BANCO SABADELL GROUP

Independent auditor's report, condensed interim consolidated financial statements for the six - month period ended June 30, 2019 and consolidated Directors' report for the first six months of the 2019 financial year pwc

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 de Sabadell, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the balance sheet as at June 30, 2019, 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 of Banco de Sabadell, S.A. and its subsidiaries for the six month period ended June 30, 2019 have been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, as provided in Article 12 of Royal Decree 1362/2007, for the preparation of condensed interim financial statements.

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, need to be taken into consideration, guarantees, real or personal, considered effective. The Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral.

Periodically the Group performs recalibrations of its internal models in order to optimize its predictive capacity by updating, where appropriate, the variables considered and/or the algorithms employed.

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

Models and valuation methods used suppose a high component of judgment and estimation for the determination of losses due to deterioration.

In addition to the guarantees established on the different operations, as a result of the acquisition of Banco CAM, the Asset Protection Scheme (hereinafter, 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.

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, analysing 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.

Key audit matters	How our audit addressed the key audit matter
In this way, for the accounting impairment losses corresponding to these assets, Group Banco Sabadell estimates a collection right against the DGF for the guarantee granted under the heading "Financial assets at amortized cost". This collection right is subject to periodic settlements by the DGF. On 19 July 2018, the Group agreed to transfer virtually all its real estate exposure to a subsidiary of Cerberus Capital Management L.P. At present, the real estate assets included in the transaction have an aggregate carrying amount of approximately €3,300 million. In addition, on 24 July 2018 an agreement was reached to transfer a loan portfolio formed mostly by mortgage loans which, in turn, comprised three sub-portfolios, with a current carrying amount of approximately €384 million, to Deutsche Bank and to Carval Investors. At 30 June 2019, these assets are recognised in the financial statement line item "*Non-current assets and disposal groups classified as held for sale*" and are measured at the price of the respective transactions. On 24 July 2019, the transfer of the above-mentioned loan portfolio was completed. The transaction involving the real estate assets is expected to be completed by the contractual deadline, once the relevant authorisations have been obtained and the contractual conditions are fulfilled, entailing the transfer of control of the real estate assets and therefore deconsolidation from the consolidated balance sheet. 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.	• 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; considering in particular the reasonableness of the assumptions and probability assigned to the scenario for the United Kingdom's exit from the European Union (Severe Downside Brexit); and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation. • Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models. • 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. 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.

Key audit matters	How our audit addressed the key audit matter
	• Verification of the calculation of the estimated receivable entitlement from the DGF based on the various categories of assets and transactions carried out, as well as its alignment with the accounting records. • Analysis of changes to accounting estimates as a result of the periodic assessment of expected future assets and profits associated with APS coverage in view of additional information on or new events affecting the assets. As regards the sales of real estate asset and loan portfolios, we have carried out the following tests: • Review and analysis of contractual documentation supporting the agreements reached and of the associated accounting impact. • Tests of detail to verify the correct measurement of the real estate assets and loans included in the sale transactions, based on the selling price agreed by the parties and taking into account any APS guarantees. • Review, as from the date of the agreement, of the procedures for assigning risks and profits in economic transactions involving the real estate assets included in the transaction, based on the percentage shareholdings in the corporate structure that will be the owner of the assets when the transaction is completed. 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 a semestral 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.	We have gained an understanding and reviewed the Group's estimation process, 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 semestral 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, tax, 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 cancellation by the Courts of floor clauses or the application of Royal Decree-Law 1/2017 on consumer protection with regard to floor clauses.

These proceedings generally take a long period of time to run their course, giving rise to complex processes dictated by the legislation prevailing in the various jurisdictions in which the Group operates.

The Group records a provision in this respect, therefore estimating the associated payment deemed probable 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 to the condensed interim consolidated financial statements with respect to the provisions created to cover the outcome of contingencies relating to floor clauses.

Our review of the process for estimating the provisions for tax, legal and regulatory litigations carried out by the Group, and the analysis and evaluation of the internal controls over that process, consisted of the following procedures:

- We familiarized ourselves with the policy for classifying litigation and provisions needed, in accordance with applicable accountant legislation.
- We analysed the main individual and class-action lawsuits.
- We obtained confirmation letters from internal attorneys who work with the Group to cross-check its assessment of the outcome of the litigation, the correct recognition of the provisions and the identification of potentially omitted liabilities.
- With the support of our internal experts, we monitored ongoing tax inspections, we analysed the estimate of the expected outcomes of the most significant tax proceedings in progress. 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, our procedures focused on:

- Understanding the control environment, assessing and checking the controls associated with the calculation and review of the provision recognized for customer compensation, including the process of generating and approving the model assumptions and results.
- Evaluating the methodology used by the Group, verifying that it is in line with market practice.

Key audit matters	How our audit addressed the key audit matter
	• 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. As regards TSB Bank Plc., as a result of the incidents identified in the information system environment following the TSB Technological Migration Project, the Group has worked to both resolve all technological issues and consolidate the control framework. Our audit approach has been to increase the sizes of the samples taken during the audit procedures applied. 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 in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and 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, 2018. Our opinion is not modified in respect of 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, 2019, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the condensed 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, 2019 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 in accordance with the requirements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007, 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 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 the disclosures.

- Obtain sufficient appropriate audit evidence regarding the financial information of 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

The General Ordinary Shareholders' Meeting held on March 28, 2019 appointed us as the Group's auditors and the auditor of the Group's consolidated annual accounts for 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting and we have been auditing 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, 2019, 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 26, 2019

"*Translation of the Condensed interim consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union. In the event of a discrepancy the Spanish-language version prevails.*"

Contents of the condensed interim consolidated financial statements of Banco Sabadell Group for the six-month period ended 30 June 2019

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2019 and 31 December 2018

Thousand euro

Assets	Note	30/06/2019	31/12/2018 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**19,785,200**	**23,494,479**
Financial assets held for trading		**2,389,691**	**2,044,965**
Derivatives		1,950,705	1,720,274
Equity instruments	9	7,087	7,254
Debt securities	8	431,899	317,437
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*13,566*	*66,006*
Non-trading financial assets mandatorily at fair value through profit or loss		**149,036**	**141,314**
Equity instruments		-	-
Debt securities	8	149,036	141,314
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets designated at fair value through profit or loss		**-**	**-**
Debt securities		-	-
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		-	-
Financial assets at fair value through other comprehensive income		**7,962,043**	**13,247,055**
Equity instruments	9	220,399	270,336
Debt securities	8	7,741,644	12,976,719
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*2,005,241*	*4,676,769*
Financial assets at amortised cost		**174,148,136**	**164,415,563**
Debt securities	8	18,923,334	13,131,824
Loans and advances	10	155,224,802	151,283,739
Central banks		100,174	98,154
Credit institutions		10,229,784	8,198,763
Customers		144,894,844	142,986,822
Memorandum item: loaned or pledged as security with sale or pledging rights		*7,445,147*	*4,680,404*
Derivatives – Hedge accounting		**668,561**	**301,975**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**240,645**	**56,972**
Investments in joint ventures and associates		**576,709**	**574,940**
Joint ventures		-	-
Associates		576,709	574,940
Assets under insurance or reinsurance contracts		**-**	**-**
Tangible assets	11	**3,568,088**	**2,497,703**
Property, plant and equipment		2,899,345	1,796,682
For own use		2,602,198	1,526,976
Leased out under operating leases		297,147	269,706
Investment properties		668,743	701,021
Of which: leased out under operating leases		-	-
Memorandum item: acquired through finance leases		*1,091,110*	-
Intangible assets	12	**2,472,467**	**2,461,142**
Goodwill		1,032,618	1,032,618
Other intangible assets		1,439,849	1,428,524
Tax assets		**6,843,166**	**6,859,405**
Current tax assets		378,389	312,272
Deferred tax assets	32	6,464,777	6,547,133
Other assets	13	**1,583,811**	**1,639,985**
Insurance contracts linked to pensions		129,862	132,299
Inventories		922,323	934,857
Rest of other assets		531,626	572,829
Non-current assets and disposal groups classified as held for sale	14	**4,464,827**	**4,586,923**
TOTAL ASSETS		**224,852,380**	**222,322,421**

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

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

Notes 1 to 35 and accompanying schedules I to V form an integral part of the balance sheet as at 30 June 2019.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2019 and 31 December 2018

Thousand euro

Liabilities	Note	30/06/2019	31/12/2018 (*)
Financial liabilities held for trading		**2,440,219**	**1,738,354**
Derivatives		1,839,756	1,690,233
Short positions		600,463	48,121
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Financial liabilities designated at fair value through profit or loss		**-**	**-**
Deposits		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
Memorandum item: subordinated liabilities		-	-
Financial liabilities at amortised cost		**207,301,357**	**206,076,860**
Deposits		179,424,378	179,877,663
Central banks	15	22,910,160	28,799,092
Credit institutions	15	13,283,536	11,999,629
Customers	16	143,230,682	139,078,942
Debt securities issued	17	21,636,315	22,598,653
Other financial liabilities		6,240,664	3,600,544
Memorandum item: subordinated liabilities		*3,051,944*	*2,023,978*
Derivatives – Hedge accounting		**732,933**	**633,639**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**226,046**	**36,502**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**18**	**422,628**	**466,379**
Pensions and other post employment defined benefit obligations		86,462	88,456
Other long term employee benefits		8,568	12,404
Pending legal issues and tax litigation		75,726	5,107
Commitments and guarantees given		107,454	108,568
Other provisions		144,418	251,844
Tax liabilities		**233,343**	**176,013**
Current tax liabilities		26,034	8,783
Deferred tax liabilities	32	207,309	167,230
Share capital repayable on demand		**-**	**-**
Other liabilities		**758,003**	**995,069**
Liabilities included in disposal groups classified as held for sale	**14**	**22,414**	**82,605**
TOTAL LIABILITIES		212,136,943	210,205,421

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

Notes 1 to 35 and accompanying schedules I to V form an integral part of the balance sheet as at 30 June 2019.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2019 and 31 December 2018

Thousand euro

Equity	Note	30/06/2019	31/12/2018 (*)
Own Funds	19	**13,020,947**	**12,544,931**
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		-	-
Memorandum item: capital not called up		-	-
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		-	-
Equity component of compound financial instruments		-	-
Other equity instruments issued		-	-
Other equity		36,983	35,487
Retained earnings		-	-
Revaluation reserves		-	-
Other reserves		3,995,294	3,832,935
Reserves or accumulated losses of investments in joint ventures and associates		216,880	206,149
Other		3,778,414	3,626,786
(-) Treasury shares		(145,602)	(143,452)
Profit or loss attributable to owners of the parent		531,674	328,102
(-) Interim dividends		-	(110,739)
Accumulated other comprehensive income		**(374,090)**	**(491,470)**
Items that will not be reclassified to profit or loss		(59,968)	(52,564)
Actuarial gains or (-) losses on defined benefit pension plans		(329)	(329)
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income		(59,639)	(52,235)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		-	-
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		-	-
Items that may be reclassified to profit or loss		(314,122)	(438,906)
Hedge of net investments in foreign operations [effective portion]		169,152	213,031
Foreign currency translation		(619,333)	(640,720)
Hedging derivatives. Cash flow hedges reserve [effective portion]		106,716	4,306
Fair value changes of debt instruments measured at fair value through other comprehensive income		4,300	(22,958)
Hedging instruments [not designated elements]		-	-
Non-current assets and disposal groups classified as held for sale		-	-
Share of other recognised income and expense of investments in joint ventures and associates		25,043	7,435
Minority interests (non-controlling interests)		**68,580**	**63,539**
Accumulated other comprehensive income		217	118
Other items		68,363	63,421
TOTAL EQUITY		12,715,437	12,117,000
TOTAL EQUITY AND TOTAL LIABIITIES		224,852,380	222,322,421

Memorandum item: off-balance sheet exposures			
Loan commitments given	20	25,162,110	22,645,948
Financial guarantees given	20	2,029,916	2,040,786
Other commitments given	20	11,038,697	8,233,226

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

Notes 1 to 35 and accompanying schedules I to V form an integral part of the balance sheet as at 30 June 2019.

Consolidated income statements of Banco Sabadell Group

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	Note	30/06/2019	30/06/2018 (*)
Interest income	21	2,496,251	2,356,797
Financial assets at fair value through other comprehensive income		68,069	120,208
Financial assets at amortised cost		2,210,146	2,083,267
Other interest income		218,036	153,322
(Interest expenses)	21	(690,174)	(546,679)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**1,806,077**	**1,810,118**
Dividend income		3,345	5,533
Profit or loss of entities accounted for using the equity method		32,890	31,173
Fee and commission income	22	797,289	754,981
(Fee and commission expenses)	22	(91,348)	(118,262)
Gains or (-) losses on financial assets and liabilities, net	23	29,355	239,549
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		84,150	221,798
Financial assets at amortised cost		1,297	(67,005)
Other financial assets and liabilities		82,853	288,803
Gains or (-) losses on financial assets and liabilities held for trading, net		(39,520)	27,544
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(39,520)	27,544
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(19,571)	(19,902)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(19,571)	(19,902)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		6	5
Gains or (-) losses from hedge accounting, net		4,290	10,104
Exchange differences [gain or (-) loss], net		15,509	6,273
Other operating income	24	123,660	148,158
(Other operating expenses)	25	(223,015)	(246,534)
Income from assets under insurance or reinsurance contracts		-	-
(Expenses on liabilities under insurance or reinsurance contracts)		-	-
Gross income		**2,493,762**	**2,630,989**

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

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 2019.

Consolidated income statements of Banco Sabadell Group

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	Note	30/06/2019	30/06/2018 (*)
(Administrative expenses)		(1,339,966)	(1,479,208)
(Staff expenses)	26	(810,061)	(798,572)
(Other administrative expenses)	26	(529,905)	(680,636)
(Depreciation)		(226,957)	(176,633)
(Provisions or (-) reversal of provisions)	18	(15,944)	(83,631)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	27	(300,461)	(427,442)
(Financial assets at fair value through other comprehensive income)		3,178	(2,567)
(Financial assets at amortised cost)		(303,639)	(424,875)
Profit/(loss) on operating activities		**610,434**	**464,075**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		192	(185)
(Impairment or (-) reversal of impairment on non-financial assets)	28	(20,233)	(36,415)
(Tangible assets)		(1,370)	(1,625)
(Intangible assets)		-	(282)
(Other)		(18,863)	(34,508)
Gains or (-) losses on derecognition of non-financial assets, net	29	11,166	7,300
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	90,564	(261,886)
Profit or (-) loss before tax from continuing operations		**692,123**	**172,889**
(Tax expense or (-) income related to profit or loss from continuing operations)		(154,118)	(48,508)
Profit or (-) loss after tax from continuing operations		**538,005**	**124,381**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the period		**538,005**	**124,381**
Attributable to minority interest [non-controlling interests]		6,331	3,786
Attributable to owners of the parent		531,674	120,595
Earnings per share (euro)	3	**0.09**	**0.02**
Basic (in euro)		0.09	0.02
Diluted (in euro)		0.09	0.02

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

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 2019.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of recognised income and expenses
For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	30/06/2019	30/06/2018 (*)
Profit or loss for the period	**538,005**	**124,381**
Other comprehensive income	**117,479**	**(261,402)**
Items that will not be reclassified to profit or loss	(7,405)	(85,022)
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	(4,009)	(122,023)
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	(3,396)	37,001
Items that may be reclassified to profit or loss	124,884	(176,380)
Hedge of net investments in foreign operations [effective portion]	(43,879)	(29,642)
Valuation gains or (-) losses taken to equity	(43,879)	(29,642)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	21,389	40,017
Translation gains or (-) losses taken to equity	21,389	40,017
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	146,578	59,480
Valuation gains or (-) losses taken to equity	122,660	133,179
Transferred to profit or loss	19,457	(73,699)
Transferred to initial carrying amount of hedged items	4,461	-
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	38,070	(327,504)
Valuation gains or (-) losses taken to equity	194,772	(79,695)
Transferred to profit or loss	(156,702)	(247,809)
Other reclassifications	-	-
Non-current assets and disposal groups held for sale	-	-
Valuation gains or (-) losses taken to equity	-	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Share of other recognised income and expense of investments in joint ventures and associates	17,609	(326)
Income tax relating to items that may be reclassified to profit or (-) loss	(54,883)	81,595
Total comprehensive income for the period	**655,484**	**(137,021)**
Attributable to minority interest [non-controlling interests]	6,430	3,767
Attributable to owners of the parent	649,054	(140,788)

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

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

Notes 1 to 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 2019.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity
For the six-month periods ended 30 June 2019 and 2018

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	**Total**
Opening balance 31/12/2018	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2019	**703,371**	**7,899,227**	**-**	**35,487**	**-**	**-**	**3,832,935**	**(143,452)**	**328,102**	**(110,739)**	**(491,470)**	**118**	**63,421**	**12,117,000**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	531,674	-	117,380	99	6,331	**655,484**
Other changes in equity	-	-	-	1,496	-	-	162,359	(2,150)	(328,102)	110,739	-	-	(1,389)	**(57,047)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or shareholder remuneration) (*)	-	-	-	-	-	-	(56,270)	-	-	-	-	-	-	**(56,270)**
Purchase of treasury shares	-	-	-	-	-	-	-	(122,759)	-	-	-	-	-	**(122,759)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	603	120,609	-	-	-	-	-	**121,212**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	(7,492)	-	-	224,855	-	(328,102)	110,739	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	8,988	-	-	-	-	-	-	-	-	-	**8,988**
Other increase or (-) decrease in equity	-	-	-	-	-	-	(6,829)	-	-	-	-	-	(1,389)	**(8,218)**
Closing balance 30/06/2019	**703,371**	**7,899,227**	**-**	**36,983**	**-**	**-**	**3,995,294**	**(145,602)**	**531,674**	**-**	**(374,090)**	**217**	**68,363**	**12,715,437**

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

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

Notes 1 to 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 2019.

Consolidated statements of changes in equity of Banco Sabadell Group

Consolidated statements of total changes in equity

For the six-month periods ended 30 June 2019 and 2018

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 or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Accumulated other comprehensive income	Other items	**Total**
Opening balance 31/12/2017	**703,371**	**7,899,227**	**-**	**32,483**	**-**	**-**	**4,207,340**	**(106,343)**	**801,466**	**(111,628)**	**(265,311)**	**207**	**60,969**	**13,221,781**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	(707,405)	-	-	-	59,146	-	-	**(648,259)**
Opening balance 01/01/2018	**703,371**	**7,899,227**	**-**	**32,483**	**-**	**-**	**3,499,935**	**(106,343)**	**801,466**	**(111,628)**	**(206,165)**	**207**	**60,969**	**12,573,522**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	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 expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends (or shareholder remuneration) (*)	-	-	-	-	-	-	(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 liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers among components of equity	-	-	-	-	-	-	-	-	(801,466)	111,628	-	-	-	-
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	6,780	-	-	-	-	-	-	-	-	-	**6,780**
Other increase or (-) decrease 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**

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

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

Consolidated cash flow statements of Banco Sabadell Group

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	Note	30/06/2019	30/06/2018 (*)
Cash flows from operating activities		**(3,953,109)**	**(6,699,232)**
Profit or loss for the period		538,005	124,381
Adjustments to obtain cash flows from operating activities		609,018	1,029,017
Depreciation		226,957	176,633
Other adjustments		382,061	852,384
Net increase/decrease in operating assets		(5,931,478)	(3,402,678)
Financial assets held for trading		(344,726)	(565,179)
Non-trading financial assets mandatorily at fair value through profit or loss		(7,723)	38,226
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		5,308,043	2,012,682
Financial assets at amortised cost		(10,253,746)	(5,284,296)
Other operating assets		(633,326)	395,889
Net increase/decrease in operating liabilities		928,257	(4,364,579)
Financial liabilities held for trading		701,864	356,477
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		118,015	(4,450,010)
Other operating liabilities		108,378	(271,046)
Income tax receipts or payments		(96,911)	(85,373)
Cash flows from investment activities		**351,228**	**412,482**
Payments		(273,110)	(406,004)
Tangible assets	11	(189,473)	(172,470)
Intangible assets		(81,176)	(214,034)
Investments in joint ventures and associates		(2,461)	(13,350)
Subsidiaries and other business units		-	(6,150)
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		624,338	818,486
Tangible assets	11,29	75,571	240,147
Intangible assets		-	-
Investments in joint ventures and associates		114,579	85,804
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale	14,30	434,188	492,535
Other collections related to investment activities		-	-

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

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 2019.

Consolidated cash flow statements of Banco Sabadell Group

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	Note	30/06/2019	30/06/2018 (*)
Cash flows from financing activities		**(83,455)**	**(331,091)**
Payments		(204,666)	(459,371)
Dividends	3	(56,270)	(281,348)
Subordinated liabilities		-	-
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(122,758)	(152,385)
Other payments related to financing activities	3	(25,638)	(25,638)
Collections		121,211	128,280
Subordinated liabilities		-	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		121,211	128,280
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**(23,943)**	**10,601**
Net increase (decrease) in cash and cash equivalents		**(3,709,279)**	**(6,607,240)**
Cash and cash equivalents at the beginning of the period	7	**23,494,479**	**26,362,807**
Cash and equivalents at the end of the period	7	**19,785,200**	**19,755,567**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		2,478,128	2,428,514
Interest paid		716,990	575,115
Dividends received		3,345	5,533
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Cash	7	659,664	652,405
Cash equivalents in central banks	7	18,286,416	18,597,695
Other demand deposits	7	839,120	505,467
Other financial assets		-	-
Less: bank overdrafts repayable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**19,785,200**	**19,755,567**
Of which: held by Group entities but which cannot be drawn by the Group		-	-

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

Notes 1 to 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 2019.

Explanatory notes to the condensed interim consolidated financial statements of Banco Sabadell Group for the six-month period ended 30 June 2019

Note 1 – Business activity, accounting policies and practices

Business 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 prudential supervision of Banco Sabadell on a consolidated basis is taken on by the European Central Bank (ECB).

The bank is the parent company of a corporate group (see Schedule I to the 2018 consolidated annual accounts and Note 2) whose activity it controls directly or indirectly and which comprise, together with the bank, Banco Sabadell Group (hereinafter, "the Group").

Basis of presentation

The Group's consolidated annual accounts for 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2018, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2018 and the results of its consolidated operations, changes in equity and cash flows in 2018.

Note 1 to the 2018 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 of Directors on 31 January 2019 and were approved by shareholders at the Annual General Meeting on 28 March 2019.

These condensed interim consolidated financial statements as at 30 June 2019 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 25 July 2019, taking into account Bank of Spain Circular 4/2017, of 27 November, and its subsequent amendments.

In accordance with IAS 34, interim financial information is prepared exclusively for the purpose of describing material events and changes 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 2018.

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 2019

During the first half of 2019, 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 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Interpretation of IFRIC 23	Uncertainty over income tax treatments
Amendments to IAS 28	Long-term interests in associates and joint ventures
Annual improvements to IFRS	Cycle 2015 - 2017
Amendments to IAS 19	Plan amendment, settlement or curtailment

With the exception of the impact of the implementation of IFRS 16 described hereafter, the implementation of the aforementioned standards has not given rise to any significant effects in terms of these condensed interim consolidated financial statements.

