilian central bank was forced to halt the series of official interest rate cuts at 6.50%, and had to increase its participation in the currency market. In China, the deleveraging process has continued without causing any significant damage to the economy. The central bank has introduced lax monetary measures and allowed a sharp devaluation of the Chinese yuan. Lastly, in Colombia, the right-wing party won the presidential elections, which was interpreted favourably by financial markets in terms of the future course of economic policies.

Business performance

Banco Sabadell and its group ended the first half of the year with €120.6 million in net attributable profit (€317.7 million excluding TSB), which included the extraordinary impacts during and post TSB's migration and provisions for the recently announced institutional portfolio sales. During the same period in 2017, net attributable profit amounted to €450.6 million (€385.3 million excluding TSB) and allocated provisions amounted to €-850.9 million.

Balance sheet

At the end of the first half of 2018, the total assets of Banco Sabadell and its group amounted to €215,935 million, a 2.4% decrease with respect to 2017 year-end.

Gross performing loans amounted to €140,667 million (€105,465 million excluding TSB), increasing by 2.3% with regard the balance as at 2017 year-end (3.3% excluding TSB).

Mortgage loans are the largest single component of gross performing loans, amounting to €83,977 million as at 30 June 2018 (€51,835 million excluding TSB), representing 59.7% of total gross performing loans (49.1% excluding TSB).

The decline of Stage 3 assets brought the NPL ratio down to 4.71% as at the end of June 2018 (5.77% excluding TSB), compared with 5.14% as at 2017 year-end (6.57% excluding TSB). The Stage 3 loans coverage ratio as at the end of June 2018 stood at 56.99% (57.16% excluding TSB), compared with 45.74% (45.55% excluding TSB) as at 2017 year-end.

As at 30 June 2018, on-balance sheet customer funds amounted to €135,695 million (€102,323 million excluding TSB), compared with €132,096 million (€97,686 million excluding TSB) at the end of 2017, representing a 2.7% increase (4.7% excluding TSB).

Sight account balances amounted to €105,400 million (€74,942 million excluding TSB), representing a 7.5% increase compared to 2017 year-end (10.1% excluding TSB), and customer term deposits (including deposits redeemable at notice and hybrid financial liabilities) amounted to €29,265 million (€26,350 million excluding TSB), 13.5% less than in the previous year (9.3% less excluding TSB). The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to sight accounts and off-balance sheet funds.

Total off-balance sheet customer funds amounted to €46,901 million, a 3.5% increase compared with the end of the previous year. In this item, the increase in mutual funds was particularly notable, amounting to €28,624 million at the end of June 2018, representing a 4.6% increase compared to 2017 year-end.

Issued debt securities (borrowing operations and other marketable securities and subordinated liabilities) amounted to €21,168 million at the end of the first half of the current year (€19,344 million excluding TSB), compared to 2017 year-end, when they amounted to €23,788 million (€21,845 million excluding TSB).

Total funds under management as at 30 June 2018 amounted to €205,063 million (€168,809 million excluding TSB), compared with €204,420 million as at 31 December 2017 (€166,447 million excluding TSB), representing an increase during the first half of the year of 0.3% (1.4% excluding TSB).

Income and profit performance

Net interest income amounted to €1,810.1 million in the first half of the year, 6.5% less than in the first half of 2017 due to the negative impact of the commercial initiatives in TSB post-migration. Excluding TSB, net interest income amounted to €1,323.5 million at the end of the first half of 2018, a 6.4% decrease compared with the previous year. On a like-for-like basis, i.e. excluding Sabadell United Bank, TSB's Mortgage Enhancement portfolio and Mediterráneo Vida, net interest income was stable in year-on-year terms, growing by 1.3% excluding TSB.

Net interest income as a percentage of average total assets declined due to the reduction in the customer spread following TSB's commercial actions, the lower returns on the fixed-income portfolio due to asset rotations and an enhanced liquidity position. As a result, the net interest income as a percentage of average total assets was 1.68% in the first half of 2018 (1.81% in the first half of 2017).

Dividends received and gains/(losses) on companies consolidated using the equity method together amounted to €36.7 million in the first half of the year, compared with a €36.1 million during the first six months of 2017. These revenues are due mainly to the insurance and pension fund business.

Net fees and commissions during the first half of the year amounted to €636.7 million (€601.7 million excluding TSB), increasing by 5.6% year-on-year (8.2% excluding TSB). This increase was due mainly to the positive performance of service and asset management fees. On a like-for-like basis, fee and commission income increased by 6.1% year-on-year (9.0% excluding TSB).

Net gains (losses) on financial assets and liabilities amounted to €239.5 million (€214.8 million excluding TSB). During the first half of 2017, Net gains (losses) on financial assets and liabilities amounted to €545.4 million (€455.9 million excluding TSB) and included the early call of TSB's Mortgage Enhancement portfolio.

Net gains/(losses) on exchange differences amounted to €6.3 million, compared with €4.9 million in the first half of 2017.

Other operating income and expenses amounted to €-98.4 million (€-55.3 million excluding TSB), compared with €-82.9 million (€-75.9 million excluding TSB) in the first half of 2017. Under this heading, the contribution to the single resolution fund of €-49.7 million (€-50.6 million in 2017) is particularly noteworthy, in addition to the losses due to fraud in TSB, which amounted to €-39.8 million.

Administrative expenses (staff and general) during the first half of 2018 amounted to €-1,479.2 million (€-913.5 million excluding TSB), of which €-143.2 million are attributable to non-recurrent items (mainly during and post TSB's migration). Administrative expenses amounted to €-1,378.3 million (€-895.9 million excluding TSB) in the first half of 2017, of which €-35.9 million were attributable to non-recurrent items.

The cost-to-income ratio at the end of June 2018 stood at 43.80%, compared with 42.32% at the end of the first half of 2017 excluding TSB. With TSB, the cost-to-income ratio stood at 57.11%, compared with 51.33% at the end of the first half of 2017. The cost-to-income ratio is calculated by adjusting gross income linearising income from trading and including the accrual of contributions to the Deposit Guarantee Fund and the Single Resolution Fund.

As a result of the foregoing, the first half of 2018 ended with pre-provisions income of €975.1 million (€1,467.7 million in 2017). Excluding TSB, pre-provisions income amounted to €1,076.0 million, compared with €1,332.9 million in 2017.

Allowances for loan losses and other impairments (primarily real estate and financial assets) amounted to €-806.3 million, compared with €-850.9 million in the first six months of 2017. Particularly worthy of note during the first half of 2018 was the provision for future customer remediation in TSB and provisions for institutional portfolio sales.

Capital gains on asset sales and other revenue amounted to €4.0 million. In the first half of 2017, gains on asset sales amounted to €17.6 million and included mainly €16.6 million from the sale of Mediterráneo Vida and income from the sale of property, plant and equipment for own use.

After deducting income tax and minority interests, net profit attributable to the Group amounted to €120.6 million at the end of the first half of 2018, impacted by TSB during and post-migration and by provisions for institutional portfolio sales. Excluding TSB, net profit attributable to the Group amounted to €317.7 million at the end of June 2018. These results represent a year-on-year decline, on a like-for-like basis, of -67.2% (-10.4% excluding TSB). Excluding provisions for institutional portfolio sales, the growth on a like-for-like basis would be 32.6% year-on-year.

Solvency

The phase-in Common Equity Tier 1 (CET1) ratio stood at 11.9%, and the fully-loaded CET1 ratio at 11.0% as of 30 June 2018.

The evolution of the fully-loaded CET1 ratio in the six-month period was impacted not only by the increase in risk-weighted assets but also by certain one-off aspects, including the reduction of value adjustments in the fixed-income portfolio and the impact of the net profit gained on TSB's migration costs and the extraordinary provisions allocated for the sales of non-performing asset portfolios.

The pro forma CET1 capital ratio, excluding the deconsolidation of the portfolios sold, would stand at 12.2% (phase-in) and 11.2% (fully-loaded).

Following the entry into force of accounting standard IFRS 9, the bank has chosen to apply the transitional arrangements set forth in Regulation (EU) 2017/2395, opting for the "static modified approach" defined in Articles 2, 3 and 4 of Article 1 therein.

The impact from applying the transitional provisions in relation to the fully-loaded ratio was, as at June 2018, +86bp in CET1 and +33bp in the leverage ratio.

The Group has maintained its investment grade category with all of the credit rating agencies.

On 6 April 2018 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB from BBB- and its short-term rating to A-2 from A-3. The outlook is positive. This credit rating upgrade is based on the improvement in Banco Sabadell's credit quality in a context of lower risk in the Spanish banking system, mainly due to its deleveraging, as well as improved investor confidence.

On 28 June, S&P Global Ratings affirmed Banco Sabadell's long-term credit rating of BBB, its short-term rating of A-2 and its stable outlook.

On 17 April 2018, Moody's Investors Service (Moody's) raised its credit rating of Banco Sabadell covered bonds to Aa1 from Aa2, and changed the credit rating outlook of Banco Sabadell deposits to positive from stable. These revisions have been made in light of Spain's sovereign rating, which was raised on 13 April 2018.

On 16 July, DBRS Rating Limited raised the outlook for Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in trend to positive and the confirmation of the rating reflect the perception of the solid capitalisation of Banco Sabadell Group and the ongoing improvement in both asset quality and the profitability of core business in Spain.

Branches

At the end of June 2018, Banco Sabadell had 2,471 branches. Of the total number of Banco Sabadell Group branches and offices, 1,401 were operating under the Sabadell brand (including 29 business banking and 2 corporate banking branches); 109 were operating as Sabadell Gallego (including 3 business banking branches); 143 under Sabadell Herrero (including 3 business banking branches); 112 were SabadellGuipuzcoano branches (including 5 business banking branches); 10 were SabadellUrquijo branches; 102 were Solbank branches; and there were 594 international branches, including 15 run by Sabadell Mexico, 7 by BancSabadell d'Andorra and 551 by TSB.

Business review

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the information by segments described in Note 31 to the 2018 consolidated interim financial statements.

Banking Business Spain

Net profit as at June 2018 amounted to €542 million, representing a year-on-year decline of -15.0%, due to the smaller contribution of Net gains (losses) on financial assets and liabilities compared to the previous year. Excluding Mediterráneo Vida, the NTI contribution declined by 14.6% compared to the previous year.

Net interest income amounted to €1,220 million, a -3.9% decrease compared to 2017 year-end. Excluding Mediterráneo Vida, net interest income remained in line with the levels of the previous year.

Net fees and commissions amounted to €576 million, 9.5% higher than in the previous year, driven by the positive performance of service fees and asset management fees.

Net gains (losses) on financial assets and liabilities and exchange differences amounted to €205 million, representing a decline due to extraordinary NTI in the previous year and the SAREB subordinated debt impairment in this quarter.

Administrative expenses and depreciations amounted to €-897 million, 5.3% higher than in the same period in the previous year, mainly due to the increase in expenses associated with the transformation and digitalisation of the business and with new regulatory developments.

Provisions and impairments amounted to €-262 million, significantly lower than in the previous year.