Implementation of IFRS 16 "Leases"

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

The main aspects included by this new standard are shown below, as well as the disclosures relating to the impact of its first implementation on the Group's consolidated financial statements:

Accounting for lease agreements when the Group acts as lessee

Since 1 January 2019, the Group recognises, for leases in which it acts as lessee, which mostly correspond to lease contracts for real estate and office spaces, a right-of-use asset of the leased asset and a liability for payments outstanding at the date on which the leased asset was made available to the Group for use.

The lease liability is initially recognised at an amount equal to the present value of the estimated outstanding payments, based on the expected due date. These payments comprise the following items:

- Fixed payments, less any uncollected incentive.
- Variable payments determined based on an index or rate.
- Amounts expected to be paid for residual value guarantees granted to the lessor.
- The strike price of a call option if the Group is reasonably certain that it will exercise that option.
- Penalty payments arising from the termination of the lease, if the term of the lease reflects that an option to terminate the lease will be exercised.

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

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

The right-of-use asset is initially recognised at cost, which comprises the following amounts:

- The initial valuation amount of the lease liability, as described above.
- Lease payments made before or from the lease start date, less incentives received.
- Initial direct costs.
- Estimated costs incurred to dismantle and dispose of the leased asset, restore the site or return the asset to the condition required by the agreement.

The right-of-use asset is depreciated on a straight-line basis at the lower amount between the asset's useful life and the lease term.

Impacts of the first application of the standard

At the date of the first implementation, the Group decided to apply this standard retroactively, recognising the cumulative effect of the initial implementation in the consolidated balance sheet as at 1 January 2019, without restatement of the comparative information for 2018, in accordance with the transitional arrangements of the standard (see the "Comparability" section of this Note). On the other hand, the Group has also decided not to reassess whether an agreement was a lease agreement at the date of the first implementation, based on its prior analysis by applying the criteria of IAS 17 "Leases" and of IFRIC 4 "Determining whether an agreement contains a lease" for agreements entered into prior to this date. In addition, the Group has used the practical assumptions defined in paragraph C10 of IFRS 16 permitted for the first-time implementation approach chosen to determine lease liabilities as at 1 January 2019.

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

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

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

The first implementation of this standard had no impact on the Group's consolidated equity, although it reduced the Common Equity Tier 1 (CET 1) ratio by 15 basis points. Likewise, the entry into force of this standard had no significant impact on earnings per share or on the Group's segment information for the six-month period ended 30 June 2019.

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:
Not approved for application in the EU		
IFRS 17	Insurance contracts	1 January 2021
References to IFRS Conceptual Framework	Amendment of references to IFRS Conceptual Framework	1 January 2020
Amendments to IFRS 3	Business combinations	1 January 2020
Amendments to IFRS 1 and 8	Definition of material	1 January 2020

(*) The 2018 consolidated annual accounts include a brief description of these standards, amendments and interpretations.

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.

Accounting principles and criteria applied

a) Accounting principles and criteria applied for the first time in the first half of 2019

The accounting principles and policies adopted in preparing the condensed interim consolidated financial statements are consistent with those used in the preparation of the Group's consolidated annual accounts for 2018, except as described in the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) coming into force in 2019" of this Note.

b) Use of judgements 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 judgements and estimates may affect the amount of the assets and liabilities and the disclosure of contingent assets and liabilities as 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 judgements and estimates made in these condensed interim consolidated financial statements refer to the following:

- Corporation 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.
- Changes in the business models under which financial assets are managed (see Notes 8 and 10).
- The determination of the significant increase in the credit risk of financial assets since their initial recognition (see Notes 8 and 10).
- Losses due to the impairment of certain financial assets (see Notes 8 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 provisions and consideration of contingent liabilities (see Note 18).
- The fair value of certain unquoted financial assets (see Note 6).
- Fair value of real estate assets held on the balance sheet (see Note 6).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 32).

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 2018 have taken place during the first half of 2019, 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 2018 is provided solely and exclusively for purposes of comparison with the information for the six-month period ended 30 June 2019 (except for the consolidated balance sheet, which is presented as at 31 December 2018).

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

Bank of Spain Circular 2/2018 of 21 December was published in December 2018, amending Circular 4/2017. This Circular incorporated some changes in the presentation of the headings of financial statements, in particular, of the consolidated income statement, broadening the disclosures required in this statement. These changes have been taken into account in preparing these condensed interim consolidated financial statements, so that the information corresponding to 2018 included in the income statement for the six-month period ended 30 June 2019 has been adapted to the financial statement formats required by the aforementioned Circular 2/2018, for the purpose of comparison.

d) Seasonality of the Group's transactions

Given the activities engaged in by the Group's companies, 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 2019 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 comprises different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business.

Schedule I to the consolidated annual accounts for the year ended 31 December 2018 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 associates) conducted by the Group during the six-month period ended 30 June 2019.

Changes in the scope of consolidation in the first half of 2019

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

The transaction price has amounted to 241 million euros, corresponding to an equity value of 300 million euros for the entire share capital of Solvia. This price may increase by a maximum of 40 million euros, provided that the conditions relating to the evolution of some of Solvia's business lines are met. The transaction has generated a profit of 135 million euros.

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

Other corporate transactions occurring in the first half of 2019

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

The bank believes that the good situation in the real estate market and the strong demand for investment in order to consolidate the domestic real estate development market allows it to extract value from real estate development activities with this transaction. Banco Sabadell is being advised by the company Rothschild, S.A.

Other relevant information

Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (hereinafter, APS) envisaged in the protocol on financial assistance measures for the restructuring of Banco CAM came into force with retroactive effect from 31 July 2011. Under this scheme, which covers a specific portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, “DGF”) will bear 80% of the losses on this portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros at the aforementioned date, have been fully absorbed.

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

Million euro

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances	21,711	2,912	19,117	2,263
Of which: amount drawn	*21,091*	-	*18,460*	-
Of which: guarantees and contingent liabilities	*620*	-	*657*	-
Real estate assets	2,380	558	4,663	1,096
Investments in joint ventures and associates	193	52	504	163
Write-offs	360	360	360	360
Total	**24,644**	**3,882**	**24,644**	**3,882**

Movements in the balance of the customer lending portfolio protected by the APS from its entry into force until 30 June 2019 are as follows:

Million euro

Balance as at 31 July 2011	**18,460**
Acquisition of real estate assets	(7,835)
Collections and subrogation	(5,848)
Increase in write-offs	(1,764)
Credit drawdowns	438
Balance as at 30 June 2019	**3,451**
Of which: exposure for which a transfer agreement has been reached and which has been classified under non-current assets held for sale (see Note 14)	*(1,305)*

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force until 30 June 2019 are as follows:

Million euro

Balance as at 31 July 2011	**4,663**
Acquisition of real estate assets	5,852
Sales of real estate assets	(6,696)
Balance as at 30 June 2019	**3,820**
Of which: real estate exposure for which a transfer agreement has been reached and which has been classified under non-current assets held for sale (see Note 14)	*(3,586)*

In general, the purpose of financial statements is to provide information that fairly represents the financial condition, financial performance, changes in equity and cash flows of an institution, for the purpose of constituting useful information that can be referred to by a wide range of users when making economic decisions. At the same time, as laid out in IAS 1 – Presentation of Financial Statements, financial statements should provide information on the management carried out by the administrators of the assets they have been entrusted. Among other aspects, a fair presentation requires the institution to present information in a manner that provides relevant, reliable, comparable and understandable information.

In view of the foregoing, and considering the significance of the economic impacts arising from the application of the APS in the Group's financial statements, which are mostly recognised as non-current assets held for sale following the transfer deal reached by the Group and described in Note 14, certain particular aspects specific to the assets classified in this portfolio have been considered in order to ensure that the financial statements provide the most faithful and comparable presentation possible of the guarantees given under the APS protocol. The volume of non-performing assets protected by the APS and which have not been transferred under the aforementioned deal is not significant, therefore the particular aspects mentioned previously have not been taken into account.

The portfolio of assets protected by the APS as at 30 June 2019 breaks down as follows:

Million euro

	Balance	Provision
Loans and advances, guarantees and contingent liabilities	2,154	166
Of which: amount drawn not classified as Stage 3	*1,754*	*12*
Of which: amount drawn classified as Stage 3	*393*	*152*
Of which: commitments and guarantees not classified as Stage 3	*6*	-
Of which: commitments and guarantees classified as Stage 3	*2*	*1*
Real estate exposures	234	99
Non-current assets held for sale for which a transfer agreement has been reached	4,890	3,319
Of which :loans and advances	*1,305*	*1,028*
Of which: real estate exposure	*3,586*	*2,291*
Investments in joint ventures and associates	40	26
Write-offs	1,182	1,182
Total	**8,500**	**4,792**

The NPL ratio and NPL coverage ratio are indicated below, together with the lending volumes for construction and real estate development, which correspond to loans and advances not classified as non-current assets held for sale.

%

	30/06/2019
NPL ratio	18.30
NPL coverage ratio	42.04

Million euro

	On Group balance sheet		*Of which, Stage 3*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances - amount drawn	2,147	164	*393*	*152*
Of which, lending to construction and real estate development sector (business in Spain)	*377*	*80*	*151*	*77*
Total	**2,147**	**164**	***393***	***152***

The criteria for recording and presenting assets guaranteed by the APS are described in Note 2 to the 2018 consolidated annual accounts. For all of the losses that have been accounted for (those deriving from loan loss provisions, loan reductions, impairment allowances for real estate assets and losses on the disposal of these assets), the Group keeps an account receivable classed under the "*Financial assets at amortised cost – Loans and advances - Customers*" heading and charged to the income statement, in order to reflect the rights of collection from the DGF under the latter's guarantee, and to offset the impact of losses on assets covered by the APS recognised on the income statement. The balance of this account as at 30 June 2019 amounted to 3,092 million euros (4,086 million euros as at 31 December 2018).

Note 3 – Shareholder remuneration and earnings per share

The dividends paid by the bank in the six-month period ended 30 June 2019 are detailed below:

Thousand euro

	30/06/2019		
	% of par	Euro per share	Amount
Ordinary shares	8%	0.01	56,270
Other shares (non-voting, redeemable, etc.)	-	-	-
Total dividends paid			
a) Dividends charged to results	8%	0.01	56,270
b) Dividends charged to reserves or share premium	-	-	-
c) Dividends in kind	-	-	-

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

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 euros 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 euros per share, charged to the income statement for 2017, which was paid on 29 December 2017.

Earnings per share

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

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

	30/06/2019	30/06/2018
Profit or loss attributable to owners of the parent (thousand euro)	531,674	120,595
Adjustment: Remuneration of other equity instruments (thousand euro)	(25,638)	(25,638)
Profit or (-) loss after tax from discontinued operations (thousand euro)	-	-
Adjusted net profit attributable to the owners of the parent company (thousand euros)	506,037	94,957
Weighted average number of ordinary shares outstanding (*)	5,536,901,826	5,574,285,253
Conversion undertaken of convertible debt and other equity instruments	-	-
Adjusted weighted average number of ordinary shares outstanding	5,536,901,826	5,574,285,253
Earnings per share (euro)	0.09	0.02
Basic earnings per share adjusted for mandatory convertible bonds (euro)	0.09	0.02
Diluted earnings per share (euro)	0.09	0.02

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

At 30 June 2019 and 2018, there were no other share-based financial instruments or commitments to employees with a material impact on the calculation of diluted earnings per share for the periods presented. For this reason, basic earnings per share coincide with diluted earnings per share.

Note 4 – Financial risk management

Note 4 "Financial risk management" to the 2018 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 2019 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 and off-balance sheet exposures, of the Group's maximum gross exposure to credit risk as at 30 June 2019 and 31 December 2018, without deducting collateral or credit enhancements received in order to ensure the fulfilment of payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	30/06/2019	31/12/2018
Financial assets held for trading		**438,986**	**324,691**
Equity instruments	9	7,087	7,254
Debt securities	8	431,899	317,437
Non-trading financial assets mandatorily at fair value through profit or loss		**149,036**	**141,314**
Equity instruments		-	-
Debt securities	8	149,036	141,314
Financial assets at fair value through other comprehensive income		**7,962,043**	**13,247,055**
Equity instruments	9	220,399	270,336
Debt securities	8	7,741,644	12,976,719
Financial assets at amortised cost		**177,341,579**	**167,850,730**
Debt securities	8	18,923,537	13,132,060
Loans and advances	10	158,418,042	154,718,670
Derivatives		**2,619,266**	**2,022,249**
Total credit risk due to financial assets		**188,510,910**	**183,586,039**
Loan commitments given	20	25,162,110	22,645,948
Financial guarantees given	20	2,029,916	2,040,786
Other commitments given	20	11,038,697	8,233,226
Total off-balance sheet exposures		**38,230,723**	**32,919,960**
Total maximum credit risk exposure		**226,741,633**	**216,505,999**

Schedule V to these condensed interim consolidated financial statements shows quantitative data relating to credit risk exposures by geography.

The values of the guarantees received to ensure collection, as at 30 June 2019 and at 2018 year-end, are as follows:

Thousand euro

	30/06/2019	31/12/2018
Value of collateral	90,738,071	87,807,280
Of which: securing Stage 2 loans	*5,641,006*	*6,222,290*
Of which: securing Stage 3 loans	*2,842,128*	*2,916,904*
Value of other guarantees	10,797,636	10,882,213
Of which: securing Stage 2 loans	*823,158*	*820,106*
Of which: securing Stage 3 loans	*369,683*	*320,192*
Total value of guarantees received	**101,535,707**	**98,689,493**

4.2 Liquidity risk

Assessment of liquidity requirements and funding policy

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

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

The Group's primary source of funding is customer deposits (mainly demand deposits and term deposits acquired through the branch network), supplemented by funding through interbank and capital markets in which the institution maintains various short-term and long-term funding programmes in effect in order to achieve an adequate level of diversification by type of product, term and investor. The Group maintains a diversified portfolio of liquid assets that are mostly eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

During the first half of 2019, the generation of the customer funding gap at Group level amounted to 2,080 million euros, mainly due to the positive evolution of customer funds, which has been partially offset by the growth of lending in the year.

In the first half of 2019, Banco Sabadell's wholesale market maturities amounted to 652 million euros (excluding securitisations), and it has carried out wholesale market issues for a value of 1.3 billion euros; one issue of ordinary straight bonds of 300 million euros maturing after 2 years, carried out on 8 April 2019, and the inaugural senior non-preferred debt issue of 1 billion euros maturing after 5 years, carried out on 10 May 2019.

In the second half of 2019, Banco Sabadell anticipates maturities of medium- and long-term wholesale funding of 524 million euros (excludes partial and total amortisations derived from securitisations placed in the market).

As at 30 June 2019, the balance drawn from the facility held with the Bank of Spain for monetary policy operations with the European Central Bank stood at 15,500 million euros (21,548 million euros as at 31 December 2018), which correspond in their entirety to the TLTRO II (Targeted Longer Term Refinancing Operations) liquidity operations. In June, 5 billion euros of funding obtained under this European Central Bank funding scheme, which was accessed in June 2016 and March 2017, was repaid early.

In 2017 and 2018, TSB accessed the Term Funding Scheme (TFS), which was announced and launched by the Bank of England (BoE) in August 2016, making liquidity drawdowns until February 2018. The amount drawn under this scheme amounted to 7,217 million euros as at 30 June 2019, which will mature between 2021 and 2022.

The tables below show the breakdown by contractual maturity, excluding value adjustments and impairment losses, of certain pools of items on the consolidated balance sheet as at 30 June 2019 under business-as-usual market conditions:

Thousand euro

30/06/2019										
Time to revision or maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**TOTAL**
Money Market	100,073	22,318,199	1,850,589	2,150,037	125,576	-	22,005	-	-	**26,566,479**
Lending	612,172	6,467,248	5,731,161	16,032,688	11,706,793	11,010,065	11,709,176	10,288,337	63,643,715	**137,201,355**
Debt securities	2,895	88,638	195,805	1,172,033	822,232	430,293	360,974	176,841	20,000,384	**23,250,095**
Other assets	-	-	-	-	5	111	463	606	7,554	**8,739**
Total assets	**715,140**	**28,874,085**	**7,777,555**	**19,354,758**	**12,654,606**	**11,440,469**	**12,092,618**	**10,465,784**	**83,651,653**	**187,026,668**
Money Market	3,130	8,445,493	1,141,687	12,434,542	12,877,249	20,771	20,095	15,857	29,427	**34,988,251**
Of which: Repos	-	*7,251,174*	*676,620*	*2,149,593*	*219,015*	-	-	-	-	***10,296,402***
Customer funds	111,240,380	3,429,474	4,049,799	13,774,959	2,173,542	676,107	474,311	772,253	(69,377)	**136,521,448**
Marketable debt securities (*)	-	160,393	1,067,411	4,519,948	2,221,681	3,936,952	3,449,406	5,121,297	3,542,992	**24,020,080**
Of which: Secured senior debt	-	*17,700*	*186,093*	*2,058,919*	*1,905,207*	*2,509,537*	*2,008,606*	*2,870,297*	*2,992,267*	***14,548,626***
Of which: Unsecured senior debt	-	*9,000*	-	*516,804*	*316,474*	*677,415*	*1,040,800*	*1,751,000*	*35,700*	***4,347,193***
Of which: Subordinated liabilities	-	-	-	*854,024*	-	*750,000*	*400,000*	*500,000*	*515,025*	***3,019,049***
Other liabilities	-	44,187	69,804	368,324	268,450	173,671	118,808	84,599	325,028	**1,452,871**
Total liabilities	**111,243,510**	**12,079,547**	**6,328,701**	**31,097,773**	**17,540,922**	**4,807,501**	**4,062,620**	**5,994,006**	**3,828,070**	**196,982,650**
Of which:										
Secured liabilities	-	*7,265,039*	*851,856*	*9,715,123*	*4,260,188*	*2,509,537*	*2,008,606*	*2,870,297*	*2,992,266*	***32,472,912***
Unsecured liabilities	*111,243,510*	*4,814,509*	*5,476,845*	*21,382,651*	*13,280,734*	*2,297,964*	*2,054,014*	*3,123,708*	*835,803*	***164,509,738***
Trading and Hedging Derivatives										
Receivable	775,281	11,269,817	14,942,913	19,931,680	14,610,792	7,856,104	7,151,255	9,628,172	39,511,030	**125,677,044**
Payable	577,881	12,194,034	19,088,360	16,506,800	18,894,228	9,150,485	7,364,538	8,870,404	36,613,992	**129,260,722**
Net	**197,400**	**(924,217)**	**(4,145,447)**	**3,424,880**	**(4,283,436)**	**(1,294,381)**	**(213,283)**	**757,768**	**2,897,038**	**(3,583,678)**
Contingent risks										
Financial guarantees	43,599	45,258	62,924	436,364	208,654	115,547	74,162	40,361	1,685,800	**2,712,669**

Thousand euro

31/12/2018										
Time to revision or maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**TOTAL**
Money Market	256,019	25,364,611	1,956,971	1,289,360	27,362	-	-	-	-	**28,894,323**
Lending	630,627	7,082,922	6,176,911	14,988,247	10,958,819	10,375,647	10,379,198	10,981,792	63,055,785	**134,629,948**
Debt securities	7,931	66,604	506,146	995,897	932,276	718,879	387,174	1,252,685	20,496,119	**25,363,711**
Other assets	-	-	-	-	3	11	199	513	6,353	**7,079**
Total assets	**894,577**	**32,514,137**	**8,640,028**	**17,273,504**	**11,918,460**	**11,094,537**	**10,766,571**	**12,234,990**	**83,558,257**	**188,895,061**
Money Market	1,735	9,923,238	1,775,054	1,231,577	16,604,682	11,467,377	20,642	22,733	56,554	**41,103,592**
Of which: Repos	-	*7,434,634*	*1,335,200*	*1,114,616*	*264,091*	-	-	-	-	***10,148,541***
Customer funds	106,595,948	2,975,566	4,973,879	15,504,583	1,184,999	335,028	378,070	527,412	(34,250)	**132,441,235**
Marketable debt securities (*)	-	831,993	2,089,686	4,001,142	3,855,355	2,717,029	2,456,932	2,967,201	5,961,569	**24,880,907**
Of which: Secured senior debt	-	*316,423*	*211,743*	*1,522,583*	*2,482,001*	*2,658,745*	*1,232,132*	*1,463,201*	*4,650,843*	***14,537,671***
Of which: Unsecured senior debt	-	-	*607,566*	*968,170*	*518,361*	*58,284*	*74,800*	*1,004,000*	*795,700*	***4,026,881***
Of which: Subordinated liabilities	-	-	-	-	*854,993*	-	*1,150,000*	*500,000*	*515,025*	***3,020,018***
Other liabilities	-	54,883	81,694	421,697	326,364	227,169	146,347	101,462	374,976	**1,734,592**
Total liabilities	**106,597,683**	**13,785,680**	**8,920,313**	**21,158,999**	**21,971,400**	**14,746,603**	**3,001,991**	**3,618,808**	**6,358,849**	**200,160,326**
Of which:										
Secured liabilities	-	*7,751,057*	*1,544,473*	*2,630,182*	*9,453,522*	*3,608,964*	*1,232,132*	*1,463,201*	*4,650,843*	***32,334,374***
Unsecured liabilities	*106,597,683*	*6,034,623*	*7,375,840*	*18,528,816*	*12,517,878*	*11,137,639*	*1,769,859*	*2,155,607*	*1,708,005*	***167,825,950***
Trading and Hedging Derivatives										
Receivable	-	15,841,747	16,128,261	19,550,449	9,526,320	12,754,095	10,051,165	9,499,730	50,860,322	**144,212,089**
Payable	-	17,736,003	24,206,174	16,107,711	13,591,530	12,852,916	10,589,734	9,565,725	49,748,018	**154,397,811**
Net	**-**	**(1,894,256)**	**(8,077,913)**	**3,442,738**	**(4,065,210)**	**(98,821)**	**(538,569)**	**(65,995)**	**1,112,304**	**(10,185,722)**
Contingent risks										
Financial guarantees	27,042	60,375	90,453	325,621	262,494	118,434	63,196	45,180	1,516,028	**2,508,823**

(*) See details on the maturity of issues aimed at institutional investors in section 4.4.2.4 of the consolidated annual accounts for 2018.

Note 4 “Financial risk management” to the 2018 consolidated annual accounts describes the policies and procedures used by the Group to manage liquidity risk.