€ Million

	30/06/2018	30/06/2017	Change (%) year-on-year
Net interest income	***1,220***	***1,270***	***(3.9)***
Results calculated using the equity method and dividends	*36*	*35*	*2.9*
Net fees and commissions	*576*	*526*	*9.5*
Net gains (losses) on financial assets and liabilities and exchange differences	*205*	*489*	*(58.1)*
Other operating income and expenses	*(131)*	*(145)*	*(9.7)*
Gross income	***1,906***	***2,175***	***(12.4)***
Administrative and depreciation expenses	*(897)*	*(852)*	*5.3*
Operating income	***1,009***	***1,323***	***(23.7)***
Provisions and impairments	*(262)*	*(448)*	*(41.5)*
Gains /(Losses) on asset derecognition and others	*3*	*11*	*(72.7)*
Profit/(Loss) before taxes	***750***	***886***	***(15.3)***
Income tax	*(206)*	*(247)*	*(16.6)*
Profit/(Loss) after tax	***544***	***639***	***(14.9)***
Profit/(Loss) attributed to the minority interests	*2*	*1*	*100.0*
Profit attributed to the Group	***542***	***638***	***(15.0)***
ROE (earnings divided by average equity)	*11.2%*	*15.5%*	
Cost-to-income (administrative expenses divided by gross income)	*42.3%*	*38.2%*	
NPL ratio	*5.5%*	*6.5%*	
Stage 3 loans coverage ratio	*54.3%*	*43.0%*	

Net lending amounted to €96,099 million and increased by 4% year-on-year.

On-balance sheet customer funds increased by 3.9% year-on-year, with a significant growth in sight accounts. Off-balance sheet funds grew by 6.6%, driven by the growth in mutual funds.

€ Million	*30/06/2018*	*30/06/2017*	*Change (%) year-on-year*
Assets	***140,570***	***133,047***	***5.7***
Customer lending (net) excluding repos	*96,099*	*92,361*	*4.0*
Real estate exposure (net)	*-*	*-*	*-*
Liabilities	***132,021***	***124,664***	***5.9***
On-balance sheet customer funds	*96,568*	*92,933*	*3.9*
Wholesale Funding Capital Markets	*18,348*	*19,163*	*(4.3)*
Allocated capital	***8,548***	***8,383***	***2.0***
Off-balance sheet customer funds	***45,800***	***42,954***	***6.6***
Other indicators			
Employees	*15,922*	*15,988*	*(0.4)*
Branches	*1,877*	*1,931*	*(2.8)*

Commercial Banking

Commercial Banking offers financing, investment and savings products. In terms of investment, the sale of mortgage products, working capital and loans is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension schemes.

Protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, amongst others.

The figures for the first half of 2017 include Mediterráneo Vida. Excluding the results of Mediterráneo Vida, net profit attributed to the Group remained in line with the levels of the previous year.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Net interest income	***1,118***	***1,158***	***(3.5)***
Results calculated using the equity method and dividends	*23*	*29*	*(20.7)*
Net fees and commissions	*444*	*422*	*5.2*
Net gains (losses) on financial assets and liabilities and exchange differences	*2*	*(12)*	*-*
Other operating income and expenses	*(44)*	*(67)*	*(34.3)*
Gross income	***1,543***	***1,530***	***0.8***
Administrative and depreciation expenses	*(742)*	*(745)*	*(0.4)*
Operating income	***801***	***785***	***2.0***
Provisions and impairments	*(232)*	*(205)*	*13.2*
Gains /(Losses) on asset derecognition and others	*-*	*18*	*-*
Profit/(Loss) before taxes	***569***	***598***	***(4.8)***
Income tax	*(162)*	*(164)*	*(1.2)*
Profit/(Loss) after tax	***407***	***434***	***(6.2)***
Profit/(Loss) attributed to the minority interests	*-*	*-*	*-*
Profit attributed to the Group	***407***	***434***	***(6.2)***
ROE (earnings divided by average equity)	*19.3%*	*19.7%*	
Cost-to-income (administrative expenses divided by gross income)	*47.2%*	*47.8%*	
NPL ratio	*6.2%*	*7.5%*	
Stage 3 loans coverage ratio	*53.4%*	*37.2%*	

€ Million

	30/06/2018	30/06/2017	Change (%) year-on-year
Assets	**168,883**	**162,336**	**4.0**
Customer lending (net) excluding repos	79,992	75,086	6.5
Real estate exposure (net)	-	-	-
Liabilities	**164,490**	**158,006**	**4.1**
On-balance sheet customer funds	84,579	82,735	2.2
Wholesale Funding Capital Markets	-	-	-
Allocated capital	**4,393**	**4,330**	**1.5**
Off-balance sheet customer funds	**24,103**	**22,991**	**4.8**
Other indicators			
Employees	11,447	11,606	-
Branches	1,865	1,919	-

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large enterprises and financial institutions, both national (Spanish) and international. It encompasses the businesses of Corporate Banking, Structured Finance and Global Financial Institutions.

€ Million

	30/06/2018	30/06/2017	Change (%) year-on-year
Net interest income	**92**	**92**	**-**
Results calculated using the equity method and dividends	-	-	-
Net fees and commissions	48	58	(17.2)
Net gains (losses) on financial assets and liabilities and exchange differences	1	2	(50.0)
Other operating income and expenses	(2)	(3)	(33.3)
Gross income	**139**	**149**	**(6.7)**
Administrative and depreciation expenses	(18)	(17)	5.9
Operating income	**121**	**132**	**(8.3)**
Provisions and impairments	(1)	(60)	(98.3)
Gains /(Losses) on asset derecognition and others	-	-	-
Profit/(Loss) before taxes	**120**	**72**	**66.7**
Income tax	(36)	(20)	80.0
Profit/(Loss) after tax	**84**	**52**	**61.5**
Profit/(Loss) attributed to the minority interests	-	-	-
Profit attributed to the Group	**84**	**52**	**61.5**
ROE (earnings divided by average equity)	11.5%	11.5%	
Cost-to-income (administrative expenses divided by gross income)	15.7%	11.5%	
NPL ratio	6.8%	4.6%	

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Assets	***12,970***	***14,046***	***(7.7)***
Customer lending (net) excluding repos	*7,357*	*8,853*	*(16.9)*
Real estate exposure (net)	*-*	*-*	*-*
Liabilities	***11,490***	***13,132***	***(12.5)***
On-balance sheet customer funds	*4,133*	*4,279*	*(3.4)*
Wholesale Funding Capital Markets	*-*	*-*	*-*
Allocated capital	***1,480***	***914***	***61.9***
Off-balance sheet customer funds	***501***	***547***	***(8.4)***
Other indicators			
Employees	*138*	*151*	*-*
Branches	*2*	*2*	*-*

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added value with a view to achieving a good rate of return for customers, increasing and diversifying the customer base and ensuring the consistency of investment processes through a rigorous analysis and with good-quality management, while providing multi-channel access.

€ Million

	30/06/2018	30/06/2017	Change (%) year-on-year
Net interest income	**23**	**20**	**15.0**
Results calculated using the equity method and dividends	-	-	-
Net fees and commissions	104	91	14.3
Net gains (losses) on financial assets and liabilities and exchange differences	8	7	14.3
Other operating income and expenses	(4)	(1)	-
Gross income	**131**	**117**	**12.0**
Administrative and depreciation expenses	(56)	(54)	3.7
Operating income	**75**	**63**	**19.0**
Provisions and impairments	-	(1)	-
Gains /(Losses) on asset derecognition and others	-	-	-
Profit/(Loss) before taxes	**75**	**62**	**21.0**
Income tax	(23)	(18)	27.8
Profit/(Loss) after tax	**52**	**44**	**18.2**
Profit/(Loss) attributed to the minority interests	-	-	-
Profit attributed to the Group	**52**	**44**	**18.2**
ROE (earnings divided by average equity)	39.4%	39.3%	
Cost-to-income (administrative expenses divided by gross income)	42.4%	45.9%	
NPL ratio	0.3%	1.4%	

€ Million

	30/06/2018	30/06/2017	Change (%) year-on-year
Assets	**9,939**	**8,724**	**13.9**
Customer lending (net) excluding repos	2,503	1,932	29.6
Real estate exposure (net)	-	-	-
Liabilities	**9,672**	**8,504**	**13.7**
On-balance sheet customer funds	7,156	6,433	11.2
Wholesale Funding Capital Markets	-	-	-
Allocated capital	**267**	**220**	**21.4**
Off-balance sheet customer funds	**17,986**	**14,838**	**21.2**
Other indicators			
Employees	465	534	-
Branches	10	12	-

Real Estate Asset Transformation

Net profit as at June 2018 amounted to €-256 million, increasing by 17.2% year-on-year due to the year-on-year growth of net interest income, more loan losses and the positive results of real estate sales.

The Net gains (losses) on financial assets and liabilities figures for 2018 include the sales of real estate companies, resulting in gains of €9 million.

Gross income amounted to €66 million, a far higher figure than in the previous year.

Administrative expenses and depreciations declined by -23.8% year-on-year to €-64 million.

Provisions and impairments amounted to €-377 million, 5.6% higher than in the same period of the previous year, as in this six-month period they include €-218 million in provisions for institutional portfolio sales. Furthermore, results on sales continue to be positive, with gains of €30 million as at June 2018.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Net interest income	***(14)***	***(22)***	***(36.4)***
Results calculated using the equity method and dividends	-	*(1)*	*(100.0)*
Net fees and commissions	*1*	*1*	-
Net gains (losses) on financial assets and liabilities and exchange differences	*9*	*(35)*	*(125.7)*
Other operating income and expenses	*70*	*66*	*6.1*
Gross income	***66***	***9***	***633.3***
Administrative and depreciation expenses	*(64)*	*(84)*	*(23.8)*
Operating income	***2***	***(75)***	***(102.7)***
Provisions and impairments	*(377)*	*(357)*	*5.6*
Profit/(loss) on sales	*30*	*(28)*	-
Gains /(Losses) on asset derecognition and others	-	-	-
Profit/(Loss) before taxes	***(375)***	***(432)***	***(13.2)***
Income tax	*119*	*123*	*(3.3)*
Profit/(Loss) after tax	***(256)***	***(309)***	***(17.2)***
Profit/(Loss) attributed to the minority interests	-	-	-
Profit attributed to the Group	***(256)***	***(309)***	***(17.2)***
ROE (earnings divided by average equity)	-	-	
Cost-to-income (administrative expenses divided by gross income)	-	-	
NPL ratio	*27.7%*	*25.1%*	
Stage 3 loans coverage ratio	*64.0%*	*52.9%*	

The good management of real estate assets continues, net lending declined by -53.4% year-on-year and net real estate exposure declined by -31.2%.

Intra-group funding amounted to €10,390 million, -23.6% less than in the previous year.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Assets	***12,850***	***17,398***	***(26.1)***
Customer lending (net) excluding repos	*2,613*	*5,603*	*(53.4)*
Real estate exposure (net)	*3,180*	*4,622*	*(31.2)*
Liabilities	***11,797***	***15,367***	***(23.2)***
On-balance sheet customer funds	*182*	*160*	*13.7*
Intragroup funding	*10,390*	*13,602*	*(23.6)*
Allocated capital	***1,053***	***2,032***	***(48.2)***
Off-balance sheet customer funds	***34***	***14***	***142.9***
Other indicators			
Employees	*1,011*	*919*	*10.0*
Branches	*-*	*-*	*-*

Banking business United Kingdom

Net profit in June 2018 amounted to €-197.1 million, mainly due to €-294.7 million in migration and post-migration expenses.

Net interest income amounted to €487 million, declining by -6.9%, due to the extraordinary commercial actions implemented by TSB following its IT migration.

Net gains (losses) on financial assets and liabilities includes results of fixed-income sales.

Net fees and commissions fell by -25.5%, mainly due to lower fees on sight accounts and the extraordinary commercial actions implemented by TSB following its IT migration.

Administrative expenses and depreciations increased by 16.8% year-on-year to €-605 million, including €-136 million in non-recurring costs related to migration and post-migration.