Capital Markets

The level of funding in capital markets has declined in recent years, due to, among other aspects, the positive evolution of the customer funding gap. The details of funding in capital markets by type of product as at 30 June 2019 and 31 December 2018 is shown below:

Million euro

	30/06/2019	31/12/2018
Balance outstanding	**21,757**	**21,719**
Covered Bonds	12,400	12,165
Of which: TSB	*1,394*	*559*
Commercial paper and ECP	1,296	2,353
Senior debt	2,026	1,805
Senior non-preferred debt	951	-
Subordinated debt and preference shares	3,002	3,001
Of which: TSB	*429*	*430*
Securitisation bonds	2,066	2,381
Of which: TSB	*592*	*698*
Other	14	14

Maturities of issues (excluding securitisations, ECP and commercial paper) aimed at institutional investors by product type as at 30 June 2019 are analysed below:

Million euro

	3Q19	4Q19	2020	2021	2022	2023	2024	>2024	Balance
Covered bonds (*)	-	524	2,015	1,808	1,677	1,388	2,687	2,301	12,400
Senior Debt (**)	-	-	-	299	25	973	729	-	2,026
Senior non-preferred debt (**)	-	-	-	-	-	-	951	-	951
Subordinated Debt and Preferred Securities (**)	-	-	413	429	1,150	500	-	510	3,002
Other medium/long term financial instruments (**)	-	-	-	10	-	-	4	-	14
TOTAL	**-**	**524**	**2,428**	**2,547**	**2,852**	**2,861**	**4,371**	**2,811**	**18,394**

(*) Secured issues.

(**) Unsecured issues.

The Group keeps and regularly updates a number of funding programmes in capital markets in order to diversify the various sources of available funding. Specifically, where short-term funding is concerned, it has a commercial paper 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 institution has a programme in place for the issuance of non-equity securities registered with the CNMV and a Euro Medium Term Notes (EMTN) programme registered with the Irish Stock Exchange.

During the first half of 2019, the outstanding balance of the commercial paper programme and the Euro Commercial Paper programme net of positions subscribed by Group companies and aimed at institutional investors has been reduced, from a balance of 2,353 million euros as at 31 December 2018 to 1,296 million euros as at 30 June 2019.

During the first half of 2019, Banco Sabadell has carried out, under the Fixed Income Programme in effect at each given time, two issues of structured bonds for a total volume of 6 million euros as well as one issue of straight bonds aimed at retail investors with a term of 3 years and a total volume of 601 million euros.

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 requirements:

Million euro

	30/06/2019	31/12/2018
Cash(*) + Net Interbank Position	14,352	18,229
Funds available in Bank of Spain facility	8,948	4,081
ECB eligible assets not pledged in facility	13,875	12,468
Other non-ECB eligible marketable assets (**)	2,432	2,177
Memorandum item:		
Assets pledged in facility of Bank of Spain (***)	*24,448*	*25,760*
Balance drawn from Bank of Spain facility(****)	*15,500*	*21,548*
Balance drawn from Bank of England Term Funding Scheme	*7,217*	*7,233*
Total Liquid Assets Available	**39,607**	**36,955**

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Market value, and after applying the ECB haircut for monetary policy operations.

(****) Includes TLTRO-II

In the case of TSB, the first line of liquidity as at 30 June 2019 is comprised of 1,544 million euros of liquid assets (1,372 million euros as at 31 December 2018), mainly gilts, and a surplus of reserves in the Bank of England (BoE) amounting to 8,341 million euros (7,703 million euros as at 31 December 2018).

In addition to the first line of liquidity, a buffer is maintained comprising mortgage loans and loans to general governments eligible as collateral for covered bonds and public sector covered bonds, respectively, which as at 30 June 2019 contributed 5,680 million euros in terms of the capacity to issue new own covered bonds eligible as collateral in return for access to the ECB facility (2,320 million euros as at 2018 year-end). As at 30 June 2019, available liquidity amounted to 45,287 million euros in cash equivalent, corresponding to the amount of the first line of liquidity plus the issuing capacity of the institution's covered bonds and public sector covered bonds as at that date (39,275 million euros in cash equivalent as at 31 December 2018).

4.3. Market risk

Structural foreign exchange risk

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

The aim of managing structural foreign exchange risk is to minimise the impact of adverse movements in currency markets on the value of the portfolio/the Group's equity. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the established levels for the risk metrics must be complied with at all times.

Foreign exchange risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits set forth by the Board Risk Committee are sent to the risk control bodies. The main monitoring metric is currency exposure (measured as a percentage of Tier 1), which measures the sum of the net open position (assets less liabilities) maintained by the institution in each currency through any type of financial instrument (FX spot, forward and option transactions), measured in euros and in terms of Tier 1.

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

The bank’s Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

As regards permanent investments in US dollars, the structural position in this currency has gone from 968 million as at 31 December 2018 to 1,010 million as at 30 June 2019. In terms of this structural position, as at 30 June 2019, a hedge is in place for 10% of the total investment.

In terms of permanent investments in Mexican pesos, the evolution of balances deriving from the business in Mexico is monitored, as is the EUR/MXN currency pair, in order to maintain a coverage level of over 70% of the total exposure in this currency. This has enabled the capital buffer to go from 11,050 million Mexican pesos as at 31 December 2018 (of a total exposure of 14,703 million Mexican pesos) to 10,880 million Mexican pesos as at 30 June 2019 (of a total exposure of 14,565 million Mexican pesos).

In terms of the structural position in pound sterling, in a context of political instability in the United Kingdom, Banco de Sabadell, S.A. closely monitors changes in the EUR/GBP exchange rate on an ongoing basis. The Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in GBP that could be experienced as a result of fluctuations in the aforementioned EUR/GBP exchange rate. During the first half of 2019 adjustments have been made to the capital buffer, from 1,368 million pounds sterling as at 31 December 2018 to 703 million pounds sterling as at 30 June 2019, representing 37% of the total investment made (excluding intangible assets).

Currency hedges are continuously monitored in light of market movements.

The net position of foreign currency assets and liabilities includes the structural position of the institution, valued at the closing exchange rates of the analysed month, which amounted to 2,367 million euros, which includes 1,357 million euros corresponding to permanent shareholdings in GBP, 800 million euros corresponding to permanent shareholdings in USD and 169 million euros to permanent 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.

As at 30 June 2019, the equity exposure sensitivity to a 2.6% devaluation in exchange rates against the euro of the main currencies to which the bank is exposed amounted to 62 million euros, of which 57% correspond to the pound sterling, 34% to the US dollar and 7% to the Mexican peso. This potential devaluation is in line with historical quarterly volatility in recent years.

4.4. Brexit

The Group has considered the potential developments and consequences of Brexit in its macroeconomic and financial scenarios.

The baseline scenario considers an orderly Brexit in the second half of 2020, following snap elections in the United Kingdom after the new Prime Minister fails to renegotiate a deal with the EU and is unable to leave without a deal due to a lack of parliamentary support. The foregoing means that 31 October 2019, the date on which the UK is set to leave the EU, once again becomes irrelevant, as occurred with the previous withdrawal date of 29 March, and the UK's withdrawal from the EU is once again postponed. A second referendum could still be held in 2020. The baseline scenario considers a situation in which the UK ends up leaving the EU with a deal not too different from the one agreed by Theresa May in November 2018. GDP growth in the United Kingdom will continue to be limited, due to uncertainty surrounding Brexit and trade tensions, which will weigh down on investment and the foreign sector.

One of the risk scenarios that the Group is working with (a No Deal No-Cliff Edge Brexit) considers a situation in which the UK leaves the EU in October 2019 without a deal. This results in the UK falling back on the trade rules of the WTO, with the consequent introduction of tariff and non-tariff barriers. This in turn leads to a significant decline in foreign trade for the United Kingdom. Despite the no-deal, European and UK authorities end up making pragmatic decisions to prevent market-wide disruptions in banking and financial activity. The British economy falls into a recession in 2020. In Spain, economic growth is negatively impacted by the trade, tourism and investment links with the United Kingdom.

However, there have been no significant changes in TSB's exposure to Brexit in respect of the exposure as at 31 December 2018.

Note 5 – Minimum own funds and capital management

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

- Royal Decree Law 14/2013 on urgent measures for adapting Spanish law to European Union regulations in terms of supervision and solvency of financial institutions;
- Law 10/2014 on the regulation, supervision and solvency of credit institutions;
- Royal Decree 84/2015 that implements the previous Law 10/2014, as well as other lower-ranking provisions; and
- Bank of Spain Circulars 2/2014 and 2/2016.

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

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

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

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

On 8 February 2019, the bank received a notification from the European Central Bank, subsequent to the Supervisory Review and Evaluation Process (SREP), with regard to the minimum prudential requirements applicable to the bank for 2019, based on which the Group must maintain a Common Equity Tier 1 (CET1) ratio of 9.64%, measured through phase-in regulatory capital. This requirement includes the minimum required by Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%) and the systemic buffer (O-SIIs) (0.25%). Additionally, the Group must comply with the requirement arising from the calculation of the specific counter-cyclical capital buffer, which, as at 30 June 2019, stands at 0.14%.

As at 30 June 2019, the Group's CET1 ratio stands at 11.9%, comfortably exceeding the aforementioned requirements.

The following table shows the phase-in capital ratios and eligible own funds of the Group as at 30 June 2019 and 31 December 2018:

Thousand euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Capital	703,371	703,371	-
Reserves	12,197,341	11,732,163	3.96
Convertible bonds	-	-	-
Minority interests	14,384	11,403	26.14
Deductions	(3,053,710)	(2,828,269)	7.97
CET1 resources	**9,861,386**	**9,618,668**	**2.52**
CET1 (%)	11.9	12.00	(1.17)
Preference shares, convertible bonds and deductions	1,152,976	1,152,606	0.03
Additional Tier 1 resources	**1,152,976**	**1,152,606**	**-**
AT1 (%)	1.4	1.4	(0.71)
Tier 1 resources	**11,014,362**	**10,771,274**	**2.26**
Tier 1 (%)	13.3	13.4	(1.12)
Tier 2 resources	**1,510,788**	**1,662,583**	**(9.13)**
Tier 2 (%)	1.8	2.1	(13.33)
Capital base	**12,525,150**	**12,433,857**	**0.73**
Minimum capital requirements	6,649,913	6,422,302	3.54
Capital surplus	**5,875,237**	**6,011,555**	**(2.27)**
Total capital ratio (%)	**15.1**	**15.5**	**(2.79)**
Risk weighted assets (RWAs)	**83,123,913**	**80,278,775**	**3.54**

Common Equity Tier 1 (CET1) capital accounted for 78.7% of eligible capital. Deductions are mainly comprised of goodwill, deferred tax assets and intangible assets.

Tier 1 of Basel III is mainly composed of preference shares and represents 9.2% of total capital.

Tier 2 capital provides 12.1% of the BIS or solvency ratio and is made up very largely of subordinated debt. During the first half of 2019, for the purpose of calculating own funds, the issue of 500 million euros in subordinated debentures of 12 December 2018 was considered, for which the ECB's authorisation was received to classify these as Tier 2 on 14 February 2019.

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 Tier 1 capital and exposures, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015.

Part seven of the CRR sets forth calculation and reporting requirements, and the disclosure requirements of the ratio are set out in Article 451 of part eight. It does not set forth a minimum requirement, although Article 92 of the recently published CRR II already sets forth a mandatory requirement of 3%. At present, the bank reports to the supervisor on a quarterly basis.

The leverage ratio as at 30 June 2019 and 31 December 2018 is shown below:

Thousand euro

	30/06/2019	31/12/2018
Tier 1 capital	11,014,362	10,771,274
Exposure	222,540,337	221,104,347
Leverage ratio	**4.95%**	**4.87%**

The capital and leverage ratios as at 30 June 2019 include losses due to additional provisions required by the sales of non-performing asset portfolios. However, these ratios do not reflect the improvement due to lower non-performing exposures following 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 12.06%, the Tier 1 ratio would stand at 13.47%, the total capital ratio at 15.32% and the pro forma leverage ratio would stand at 5.01%.

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

The methodology and classification of fair value by level is explained in Note 6 to the Group's 2018 consolidated annual accounts.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and financial liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

		30/06/2019		31/12/2018	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	19,785,200	19,785,200	23,494,479	23,494,479
Financial assets held for trading	8, 9	2,389,691	2,389,691	2,044,965	2,044,965
Non-trading financial assets mandatorily at fair value through profit or loss	8	149,036	149,036	141,314	141,314
Financial assets at fair value through other comprehensive income	8, 9	7,962,043	7,962,043	13,247,055	13,247,055
Financial assets at amortised cost	8, 10	174,148,136	181,792,328	164,415,563	170,494,967
Derivatives – Hedge accounting		668,561	668,561	301,975	301,975
Fair value changes of the hedged items in portfolio hedge of interest rate risk		240,645	240,645	56,972	56,972
Total assets		**205,343,312**	**212,987,504**	**203,702,323**	**209,781,727**

Thousand euro

		30/06/2019		31/12/2018	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading		2,440,219	2,440,219	1,738,354	1,738,354
Financial liabilities measured at amortised cost	15, 16, 17	207,301,357	208,548,545	206,076,860	205,522,865
Derivatives – Hedge accounting		732,933	732,933	633,639	633,639
Fair value changes of the hedged items in portfolio hedge of interest rate risk		226,046	226,046	36,502	36,502
Total liabilities		**210,700,555**	**211,947,743**	**208,485,355**	**207,931,360**

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

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

– The fair value of the headings "*Financial assets at amortised cost*" and "*Financial liabilities measured at amortised cost*" has been estimated by the discounted cash flow method, using market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of these financial assets are considered as Level 2.

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

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

Thousand euro

		30/06/2019			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		373,261	2,016,430	-	2,389,691
Derivatives		-	1,950,705	-	1,950,705
Equity instruments	9	4,856	2,231	-	7,087
Debt securities	8	368,405	63,494	-	431,899
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		42,883	56,754	49,399	149,036
Equity instruments		-	-	-	-
Debt securities	8	42,883	56,754	49,399	149,036
Loans and advances		-	-	-	-
Financial assets at fair value through other comprehensive income		7,543,521	334,329	84,193	7,962,043
Equity instruments	9	33,389	106,964	80,046	220,399
Debt securities	8	7,510,132	227,365	4,147	7,741,644
Loans and advances		-	-	-	-
Derivatives – Hedge accounting		-	668,561	-	668,561
Total assets		**7,959,665**	**3,076,074**	**133,592**	**11,169,331**

Thousand euro

	Note	30/06/2019			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		600,463	1,839,756	-	2,440,219
Derivatives		-	1,839,756	-	1,839,756
Short positions		600,463	-	-	600,463
Deposits with credit institutions		-	-	-	-
Derivatives – Hedge accounting		-	732,933	-	732,933
Total liabilities		**600,463**	**2,572,689**	**-**	**3,173,152**

Thousand euro

	Note	31/12/2018			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		320,241	1,724,724	-	2,044,965
Derivatives		-	1,720,274	-	1,720,274
Equity instruments	9	4,246	3,008	-	7,254
Debt securities	8	315,995	1,442	-	317,437
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		24,412	42,648	74,254	141,314
Equity instruments		-	-	-	-
Debt securities	8	24,412	42,648	74,254	141,314
Loans and advances		-	-	-	-
Financial assets at fair value through other comprehensive income		12,722,944	468,627	55,484	13,247,055
Equity instruments	9	59,027	155,825	55,484	270,336
Debt securities	8	12,663,917	312,802	-	12,976,719
Loans and advances		-	-	-	-
Derivatives – Hedge accounting		737	301,238	-	301,975
Total assets		**13,068,334**	**2,537,237**	**129,738**	**15,735,309**

Thousand euro

	Note	31/12/2018			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		48,121	1,690,233	-	1,738,354
Derivatives		-	1,690,233	-	1,690,233
Short positions		48,121	-	-	48,121
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting		35,871	597,768	-	633,639
Total liabilities		**83,992**	**2,288,001**	**-**	**2,371,993**

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 as at 31 December 2018	**129,738**	**-**
Valuation adjustments recognised in profit and loss (*)	(46,749)	-
Valuation adjustments not recognised in profit and loss	11,518	-
Purchases, sales and write-offs	13,035	-
Net additions/removals in Level 3	26,546	-
Exchange differences and other	(496)	-
Balance as at 30 June 2019	**133,592**	**-**

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

The instruments considered as level 3 mainly correspond to the investment (capital and subordinated debt) that the institution 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, given the singularity of this investment, the latter is measured at fair value calculated based on the business plan and financial forecasts of that institution.

As at 30 June 2019, income from sales of financial instruments classified as Level 3, recognised in the consolidated income statement, was not material.

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

Thousand euro

	30/06/2019					
From:	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	22,399	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	5,415	4,147	-	-	-	-
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**5,415**	**26,546**	**-**	**-**	**-**	**-**

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

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

In 2018 no transfers have materialised between different valuation levels.

As at 30 June 2019 and 31 December 2018, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Loans and financial liabilities at fair value through profit or loss

As at 30 June 2019 and 31 December 2018, there were no loans or financial liabilities recognised at fair value through profit or loss.

Non-financial assets

Real estate assets

The methodology used by the Group to determine the fair value of real estate assets is explained in Note 6 of the 2018 consolidated annual accounts.

In the first half of 2019 there were no significant changes in the methods used to value the Group's real estate assets.

Note 7 – Cash and cash balances at central banks and other demand deposits

The composition of this item in the consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019	31/12/2018
By nature:		
Cash	659,664	814,761
Cash balances at central banks	18,286,416	22,065,440
Other demand deposits	839,120	614,278
Total	**19,785,200**	**23,494,479**

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheets as at 30 June 2019 and 31 December 2018 are analysed below:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial assets held for trading	431,899	317,437
Non-trading financial assets mandatorily at fair value through profit or loss	149,036	141,314
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	7,741,644	12,976,719
Financial assets at amortised cost	18,923,334	13,131,824
Total	**27,245,913**	**26,567,294**
By nature:		
Central banks	-	-
General governments	24,115,797	23,732,596
Credit institutions	1,053,310	987,601
Other sectors	1,618,901	1,575,346
Stage 3 assets	77	357
Impairment allowances	(203)	(236)
Other valuation adjustments (interest, fees and commissions, other)	458,031	271,630
Total	**27,245,913**	**26,567,294**

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

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets at 30 June 2019 and 31 December 2018 are analysed below:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial assets held for trading	7,087	7,254
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	220,399	270,336
Total	**227,486**	**277,590**
By nature:		
Resident sector	193,337	156,226
Credit institutions	6,956	8,869
Other	186,381	147,357
Non-resident sector	14,469	64,487
Credit institutions	-	52,815
Other	14,469	11,672
Participations in investment vehicles	19,680	56,877
Total	**227,486**	**277,590**

In the first half of 2019, the Group, based on the last strategic plan presented by the company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish) has reduced the book value of the investment held in this company by 4,535 thousand euros, which has been recognised in the consolidated statement of equity, with the book value of the investment being impaired by 100%. Furthermore, the Group has reduced the book value of the subordinated debt it holds in this company by 46,749 thousand euros, which has been charged to the heading "*Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net*" of the consolidated income statement for the six-month period ended 30 June 2019. As at 30 June 2019, the book value of subordinated debt in SAREB amounted to 27,000 thousand euros (73,749 thousand euros as at 31 December 2018).

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

The transaction has been executed by exercising the purchase option granted by the bank to Starmites Corporation, S.à r.l. on 1 October 2015, which was assigned by the latter to Glenoaks Investments, S.A.

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 as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	10,329,958	8,296,917
Total	**10,329,958**	**8,296,917**
By nature:		
Deposits with agreed maturity	1,823,106	2,414,351
Assets acquired under repurchase agreements	7,887,571	5,367,349
Hybrid financial assets	-	-
Other	615,787	512,058
Stage 3 assets	300	299
Impairment allowances	(1,442)	(1,861)
Other valuation adjustments (interest, fees and commissions, other)	4,636	4,721
Total	**10,329,958**	**8,296,917**

Customers

The breakdown of the heading "*Loans and advances - Customers*" (General governments and Other sectors) of the consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial assets held for trading	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	-
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Financial assets at amortised cost	144,894,844	142,986,822
Total	**144,894,844**	**142,986,822**
By nature:		
On-demand loans and other	7,020,834	7,807,725
Trade credit	5,945,293	6,185,828
Finance leases	2,706,949	2,564,586
Secured loans	84,533,686	83,639,258
Assets acquired under repurchase agreements	93,578	595,917
Other term loans	41,495,820	39,168,359
Stage 3 assets	6,273,977	6,471,569
Impairment allowances	(3,191,799)	(3,433,070)
Other valuation adjustments (interest, fees and commissions, other)	16,506	(13,350)
Total	**144,894,844**	**142,986,822**
By sector:		
General governments	10,816,149	10,875,811
Other sectors	130,980,011	129,085,862
Stage 3 assets	6,273,977	6,471,569
Impairment allowances	(3,191,799)	(3,433,070)
Other valuation adjustments (interest, fees and commissions, other)	16,506	(13,350)
Total	**144,894,844**	**142,986,822**

Financial assets classified on the basis of their credit risk

The breakdown of financial assets, excluding valuation adjustments, classified on the basis of their credit risk as at 30 June 2019 and as at 31 December 2018 is as follows:

Thousand euro

Stage 1	30/06/2019	31/12/2018
Debt securities	26,788,008	26,279,110
Loans and advances	143,477,870	139,376,896
Customers	133,158,617	131,106,667
Central banks and Credit institutions	10,319,253	8,270,229
Total *stage 1*	**170,265,878**	**165,656,006**
By sector:		
General governments	34,888,818	34,573,924
Central banks and Credit institutions	11,372,562	9,244,381
Other private sectors	124,004,498	121,837,701
Total *stage 1*	**170,265,878**	**165,656,006**

Stage 2	30/06/2019	31/12/2018
Debt securities	-	16,435
Loans and advances	8,644,752	8,878,533
Customers	8,637,541	8,855,004
Central banks and Credit institutions	7,211	23,529
Total *stage 2*	**8,644,752**	**8,894,968**
By sector:		
General governments	43,127	34,482
Central banks and Credit institutions	7,211	36,978
Other private sectors	8,594,415	8,823,508
Total *stage 2*	**8,644,752**	**8,894,968**

Stage 3	30/06/2019	31/12/2018
Debt securities	77	357
Loans and advances	6,274,277	6,471,868
Customers	6,273,977	6,471,569
Central banks and Credit institutions	300	299
Total *stage 3*	**6,274,354**	**6,472,225**
By sector:		
General governments	11,570	20,434
Central banks and Credit institutions	300	299
Other private sectors	6,262,484	6,451,492
Total *stage 3*	**6,274,354**	**6,472,225**
Total *stages*	**185,184,984**	**181,023,199**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the six-month period ended 30 June 2019 were as follows:

Thousand euro

	Stage 1	*Stage* 2	*Stage* 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2018	**165,656,006**	**8,894,968**	**6,472,225**	***420,162***	**181,023,199**
Transfers between impairment stages	(1,083,384)	428,010	655,374	-	-
Stage 1	*2,729,848*	*(2,704,714)*	*(25,135)*	-	-
Stage 2	*(3,656,436)*	*3,846,184*	*(189,748)*	-	-
Stage 3	*(156,796)*	*(713,461)*	*870,257*	-	-
Increases	24,797,596	275,891	164,213	*208*	25,237,700
Decreases	(19,190,376)	(946,463)	(702,216)	*(15,614)*	(20,839,056)
Transfers to write-offs	-	(767)	(315,156)	-	(315,923)
Adjustments for exchange differences	86,036	(6,886)	(86)	-	79,063
Balance as at 30 June 2019	**170,265,878**	**8,644,752**	**6,274,353**	***404,756***	**185,184,984**

Allowances

The following table shows the impairment allowances of financial assets broken down by consolidated balance sheet heading as at 30 June 2019 and 31 December 2018:

Thousand euro

	30/06/2019	31/12/2018
Debt securities	203	236
Loans and advances		
Customers	3,191,799	3,433,070
Central banks and Credit institutions	1,442	1,861
Total	**3,193,444**	**3,435,167**

The movement of impairment allowances allocated by the Group for credit risk during the six month period ended 30 June 2019 was as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 31 December 2018	**26,884**	**736,036**	**373,091**	**297,861**	**2,001,295**	**3,435,167**
Movements reflected in impairment gains/(losses) (*)	**(8,644)**	**37,090**	**(5,988)**	**44,654**	**185,655**	**252,766**
Increases due to origination	-	-	106,600	-	-	106,600
Changes due to credit risk variance	(7,839)	17,834	(73,738)	27,139	228,975	192,371
Changes in calculation approach	-	-	-	-	(2)	(2)
Other movements	(806)	19,256	(38,850)	17,515	(43,318)	(46,203)
Movements not reflected in impairment gains/(losses)	**(111)**	**(152,399)**	**18,371**	**(65,362)**	**(297,891)**	**(497,391)**
Transfers between impairment stages	(111)	84,940	18,577	(64,937)	(38,469)	-
Stage 1	*1,069*	*8,072*	*(47,054)*	*32,466*	*5,447*	-
Stage 2	*(1,450)*	*5,216*	*55,468*	*(113,789)*	*54,554*	-
Stage 3	*270*	*71,652*	*10,162*	*16,386*	*(98,470)*	-
Utilisation of allocated provisions	-	(235,378)	(186)	(196)	(202,251)	(438,011)
Other movements	-	(1,961)	(20)	(228)	(57,170)	(59,380)
Adjustments for exchange differences	**806**	**854**	**915**	**129**	**198**	**2,902**
Balance as at 30 June 2019	**18,936**	**621,580**	**386,389**	**277,282**	**1,889,257**	**3,193,444**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a contra account under the heading "impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes" (see Note 27)

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

%	2T19	Proforma 2T19 (*)	4T18
Real estate development and construction	13.91	13.97	15.62
Non-real estate construction	5.65	5.65	5.67
Corporates	1.76	1.76	2.32
SMEs and self-employed	6.54	6.57	6.45
Individuals with 1st mortgage guarantee	3.73	5.65	3.82
Sabadell Group NPL ratio	4.05	4.81	4.22

(*) Corresponds to the NPL ratio excluding TSB.