Provisions and impairments amounted to €-139 million and include a provision of €-92 million for the total estimated customer remedies, including one-off costs of the process for managing complaints associated with the migration.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Net interest income	***487***	***523***	***(6.9)***
Results calculated using the equity method and dividends	-	-	-
Net fees and commissions	*35*	*47*	*(25.5)*
Net gains (losses) on financial assets and liabilities and exchange differences	*26*	*89*	*(70.8)*
Other operating income and expenses	*(44)*	*(7)*	*528.6*
Gross income	***504***	***652***	***(22.7)***
Administrative and depreciation expenses	*(605)*	*(518)*	*16.8*
Operating income	***(101)***	***134***	***(175.4)***
Provisions and impairments	*(139)*	*(44)*	-
Gains /(Losses) on asset derecognition and others	*1*	*6*	-
Profit/(Loss) before taxes	***(239)***	***96***	***(349.0)***
Income tax	*42*	*(31)*	*(235.5)*
Profit/(Loss) after tax	***(197)***	***65***	***(403.1)***
Profit/(Loss) attributed to the minority interests	-	-	-
Profit attributed to the Group	***(197)***	***65***	***(403.1)***
ROE (earnings divided by average equity)	*(25.7%)*	*3.5%*	
Cost-to-income (administrative expenses divided by gross income)	*112.1%*	*78.7%*	
NPL ratio	*1.1%*	*0.5%*	
Stage 3 loans coverage ratio	*53.9%*	*49.9%*	

Loans and advances to customers (excluding repos) amounted to €35,472 million, with a year-on-year growth of 0.4%. Considering a constant exchange rate, this item increased by 2.8% compared with the previous year.

On-balance sheet customer funds amounted to €33,373 million, declining by -2.0% year-on-year (-1.2% considering a constant exchange rate).

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Assets	***47,159***	***47,195***	***(0.1)***
Customer lending (net) excluding repos	*35,472*	*35,343*	*0.4*
Liabilities	***45,656***	***45,696***	***(0.1)***
On-balance sheet customer funds	*33,373*	*34,064*	*(2.0)*
Wholesale Funding Capital Markets	*1,809*	*1,489*	*21.5*
Allocated capital	***1,503***	***1,499***	*-*
Off-balance sheet customer funds	-	-	-
Other indicators			
Employees	*8,137*	*8,444*	*(3.6)*
Branches	*551*	*551*	*-*

Other geographies

Net profit as at June 2018 amounted to €32 million, representing a decline in year-on-year terms of -43.9%, as Sabadell United Bank is no longer making any contributions and also due to higher costs related to expansion in Mexico. Excluding Sabadell United Bank, net profit remains stable.

Net interest income stood at €117 million, declining by -29.1%. Excluding Sabadell United Bank, this item has grown by 28.4%, mainly due to growth in Mexico and overseas branches (OFEX) in EMEA (Paris, London and Casablanca).

Net fees and commissions during the year declined by -13.8%, mainly as Sabadell United Bank is no longer making any contributions. Excluding Sabadell United Bank, net fees and commissions remained stable.

Gross income amounted to €155 million, representing a year-on-year decline of -25.5%. Excluding Sabadell United Bank, gross income grew by 20.4% due to the positive performance in Mexico and overseas branches in EMEA.

Administrative expenses and depreciations declined by -26.2%. Excluding the sale of Sabadell United Bank, they increased by 4.8%, due to expenses associated with expansion in Mexico.

Provisions and impairments increased in relation to the previous year due to provisions associated with the increased investment in Mexico and Miami, and due to higher levels of provisions, mainly associated with one-offs in the London overseas branch.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Net interest income	***117***	***165***	***(29.1)***
Results calculated using the equity method and dividends	*1*	*2*	*(50.0)*
Net fees and commissions	*25*	*29*	*(13.8)*
Net gains (losses) on financial assets and liabilities and exchange differences	*6*	*7*	*(14.3)*
Other operating income and expenses	*6*	*5*	*-*
Gross income	***155***	***208***	***(25.5)***
Administrative and depreciation expenses	*(90)*	*(122)*	*(26.2)*
Operating income	***65***	***86***	***(24.4)***
Provisions and impairments	*(28)*	*(2)*	*1,300.0*
Gains /(Losses) on asset derecognition and others	*-*	*-*	*-*
Profit/(Loss) before taxes	***37***	***84***	***(56.0)***
Income tax	*(3)*	*(27)*	*(88.9)*
Profit/(Loss) after tax	***34***	***57***	***(40.4)***
Profit/(Loss) attributed to the minority interests	*2*	*-*	*-*
Profit attributed to the Group	***32***	***57***	***(43.9)***
ROE (earnings divided by average equity)	*8.9%*	*10.0%*	
Cost-to-income (administrative expenses divided by gross income)	*55.2%*	*55.9%*	
NPL ratio	*0.6%*	*0.8%*	

Net lending amounted to €9,634 million, 11.1% above the figures from the preceding year, mainly due to the growth of the business in Mexico and Miami.

On-balance sheet customer funds amounted to €5,572 million and increased by 7.8%. Off-balance sheet funds amounted to €1,067 million and increased by 3.7%, due to the increases in Andorra and the Miami overseas branch.

€ Million

	30/06/2018	*30/06/2017*	*Change (%) year-on-year*
Assets	***15,356***	***19,819***	***(22.5)***
Customer lending (net) excluding repos	*9,634*	*8,671*	*11.1*
Real estate exposure (net)	*-*	*31*	*(100.0)*
Liabilities	***14,391***	***18,658***	***(22.9)***
On-balance sheet customer funds	*5,572*	*5,167*	*7.8*
Wholesale Funding Capital Markets	*-*	*-*	*-*
Allocated capital	***966***	***1,160***	***(16.7)***
Off-balance sheet customer funds	***1,067***	***1,029***	***3.7***
Other indicators			
Employees	*845*	*1,146*	*(26.3)*
Branches	*43*	*66*	*(34.8)*

Subsequent events

Since 30 June 2018, there have been no events worthy of mention, with the exception of the following:

On 19 July 2018, Banco Sabadell agreed to transfer practically all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. (hereinafter, Cerberus). The overall gross book value of the real estate assets involved in the transaction amounted to approximately €9,100 million, and their overall net book value amounted to approximately €3,900 million.

The transaction has been structured through the transfer of two real estate asset portfolios, called Challenger and Coliseum, to one or more newly incorporated companies (hereinafter, NewCo(s)). The capital of the latter will be contributed and/or sold, as required, in such a way as to ensure that Cerberus ends up directly or indirectly holding an interest of 80% of such capital, with Banco Sabadell holding the remaining 20%. Banco Sabadell and Cerberus shall enter into an agreement to govern their relationship as partners of the NewCo(s).

Solvia Servicios Inmobiliarios, S.L.U., which will continue to be wholly-owned by Banco Sabadell, will continue to provide its comprehensive management services (known as 'servicing') for the real estate assets involved in the transaction on an exclusive basis.

The closing of the transaction, once the corresponding authorisations have been received and the terms and conditions of each of the portfolios have been met, will entail the transfer of control over the real estate assets and, consequently, their derecognition from the consolidated balance sheet of Banco Sabadell Group.

The transaction will contribute to improving the Group's profitability, requiring the recognition of additional provisions with a net impact of approximately €92 million, with a positive impact on Banco Sabadell's fully loaded CET1 ratio of approximately 13 basis points.

Additionally, on 24 July 2018, Banco Sabadell reached an agreement to transfer a portfolio of loans, comprised in turn of three sub-portfolios, mostly mortgage loans, with an outstanding balance of approximately €2,295 million, to Deutsche Bank and Carval Investors. The transaction will be completed once the corresponding authorisations have been received and the relevant terms and conditions have been met.

The transaction will have a negative impact on Banco Sabadell's fully-loaded Common Equity Tier 1 capital ratio of 3 basis points, which includes additional provisions with a net impact on results of approximately €32 million.

Corporate Governance

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

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

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

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

Performance measure		Definition and calculation	Reconciliation (in millions of euros)	30/06/2018	31/12/2017	30/06/2017
ROE	(*) (**)	Profit attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	Average own funds	12,762		13,013
			Profit attributable to the Group	121		451
			Adjustment DGF-SRF net of taxes	(29)		(41)
			ROE (%)	**1.45**		**6.34**
Cost-to-income	(*)	Administrative expenses / adjusted gross income. To calculate this ratio, recurring net trading income based on the Group's best estimates has been considered in the denominator, except at the year-end reporting date and excluding, in 2017, the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the income generated by the early call of TSB's Mortgage Enhancement portfolio. Additionally, the denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds.	Adjusted gross income	2,590		2,685
			Administrative expenses	(1,479)		(1,378)
			Cost-to-income ratio (%)	**57.11**		**51.33**
Other operating income and expenses		Comprised of the following accounting items: other income and other operating expenses as well as income arising from assets and expenses arising from liabilities under insurance and reinsurance contracts.	Other operating income	148		155
			Other operating expenses	(247)		(219)
			Income from assets under insurance and reinsurance contracts	-		67
			Expenses from liabilities under insurance and reinsurance contracts	-		(86)
			Other operating income and expenses	**(98)**		**(83)**
Capital gains on asset sales and other revenue		Comprised of the following accounting items: gains or losses on derecognition of non financial assets, net, excluding investment property and equity interests included in the heading of profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.	Gains or losses on derecognition of non-financial assets, net	7		(10)
			Gains on the sale of equity interests	-		17
			Profit/(loss) on sales of investment property	(3)		11
			Capital gains on asset sales and other revenue	**4**		**18**

(*) The linear accrual of the contribution to deposit guarantee and resolution funds has been calculated based on the Group's best estimates.

(**) Average calculated using the last month-end positions since December in the previous year.

Performance measure		Definition and calculation	Reconciliation (in millions of euros)	30/06/2018	31/12/2017	30/06/2017
Total provisions and impairments		Comprised of the following accounting items: Impairment or reversal of impairment of investments in joint ventures and associates, impairment or reversal of impairment on non-financial assets, investment property included in the heading of gains or losses on derecognition of non-financial assets, net, profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, excluding equity interests, provisions or reversal of provisions and impairment or (-) reversal of impairment 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	Impairment or reversal of impairment of investments in joint ventures and associates	-		-
			Impairment or reversal of impairment on non-financial assets	(36)		(153)
			Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(262)		(57)
			Gains on the sale of equity interests	-		(17)
			Profit/(loss) on sales of investment property	3		(11)
			Other provisions and impairments	**(295)**		**(238)**
			Provisions or reversal of provisions	(84)		(4)
			Impairment or reversal of 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	(427)		(609)
			Provisions for loan losses and financial assets	**(511)**		**(613)**
			Total provisions and impairments	**(806)**		**(851)**
Pre-provisions income		Comprised of the following accounting items: gross income plus administrative and depreciation expenses.	Gross income	2,631		3,043
			Administrative expenses	(1,479)		(1,378)
			Staff expenses	(799)		(791)
			Other general administrative expenses	(681)		(587)
			Depreciation	(177)		(197)
			Pre-provisions income	**975**		**1,468**
Customer spread	(*)	Difference between earnings and expenses on customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer lending. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Customer lending (net)			
			Average balance	134,964		138,924
			Profit/(loss)	1,975		2,083
			Rate (%)	2.95		3.02
			Customer deposits			
			Average balance	139,542		141,203
			Profit/(loss)	(145)		(152)
			Rate (%)	(0.21)		(0.22)
			Customer spread	**2.74**		**2.81**

(*) Average calculated using average daily balances.