Note 11 – Tangible assets

The composition of this item in the consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019				31/12/2018			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, plant and equipment	**4,374,803**	**(1,459,664)**	**(15,793)**	**2,899,345**	**3,273,845**	**(1,461,375)**	**(15,788)**	**1,796,682**
For own use (*):	4,015,928	(1,403,429)	(10,301)	2,602,198	2,933,404	(1,396,127)	(10,301)	1,526,976
Computer equipment and related facilities	471,275	(346,559)	-	124,716	510,945	(378,773)	-	132,172
Furniture, vehicles and other facilities	1,222,521	(661,107)	(4,078)	557,336	1,276,404	(691,182)	(4,078)	581,144
Buildings	2,232,671	(377,995)	(6,223)	1,848,453	1,094,086	(309,497)	(6,223)	778,366
Work in progress	42,848	(1)	-	42,847	7,987	(1)	-	7,986
Other	46,613	(17,767)	-	28,846	43,982	(16,674)	-	27,308
Leased out under operating leases	358,875	(56,235)	(5,492)	297,147	340,441	(65,248)	(5,487)	269,706
Investment properties	**795,566**	**(53,127)**	**(73,696)**	**668,743**	**821,885**	**(47,970)**	**(72,894)**	**701,021**
Buildings	791,796	(52,572)	(73,154)	666,070	818,128	(47,444)	(72,362)	698,322
Rural property, plots and sites	3,770	(555)	(542)	2,673	3,757	(526)	(532)	2,699
Total	**5,170,369**	**(1,512,791)**	**(89,489)**	**3,568,088**	**4,095,730**	**(1,509,345)**	**(88,682)**	**2,497,703**

(*) As at 30 June 2019, the cost of property, plant and equipment for own use includes right-of-use assets relating to the leased properties in which the Group acts as lessee amounting to 1,144,928 thousand euros, of which 53,818 thousand euros have been depreciated at that date (see Note 1 under “Implementation of IFRS 16 - Leases”).

Changes in the balance of the "*Tangible assets*" heading during the first half of 2019 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Assets leased out under operating leases	Total
Cost:						
Balances as at 31 December 2018		**1,146,055**	**1,787,349**	**821,885**	**340,441**	**4,095,730**
Additions (*)		1,190,790	33,568	10,837	61,730	1,296,925
Disposals		(14,061)	(126,928)	(36,375)	(43,276)	(220,640)
Transfer of credit losses (**)		-	-	(42)	-	(42)
Other transfers/reclassifications		(11)	11	(739)	-	(739)
Exchange rate		(641)	(204)	-	(21)	(866)
Balances as at 30 June 2019		**2,322,132**	**1,693,796**	**795,566**	**358,874**	**5,170,368**
Accumulated depreciation:						
Balances as at 31 December 2018		**326,172**	**1,069,955**	**47,970**	**65,248**	**1,509,345**
Additions (***)		71,415	52,871	7,631	22,021	153,938
Disposals		(863)	(114,976)	(2,474)	(30,876)	(149,189)
Exchange rate		(961)	(184)	-	(158)	(1,303)
Balances as at 30 June 2019		**395,763**	**1,007,666**	**53,127**	**56,235**	**1,512,791**
Impairment losses:						
Balances as at 31 December 2018		**6,223**	**4,078**	**72,894**	**5,487**	**88,682**
Impairment through profit or loss	28	-	-	4,006	-	4,006
Reversal of impairment through profit or loss	28	-	-	(2,636)	-	(2,636)
Utilisations		-	-	(512)	5	(507)
Transfers/reclassifications		-	-	(56)	-	(56)
Balances as at 30 June 2019		**6,223**	**4,078**	**73,696**	**5,492**	**89,489**
Balances as at 31 December 2018		**813,660**	**713,316**	**701,021**	**269,706**	**2,497,703**
Balances as at 30 June 2019		**1,920,146**	**682,052**	**668,743**	**297,147**	**3,568,088**

(*) Includes 1,107,452 thousand euros relating to the recognition in the consolidated balance sheet of the cost of the right-of-use assets of the leased properties in which the Group acts as lessee at the date of the first implementation of IFRS 16 (see Note 1 under "Implementation of IFRS 16 - Leases").

(**) Allowance arising from provisions allocated to cover credit risk.

(***) Includes 53,818 thousand euros relating to the recognition in the consolidated income statement of the depreciation of the right-of-use assets of the leased properties in which the Group acts as lessee (see Note 1 under "Implementation of IFRS 16 - Leases").

Details of the net book value of transfers shown under the heading "*Tangible assets*" in the table above during the first half of 2019 are as follows:

Thousand euro

	Note	30/06/2019	31/12/2018
Non-current assets and disposal groups classified as held for sale	14	(683)	(865,165)
Credit losses		(42)	(6,266)
Total		**(725)**	**(871,431)**

Note 12 – Intangible assets

The composition of this item as at 30 June 2019 and 31 December 2018 was as follows:

Thousand euro

	30/06/2019	31/12/2018
Goodwill:	**1,032,618**	**1,032,618**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	28,072	28,072
Other intangible assets:	**1,439,849**	**1,428,524**
With a finite useful life:	1,439,849	1,428,524
Contractual relations with customers (Banco Guipuzcoano)	7,774	10,495
Private Banking Business, Miami	17,943	19,730
Contractual relations with TSB customers and brand	179,086	199,497
Computer applications	1,233,519	1,197,357
Other	1,527	1,445
Total	**2,472,467**	**2,461,142**

In the first half of 2019, there have been no movements in goodwill or changes in the assumptions or estimates as a consequence of the evolution of the Group's business lines which have required provisions to be recorded due to the impairment of goodwill or other intangible assets recorded on the consolidated balance sheet.

Note 13 – Other assets

The composition of the "*Other assets*" heading as at 30 June 2019 and 31 December 2018 was as follows:

Thousand euro

	30/06/2019	31/12/2018
Insurance contracts linked to pensions	129,862	132,299
Inventories	922,323	934,857
Rest of other assets	531,626	572,829
Total	**1,583,811**	**1,639,985**

Changes in inventories in the first half of 2019 were as follows:

Thousand euro

	Notes	Land	Buildings under construction	Finished buildings	Total
Balance as at 31 December 2018		**601,422**	**145,428**	**188,006**	**934,857**
Additions		24,819	41,035	32,565	98,419
Disposals		(14,086)	(312)	(77,200)	(91,598)
Impairment through profit or loss	28	(13,688)	(3,671)	(23,636)	(40,995)
Reversal of impairment through profit or loss	28	11,445	2,573	8,114	22,132
Other transfers	14	(32,285)	(32,272)	64,066	(491)
Balance as at 30 June 2019		**577,627**	**152,781**	**191,915**	**922,323**

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 2019 and 31 December 2018 was as follows:

Thousand euro

	30/06/2019	31/12/2018
Assets	**7,215,873**	**7,409,293**
Cash, cash balances at central banks and other demand deposits	-	-
Loans and advances	278,337	421,422
Credit institutions	-	14
Customers	278,337	421,408
Debt securities	-	-
Equity instruments	-	-
Real estate exposure	6,890,045	6,929,301
Tangible assets for own use	100,822	104,451
Investment properties	20,540	20,533
Foreclosed assets	6,758,065	6,795,709
Leased out under operating leases	10,618	8,608
Rest of other assets	47,491	58,570
Impairment allowances	**(2,751,046)**	**(2,822,370)**
Non-current assets and disposal groups classified as held for sale	**4,464,827**	**4,586,923**

Liabilities		
Financial liabilities measured at amortised cost	2,113	44,150
Tax liabilities	443	7,489
Liabilities under insurance or reinsurance contracts	-	-
Rest	19,858	30,966
Liabilities included in disposal groups classified as held for sale	**22,414**	**82,605**

In July 2018, the Group closed a deal to transfer a significant portion of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. as well as a portfolio of loans, mostly mortgage loans, to Deutsche Bank and Carval Investors. At present, the real estate assets and portfolio of loans to which these transfers relate have an overall net book value of approximately 3,300 million euros and 384 million euros, respectively, and they are recorded in this heading of the consolidated balance sheet and valued at the price of the respective transactions. The final materialisation of these transactions and the derecognition from the balance sheet of the aforementioned assets is expected to occur in the contractually agreed period.

Changes in the "*Non-current assets and disposal groups classified as held for sale*" heading in the first half of 2019 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2018		**7,409,293**
Additions		321,387
Disposals		(415,126)
Transfer of credit losses (*)		(103,810)
Other transfers/reclassifications		4,128
Balances as at 30 June 2019		**7,215,872**
Impairment allowances:		
Balances as at 31 December 2018		**2,822,370**
Impairment through profit or loss	30	109,391
Reversal of impairment through profit or loss	30	(21,776)
Utilisations		(159,118)
Other transfers/reclassifications		178
Balances as at 30 June 2019		**2,751,045**
Net balances as at 31 December 2018		**4,586,923**
Net balances as at 30 June 2019		**4,464,827**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net book value of "Other transfers/reclassifications" shown in the table above are as follows:

Thousand euro

	Note	30/06/2019	31/12/2018
Loans and advances		923	409,129
Tangible assets	11	683	865,165
Inventories	13	491	697,533
Rest		1,853	12,054
Total		**3,950**	**1,983,881**

The breakdown of the gross value and impairment allowances of the loans included in "*Non-current assets and disposal groups classified as held for sale*", pooled on the basis of their credit risk and intended purpose, is shown below:

Thousand euro

	Gross Value	Allowances	Net value
Portfolio of loans for which a sale agreement has been reached	**482,811**	**206,100**	**276,711**
Loans and advances previously classified in Stage 3	**481,029**	**205,850**	**275,179**
Real estate development and construction	290,248	134,856	155,392
Non-real estate construction	1,020	293	727
Corporates	953	357	596
SMEs and self-employed	68,820	26,765	42,055
Individuals	119,988	43,579	76,409
Loans and advances previously classified in Stage 2	**1,368**	**219**	**1,149**
Real estate development and construction	51	25	26
SMEs and self-employed	1,040	154	886
Individuals	277	40	237
Loans and advances previously classified in Stage 1	**414**	**31**	**383**
Real estate development and construction	262	1	261
Individuals	152	30	122
Other loans and advances	**1,626**	**-**	**1,626**
Total	**484,437**	**206,100**	**278,337**

As mentioned in Note 2, certain characteristics specific to the assets classified in this portfolio have been considered in order to achieve the most faithful and comparable presentation possible of the guarantees given under the APS protocol in the financial statements. In order to prevent gross lending from being overvalued or duplicated, provisions allocated for this 80% are presented net of gross lending classified as "*Non-current assets and disposal groups classified as held for sale*". This exclusion of gross lending explains the difference of 822 million euros between the loans and advances for which a transfer deal has been reached, which are shown in Note 2, and those shown in the table above. Presenting the information in this way does not impact the net lending classified under this heading.

The reconciliation between gross lending recognised as non-current assets held for sale both prior and subsequent to the transfer of credit risk to the DGF is shown below:

Million euro

	2019		
	Post credit risk transfer	**Credit risk transfer**	**Pre credit risk transfer**
Gross lending classified as instruments held for sale	**484**	**(822)**	**1,306**
Of which: Stage 3 assets	*482*	*(822)*	*1,304*
Of which: other investments	*2*	*-*	*2*
Allowances	**206**	**(822)**	**1,028**
Net lending classified as instruments held for sale	**278**	**-**	**278**

As the loans and advances that have been classified as non-current assets held for sale comprise mainly exposures classified as Stage 3, the NPL ratio of this portfolio is not shown. The coverage ratio before and after excluding the gross lending classified as non-current assets held for sale explained above stands at 78.79% and 42.69%, respectively.

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 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial liabilities measured at amortised cost	36,193,696	40,798,721
Total	**36,193,696**	**40,798,721**
By nature:		
Demand deposits	521,281	399,836
Deposits with agreed maturity	26,255,228	32,517,567
Repurchase agreements	9,173,452	7,600,498
Deposits redeemable at notice	-	-
Hybrid financial liabilities	58,300	59,504
Other accounts	163,805	198,300
Valuation adjustments	21,631	23,016
Total	**36,193,697**	**40,798,721**

Note 16 – Customer deposits

The breakdown of customer deposits in the consolidated balance sheets as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019	31/12/2018
By heading:		
Financial liabilities measured at amortised cost	143,230,682	139,078,942
Total	**143,230,682**	**139,078,942**
By nature:		
Demand deposits	113,606,910	107,665,339
Deposits with agreed maturity	26,259,036	26,705,427
Hybrid financial liabilities	2,044,042	2,003,569
Repurchase agreements	1,115,480	2,532,968
Valuation adjustments	205,214	171,639
Total	**143,230,682**	**139,078,942**
By sector:		
General governments	6,178,192	5,943,438
Other sectors	136,847,276	132,963,865
Other valuation adjustments (interest, fees and commissions, other)	205,214	171,639
Total	**143,230,682**	**139,078,942**

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 2019 and 31 December 2018 are as follows:

Thousand euro

	30/06/2019	31/12/2018
Straight bonds/debentures	4,256,977	3,979,311
Straight bonds	4,135,884	3,759,097
Structured bonds	121,093	220,214
State guaranteed straight bonds	-	-
Commercial paper	2,105,212	3,276,336
Covered Bonds	8,925,100	9,525,100
Covered Bonds (TSB)	1,394,233	558,953
Securitisation funds	1,946,157	2,247,953
Subordinated marketable debt securities	2,987,030	2,986,344
Subordinated liabilities	1,837,030	1,836,344
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	21,606	24,656
Total	**21,636,315**	**22,598,653**

Schedule IV shows the breakdown of issues carried out by the Group in the first half of 2019.

Note 18 – Provisions and contingent liabilities

Movements in the "*Provisions*" heading during the six-month period ended 30 June 2019 are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance as at 31 December 2018	**88,456**	**12,404**	**5,107**	**108,568**	**251,844**	**466,379**
Interest and similar charges - pension commitments	**(328)**	**33**	**-**	**-**	**-**	**(295)**
Allowances charged to income statement - staff expenses (*)	**848**	**2**	**-**	**-**	**-**	**850**
Allowances not charged to income statement	**-**	**-**	**-**	**-**	**-**	**-**
Allowances charged to income statement - provisions	**193**	**120**	**16,881**	**1,652**	**(2,902)**	**15,944**
Allocation of provisions	193	120	30,717	33,349	15,634	80,013
Reversal of provisions	-	-	(13,836)	(31,697)	(18,536)	(64,069)
Actuarial losses / (gains)	-	-	-	- -		-
Exchange differences	**-**	**-**	**-**	**(152)**	**668**	**516**
Utilisations:	**(5,160)**	**(4,784)**	**(3,045)**	**-**	**(63,055)**	**(76,044)**
Net contributions by the sponsor	(238)	-	-	-	-	(238)
Pension payments	(4,922)	(4,784)	-	-	-	(9,706)
Other	-	-	(3,045)	-	(63,055)	(66,100)
Other movements	**2,453**	**793**	**56,783**	**(2,614)**	**(42,137)**	**15,278**
Balance as at 30 June 2019	**86,462**	**8,568**	**75,726**	**107,454**	**144,418**	**422,628**

(*) See Note 26.

Contingent liabilities

In its ruling of 22 November 2017, the Supreme Court ruled on the validity of the use of the IRPH (Spanish mortgage market index) as a reference index for the variation of interest rates on mortgage loans as it is not possible to control its transparency since it is an index defined and regulated by a rule of law. The criterion established in this Supreme Court ruling has been followed in practically all national courts and tribunals that have considered that the use of IRPH as a reference index does not imply a lack of transparency for the consumer.

Barcelona's Court no. 38, deviating from the criteria of the Supreme Court and most Courts and Tribunals, has referred a case to the Court of Justice of the European Union (CJEU) for a preliminary ruling on whether or not this index is subject to a transparency control when applied to consumers, requesting that it be determined whether to replace it with another index or simply stop applying it altogether.

Although the Bank considers that the criterion established by the Supreme Court is the correct one, in the event that the CJEU resolves the issue differently from the case law established by the Supreme Court, the impact that this change of criterion could have would depend on multiple factors that the CJEU judgement would have to resolve, such as the applicable interest rate in that case; whether it would have some retroactive effect (issue not raised in the case referred for a preliminary ruling); and in any case, the conditions that the hypothetical lack of transparency would require. As at 30 June 2019, the outstanding balance of mortgage loans to IRPH-indexed consumers was 831 million euros.

In addition, as reported in Note 2 of the consolidated annual accounts for 2018, all the significant IT issues that arose after the data migration to TSB's new IT platform in April 2018 have been resolved.

As at the date of authorisation of these condensed interim consolidated financial statements, the investigation that was being carried out by both TSB, with the support of independent experts, and UK regulators, is still ongoing. There has been no change in the circumstances that led the Group's management to determine that it was not necessary to record a provision for potential fines in relation to this investigation at the end of 2018. In accordance with the foregoing, no provisions have been allocated for this item as at 30 June 2019.

Note 19 – Own funds

Share capital at the end of the first half of 2019

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

Changes in share capital in the first half of 2019

No changes in share capital have taken place in the first half of 2019.

Note 20 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 30 June 2019 and 31 December 2018 was as follows:

Thousand euro

Commitments and guarantees given	Note	30/06/2019	31/12/2018
Loan commitments given		**25,162,110**	**22,645,948**
Of which, amount classified as Stage 2		*811,625*	*501,605*
Of which, amount classified as Stage 3		*45,657*	*55,932*
Can be drawn by third parties		25,162,110	22,645,948
By credit institutions		30,296	549
By general governments		412,550	638,858
By other resident sectors		16,148,806	15,640,631
By non-residents		8,570,458	6,365,910
Amount recognised within liabilities on the balance sheet	18	44,888	45,759
Financial guarantees given (*)		**2,029,916**	**2,040,786**
Of which, amount classified as Stage 2		*117,001*	*125,649*
Of which, amount classified as Stage 3		*32,649*	*25,890*
Amount recognised within liabilities on the balance sheet (**)	18	23,502	22,617
Other commitments given		**11,038,697**	**8,233,226**
Of which, amount classified as Stage 2		*424,894*	*397,675*
Of which, amount classified as Stage 3		*57,134*	*55,305*
Other guarantees given		7,562,623	7,341,297
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		881,004	921,336
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,661,619	6,399,961
Other contingent risks		-	-
Other commitments given		3,476,074	891,929
Financial asset forward purchase commitments		2,511,297	557,375
Conventional financial asset purchase contracts		768,666	158,985
Capital subscribed but not paid up		1,939	1,939
Underwriting and subscription commitments		-	-
Other loan commitments given		194,172	173,630
Amount recognised within liabilities on the balance sheet	18	39,064	40,192
Total		**38,230,723**	**32,919,960**

(*) Includes 138,136 thousand euros and 137,481 thousand euros as at 30 June 2019 and 31 December 2018, respectively, relating to financial guarantees given in relation to construction and real estate development.

(**) Includes 6,156 thousand euros and 6,410 thousand euros as at 30 June 2019 and 31 December 2018, respectively, in relation to construction and real estate development.

Guarantees given classified as Stage 3

The balance of guarantees given classified as Stage 3 as at 30 June 2019 amounted to 89,783 thousand euros (81,195 thousand euros as at 31 December 2018).

Credit risk allowances corresponding to guarantees given as at 30 June 2019 and 31 December 2018, broken down by the method used to determine such allowances and the credit risk of off-balance sheet exposures, are as follows:

Thousand euro	30/06/2019	31/12/2018
Specific individually measured allowances:	**35,349**	**36,008**
Stage 2	1,784	2,663
Stage 3	33,565	33,345
Specific collectively measured allowances:	**26,572**	**26,725**
Stage 1	9,184	11,727
Stage 2	7,940	5,153
Stage 3	8,980	9,432
Allowances for country risk	468	413
Total	**61,921**	**62,733**

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

Note 21 – Interest income and expenses

The quarterly net interest income for the six-month periods ended 30 June 2019 and 2018 and the average income and expenses of the various components that make up total lending and customer funds are broken down as follows:

Thousand euro

30/06/2019	1st quarter			2nd quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**221,188,996**	**2.19**	**1,193,977**	**226,600,010**	**2.13**	**1,203,204**	**2,397,181**
Cash and cash equivalents (*)	31,206,664	0.19	14,989	33,178,163	0.21	17,454	**32,443**
Loans and advances	138,025,608	2.97	1,010,944	139,416,656	2.94	1,022,383	**2,033,327**
Fixed-income portfolio (**)	25,213,037	1.34	83,350	26,672,089	1.30	86,716	**170,066**
Equity portfolio	869,033	-	-	935,022	-	-	**-**
Tangible and intangible assets	5,331,343	-	-	5,364,135	-	-	**-**
Rest of other assets	20,543,311	1.67	84,694	21,033,945	1.46	76,651	**161,345**
Cost of resources	**221,188,996**	**(0.54)**	**(293,245)**	**226,600,010**	**(0.53)**	**(297,859)**	**(591,104)**
Credit institutions	32,238,040	(0.15)	(12,161)	31,913,401	(0.12)	(9,492)	**(21,653)**
Customer deposits (***)	144,271,153	(0.27)	(97,186)	148,279,109	(0.29)	(107,149)	**(204,335)**
Capital markets	24,639,120	(1.39)	(84,635)	24,855,118	(1.45)	(89,686)	**(174,321)**
Other liabilities	7,697,988	(5.23)	(99,263)	8,893,319	(4.13)	(91,532)	**(190,795)**
Own funds	12,342,695	-	-	12,659,063	-	-	**-**
Net interest income			**900,732**			**905,345**	**1,806,077**
Total ATAs			**221,188,996**			**226,600,010**	**223,909,451**
Ratio (margin/ATA)			**1.65**			**1.60**	**1.63**

(*) Includes cash, central banks, credit institutions and reverse repos.
(**) Includes 540 thousand euros corresponding to interest on financial assets held for trading.
(**) Includes repos.
Interest income or expenses arising from the application of negative interest rates are allocated to the associated instrument. Therefore, the return on investments comprises interest expenses amounting to 37,927 thousand euros, while the cost of funds comprises interest income amounting to 61,143 thousand euros, as a result of such allocation. In particular, the credit institutions heading on the liabilities side comprises negative interest income mainly relating to TLTRO II.

Thousand euro

30/06/2018	1st quarter			2nd quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**216,880,053**	**2.10**	**1,124,649**	**217,038,607**	**2.10**	**1,136,182**	**2,260,831**
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	1.41	88,606	26,158,261	1.42	92,621	**181,227**
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	59,685	**103,347**
Cost of resources	**216,880,053**	**(0.40)**	**(213,101)**	**217,038,607**	**(0.44)**	**(237,612)**	**(450,713)**
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	(1.34)	(84,344)	25,004,552	(1.29)	(80,727)	**(165,071)**
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 euros corresponding to interest on financial assets held for trading.
(**) Includes repos.
Interest income or expenses arising from the application of negative interest rates are allocated to the associated instrument. Therefore, the return on investments comprises interest expenses amounting to 34,996 thousand euros, while the cost of funds comprises interest income amounting to 60,970 thousand euros, as a result of such allocation. In particular, the credit institutions heading on the liabilities side comprises negative interest income mainly relating to TLTRO II.

The net interest margin as a percentage of average total assets declined due to the reduction in the customer spread, the lower returns on the fixed-income portfolio due to asset rotations and the increased cost of accessing capital markets. As a result, net interest margin as a percentage of average total assets was 1.63% in the first half of 2019 (1.68% in the first half of 2018).

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 2019 and 2018 were as follows:

Thousand euro

	30/06/2019	30/06/2018
Fees from risk transactions	**123,915**	**118,753**
Lending operations	69,367	69,534
Sureties and other guarantees	54,548	49,219
Service fees	**396,193**	**327,614**
Payment cards	126,290	101,024
Payment orders	31,179	30,921
Securities	29,770	31,274
Sight accounts	96,752	105,157
Rest	112,202	59,238
Asset management fees	**185,833**	**190,352**
Mutual funds	74,069	78,202
Sale of pension funds and insurance products	98,850	96,886
Assets under management	12,914	15,264
Total	**705,941**	**636,719**
Memorandum item		
Fee and commission income	797,289	754,981
Fee and commission expenses	(91,348)	(118,262)
Net fees and commissions	**705,941**	**636,719**

Note 23 – Gains or (-) losses on financial assets and liabilities, net

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	30/06/2019	30/06/2018
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	84,150	221,798
Financial assets at fair value through other comprehensive income	82,516	291,978
Financial assets at amortised cost	1,297	(67,005)
Financial liabilities measured at amortised cost	337	(3,175)
Gains or (-) losses on financial assets and liabilities held for trading, net	(39,520)	27,544
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(19,571)	(19,902)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	6	5
Gains or (-) losses from hedge accounting, net	4,290	10,104
Total	**29,355**	**239,549**
By type of financial instrument:		
Net gain/(loss) on debt securities	60,916	271,935
Net gain/(loss) other equity instruments	1,053	231
Net gain/(loss) on derivatives	(34,248)	37,563
Net gain/(loss) on other items (*)	1,634	(70,180)
Total	**29,355**	**239,549**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

Throughout the first half of 2019, the Group has carried out sales of certain debt securities that it held in the portfolio of financial assets at fair value through other comprehensive income, generating earnings of 82,516 thousand euros during the six-month period ended 30 June 2019. Of these earnings, 77,658 thousand euros are from the sale of debt securities held with general governments.

Likewise, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies.

Note 24 – Other operating income

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	30/06/2019	30/06/2018
Income from use of investment properties	23,958	53,963
Sales and other income from the provision of non-financial services	20,998	40,755
Other operating income	78,704	53,440
Total	**123,660**	**148,158**

The decrease in “Income from use of investment properties” and “Sales and other income from the provision of non-financial services” in the six-month period ended 30 June 2019 compared to the previous one is mainly due to the sale of Solvia, a subsidiary company that generated income from this type of activities (see Note 2).

Sales and income from the provision of non-financial services include income generated by the management of real estate asset portfolios of other institutions (SAREB).

The income recognised in “Other operating income” mostly corresponds to income from Group entities engaging in non-financial activities (mostly operating leases).

Note 25 – Other operating expenses

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	30/06/2019	30/06/2018
Contribution to deposit guarantee schemes	(5,333)	(5,384)
Banco Sabadell	(53)	(1,197)
TSB	(695)	(2,500)
BS IBM México	(4,585)	(1,687)
Contribution to resolution fund	(58,647)	(49,744)
Other items	(159,035)	(191,406)
Monetisation rates of tax assets (*)	(22,780)	(20,082)
Rest	(136,255)	(171,324)
Total	**(223,015)**	**(246,534)**

(*) See Note 32.

The "Rest” 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 income statements for the six-month periods ended 30 June 2019 and 2018 were as follows:

Thousand euro

	Note	30/06/2019	30/06/2018
Payrolls and bonuses for active staff		(593,849)	(596,276)
Social Security payments		(125,624)	(119,865)
Contributions to defined benefit pension plans	18	(850)	(1,000)
Contributions to defined contribution pension plans		(36,791)	(34,796)
Other staff expenses		(52,947)	(46,635)
Total		**(810,061)**	**(798,572)**

The average workforce of the bank and Group in the six-month periods ended 30 June 2019 and 2018 is detailed below:

Number of employees

	Banco de Sabadell, S.A.		Banco Sabadell Group	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Average of employees	**15,394**	**15,310**	**25,799**	**26,004**
Men	7,496	7,531	11,387	11,528
Women	7,898	7,779	14,412	14,476

As at 30 June 2019 and 2018, the breakdown of Group employees by category and gender is as follows:

Number of employees

	30/06/2019			30/06/2018		
	Men	Women	Total	Men	Women	Total
Management staff	525	177	702	504	175	679
Technical staff	9,645	10,668	20,313	9,997	10,782	20,779
Administrative staff	1,015	3,342	4,357	1,009	3,448	4,457
Total	**11,185**	**14,187**	**25,372**	**11,510**	**14,405**	**25,91**

The Group's workforce, both in average terms and as at 30 June 2019, has shrunk due to the sale of the subsidiary Solvia Servicios Inmobiliarios in April 2019 (721 employees).

Non-recurring staff expenses as at 30 June 2019 amounted to 20,214 thousand euros (21,316 thousand euros as at 30 June 2018). Expenses which do not form part of the institution's ordinary activities are considered non-recurring. In the case of staff expenses, they are considered to be those linked to the business transformation.

Other administrative expenses

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	30/06/2019	30/06/2018
Property, plant and equipment	(60,649)	(116,953)
Information technology	(164,551)	(275,909)
Communication	(21,143)	(27,691)
Publicity	(46,152)	(54,052)
Subcontracted administrative services	(74,907)	(34,394)
Contributions and taxes	(57,584)	(53,901)
Technical reports	(17,699)	(15,642)
Security services and fund transfers	(10,646)	(11,234)
Entertainment expenses and staff travel expenses	(10,268)	(10,761)
Membership fees	(16,152)	(12,402)
Other expenses	(50,154)	(67,697)
Total	**(529,905)**	**(680,636)**

As at 30 June 2019, other non-recurring administrative expenses amounted to 30,831 thousand euros (121,922 thousand euros as at 30 June 2018), which include, among other items, the expenses linked to TSB's IT migration incidents.

The cost-to-income ratio stood at 54.72% as at 30 June 2019 (57.11% as at 30 June 2018).

Information about the Group's branches and offices is given below:

Number of branches

	30/06/2019	30/06/2018
Branches	**2,454**	**2,471**
Spain	1,864	1,877
Outside Spain	590	594

Note 27 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification gains or (-) losses, net

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	Note	30/06/2019	30/06/2018
Financial assets at fair value through other comprehensive income		3,178	(2,567)
Debt securities		3,178	(2,567)
Other equity instruments		-	-
Financial assets at amortised cost	10	(303,639)	(424,875)
Debt securities		(317)	2,872
Loans and advances		(303,322)	(427,747)
Total		**(300,461)**	**(427,442)**

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

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	Note	30/06/2019	30/06/2018
Property, plant and equipment		-	985
Investment properties	11	(1,370)	(2,610)
Goodwill and other intangible assets		-	(282)
Inventories	13	(18,863)	(34,508)
Total		**(20,233)**	**(36,415)**

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

The composition of this item of the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	30/06/2019	30/06/2018
Property, plant and equipment	(2,062)	(1,976)
Investment properties	6,689	3,371
Intangible assets	(549)	-
Interests (*)	7,088	5,905
Other capital instruments	-	-
Other items	-	-
Total	**11,166**	**7,300**

(*) See 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 income statements for the six-month periods ended 30 June 2019 and 2018 is as follows:

Thousand euro

	Note	30/06/2019	30/06/2018
Property, plant and equipment for own use and foreclosed		(44,764)	(261,734)
Gains/losses on sales		42,851	(5,764)
Impairment/Reversal	14	(87,615)	(255,970)
Investment properties		515	-
Intangible assets		-	-
Interests (*)		134,971	(132)
Other capital instruments		-	-
Other items		(158)	(20)
Total		**90,564**	**(261,886)**

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

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

Note 31 – Segment reporting

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 the capital divided by its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.
- Banking Business United Kingdom includes TSB’s contribution to the Group.
- Other Geographies mostly comprises Mexico, foreign branches and representative offices.

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 unit

The current structure is comprised of:

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

Commercial Banking offers both investment and savings products. In terms of investment, the sale of mortgage products, working capital and revolving credit is particularly noteworthy. In terms of savings, the main products are deposits (demand deposits and term deposits), mutual funds, savings insurance and pension plans. Payment protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, among others. It also includes the Private Banking segment and products, which have been designed to provide high added value to customers.

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

– **Asset Transformation:**

Comprehensively manages NPA risk and real estate exposures, and also sets out and implements the strategy of real estate investee companies. 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 banking business conducted in the United Kingdom, which includes current and savings accounts, unsecured loans, credit cards and mortgages.

– **Other Geographies:**

This item mostly comprises Mexico, foreign 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, 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 flows of income and expenses take place between businesses for the provision of services involving the distribution of products, services and systems. The final impact on the Group's income statement is nil.

Each business unit bears its own direct costs, on the basis of general and analytical accounting, as well as the indirect costs of corporate units.

Key information relating to the segmentation of the Group's activity is given hereafter.

Million euro

	30/06/2019				
	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Net interest income	**1,190**	**(24)**	**486**	**154**	**1,806**
Profit or loss on entities valued using the equity method and on dividends	35	-	-	1	36
Net fees and commissions	622	-	56	28	706
Net trading income and exchange differences	19	-	20	5	44
Other operating income/expenses	(115)	22	(1)	(5)	(99)
Gross income	**1,751**	**(2)**	**561**	**183**	**2,493**
Administrative and depreciation expenses	(898)	(46)	(524)	(99)	(1,567)
Operating income	**853**	**(48)**	**37**	**84**	**926**
Provisions and impairments	(238)	(80)	(33)	(23)	(374)
Gains or losses on asset derecognition and others	140	-	(1)	-	139
Profit or loss before tax	**755**	**(128)**	**3**	**61**	**691**
Corporation tax	(178)	38	(1)	(12)	(153)
Profit or loss after tax	**577**	**(90)**	**2**	**49**	**538**
Profit or loss attributed to minority interests	4	-	-	3	7
Total profit or loss of reported Group segments	**573**	**(90)**	**2**	**46**	**531**
ROE (earnings divided by average equity)	11.9%	-	-	8.0%	6.9%
Cost-to-income (administrative expenses divided by gross income)	45.0%	-	81.4%	49.0%	54.7%
NPL ratio	4.7%	40.1%	1.3%	0.8%	4.1%
NPL coverage ratio	50.9%	61.9%	43.8%	106.6%	51.7%

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to income statement: GBP 0.875 (average).

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to income statement: GBP 0.875, MXN 21.674, USD 1.127 and MAD 10.863 (average).

Million euro

	30/06/2019				
	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Assets	**148,394**	**10,713**	**46,648**	**19,097**	**224,852**
Gross performing loans	95,482	708	33,850	11,662	141,702
Real estate exposure	-	1,042	-	-	1,042
Liabilities	**139,280**	**9,839**	**45,143**	**17,875**	**212,137**
On-balance sheet customer funds	101,038	273	33,241	7,309	141,861
Wholesale Funding Capital Markets	19,168	-	2,415	-	21,583
Allocated capital	**9,114**	**875**	**1,505**	**1,222**	**12,716**
Off-balance sheet customer funds	**42,606**	**42**	**-**	**1,072**	**43,720**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.896 (average).
(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.896, MXN 21.820, USD 1.138 and MAD 10.890 (average).

Million euro

	30/06/2018				
	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Net interest income	**1,220**	**(14)**	**487**	**117**	**1,810**
Profit or loss on entities valued using the equity method and on dividends	36	-	-	1	37
Net fees and commissions	576	1	35	25	637
Net trading income and exchange differences	205	9	26	6	246
Other operating income/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 or losses on asset derecognition and others	3	-	1	-	4
Profit or loss before tax	**750**	**(375)**	**(239)**	**37**	**173**
Corporation tax	(206)	119	42	(3)	(48)
Profit or loss after tax	**544**	**(256)**	**(197)**	**34**	**125**
Profit or loss attributed to minority interests	2	-	-	2	4
Total profit or loss of Group segments	**542**	**(256)**	**(197)**	**32**	**121**
ROE (earnings divided by average equity)	11.4%	-	-	8.7%	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%
NPL coverage ratio	55.0%	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 euro

	31/12/2018				
	Banking Business Spain	Asset Transformation	Banking Business UK (*)	Other geographies (**)	Total Group
Assets	**146,411**	**11,907**	**46,182**	**17,822**	**222,322**
Gross performing loans	93,752	854	33,634	11,126	139,366
Real estate exposure	-	959	-	-	959
Liabilities	**137,866**	**10,972**	**44,662**	**16,705**	**210,205**
On-balance sheet customer funds	98,296	235	32,484	6,328	137,343
Wholesale Funding Capital Markets	19,833	-	1,688	-	21,520
Allocated capital	**8,545**	**935**	**1,520**	**1,117**	**12,117**
Off-balance sheet customer funds	**42,976**	**35**	**-**	**1,023**	**44,034**

(*) Includes contribution to TSB's consolidated balance sheet. Exchange rate applied to balance sheet: GBP 0.894 (average).

(**) Mainly includes Mexico, overseas branches and representative offices. Exchange rate applied to balance sheet: GBP 0.894, MXN 22.492, USD 1.145.

Core revenue generated by each business unit as at 30 June 2019 and 2018 is as follows:

Thousand euro

	Consolidated			
	Income from ordinary activities		Profit or loss before tax	
SEGMENTS	**30/06/2019**	**30/06/2018**	**30/06/2019**	**30/06/2018**
Banking Business Spain	2,014,905	1,962,862	755,438	749,555
Asset Transformation	58,111	157,483	(127,593)	(374,491)
Banking Business UK	625,634	642,126	3,464	(239,470)
Other geographies	326,069	238,941	60,814	37,295
(-) Adjustments and disposals of ordinary income between segments	(102,755)	(108,319)	-	-
Total	**2,921,964**	**2,893,093**	**692,123**	**172,889**

The consolidated interim 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 2019, and the comparison with the same period of the preceding year, is as follows:

Thousand euro

	Breakdown of interest income by geography			
	Individual		Consolidated	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
National market	1,577,053	1,559,837	1,571,456	1,547,733
International market	152,038	115,062	924,795	809,064
European Union	41,824	33,476	644,567	617,291
Euro zone	14,710	10,307	14,710	10,307
Non Euro zone	27,114	23,169	629,857	606,984
Other	110,214	81,586	280,228	191,773
Total	**1,729,091**	**1,674,899**	**2,496,251**	**2,356,797**

Note 32 – Deferred tax assets and liabilities

The sources of the deferred tax assets and liabilities recognised in the consolidated balance sheet as at 30 June 2019 and 31 December 2018 are as follows:

Thousand euro

Deferred tax assets	30/06/2019	31/12/2018
Monetisable	**5,163,323**	**5,185,285**
Due to credit impairment	3,467,146	3,491,405
Due to real estate asset impairment	1,582,112	1,569,466
Due to pension funds	114,065	124,414
Non-monetisable	**959,925**	**1,025,949**
Tax credits for losses carried forward	**316,121**	**317,932**
Deductions not applied	**25,408**	**17,967**
Total	**6,464,777**	**6,547,133**

Deferred tax liabilities	30/06/2019	31/12/2018
Property restatements	64,981	65,449
Adjustments to value of wholesale debt issuances arising in business combinations	36,215	43,394
Other financial asset value adjustments	87,469	40,714
Other	18,644	17,673
Total	**207,309**	**167,230**

Note 33 – Related party transactions

During the first half of 2019, no material transactions have taken 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.

Details of the balances held with related parties as at 30 June 2019 and 31 December 2018, as well as the impact of related party transactions on the income statements for the six-month period ended 30 June 2019 and 2018, are shown below:

Thousand euro

	30/06/2019					31/12/2018
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	210,928	8,484	137,078	**356,490**	**305,272**
Liabilities:						
Customer deposits and other financial liabilities	-	511,530	10,081	96,282	**617,893**	**664,968**
Off-balance sheet exposures:						
Loan commitments given	-	1,576	787	25,341	**27,704**	**11,254**
Financial guarantees given	-	494	-	2,815	**3,309**	**24,226**
Other commitments given	-	8,360	-	1,058	**9,418**	**23,634**

Thousand euro

	30/06/2019					30/06/2018
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Income statement:						
Interest and similar income	-	648	50	735	**1,433**	**1,778**
Interest and similar charges	-	(1,503)	(15)	(2)	**(1,520)**	**(2,171)**
Return on capital instruments	-	-	-	-	**-**	**-**
Net fees and commissions	-	67,067	9	257	**67,333**	**61,273**
Other operating income	-	23,854	1	19	**23,874**	**4,140**

(*) Includes employee pension schemes.

The aggregate value of related party transactions during the six-month periods ended 30 June 2019 and 2018 is shown below:

Thousand euro

	30/06/2019					30/06/2018
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Other transactions						
Financing agreements: loans and capital contributions (lender)	-	28,244	3,832	4,804	**36,880**	**49,997**
Financing agreements: loans and capital contributions (borrower)	-	1,766	808	7,800	**10,374**	**35,892**
Collateral and guarantees given	-	-	-	-	**-**	**23**
Collateral and guarantees received	-	-	-	-	**-**	**-**
Commitments undertaken	-	275	-	-	**275**	**79**
Dividends and other earnings distributed	-	-	110	20	**130**	**662**
Other transactions (**)	-	55,416	-	-	**55,416**	**76,316**

(*) Includes employee pension schemes.

(**) Corresponds to dividends received by the Group in the period.

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

The remuneration received by members of the Board of Directors in the six-month periods ended 30 June 2019 and 2018 is shown below:

Thousand euro

	30/06/2019	30/06/2018
Type of remuneration		
Remuneration for membership of the Board and/or Board Committees	1,160	1,069
Wages	2,498	2,078
Variable remuneration in cash	2,199	1,375
Share-based remuneration schemes	-	-
Severance pay	-	-
Long-term savings schemes	-	-
Other items	43	46
Total	5,900	4,568

Total risk transactions granted by the bank and consolidated companies to directors of the parent company amounted to 2,414 thousand euros as at 30 June 2019, of which 2,246 thousand euros corresponded to loans and advances and 168 thousand euros related to guarantees and documentary credit (6,992 thousand euros as at 30 June 2018, consisting of 1,860 thousand euros in loans and advances and 5,132 thousand euros in guarantees and documentary credit). Liabilities amounted to 9,148 thousand euros as at 30 June 2019 (6,339 thousand euros as at 30 June 2018).

Contributions to pension funds and pension plans made by members of the Board of Directors in the first half of 2019 amounted to 4 thousand euros (3 thousand euros in the first half of 2018).

The remuneration received by members of Senior Management in the six-month periods ended 30 June 2019 and 2018 is shown below:

Thousand euro

	30/06/2019	30/06/2018
Total remuneration	4,171	3,853

The amount indicated in the table above includes remuneration of members of Senior Management and the Internal Audit Officer, in accordance with the criteria set out in CNMV Circular 2/2018, of 12 June.

The amounts of variable remuneration of members of the Board of Directors and Senior Management as at 30 June 2019 correspond to 50% of the theoretical variable short-term and long-term remuneration for 2019, without this entailing any earned right claimable under this heading, and it is possible that such remuneration may not materialise.

Note 35 – Subsequent events

Since 30 June 2019, there have been no events worthy of mention, with the exception of that indicated hereafter:

On 24 July 2019, Banco Sabadell, having obtained the relevant authorisations, completed the transfer of a portfolio of loans, mostly secured loans with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros (see Note 14), as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros, to Deutsche Bank and Carval Investors. This transaction was described in Note 2 to the 2018 consolidated annual accounts.