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	30/06/2018	31/12/2017	30/06/2017
Gross performing loans	Includes gross lending to customers, excluding repos, accrual adjustments and assets classified as Stage 3.	Loans and credit secured with mortgages	83,977	84,267	
		Loans and credit secured with other collateral	2,494	2,315	
		Trade credit	6,148	5,802	
		Financial leases	2,505	2,316	
		On-demand loans and other	45,543	42,822	
		Gross performing loans	**140,667**	**137,522**	
Gross customer lending	Includes loans and advances to customers excluding value adjustments due to impairment.	Assets in Stage 3 (customers)	7,290	7,867	
		Other valuation adjustment	(23)	(66)	
		Gross customer lending excl. repos	**147,934**	**145,323**	
		Repos	448	2,001	
		Gross customer lending	**148,382**	**147,325**	
		Impairment adjustments	(4,115)	(3,727)	
		Loans and advances to customers	**144,266**	**143,598**	
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities placed by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Financial liabilities at amortised cost	199,596	204,045	
		Non-retail financial liabilities	63,901	71,949	
		Deposits from central banks	27,814	27,848	
		Deposits from credit institutions	10,612	14,171	
		Institutional issuances	22,466	26,999	
		Other financial liabilities	3,009	2,932	
		On-balance sheet customer funds	**135,695**	**132,096**	
On-balance sheet funds	Includes accounting sub-headings of customer deposits, issued debt securities (borrowing operations and other marketable securities and subordinated liabilities).	Customer deposits	136,994	135,307	
		Sight accounts	105,400	98,020	
		Term deposits including deposits redeemable at notice and hybrid financial liabilities	29,265	32,425	
		Repos	2,188	4,750	
		Accrual adjustments and derivatives hedging	141	113	
		Borrowing operations and other marketable securities	18,661	21,250	
		Subordinated liabilities (*)	2,507	2,537	
		On-balance sheet funds	**158,162**	**159,095**	
Off-balance sheet customer funds	Includes mutual funds, equity management, pension funds and insurance products sold by the Group.	Mutual funds	28,624	27,375	
		Equity management	4,007	3,999	
		Pension funds	3,869	3,987	
		Insurance products sold by the Group	10,401	9,965	
		Total off-balance sheet funds	**46,901**	**45,325**	
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	**Funds under management**	**205,063**	**204,420**	
Stage 3 loans	The sum of accounting headings of assets classified into Stage 3 within loans and advances to customers together with guarantees given classified as Stage 3.	Loans and advances to customers	7,290	7,867	
		Guarantees given classed as Stage 3	95	58	
		Loans in Stage 3	**7,386**	**7,925**	

(*) These are subordinated liabilities of debt securities.

Performance measure	Definition and calculation	Reconciliation (in millions of euros)	30/06/2018	31/12/2017	30/06/2017
Stage 3 loans coverage ratio	Gives the percentage of loans classified as Stage 3 which is covered by provisions. Its calculation comprises the ratio of the impairment reserve for loans and advances to customers (including reserves for guarantees given) / total loans classified as Stage 3 (including guarantees given classified as Stage 3).	Loans in Stage 3	7,386	7,925	
		Provisions	4,209	3,625	
		Stage 3 loans coverage ratio	**57.0%**	**45.7%**	
Non-performing assets	The sum of loans classified as Stage 3 and foreclosed real estate assets.	Loans in Stage 3	7,386	7,925	
		Foreclosed real estate assets	7,171	7,393	
		Non-performing assets	**14,557**	**15,318**	
		Provisions for non-performing assets	8,200	7,623	
		NPA coverage ratio	**56.3%**	**49.8%**	
NPL ratio	Expresses loans classified into Stage 3 as a percentage of total customer lending. All calculation components correspond to headings or sub-headings of financial statements. Calculated as the ratio between loans classified as Stage 3, including guarantees given classified as Stage 3 / Loans to customers and guarantees given. The definition of loans classified as Stage 3 is included in this table.	Loans in Stage 3	7,386	7,925	
		Loans to customers and guarantees given	156,891	154,050	
		NPL ratio	**4.7%**	**5.1%**	

Reconciliation of specific financial statement items affected by the entry into force of CNMV Circular 3/2018, as at 30 June 2018

Reconciliation of specific financial statement items affected by the entry into force of CNMV Circular 3/2018, as at 30 June 2018

Pursuant to that set forth in the sole additional provision of the Spanish National Securities Market Commission (CNMV) Circular 3/2018 of 28 June, repealing CNMV Circular 5/2015, the tables below show the breakdown of the reconciliation of specific items of the financial statements of Chapter IV (selected financial information) of Circular 5/2015, which have been affected by the entry into force of the aforementioned Circular, and those actually used in the condensed interim consolidated financial statements corresponding to the six-month period ended 30 June 2018, which have been prepared in accordance with the formats established by Bank of Spain Circular 4/2017.

Specific items of the consolidated balance sheet of Banco Sabadell Group as at 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Non-trading financial assets mandatorily at fair value through profit or loss	**121,505**	**(121,505)**	**N/A**
Financial assets designated at fair value through profit or loss	**-**	**121,505**	**121,505**
Financial assets at fair value through other comprehensive income	**12,866,591**	**(12,866,591)**	**N/A**
Memorandum item: loaned or pledged as security with sale or pledging rights	*2,545,507*	*(2,545,507)*	*N/A*
Available-for-sale financial assets	**N/A**	**12,866,591**	**12,866,591**
Memorandum item: loaned or pledged as security with sale or pledging rights	*N/A*	*2,545,507*	*2,545,507*
Financial assets at amortised cost	**162,279,789**	**(162,279,789)**	**N/A**
Memorandum item: loaned or pledged as security with sale or pledging rights	*3,654,929*	*(3,654,929)*	*N/A*
Loans and receivables	**N/A**	**162,279,789**	**162,279,789**
Memorandum item: loaned or pledged as security with sale or pledging rights	*N/A*	*3,654,929*	*3,654,929*