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

Schedule I – Changes in the scope of consolidation

Newly consolidated companies in the first half of 2019:

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
Duncan Holdings 2019-1 limited	Subsidiary	08/04/2019	-	-	100%	100%	Indirect	Full consolidation
Plataforma de Innovación Sabadell S.L.U.	Subsidiary	26/02/2019	3	-	100%	100%	Direct	Full consolidation
Total newly consolidated subsidiaries			3					

Companies no longer consolidated in the first half of 2019:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
CAM Global Finance, S.A. en liquidación	Subsidiary	14/01/2019	100%	-	-	Direct	Full consolidation	b
Grupo Luxiona, S.L.	Associate	29/03/2019	20%	-	-	Indirect	Equity method	a
Malbrouck, S.I.C.A.V.	Subsidiary	13/06/2019	100%	-	(27)	Direct	Full consolidation	b
Placements Immobiliers France, S.A.S.	Subsidiary	01/01/2019	100%	-	(6)	Indirect	Full consolidation	b
Societat d'Inversió dels Enginyers, S.L.	Associate	27/05/2019	47%	-	762	Indirect	Equity method	b
Ac dos Lerida, S.L.U. en liquidación	Subsidiary	27/06/2019	100%	-	(69)	Indirect	Full consolidation	b
Hotel Calle de los Molinos 10, S.L.U. en liquidación	Subsidiary	27/06/2019	100%	-	19	Indirect	Full consolidation	b
Hotel Calle Mayor 34, S.L.U. en liquidación	Subsidiary	27/06/2019	100%	-	43	Indirect	Full consolidation	b
Hotel Mirador del Valle, S.L.U. en liquidación	Subsidiary	27/06/2019	100%	-	25	Indirect	Full consolidation	b
Ribera Salud, S.A.	Associate	28/06/2019	40%	10%	5,282	Indirect	Equity method	a
Tratamientos y Aplicaciones, S.L.U. en liquidación	Subsidiary	27/05/2019	100%	-	-	Direct	Full consolidation	b
Solvia Servicios Inmobiliarios S.L.U. (*)	Subsidiary	23/04/2019	80%	20%	134,980	Direct	Full consolidation	a
Other					1,050			
Total					**142,059**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(*) See Note 2. The 20% stake held by the Group is accounted for using the equity method.

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 2019 and 31 December 2018 are shown below, together with the income statements, the statements of changes in equity and the cash flow statements, corresponding to the six-month periods ended 30 June 2019 and 2018.

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2019 and 31 December 2018

Thousand euro

Assets	30/06/2019	31/12/2018
Cash, cash balances at central banks and other demand deposits	**10,159,774**	**14,816,294**
Financial assets held for trading	**2,243,904**	**1,905,552**
Derivatives	1,834,443	1,640,686
Equity instruments	-	-
Debt securities	409,461	264,866
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	*13,566*	*66,006*
Non-trading financial assets mandatorily at fair value through profit or loss	**103,253**	**138,301**
Equity instruments	-	-
Debt securities	103,253	138,301
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	**5,593,822**	**10,061,773**
Equity instruments	123,742	199,180
Debt securities	5,470,080	9,862,593
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	*1,426,477*	*3,273,036*
Financial assets at amortised cost	**144,126,197**	**135,938,959**
Debt securities	18,400,935	12,915,865
Loans and advances	125,725,262	123,023,094
Central banks	-	-
Credit institutions	11,841,240	9,228,631
Customers	113,884,022	113,794,463
Memorandum item: loaned or pledged as security with sale or pledging rights	*7,445,147*	*4,680,404*
Derivatives – Hedge accounting	**547,821**	**180,771**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**224,698**	**98,684**
Investments in subsidiaries, joint ventures and associates	**5,306,422**	**5,362,502**
Subsidiaries	5,183,921	5,231,121
Joint ventures	-	-
Associates	122,501	131,381
Tangible assets	**2,188,278**	**1,292,607**
Property, plant and equipment	2,057,440	1,161,133
For own use	2,057,440	1,161,133
Leased out under operating leases	-	-
Investment properties	130,838	131,474
Of which: leased out under operating leases	-	-
Memorandum item: acquired through finance leases	*918,948*	-
Intangible assets	**190,703**	**223,589**
Goodwill	153,132	179,717
Other intangible assets	37,571	43,872
Tax assets	**5,228,737**	**5,227,425**
Current tax assets	341,539	238,242
Deferred tax assets	4,887,198	4,989,183
Other assets	**420,033**	**465,608**
Insurance contracts linked to pensions	129,862	132,299
Inventories	-	-
Rest of other assets	290,171	333,309
Non-current assets and disposal groups classified as held for sale	**3,313,765**	**3,275,751**
TOTAL ASSETS	179,647,407	178,987,816

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2019 and 31 December 2018

Thousand euro

Liabilities	**30/06/2019**	**31/12/2018**
Financial liabilities held for trading	**2,346,718**	**1,634,324**
Derivatives	1,746,255	1,586,203
Short positions	600,463	48,121
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	**-**	**-**
Deposits	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Debt securities issued	-	-
Other financial liabilities	-	-
Memorandum item: subordinated liabilities	-	-
Financial liabilities at amortised cost	**164,503,275**	**165,545,469**
Deposits	138,921,042	140,183,849
Central banks	15,676,762	21,549,041
Credit institutions	13,087,137	11,727,442
Customers	110,157,143	106,907,366
Debt securities issued	19,836,266	21,931,463
Other financial liabilities	5,745,967	3,430,157
Memorandum item: subordinated liabilities	*2,607,550*	*2,620,120*
Derivatives – Hedge accounting	**360,406**	**244,496**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**179,475**	**14,771**
Provisions	**702,963**	**663,708**
Pensions and other post employment defined benefit obligations	86,462	88,456
Other long term employee benefits	3,139	6,562
Pending legal issues and tax litigation	75,719	5,100
Commitments and guarantees given	433,254	384,207
Other provisions	104,389	179,383
Tax liabilities	**190,831**	**162,659**
Current tax liabilities	16,038	29,293
Deferred tax liabilities	174,793	133,366
Share capital repayable on demand	**-**	**-**
Other liabilities	**506,947**	**434,302**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**168,790,615**	**168,699,729**

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2019 and 31 December 2018

Thousand euro

Equity	30/06/2019	31/12/2018
Own Funds	**10,786,928**	**10,358,387**
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	14,061	15,054
Retained earnings	-	-
Revaluation reserves	-	-
Other reserves	1,799,091	1,451,367
(-) Treasury shares	(144,579)	(139,760)
Profit or loss for the period	515,757	539,867
(-) Interim dividends	-	(110,739)
Accumulated other comprehensive income	**69,864**	**(70,300)**
Items that will not be reclassified to profit or loss	(74,482)	(61,044)
Actuarial gains or (-) losses on defined benefit pension plans	(329)	(329)
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	(74,153)	(60,715)
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	144,346	(9,256)
Hedge of net investments in foreign operations [effective portion]	25	123
Foreign currency translation	35,444	26,627
Hedging derivatives. Cash flow hedges reserve [effective portion]	118,787	8,009
Fair value changes of debt instruments measured at fair value through other comprehensive income	(9,910)	(44,015)
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**10,856,792**	**10,288,087**
TOTAL EQUITY AND TOTAL LIABIITIES	**179,647,407**	**178,987,816**

Memorandum item: off-balance sheet exposures		
Loan commitments given	**21,199,124**	**18,589,840**
Financial guarantees given	**2,669,061**	**2,465,904**
Other commitments given	**10,983,550**	**8,139,882**

Income statements of Banco de Sabadell, S.A.

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	30/06/2019	30/06/2018
Interest and other similar income	1,729,091	1,674,899
Financial assets at fair value through other comprehensive income	47,948	96,651
Financial assets at amortised cost	1,465,699	1,410,224
Other interest income	215,444	168,024
(Interest expenses)	(517,041)	(446,668)
(Expenses on share capital repayable on demand)	-	-
Net interest income	**1,212,050**	**1,228,231**
Dividend income	109,873	153,495
Fee and commission income	643,877	570,558
(Fee and commission expenses)	(67,415)	(63,642)
Gains or (-) losses on financial assets and liabilities, net	20,368	235,575
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	55,403	197,573
Financial assets at amortised cost	1,189	(67,063)
Other financial assets and liabilities	54,214	264,636
Gains or (-) losses on financial assets and liabilities held for trading, net	(15,782)	58,085
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets from amortised cost	-	-
Other gains or (-) losses	(15,782)	58,085
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(20,121)	(19,959)
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets from amortised cost	-	-
Other gains or (-) losses	(20,121)	(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	868	(124)
Exchange differences [gain or (-) loss], net	17,426	1,371
Other operating income	39,714	49,295
(Other operating expenses)	(121,006)	(113,425)
Gross income	**1,854,887**	**2,061,458**

Income statements of Banco de Sabadell, S.A.

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	30/06/2019	30/06/2018
(Administrative expenses)	(898,866)	(912,532)
(Staff expenses)	(539,733)	(522,439)
(Other administrative expenses)	(359,133)	(390,093)
(Depreciation)	(118,407)	(90,349)
(Provisions or (-) reversal of provisions)	(65,510)	(53,586)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	(230,074)	(345,387)
(Financial assets at fair value through other comprehensive income)	3,142	(2,564)
(Financial assets at amortised cost)	(233,216)	(342,823)
Profit/(loss) on operating activities	**542,030**	**659,604**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	(32,968)	(14,448)
(Impairment or (-) reversal of impairment on non-financial assets)	363	1,960
(Tangible assets)	363	1,960
(Intangible assets)	-	-
(Other)	-	-
Gains or (-) losses on derecognition of non-financial assets, net	331	(2,186)
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	136,239	(259,186)
Profit or (-) loss before tax from continuing operations	**645,995**	**385,744**
(Tax expense or (-) income related to profit or loss from continuing operations)	(130,238)	(76,065)
Profit or (-) loss after tax from continuing operations	**515,757**	**309,679**
Profit or (-) loss after tax from discontinued operations	-	-
Profit or loss for the period	**515,757**	**309,679**
Earnings per share (euro)	**0.09**	**0.05**
Basic (in euro)	0.09	0.05
Diluted (in euro)	0.09	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 2019 and 2018

Thousand euro

	30/06/2019	30/06/2018
Profit or loss for the period	515,757	309,679
Other comprehensive income	140,164	(239,059)
Items that will not be reclassified to profit or loss	(13,438)	(88,027)
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	(9,739)	(125,541)
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	(3,699)	37,514
Items that may be reclassified to profit or loss	153,602	(151,032)
Hedge of net investments in foreign operations [effective portion]	(98)	-
Valuation gains or (-) losses taken to equity	(98)	-
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	8,817	21,471
Translation gains or (-) losses taken to equity	8,817	21,471
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	158,254	90,734
Valuation gains or (-) losses taken to equity	142,019	168,828
Transferred to profit or loss	11,774	(78,094)
Transferred to initial carrying amount of hedged items	4,461	-
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	47,293	(336,726)
Valuation gains or (-) losses taken to equity	101,170	(79,695)
Transferred to profit or loss	(53,877)	(257,031)
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	(60,664)	73,489
Total comprehensive income for the period	655,921	70,620

The statement of recognised income and expense and the statement 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 2019 and 2018

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the period	(-) Interim dividends	Accumulated other comprehensive income	**Total**
Opening balance 31/12/2018	**703,371**	**7,899,227**	**-**	**15,054**	**-**	**-**	**1,451,367**	**(139,760)**	**539,867**	**(110,739)**	**(70,300)**	**10,288,087**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2019	**703,371**	**7,899,227**	**-**	**15,054**	**-**	**-**	**1,451,367**	**(139,760)**	**539,867**	**(110,739)**	**(70,300)**	**10,288,087**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	515,757	-	140,164	**655,921**
Other changes in equity	-	-	-	(993)	-	-	347,724	(4,819)	(539,867)	110,739	-	**(87,216)**
Issuance of ordinary shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of preference shares	-	-	-	-	-	-	-	-	-	-	-	**-**
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	**-**
Exercise or expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or shareholder remuneration)	-	-	-	-	-	-	(56,270)	-	-	-	-	**(56,270)**
Purchase of treasury shares	-	-	-	-	-	-	-	(122,278)	-	-	-	**(122,278)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	704	117,459	-	-	-	**118,163**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	(7,492)	-	-	436,620	-	(539,867)	110,739	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	6,499	-	-	-	-	-	-	-	**6,499**
Other increase or (-) decrease in equity	-	-	-	-	-	-	(33,330)	-	-	-	-	**(33,330)**
Closing balance 30/06/2019	**703,371**	**7,899,227**	**-**	**14,061**	**-**	**-**	**1,799,091**	**(144,579)**	**515,757**	**-**	**69,864**	**10,856,792**

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 2019 and 2018

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss 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 corrections of errors	-	-	-	-	-	-	-	-	-	-	-	**-**
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 period	-	-	-	-	-	-	-	-	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 expiration of other equity instruments issued	-	-	-	-	-	-	-	-	-	-	-	**-**
Conversion of debt to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Capital reduction	-	-	-	-	-	-	-	-	-	-	-	**-**
Dividends (or shareholder remuneration)	-	-	-	-	-	-	(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 liability	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	-	-	407,542	-	(519,170)	111,628	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	3,677	-	-	-	-	-	-	-	**3,677**
Other increase or (-) decrease 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**

Cash flow statements of Banco Sabadell, S.A.

For the six-month periods ended 30 June 2019 and 2018

Thousand euro

	30/06/2019	30/06/2018
Cash flows from operating activities	**(4,953,614)**	**(6,136,041)**
Profit or loss for the period	515,757	309,679
Adjustments to obtain cash flows from operating activities	443,159	843,046
Depreciation	118,407	90,349
Other adjustments	324,752	752,697
Net increase/decrease in operating assets	(4,978,222)	(2,757,310)
Financial assets held for trading	(338,351)	(415,926)
Non-trading financial assets mandatorily at fair value through profit or loss	35,048	35,939
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	4,491,760	1,928,603
Financial assets at amortised cost	(8,590,815)	(4,284,466)
Other operating assets	(575,864)	(21,460)
Net increase/decrease in operating liabilities	(864,138)	(4,456,756)
Financial liabilities held for trading	712,393	185,291
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	(1,997,967)	(4,471,998)
Other operating liabilities	421,436	(170,049)
Income tax receipts or payments	(70,170)	(74,700)
Cash flows from investment activities	**407,599**	**395,363**
Payments	(38,634)	(303,154)
Tangible assets	(32,906)	(58,805)
Intangible assets	(4,504)	(2,216)
Investments in subsidiaries, joint ventures and associates	(1,224)	(420)
Other business units	-	(241,713)
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investment activities	-	-
Collections	446,233	698,517
Tangible assets	9,948	23,212
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	167,264	76,167
Other business units	-	206,783
Non-current assets and liabilities classified as held for sale	269,021	392,355
Other collections related to investment activities	-	-
Cash flows from financing activities	**(86,023)**	**(333,252)**
Payments	(204,185)	(458,861)
Dividends	(56,270)	(281,348)
Subordinated liabilities	-	-
Amortisation of own equity instruments	-	-
Acquisition of own equity instruments	(122,277)	(151,875)
Other payments related to financing activities	(25,638)	(25,638)
Collections	118,162	125,609
Subordinated liabilities	-	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	118,162	125,609
Other collections related to financing activities	-	-
Effect of exchange rate fluctuations	**(24,482)**	**(9,394)**
Net increase (decrease) in cash and cash equivalents	**(4,656,520)**	**(6,083,324)**
Cash and cash equivalents at the beginning of the period	**14,816,294**	**17,411,543**
Cash and equivalents at the end of the period	**10,159,774**	**11,328,219**

COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Cash	507,821	492,886
Cash equivalents in central banks	9,095,630	10,633,332
Other demand deposits	556,323	202,001
Other financial assets	-	-
Less: bank overdrafts repayable 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 spanish Deposit Guarantee Fund.

a) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 30 June 2019 and 31 December 2018 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)		
	30/06/2019	31/12/2018
Total mortgage loan and credit portfolio	**53,185,277**	**53,708,998**
Participation mortgages issued	**2,519,029**	**2,737,340**
Of which: Loans held on balance sheet	*2,444,336*	*2,652,901*
Mortgage transfer certificates	**6,812,630**	**7,126,535**
Of which: Loans held on balance sheet	*6,712,469*	*7,024,075*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**43,853,618**	**43,845,123**
Ineligible loans	12,919,964	13,712,492
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	12,045,608	12,694,995
Rest	874,356	1,017,497
Eligible loans	30,933,654	30,132,631
Non-qualifying portions	65,923	80,012
Qualifying portions	30,867,731	30,052,619
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	30,867,731	30,052,619
Substitution assets for covered bond issues	-	-

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

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues	30/06/2019		31/12/2018	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Loans backing issues of mortgage bonds and covered bonds	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Origin of operations	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Originated by the institution	43,204,490	*30,504,903*	43,165,526	*29,696,214*
Subrogated from other entities	307,508	*252,497*	312,754	*257,131*
Rest	341,620	*176,254*	366,843	*179,286*
Currency	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Euro	43,774,691	*30,871,015*	43,758,869	*30,083,348*
Other currencies	78,927	*62,639*	86,254	*49,283*
Payment status	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Satisfactory payment	36,965,335	*27,767,734*	39,344,180	*28,875,322*
Other situations	6,888,283	*3,165,920*	4,500,943	*1,257,309*
Average residual maturity	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Up to 10 years	11,515,595	*8,480,989*	11,749,774	*8,416,923*
10 to 20 years	17,285,799	*13,061,229*	17,276,398	*12,762,148*
20 to 30 years	13,069,421	*8,784,694*	12,633,196	*8,286,463*
More than 30 years	1,982,803	*606,742*	2,185,755	*667,097*
Interest rate	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Fixed	14,337,316	*11,114,193*	12,871,219	*9,796,935*
Variable	29,516,302	*19,819,461*	30,973,904	*20,335,696*
Mixed	-	-	-	-
Borrowers	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Legal entities and individual entrepreneurs	14,408,270	*8,826,281*	14,750,289	*8,641,999*
Of which: Real estate developments	*3,321,695*	*1,299,771*	*3,602,883*	*1,393,704*
Other individuals and NPISHs	29,445,348	*22,107,373*	29,094,834	*21,490,632*
Type of guarantee	**43,853,618**	***30,933,654***	**43,845,123**	***30,132,631***
Assets /finished buildings	41,957,916	*30,173,305*	41,816,188	*29,375,324*
Residential	*33,867,692*	*24,656,930*	*33,588,699*	*23,944,284*
Of which: Subsidised housing	*1,617,258*	*1,282,438*	*1,670,994*	*1,306,243*
Commercial	*7,892,604*	*5,379,215*	*8,038,216*	*5,298,139*
Other	*197,620*	*137,160*	*189,273*	*132,901*
Assets/ buildings under construction	256,184	*184,289*	254,599	*180,336*
Residential	*205,409*	*138,176*	*216,051*	*146,706*
Of which: Subsidised housing	*177*	*177*	*180*	*180*
Commercial	*49,524*	*44,862*	*37,945*	*33,027*
Other	*1,251*	*1,251*	*603*	*603*
Land	1,639,518	*576,060*	1,774,336	*576,971*
Developed	*654,556*	*106,531*	*738,779*	*121,329*
Rest	*984,962*	*469,529*	*1,035,557*	*455,642*

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

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds		
	30/06/2019	31/12/2018
Potentially eligible	1,085,126	1,083,230
Ineligible	2,944,199	2,816,709

The breakdown of nominal values on the basis of the loan-to-value (LTV), which measures the risk based on the last available valuation of the mortgage loans and credit portfolio eligible as collateral 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		
	30/06/2019	31/12/2018
Secured on residential property	**24,818,302**	**24,114,006**
Of which LTV <= 40%	*7,357,932*	*7,235,411*
Of which LTV 40%-60%	*9,038,152*	*8,690,528*
Of which LTV 60%-80%	*8,422,218*	*8,188,067*
Of which LTV > 80%	-	-
Secured on other property	**6,115,352**	**6,018,625**
Of which LTV <= 40%	*3,542,571*	*3,568,263*
Of which LTV 40%-60%	*2,572,781*	*2,450,362*
Of which LTV > 60%	-	-

Movements during the first half of 2019 in the nominal values of mortgage loans backing issues of mortgage bonds and covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans		
	Eligible	Ineligible
Balance as at 31 December 2018	**30,132,631**	**13,712,492**
Derecognised during the year	**(2,305,183)**	**(1,718,008)**
Terminations at maturity	(1,272,267)	(132,706)
Early terminations	(565,678)	(229,422)
Subrogations by other entities	(7,640)	(920)
Rest	(459,598)	(1,354,960)
Additions during the year	**3,106,206**	**925,480**
Originated by the institution	1,984,617	617,180
Subrogations by other entities	8,274	6,059
Rest	1,113,315	302,241
Balance as at 30 June 2019	**30,933,654**	**12,919,964**

b) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity.

Thousand euro

Nominal value	30/06/2019	31/12/2018
Covered bonds issued	**20,453,834**	**22,353,833**
Of which: Not reflected under liabilities on the balance sheet	*9,427,900*	*10,727,900*
Debt securities. Issued through public offering	**6,200,000**	**6,200,000**
Time to maturity up to one year	750,000	-
Time to maturity from one to two years	1,000,000	1,750,000
Time to maturity from two to three years	1,350,000	1,350,000
Time to maturity from three to five years	2,000,000	1,000,000
Time to maturity from five to ten years	1,100,000	2,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**12,153,000**	**14,053,000**
Time to maturity up to one year	1,500,000	3,150,000
Time to maturity from one to two years	4,980,000	5,380,000
Time to maturity from two to three years	3,150,000	3,000,000
Time to maturity from three to five years	1,383,000	783,000
Time to maturity from five to ten years	1,140,000	1,740,000
Time to maturity more than ten years	-	-
Deposits	**2,100,834**	**2,100,833**
Time to maturity up to one year	669,980	524,146
Time to maturity from one to two years	300,000	145,833
Time to maturity from two to three years	300,000	300,000
Time to maturity from three to five years	494,444	794,444
Time to maturity from five to ten years	336,410	336,410
Time to maturity more than ten years	-	-

	30/06/2019		31/12/2018	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**6,812,630**	**22**	**7,126,535**	**23**
Issued through public offering	-	-	-	-
Other issues	6,812,630	22	7,126,535	23
Participation mortgages	**2,519,029**	**13**	**2,737,340**	**13**
Issued through public offering	-	-	-	-
Other issues	2,519,029	13	2,737,340	13

Banco de Sabadell's over-collateralisation ratio (the nominal value of all the mortgage loans and credit backing the issuance of mortgage bonds and covered bonds, divided by the nominal value of issued covered bonds) stood at 214% as at 30 June 2019.

The policies and procedures aimed at guaranteeing compliance with the regulations governing the mortgage market are described in Schedule III to the 2018 consolidated annual accounts.

With regard to funding activities, the Group is an active participant in capital markets and has a number of funding programmes in operation (see Schedule III to the 2018 consolidated annual accounts). As one element of the Group's funding strategy, Banco Sabadell is an issuer of covered bonds. Covered bonds are issued secured by the portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire portfolio of mortgage loans and credit (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

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

Details of the Group's issues during the first half of 2019 were as follows:

Million euro

Issuer	Type of issuance	Date of issue	Amount 30/06/2019	Interest rate ruling as at 30/06/2019	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	Covered bonds	30/01/2019	1,250	0.02%	30/01/2022	Euro	Institutional
TSB Banking Group Plc	Covered bonds	15/02/2019	750	1.57%	15/02/2024	Pound sterling	Institutional
Banco de Sabadell, S.A.	Structured bonds	18/02/2019	3	ref. underlying assets	18/02/2022	Euro	Retail
Banco de Sabadell, S.A.	Straight bonds	28/03/2019	601	0.70%	28/03/2022	Euro	Retail
Banco de Sabadell, S.A.	Structured bonds	04/04/2019	3	ref. underlying assets	04/10/2022	Euro	Retail
Banco de Sabadell, S.A.	Straight bonds	08/04/2019	300	0.45%	08/04/2021	Euro	Institutional
Banco de Sabadell, S.A.	Senior non-preferred debenture	10/05/2019	1,000	1.75%	10/05/2024	Euro	Institutional

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 2019 and 31 December 2018, respectively, is as follows:

Thousand euro

	30/06/2019							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,812,268**	**48,018**	**7,509**	**15,846**	**21,734**	**4,554**	**1,889**	**11,504**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,298,264**	**393,287**	**42,300**	**118,777**	**234,885**	**61,564**	**7,490**	**12,871**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**59,115,870**	**17,948,434**	**8,911,771**	**8,926,549**	**6,485,772**	**4,643,368**	**2,954,198**	**3,850,318**
Construction and real estate development (including	3,875,826	2,488,604	1,007,258	1,211,448	842,731	500,643	271,607	669,433
Civil engineering construction	853,083	45,250	102,851	21,207	22,720	18,470	51,133	34,571
Other purposes	54,386,961	15,414,580	7,801,662	7,693,894	5,620,321	4,124,255	2,631,458	3,146,314
Large enterprises	22,452,403	1,462,290	2,887,712	2,027,849	624,806	263,594	496,601	937,152
SMES and individual entrepreneurs	31,934,558	13,952,290	4,913,950	5,666,045	4,995,515	3,860,661	2,134,857	2,209,162
Rest of households	**72,818,598**	**64,456,654**	**762,961**	**13,691,634**	**18,329,119**	**20,475,614**	**7,991,432**	**4,731,816**
Home loans	63,678,667	61,444,470	47,815	12,600,349	17,399,451	19,779,107	7,605,302	4,108,076
For consumption	7,409,281	2,655,887	421,259	929,575	805,824	591,221	314,406	436,120
Other purposes	1,730,650	356,297	293,887	161,710	123,844	105,286	71,724	187,620
TOTAL	**144,045,000**	**82,846,393**	**9,724,541**	**22,752,806**	**25,071,510**	**25,185,100**	**10,955,009**	**8,606,509**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	3,831,490	2,530,877	345,547	504,399	551,189	606,701	450,713	763,422

Thousand euro

	31/12/2018							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,903,834**	**45,647**	**17,374**	**12,359**	**19,416**	**8,266**	**8,258**	**14,722**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,597,758**	**279,988**	**146,188**	**190,183**	**159,381**	**36,699**	**11,123**	**28,790**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**57,469,976**	**17,679,836**	**5,555,498**	**6,903,485**	**6,280,354**	**4,633,367**	**2,236,242**	**3,181,887**
Construction and real estate development (including	3,380,958	2,333,946	422,026	721,940	937,901	438,002	349,448	308,679
Civil engineering construction	850,109	47,429	62,543	24,707	20,692	16,772	10,922	36,879
Other purposes	53,238,909	15,298,461	5,070,929	6,156,838	5,321,761	4,178,593	1,875,872	2,836,329
Large enterprises	22,916,723	1,482,325	1,416,768	1,381,940	417,286	314,422	217,564	567,882
SMES and individual entrepreneurs	30,322,186	13,816,136	3,654,161	4,774,898	4,904,475	3,864,171	1,658,308	2,268,447
Rest of households	**71,896,180**	**64,207,775**	**767,342**	**13,606,407**	**18,329,928**	**19,994,463**	**8,001,532**	**5,042,788**
Home loans	62,603,085	60,863,231	51,973	12,401,217	17,347,302	19,252,969	7,555,695	4,358,022
For consumption	7,310,960	2,767,377	385,572	934,965	807,386	600,809	335,308	474,481
Other purposes	1,982,135	577,167	329,797	270,225	175,240	140,685	110,529	210,285
TOTAL	**141,867,748**	**82,213,246**	**6,486,402**	**20,712,434**	**24,789,079**	**24,672,795**	**10,257,155**	**8,268,187**
MEMORANDUM ITEM **Forbearance (refinanced and restructured loans)**	4,636,003	2,428,753	387,203	453,285	478,979	524,743	434,534	924,416

Forbearance

Information on forbearance as at 30 June 2019 and 31 December 2018 is shown below. The Group's refinancing policy and strategy is described in Note 4 on "Financial risk management" in the 2018 consolidated annual accounts.

Thousand euro

	30/06/2019						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	TOTAL
TOTAL							
Not secured with collateral							
Number of transactions	-	14	54	20,148	*483*	45,979	**66,195**
Gross carrying amount	-	10,360	26,582	1,355,968	*165,626*	321,261	**1,714,171**
Secured with collateral							
Number of transactions	-	3	14	8,181	*959*	21,299	**29,497**
Gross carrying amount	-	1,257	22,530	1,599,564	*312,537*	1,639,386	**3,262,737**
Impairment allowances	**-**	**1,892**	**10,102**	**820,245**	***171,750***	**313,180**	**1,145,419**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*13*	*31*	*11,535*	*358*	*24,782*	***36,361***
Gross carrying amount	-	*10,269*	*648*	*915,716*	*151,211*	*190,752*	***1,117,385***
Secured with collateral							
Number of transactions	-	*3*	*12*	*5,136*	*714*	*13,757*	***18,908***
Gross carrying amount	-	*1,257*	*13,503*	*977,949*	*194,827*	*1,063,926*	***2,056,635***
Impairment allowances	**-**	***1,892***	***10,065***	***752,259***	***164,719***	***290,765***	***1,054,981***
TOTAL							
Number of transactions	-	17	68	28,329	*1,442*	67,278	**95,692**
Gross amount	-	11,617	49,112	2,955,532	*478,163*	1,960,647	**4,976,908**
Impairment allowances	-	1,892	10,102	820,245	*171,750*	313,180	**1,145,419**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

Thousand euro

	31/12/2018						
	Credit institutions	**General governments**	**Other financial corporations and individual entrepreneurs (financial business activity)**	**Non-financial corporations and individual entrepreneurs (non-financial business activity)**	***Of which: lending for construction and real estate development (including land)***	**Rest of households**	**TOTAL**
TOTAL							
Not secured with collateral							
Number of transactions	-	15	59	19,739	*503*	52,181	**71,994**
Gross carrying amount	-	10,731	30,704	1,434,558	*208,114*	332,025	**1,808,018**
Secured with collateral							
Number of transactions	-	4	17	9,341	*1,135*	24,253	**33,615**
Gross carrying amount	-	9,670	23,069	1,655,532	*347,100*	1,777,845	**3,466,116**
Impairment allowances	**-**	5,179	10,713	784,522	*192,023*	335,938	**1,136,352**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*14*	*28*	*10,013*	*358*	*28,043*	***38,098***
Gross carrying amount	-	*10,634*	*735*	*840,717*	*167,339*	*196,096*	***1,048,182***
Secured with collateral							
Number of transactions	-	*4*	*11*	*4,991*	*805*	*13,154*	***18,160***
Gross carrying amount	-	*9,670*	*13,945*	*954,811*	*237,438*	*1,012,903*	***1,991,329***
Impairment allowances	**-**	*5,179*	*10,647*	*670,765*	*182,133*	*305,415*	***992,006***
TOTAL							
Number of transactions	-	19	76	29,080	*1,638*	76,434	**105,609**
Gross amount	-	20,401	53,773	3,090,090	*555,214*	2,109,870	**5,274,134**
Impairment allowances	-	5,179	10,713	784,522	*192,023*	335,938	**1,136,352**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

The values of the guarantees received to ensure collection associated with forborne transactions, broken down into collateral and other guarantees, as at 30 June 2019 and 31 December 2018, are as follows:

Thousand euro

Guarantees received	30/06/2019	31/12/2018
Value of collateral	2,755,956	2,970,068
Of which: securing Stage 3 loans	*1,604,087*	*1,566,700*
Value of other guarantees	454,876	461,294
Of which: securing Stage 3 loans	*226,054*	*223,528*
Total value of guarantees received	3,210,832	3,431,362

Movements in the balance of forborne transactions during the first half of 2019 and 2018 are as follows:

Thousand euro

	30/06/2019	30/06/2018
Opening balance	5,274,134	6,842,793
(+) Forbearance (refinancing and restructuring) in the period	667,822	611,907
Memorandum item: impact recognised on the income statement for the period	*49,441*	*99,522*
(-) Debt amortisations	(447,816)	(521,410)
(-) Foreclosures	(27,365)	(84,978)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(61,353)	(201,048)
(+)/(-) Other changes (*)	(428,514)	(624,189)
Balance at the end of the year	**4,976,908**	**6,023,075**

(*) Includes transactions no longer classified as forborne (refinanced or restructured) loans, as they meet the requirements for their reclassification as performing (Stage 1) as they have completed the cure period.

The table below shows the value of transactions which, after forbearance, have been classified as Stage 3 during the period:

Thousand euro

	30/06/2019	31/12/2018
General governments	-	-
Other legal entities and individual entrepreneurs	**118,268**	**183,345**
Of which: Lending for construction and real estate development	*5,387*	*12,419*
Other natural persons	**207,670**	**250,686**
TOTAL	**325,938**	**434,031**

The average probability of default as at 30 June 2019 and 31 December 2018 of current forborne transactions, broken down by activity, is as follows:

%

	30/06/2019	31/12/2018
General governments (*)	-	-
Other legal entities and individual entrepreneurs	9	8
Of which: Lending for construction and real estate development	*10*	*7*
Other natural persons	9	10

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

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

Concentration risk

Geographical exposure

Global

The breakdown of risks by activity and at global level as at 30 June 2019 and 31 December 2018 is as follows:

Thousand euro

	30/06/2019				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**31,743,814**	**10,397,686**	**11,613,575**	**9,451,556**	**280,997**
General governments	**35,578,206**	**24,679,235**	**9,915,333**	**890,800**	**92,838**
Central governments	28,430,805	18,093,902	9,834,697	436,274	65,932
Rest	7,147,401	6,585,333	80,636	454,526	26,906
Other financial corporations and individual entrepreneurs	**4,209,360**	**2,317,502**	**1,073,116**	**804,894**	**13,848**
Non-financial corporations and individual entrepreneurs	**62,222,269**	**49,494,456**	**4,778,467**	**7,251,776**	**697,570**
Construction and real estate	4,013,947	3,068,677	66,113	801,750	77,407
Civil engineering construction	962,360	931,314	3,152	26,929	965
Other purposes	57,245,962	45,494,465	4,709,202	6,423,097	619,198
Large enterprises	24,673,169	14,902,730	4,181,630	5,215,492	373,317
SMEs and individual entrepreneurs	32,572,793	30,591,735	527,572	1,207,605	245,881
Rest of households	**73,295,979**	**36,039,796**	**34,539,598**	**1,780,756**	**935,829**
Home loans	63,989,237	28,834,576	32,557,042	1,713,540	884,079
For consumption	7,409,281	5,573,067	1,763,167	40,211	32,836
Other purposes	1,897,461	1,632,153	219,389	27,005	18,914
TOTAL	**207,049,628**	**122,928,675**	**61,920,089**	**20,179,782**	**2,021,082**

Thousand euro

	31/12/2018				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	32,994,694	16,025,194	15,610,804	1,040,379	318,317
General governments	35,006,761	23,278,571	10,544,893	1,084,237	99,060
Central governments	8,425,792	8,368,772	8	6	57,006
Rest	26,580,969	14,909,799	10,544,885	1,084,231	42,054
Other financial corporations and individual entrepreneurs	4,224,633	2,315,023	1,326,271	546,351	36,988
Non-financial corporations and individual entrepreneurs	60,687,187	48,152,718	4,327,533	7,530,599	676,337
Construction and real estate	3,519,279	3,203,245	32,231	199,746	84,057
Civil engineering construction	985,364	939,397	35,508	8,218	2,241
Other purposes	56,182,544	44,010,076	4,259,794	7,322,635	590,039
Large enterprises	25,240,548	14,585,539	3,425,975	6,863,018	366,016
SMEs and individual entrepreneurs	30,941,996	29,424,537	833,819	459,617	224,023
Rest of households	72,533,041	35,540,676	35,569,469	509,518	913,378
Home loans	62,803,725	28,247,027	33,202,053	491,900	862,745
For consumption	7,459,329	5,487,623	1,932,427	8,937	30,342
Other purposes	2,269,987	1,806,026	434,989	8,681	20,291
TOTAL	205,446,316	125,312,182	67,378,970	10,711,084	2,044,080

By autonomous communities

The risk concentration broken down by activity and by Spanish autonomous communities as at 30 June 2019 and 31 December 2018, respectively, is as follows:

Thousand euro

	30/06/2019									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**10,397,686**	**2,309**	**-**	**-**	**-**	**-**	**342,606**	**-**	**34**	**353,506**
General governments	**24,679,235**	**187,515**	**21,196**	**244,760**	**174,674**	**33,578**	**35,600**	**40,854**	**442,554**	**1,156,895**
Central governments	18,093,902	-	-	-	-	-	-	-	-	-
Rest	6,585,333	187,515	21,196	244,760	174,674	33,578	35,600	40,854	442,554	1,156,895
Other financial corporations and individual entrepreneurs	**2,317,502**	**8,110**	**4,030**	**3,981**	**47,359**	**1,290**	**287**	**830**	**15,952**	**649,687**
Non-financial corporations and individual entrepreneurs	**49,494,456**	**2,684,661**	**954,814**	**1,553,986**	**1,971,106**	**1,519,748**	**268,895**	**626,306**	**1,270,887**	**15,349,690**
Construction and real estate	3,068,677	196,656	55,359	74,239	86,145	38,554	10,859	16,200	29,202	821,069
Civil engineering construction	931,314	25,197	25,673	16,247	5,827	2,373	3,389	5,399	15,266	190,888
Other purposes	45,494,465	2,462,808	873,782	1,463,500	1,879,134	1,478,821	254,647	604,707	1,226,419	14,337,733
Large enterprises	14,902,730	609,948	223,278	274,315	617,059	415,930	111,129	120,198	310,455	4,195,272
SMEs and individual entrepreneurs	30,591,735	1,852,860	650,504	1,189,185	1,262,075	1,062,891	143,518	484,509	915,964	10,142,461
Rest of households	**36,039,796**	**2,401,286**	**458,720**	**1,092,646**	**1,286,725**	**537,669**	**99,591**	**495,022**	**686,140**	**13,114,704**
Home loans	28,834,576	1,901,741	355,279	873,924	1,041,069	365,286	82,134	394,036	540,370	10,604,491
For consumption	5,573,067	407,527	77,578	165,616	190,702	159,019	13,364	84,620	105,427	1,891,873
Other purposes	1,632,153	92,018	25,863	53,106	54,954	13,364	4,093	16,366	40,343	618,340
TOTAL	**122,928,675**	**5,283,881**	**1,438,760**	**2,895,373**	**3,479,864**	**2,092,285**	**746,979**	**1,163,012**	**2,415,567**	**30,624,482**

Thousand euro

	30/06/2019								
	AUTONOMOUS COMMUNITIES								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarre**	**Valencia**	**Basque Country**	**La Rioja**	**Ceuta and Melilla**
Central banks and Credit institutions	**-**	**82**	**9,013,785**	**4**	**180**	**132,986**	**552,194**	**-**	**-**
General governments	**69,223**	**272,528**	**1,848,652**	**67,495**	**251,868**	**899,821**	**735,218**	**78,325**	**24,577**
Central governments	-	-	-	-	-	-	-	-	-
Rest	69,223	272,528	1,848,652	67,495	251,868	899,821	735,218	78,325	24,577
Other financial corporations and individual entrepreneurs	**248**	**6,573**	**1,481,213**	**6,606**	**755**	**61,005**	**29,487**	**89**	**-**
Non-financial corporations and individual entrepreneurs	**146,393**	**2,058,111**	**11,529,553**	**1,110,451**	**520,126**	**4,753,235**	**2,956,486**	**198,857**	**21,151**
Construction and real estate	2,124	56,209	1,283,901	68,085	23,654	198,290	96,000	11,900	231
Civil engineering construction	2,870	50,867	425,502	6,945	5,665	36,870	111,424	912	-
Other purposes	141,399	1,951,035	9,820,150	1,035,421	490,807	4,518,075	2,749,062	186,045	20,920
Large enterprises	27,742	551,128	4,458,797	206,269	154,032	1,211,570	1,370,262	45,004	342
SMEs and individual entrepreneurs	113,657	1,399,907	5,361,353	829,152	336,775	3,306,505	1,378,800	141,041	20,578
Rest of households	**122,903**	**737,601**	**4,653,293**	**2,239,242**	**146,418**	**6,780,353**	**1,048,171**	**74,690**	**64,622**
Home loans	89,069	531,655	3,723,118	1,750,331	109,402	5,486,709	876,704	51,547	57,711
For consumption	30,294	160,110	653,253	417,395	23,966	1,053,075	124,127	9,394	5,727
Other purposes	3,540	45,836	276,922	71,516	13,050	240,569	47,340	13,749	1,184
TOTAL	**338,767**	**3,074,895**	**28,526,496**	**3,423,798**	**919,347**	**12,627,400**	**5,321,556**	**351,961**	**110,350**

Thousand euro

	31/12/2018									
		AUTONOMOUS COMMUNITIES								
	TOTAL	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Central banks and Credit institutions	**16,025,194**	**6,015**	**11**	**1**	**36**	**64**	**443,267**	**-**	**54**	**337,657**
General governments	**23,278,571**	**60,252**	**22,708**	**183,956**	**98,193**	**2,752**	**31,596**	**16,613**	**244,184**	**1,150,231**
Central governments	8,368,772	-	-	-	-	-	-	-	-	-
Rest	14,909,799	60,252	22,708	183,956	98,193	2,752	31,596	16,613	244,184	1,150,231
Other financial corporations and individual entrepreneurs	**2,315,023**	**7,756**	**2,548**	**3,798**	**4,104**	**1,258**	**279**	**851**	**15,314**	**595,288**
Non-financial corporations and individual entrepreneurs	**48,152,718**	**2,647,863**	**874,640**	**1,464,077**	**1,882,084**	**1,252,206**	**274,665**	**575,319**	**1,228,307**	**15,292,810**
Construction and real estate	3,203,245	233,374	60,335	82,101	94,507	39,880	12,186	15,623	28,690	991,358
Civil engineering construction	939,397	27,928	28,329	15,005	5,251	2,585	3,444	4,419	14,770	192,573
Other purposes	44,010,076	2,386,561	785,976	1,366,971	1,782,326	1,209,741	259,035	555,277	1,184,847	14,108,879
Large enterprises	14,585,539	578,995	206,195	258,383	546,298	328,910	109,970	99,958	310,718	4,374,253
SMEs and individual entrepreneurs	29,424,537	1,807,566	579,781	1,108,588	1,236,028	880,831	149,065	455,319	874,129	9,734,626
Rest of households	**35,540,676**	**2,366,184**	**451,786**	**1,051,021**	**1,281,762**	**534,405**	**98,539**	**495,894**	**676,314**	**12,771,464**
Home loans	28,247,027	1,880,689	348,426	828,593	1,028,198	368,644	81,231	396,628	520,316	10,310,806
For consumption	5,487,623	387,937	75,944	161,597	190,288	150,252	12,639	81,578	98,075	1,879,456
Other purposes	1,806,026	97,558	27,416	60,831	63,276	15,509	4,669	17,688	57,923	581,202
TOTAL	**125,312,182**	**5,088,070**	**1,351,693**	**2,702,853**	**3,266,179**	**1,790,685**	**848,346**	**1,088,677**	**2,164,173**	**30,147,450**

Thousand euro

	31/12/2018 AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	asque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**-**	**15,326**	**14,648,856**	**221**	**254**	**62,826**	**510,593**	**13**	**-**
General governments	**50,837**	**64,378**	**11,233,725**	**36,416**	**176,446**	**803,112**	**629,295**	**79,055**	**26,050**
Central governments	-	-	-	-	-	-	-	-	-
Rest	50,837	64,378	11,233,725	36,416	176,446	803,112	629,295	79,055	26,050
Other financial corporations and individual entrepreneurs	**282**	**7,330**	**1,578,460**	**6,705**	**745**	**67,233**	**22,987**	**85**	**-**
Non-financial corporations and individual entrepreneurs	**146,379**	**1,988,457**	**11,251,384**	**1,112,784**	**478,617**	**4,482,876**	**2,993,479**	**184,948**	**21,823**
Construction and real estate	1,884	55,150	1,169,418	69,375	21,973	220,033	99,827	7,270	261
Civil engineering construction	2,289	49,598	438,775	6,793	5,204	27,899	114,091	444	-
Other purposes	142,206	1,883,709	9,643,191	1,036,616	451,440	4,234,944	2,779,561	177,234	21,562
Large enterprises	30,262	570,156	4,431,533	213,688	147,935	1,000,097	1,337,847	40,161	180
SMEs and individual entrepreneurs	111,944	1,313,553	5,211,658	822,928	303,505	3,234,847	1,441,714	137,073	21,382
Rest of households	**119,173**	**718,139**	**4,561,312**	**2,218,653**	**149,681**	**6,865,175**	**1,041,766**	**78,115**	**61,293**
Home loans	87,129	507,507	3,631,472	1,717,740	106,476	5,475,652	853,351	50,246	53,923
For consumption	28,274	149,276	623,086	422,506	23,593	1,066,320	120,943	10,092	5,767
Other purposes	3,770	61,356	306,754	78,407	19,612	323,203	67,472	17,777	1,603
TOTAL	**316,671**	**2,793,630**	**43,273,737**	**3,374,779**	**805,743**	**12,281,222**	**5,198,120**	**342,216**	**109,166**

Sovereign risk exposure

The breakdown, by type of financial instrument, of the exposure to sovereign risk, applying the criteria required by the European Banking Authority (EBA), as at 30 June 2019 and 31 December 2018, is as follows:

Thousand euro

	30/06/2019										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures	%
Spain	206,890	(268,551)	-	3,132,463	10,508,741	11,210,736	19,625	(36)	24,809,868	-	70.2%
Italy	20,149	(302,158)	-	-	5,768,048	-	-	-	5,486,039	-	15.5%
United States	2,628	-	-	404,060	47,807	1	-	-	454,496	-	1.3%
United Kingdom	-	-	-	1,319,687	112,894	-	-	-	1,432,581	-	4.1%
Portugal	-	-	-	631,974	1,619,181	-	-	-	2,251,155	-	6.4%
Mexico	-	-	-	403,792	-	-	-	-	403,792	-	1.1%
Rest of the world	2,148	-	-	393,744	27,528	69,798	-	-	493,218	-	1.4%
Total	**231,815**	**(570,709)**	**-**	**6,285,720**	**18,084,199**	**11,280,535**	**19,625**	**(36)**	**35,331,149**	**-**	**100.0%**

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

(**) Includes those available under credit transactions and other contingent risks (410 million euros at 30 June 2019).