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Own Funds			
Accumulated other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value changes of equity instruments measured at fair value through other comprehensive income	(42,346)	42,346	N/A
Other valuation adjustments	N/A	(42,346)	(42,346)
Items that may be reclassified to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income	26,756	(26,756)	N/A
Available-for-sale financial assets	N/A	26,756	26,756
Debt instruments	N/A	26,756	26,756

Specific items of the consolidated profit and loss account of Banco Sabadell Group corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Net gains (losses) on financial assets and liabilities			
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(19,902)	19,902	N/A
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	5	(19,902)	(19,897)
(Impairment or (-) reversal of 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)	(427,442)	427,442	N/A
(Financial assets at fair value through other comprehensive income)	(2,567)	2,567	N/A
(Financial assets at amortised cost)	(424,875)	424,875	N/A
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	N/A	(427,442)	(427,442)

Specific items of the consolidated statement of recognised income and expense of Banco Sabadell Group corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value changes of equity instruments measured at fair value through other comprehensive income	(122,023)	122,023	N/A
Other valuation adjustments	N/A	(122,023)	(122,023)
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	(327,504)	327,504	N/A
Valuation gains or (-) losses taken to equity	(79,695)	79,695	N/A
Transferred to profit or loss	(247,809)	247,809	N/A
Other reclassifications		-	N/A
Available-for-sale financial assets	N/A	(327,504)	(327,504)
Valuation gains or (-) losses taken to equity	N/A	(79,695)	(79,695)
Transferred to profit or loss	N/A	(247,809)	(247,809)
Other reclassifications	N/A	-	-

Specific items of the consolidated cash flow statement of Banco Sabadell Group corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Cash flows from operating activities			
Net increase/decrease in operating assets			
Non-trading financial assets mandatorily at fair value through profit or loss	38,226	(38,226)	N/A
Financial assets designated at fair value through profit or loss	-	38,226	38,226
Financial assets at fair value through other comprehensive income	2,012,682	(2,012,682)	N/A
Available-for-sale financial assets	N/A	2,012,682	2,012,682
Financial assets at amortised cost	(5,284,296)	5,284,296	N/A
Loans and receivables	N/A	(5,284,296)	(5,284,296)

Specific items of the balance sheet of Banco de Sabadell, S.A. as at 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Non-trading financial assets mandatorily at fair value through profit or loss	**110,413**	**(110,413)**	**N/A**
Financial assets designated at fair value through profit or loss	**-**	**110,413**	**110,413**
Financial assets at fair value through other comprehensive income	**10,174,342**	**(10,174,342)**	**N/A**
Memorandum item: loaned or pledged as security with sale or pledging rights	*2,545,507*	*(2,545,507)*	*N/A*
Available- for-sale financial assets	**N/A**	**10,174,342**	**10,174,342**
Memorandum item: loaned or pledged as security with sale or pledging rights	*N/A*	*2,545,507*	*2,545,507*
Financial assets at amortised cost	**133,524,668**	**(133,524,668)**	**N/A**
Memorandum item: loaned or pledged as security with sale or pledging rights	*3,654,929*	*(3,654,929)*	*N/A*
Loans and receivables	**N/A**	**133,524,668**	**133,524,668**
Memorandum item: loaned or pledged as security with sale or pledging rights	*N/A*	*3,654,929*	*3,654,929*

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Own Funds			
Accumulated other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value changes of equity instruments measured at fair value through other comprehensive income	(54,612)	54,612	N/A
Other valuation adjustments	N/A	(54,612)	(54,612)
Items that may be reclassified to profit or loss			
Fair value changes of debt instruments measured at fair value through other comprehensive income	(765)	765	N/A
Available- for-sale financial assets	N/A	(765)	(765)
Debt instruments	N/A	(765)	(765)

Specific items of the profit and loss account of Banco de Sabadell S.A. corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Net gains (losses) on financial assets and liabilities			
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(19,959)	19,959	N/A
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	(19,959)	(19,959)
(Impairment or (-) reversal of 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)	(345,387)	345,387	N/A
(Financial assets at fair value through other comprehensive income)	(2,564)	2,564	N/A
(Financial assets at amortised cost)	(342,823)	342,823	N/A
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss)	N/A	(345,387)	(345,387)

Specific items of the statement of recognised income and expense of Banco de Sabadell, S.A. corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value changes of equity instruments measured at fair value through other comprehensive income	(125,541)	125,541	N/A
Other valuation adjustments	N/A	(125,541)	(125,541)
Items that may be reclassified to profit or loss			
Debt instruments at fair value through other comprehensive income	(336,726)	336,726	N/A
Valuation gains or (-) losses taken to equity	(79,695)	79,695	N/A
Transferred to profit or loss	(257,031)	257,031	N/A
Other reclassifications	-	-	N/A
Available- for-sale financial assets	N/A	(336,726)	(336,726)
Valuation gains or (-) losses taken to equity	N/A	(79,695)	(79,695)
Transferred to profit or loss	N/A	(257,031)	(257,031)
Other reclassifications	N/A	-	-

Specific items of the cash flow statement of Banco de Sabadell, S.A. corresponding to the six-month period ended 30 June 2018:

Thousand euro

	Bank of Spain Circular 4/2017	Reconciliation	CNMV Circular 5/2015
Cash flows from operating activities			
Net increase/decrease in operating assets			
Non-trading financial assets mandatorily at fair value through profit or loss	35,939	(35,939)	N/A
Financial assets designated at fair value through profit or loss	-	35,939	35,939
Financial assets at fair value through other comprehensive income	1,928,603	(1,928,603)	N/A
Available- for-sale financial assets	N/A	1,928,603	1,928,603
Financial assets at amortised cost	(4,284,466)	4,284,466	N/A
Loans and receivables	N/A	(4,284,466)	(4,284,466)