Thousand euro

	31/12/2018										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	153,473	(32,639)	-	6,323,332	5,899,614	11,531,751	13,587	(113)	23,889,006	557,375	67.6%
Italy	12,455	-	-	-	5,823,441	-	-	-	5,835,896	-	16.1%
United States	-	-	-	359,312	-	1	-	-	359,313	-	1.0%
United Kingdom	23	-	-	2,219,051	107,580	3	-	-	2,326,657	-	6.4%
Portugal	-	-	-	1,268,579	753,943	-	-	-	2,022,522	-	5.6%
Mexico	-	-	-	582,081	-	-	-	-	582,081	-	1.6%
Rest of the world	-	-	-	498,873	27,626	87,015	-	-	613,513	-	1.7%
Total	**165,951**	**(32,639)**	**-**	**11,251,228**	**12,612,205**	**11,618,770**	**13,587**	**(113)**	**35,628,989**	**557,375**	**100.0%**

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

(**) Includes those available under credit transactions and other contingent risks (798 million euros as at 31 December 2018).

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

Exposure to construction and real estate development sector

Details of loans intended for construction and real estate development and their allowances are as follows:

Million euro

	30/06/2019		
	Gross carrying amount	Excess value of the collateral	Impairment allowances
Lending for construction and real estate development (including land) (business in Spain)	**3,227**	**825**	**322**
Of which: risks classified as Stage 3	*620*	*246*	*298*

Million euro

	31/12/2018		
	Gross carrying amount	Excess value of the collateral	Impairment allowances
Lending for construction and real estate development (including land) (business in Spain)	**3,493**	**898**	**380**
Of which: risks classified as Stage 3	*719*	*291*	*354*

Million euro

	Gross carrying amount	
Memorandum item	30/06/2019	31/12/2018
Write-offs (*)	46	251

Million euro

	Amount	Amount
Memorandum item	30/06/2019	31/12/2018
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	88,226	87,296
Total assets (total business) (carrying amount)	224,852	222,322
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	386	373

(*) Refers to lending 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 (business in Spain) is as follows:

Million euro

	Gross carrying amount 30/06/2019	Gross carrying amount 31/12/2018
Not secured with real estate	**736**	**645**
Secured with real estate	**2,490**	**2,848**
Buildings and other finished constructions	1,234	1,467
Housing	775	942
Rest	459	524
Buildings and other construction in progress	926	988
Housing	898	877
Rest	27	111
Land	331	393
Consolidated urban land	312	373
Other land	19	20
TOTAL	**3,227**	**3,493**

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

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

Million euro

Guarantees received	**30/06/2019**	**31/12/2018**
Value of collateral	2,457	2,584
Of which: securing Stage 3 loans	*274*	*307*
Value of other guarantees	194	208
Of which: securing Stage 3 loans	*20*	*22*
Total value of guarantees received	**2,651**	**2,792**

The breakdown of loans to households for the acquisition of housing for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	30/06/2019	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**32,065**	**1,439**
Not secured with real estate	977	134
Secured with real estate	31,088	1,305

Million euro

	31/12/2018	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**32,461**	***1,481***
Not secured with real estate	1,032	*145*
Secured with real estate	31,429	*1,336*

The tables below show the breakdown of the mortgage loans granted to households for the acquisition of housing by the gross book value of the last available valuation expressed as a percentage of the total risk for transactions recorded by credit institutions (business in Spain):

Million euro

	30/06/2019	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**31,088**	***1,305***
LTV <= 40%	6,142	*116*
40% < LTV <= 60%	7,801	*172*
60% < LTV <= 80%	8,149	*234*
80% < LTV <= 100%	4,172	*268*
LTV > 100%	4,824	*514*

Million euro

	31/12/2018	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**31,429**	***1,336***
LTV <= 40%	6,091	*112*
40% < LTV <= 60%	7,757	*171*
60% < LTV <= 80%	8,056	*241*
80% < LTV <= 100%	4,342	*279*
LTV > 100%	5,183	*533*

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 euro

	30/06/2019			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**6,615**	**3,209**	***1,256***	***603***
Finished buildings	2,914	779	*701*	*221*
Housing	1,606	270	*436*	*140*
Rest	1,308	509	*265*	*81*
Buildings under construction	516	205	*25*	*15*
Housing	485	184	*22*	*13*
Rest	31	21	*3*	*2*
Land	3,185	2,225	*530*	*367*
Building land	1,040	631	*138*	*80*
Other land	2,145	1,594	*392*	*288*
Real estate assets acquired through mortgage lending to households for house purchase	**2,093**	**391**	***617***	***228***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**25**	**9**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Total real estate portfolio	**8,733**	**3,608**	***1,873***	***831***

(*) Foreclosed assets including properties outside the Spanish territory, taking into account the provision allocated in the original loan and the agreement to transfer real estate exposures to a subsidiary of Cerberus Capital Management L.P. reached in July 2018 and excluding Solvia.

Million euro

	31/12/2018			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**6,694**	**3,258**	***1,210***	***582***
Finished buildings	2,934	794	*650*	*201*
Housing	1,609	273	*397*	*120*
Rest	1,325	521	*253*	*80*
Buildings under construction	503	201	*24*	*14*
Housing	476	183	*21*	*12*
Rest	27	18	*3*	*2*
Land	3,257	2,263	*536*	*368*
Building land	1,062	638	*142*	*82*
Other land	2,195	1,625	*394*	*286*
Real estate assets acquired through mortgage lending to households for house purchase	**2,028**	**379**	***515***	***185***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**5**	**5**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Total real estate portfolio	**8,727**	**3,642**	**1,726**	**767**

(*) Foreclosed assets including properties outside the Spanish territory, taking into account the provision allocated in the original loan and the agreement to transfer real estate exposures to a subsidiary of Cerberus Capital Management L.P. reached in July 2018 and excluding Solvia.

The reconciliation of the real estate assets shown in the two previous tables of this schedule as at 30 June 2019 and 31 December 2018 is shown below:

Million euro

	30/06/2019		
	Gross Value	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**8,708**	**3,599**	**5,109**
Solvia Desarrollos Inmobiliarios business line	(1,290)	(605)	(685)
Total operations outside the national territory and others	39	15	24
Provision allocated in original loan	1,381	1,381	-
Credit risk transferred in portfolio sales	(6,965)	(3,559)	(3,406)
Total real estate portfolio (proforma)	**1,873**	**831**	**1,042**

Million euro

	31/12/2018		
	Gross Value	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**8,723**	**3,637**	**5,086**
Solvia Desarrollos Inmobiliarios business line	(1,303)	(602)	(701)
Total operations outside the national territory and others	57	28	29
Provision allocated in original loan	1,317	1,317	-
Credit risk transferred in portfolio sales	(7,068)	(3,613)	(3,455)
Total real estate portfolio (proforma)	**1,726**	**767**	**959**

As part of its general policy on risks and, in particular, its policy on the construction and real estate development sector, the Group has a number of specific policies in place for mitigating risks (see Schedule VI "Other risk information" to the 2018 consolidated annual accounts).

Consolidated directors’ report for the first six months of 2019

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 2018 consolidated annual accounts, which were prepared in accordance with the recommendations of the "Guide for the preparation of directors' reports of listed companies" (“*Guía para la elaboración del informe de gestión de las entidades cotizadas*”), published by the CNMV in July 2013.

Global economic, political and financial environment

The trade war and tech tensions between the United States and China have characterised a good part of this six-month period. After a few months in which the prevailing view was one of optimism that a positive resolution to the conflict would be achieved, negotiations broke down and the US raised its tariffs on 200 billion dollars worth of Chinese goods from 10% to 25%. This prompted China to retaliate in the same way, by raising tariffs. The US also blacklisted Huawei, implementing major restrictions on exports of US products to the Chinese company. This situation fuelled fears of an economic recession. Recently, both countries have come to a truce in the trade war, thus preventing new tariffs from being imposed. The Huawei restrictions have been eased, but uncertainty remains high.

In relation to activity, the GDP growth rate in the US, the euro area and the United Kingdom in 1Q19 picked up with respect to 4Q18. Activity in the United States grew by 0.8% quarter-on-quarter (4Q18: 0.5%), driven by dynamic inventories and the fall in imports. In any case, private consumption slowed . In the euro area, GDP growth was 0.4% quarter-on-quarter (4Q18: 0.2%). In the United Kingdom, GDP growth was 0.5% quarter-on-quarter (4Q18: 0.2%), partly supported by the accumulation of inventories ahead of the UK’s possible withdrawal from the EU without a deal (no deal Brexit) at the end of March. Spain continued to stand out in a positive light, with a quarter-on-quarter growth of 0.7%. The most recent economic confidence indicators in the US, however, fell sharply in light of the upsurge in trade tensions. In the euro area, they remained at low levels, pointing towards slower growth in 2Q19. They also deteriorated in the UK, brought down by the persistent uncertainty associated with the Brexit extension and the accumulation of inventories in previous months, in addition to trade tensions and their impact on global activity.

In the political area, snap elections were held in Spain, which resulted in a victory for the PSOE, which attained the majority of votes and seats, although it failed to achieve an absolute majority. In terms of the European Parliament elections, for the first time ever, at least three parties will be needed to achieve a pro-European parliamentary majority. Furthermore, due, in part, to the higher participation in these elections, Eurosceptic parties obtained a worse result than voting intention surveys had suggested, with the exception of the United Kingdom, where the Brexit Party received significantly more votes than any other party.

Regarding Brexit, the UK Parliament rejected the deal reached between Theresa May’s government and the EU on three separate occasions, leading to an agreement to extend the Brexit deadline to 31 October 2019. Theresa May failed in her attempts to present a solution that the Labour party would support and could be put to a fourth vote, which ultimately led to her resignation. In June, the Conservative Party carried out the first stage of the process to select a party leader and a new Prime Minister, whittling down the initial list of ten candidates to two: Boris Johnson, the favourite based on current polls, and Jeremy Hunt. Both candidates have a more hardline stance than Theresa May when it comes to Brexit, and insist that the UK should not rule out a no deal Brexit[1].

[1] Boris Johnson was announced as the winner of the Conservative leadership contest, replacing Theresa May, on 23 July.

Central banks and fixed income markets

Central banks in the main developed economies have shown a clearly accommodative tone. Mario Draghi, President of the ECB, left the door open to implementing more monetary stimulus measures through any one of these tools: interest rate cuts, reactivation of the asset purchase programme and/or changes in the forward guidance. The ECB had previously announced a new round of long term liquidity operations (TLTRO III). These operations will last for a period of two years and will cost 10bp more than previous rounds. The central bank also changed its forward guidance, delaying its first interest rate hike until, at least, the first half of 2020. The Fed, meanwhile, left the door open to cutting the official interest rate to support activity. Donald Trump has also openly put pressure on the central bank to implement a looser monetary policy. The BoE showed signs of caution, acknowledging the increased risks in light of the resurge in trade tensions and the increased likelihood of a no deal Brexit.

Yields on long-term government bonds in the US, Germany and the UK have declined significantly since the beginning of the year. In the case of German bonds, yields plunged to record lows, while in the US they fell to levels not seen since the end of 2016. This decline was influenced by the accommodative tone of central banks, fears of a global recession as a result of heightened trade and geopolitical tensions and lower expectations of market inflation. In the case of the United Kingdom, the yield also fell to its lowest since 2016, influenced by uncertainty surrounding the possibility of a no deal and the global environment. In relation to the European periphery, country risk premiums fell, supported by the lax tone of central banks. The reduction of the Italian premium was limited due to the weakness of the Italian economy and the possibility of a new clash with European institutions.

Currency market

The euro slightly depreciated against the US dollar in the first half of the year. Weak macroeconomic data in the euro area and political uncertainty in Italy were just some of the factors that contributed to this move, which has recently partially reversed part of the movement due to the Fed’s dovish tone. The pound-to-euro exchange rate is at the same level as it was at the start of the year. The delayed Brexit deadline triggered a substantial appreciation of the pound, although the uncertainty associated with the likely election of Boris Johnson as the new leader of the Conservative Party and Prime Minister pushed the exchange rate back down to c.0.90 pounds per euro. The Japanese yen has benefited from the global instability associated with international trade, appreciating slightly in relation to the majority of developed currencies.

Emerging markets

Trade tensions and concerns of global economic growth have resulted in movements associated with risk aversion, which have negatively impacted emerging economies, with the more idiosyncratically vulnerable countries like Argentina and Turkey being hit the hardest. Despite this, the accommodative approach of the main central banks of developed economies, together with China's expansionary policies, have been a supporting factor for emerging markets. In Argentina, financial assets performed poorly, as a result of fears that former President Cristina Kirchner, an interventionist, will win the upcoming elections in October, in a context in which the country's fiscal situation continues to be delicate and partly contingent on the FMI's assistance. In Turkey, markets have continued to price in negative developments, both domestically and in terms of trade, resulting from Erdogan's policies. His party lost the local elections in the country (including Ankara and Istanbul) and there have been ongoing concerns regarding the Turkish leader's management of the economy. Tensions with the US in the face of the potential purchase of Russian missiles have been felt over the last few months, although they may have eased following the positive tone adopted by both leaders in the G-20 summit. Meanwhile, in Brazil, markets have been pricing in the domestic uncertainty regarding the difficulties in governing the country, the rapid loss of popularity of Jair Bolsonaro's government and poor economic data.

In Mexico, changes in the energy policy, domestic political uncertainty and weak economic data have continued to attract the attention of markets and credit rating agencies. Fitch downgraded the rating of both the country and Pemex (on two occasions in the case of the latter). Mexico has also not been unscathed by the trade policy pursued by Donald Tump, who threatened to impose tariffs on all Mexican imports if measures were not taken to stem migration flows. However, the negative impact that this had on Mexican financial assets was reversed after both countries came to an agreement. Lastly, in China, markets have been pricing in different episodes of the trade war with the US, in a context in which authorities have continued to take fiscal and monetary measures to support domestic economic activity.

Business performance

Banco Sabadell and its group ended the first half of the year with 531.7 million euros in net attributable profit (529.5 million euros excluding TSB), with the sale of 80% of Solvia Servicios Inmobiliarios being particularly worthy of note, generating a gross profit of 135 million euros. In the same period of 2018, net attributable profit amounted to 120.6 million euros (317.7 million euros excluding TSB), which included the extraordinary impacts during and post TSB's migration and provisions for institutional portfolio sales.

Balance sheet

At the end of the first half of 2019, total assets of Banco Sabadell and its group amounted to 224,852 million euros, a 1.1% increase with respect to 2018 year-end.

Gross performing loans amounted to 141,703 million euros (107,853 million euros excluding TSB), increasing by 1.7% with regard the balance as at 2018 year-end (2.0% excluding TSB).

Mortgage loans are the largest single component of gross performing loans, amounting to 81,293 million euros as at 30 June 2019 (49,753 million euros excluding TSB), representing 57.4% of total gross performing loans (46.1% excluding TSB).

The decline of Stage 3 assets brought the NPL ratio down to 4.05% as at the end of June 2019 (4.81% excluding TSB), compared with 4.22% as at 2018 year-end (5.04% excluding TSB). The NPL coverage ratio as at the end of June 2019 stood at 51.74% (52.35% excluding TSB), compared with 54.07% (54.34% excluding TSB) as at 2018 year-end.

As at 30 June 2019, on-balance sheet customer funds amounted to 141,862 million euros (108,620 million euros excluding TSB), compared with 137,343 million euros (104,859 million euros excluding TSB) as at the end of 2018, representing a 3.3% increase (3.6% excluding TSB).

Sight account balances amounted to 113,607 million euros (83,724 million euros excluding TSB), representing a 5.5% increase compared to 2018 year-end (7.7% excluding TSB), and customer term deposits (including deposits redeemable at notice and hybrid financial liabilities) amounted to 28,303 million euros (24,945 million euros excluding TSB), -1.4% less than in the previous year (-4.6% 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 demand deposits and off-balance sheet funds.

Total off-balance sheet customer funds amounted to 43,720 million euros, a -0.7% decrease compared with the end of the previous year. In this item, the decline in mutual funds was particularly notable, amounting to 26,127 million euros as at the end of June 2019, representing a -1.0% decrease compared to 2018 year-end.

Debt securities issued (debt and other marketable securities and subordinated liabilities) amounted to 21,636 million euros as at the end of the first half of the current year (19,207 million euros excluding TSB), compared to 2018 year-end, when they amounted to 22,599 million euros (20,899 million euros excluding TSB).

Total funds under management as at 30 June 2019 amounted to 208,587 million euros (172,416 million euros excluding TSB), compared with 205,711 million euros as at 31 December 2018 (170,285 million euros excluding TSB), representing an increase during the first half of the year of 1.4% (1.3% excluding TSB).

Income and profit performance

Net interest income amounted to 1,806.1 million euros in the first half of the year, -0.2% less than in the first half of 2018. Excluding TSB, net interest income amounted to 1,320.0 million euros as at the end of the first half of 2019, representing a slight decrease of -0.3% compared with the previous year.

Dividends received and gains/(losses) on companies consolidated using the equity method together amounted to 36.2 million euros in the first half of the year, compared with 36.7 million euros during the first six months of 2018. 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 705.9 million euros (649.4 million euros excluding TSB), increasing by 10.9% year-on-year (7.9% excluding TSB). This increase was due mainly to the positive performance of service fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 44.9 million euros (24.4 million euros excluding TSB) and include the SAREB debt impairment. In the first half of 2018, trading results and exchange differences amounted to 245.8 million euros (220.0 million euros excluding TSB).

Other operating income and expenses amounted to -99.4 million euros (-98.3 million euros excluding TSB), compared with -98.4 million euros (-55.3 million euros excluding TSB) in the first half of 2018. Particularly worthy of note under this heading was the contribution to the single resolution fund of -58.6 million euros (-49.7 million euros in 2018).

Operating expenses (staff and general) during the first half of 2019 amounted to -1,340.0 million euros (-882.4 million euros excluding TSB). In the first half of 2018, administrative expenses amounted to -1,479.2 million euros (-913.5 million euros excluding TSB), of which -143.2 million euros were attributable to non-recurrent items, mainly due to TSB during and post migration.

The efficiency ratio at the end of June 2019 stood at 46.77%, compared with 43.80% at the end of the first half of 2018 excluding TSB. With TSB, the cost-to-income ratio stood at 54.72%, compared with 57.11% at the end of the first half of 2018.

As a result of the foregoing, the first half of 2019 ended with pre-provisions income of 926.8 million euros (975.1 million euros in 2018). Excluding TSB, pre-provisions income amounted to 888.8 million euros, compared with 1,076.0 million euros in 2018.

Allowances for loan losses and other impairments (primarily real estate and financial assets) amounted to 374.2 million euros, compared with -806.3 million euros in the first six months of 2018. 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 results amounted to 139.5 million euros, with the sale of 80% of Solvia Servicios Inmobiliarios. In the first half of 2018, capital gains on asset sales amounted to 4.0 million euros and included mainly 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 531.7 million euros at the end of the first half of 2019. Excluding TSB, net profit attributable to the Group amounted to 529.5 million euros at the end of June 2019. These results represent a strong year-on-year growth, having been influenced in the previous year by the impacts of TSB's migration and post-migration and by the provisions for institutional portfolio sales.

Solvency

The phase-in Common Equity Tier 1 (CET1) ratio stood at 11.9%, and the fully-loaded CET1 ratio at 11.2% as at 30 June 2019.

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

The impact resulting from the application of the transitional arrangements in relation to the fully-loaded ratio was, as at 30 June 2019, +70bp in CET1 and +26bp in the leverage ratio.

The evolution of the fully-loaded CET1 ratio in the six-month period has mainly been impacted by the increase in risk-weighted assets following the entry into force of accounting standard IFRS 16 and the targeted review of internal models (TRIM) carried out by the European Central Bank. The organic generation of capital in the quarter and the disposal of Solvia have offset the increase in risk-weighted assets, with the fully-loaded CET1 ratio increasing by +6bp in the first six months of 2019.

The pro forma CET1 capital ratio, excluding the deconsolidation of the portfolios sold, would stand at 12.1% (phase-in) and 11.3% (fully-loaded).

The Group continues to be rated in the investment grade category by all of the credit rating agencies.

On 4 June 2019, DBRS Ratings GmbH raised Banco Sabadell's long-term credit rating to 'A (low)' from 'BBB (high)', with a stable outlook. At the same time, the agency affirmed the short-term rating of 'R-1 (low)'. With this rating upgrade, the agency recognised the positive development of the institution's financial profile over the past year, highlighting the reduction in the volume of non-performing assets and the expected revenue growth in Spain.

On 31 May 2019, S&P Global Ratings affirmed Banco Sabadell's long-term credit rating of 'BBB' with a stable outlook and its short-term rating of 'A-2'. The agency took this action in the context of the reduction in Spain's economic risk and highlighted the ongoing improvement in Banco Sabadell's financial profile in terms of its domestic business.

On 29 March 2019, Fitch Ratings assigned a long-term rating of 'BBB' with a stable outlook a short-term rating of 'F3'. According to the agency, these ratings reflect the Group's solid franchise in Spain, its geographical diversification thanks to its business in the United Kingdom, improvements in profitability and asset quality, as well as the Group's satisfactory capital levels and adequate liquidity position.

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

Branches

At the end of the first half of 2019, Banco Sabadell had 2,454 branches. Of the total number of Banco Sabadell Group branches and offices, 1,394 were operating under the Sabadell brand (including 28 business banking and 2 corporate banking branches); 108 were operating as Sabadell Gallego (including 3 business banking branches); 140 under Sabadell Herrero (including 3 business banking branches); 112 were SabadellGuipuzcoano branches (including 5 business banking branches); 10 were SabadellUrquijo branches; 100 were Solbank branches; and there were 590 international branches, including 15 run by Sabadell Mexico, 7 by BancSabadell d'Andorra and 548 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 2019 consolidated interim financial statements.

Banking Business Spain

Net profit as at 30 June 2019 amounted to 573 million euros, representing a year-on-year increase of +5.7%, mainly due to the increase in net fees and commissions and the capital gain obtained on the sale of Solvia Servicios Inmobiliarios.

Net interest income amounted to 1,190 million euros and declined by -2.5% compared to the same period in 2018, mainly due to the impact of IFRS16 and lower long-term interest rates.

Net fees and commissions income amounted to 622 million euros, 8.0% higher than in the previous year, driven by the positive performance of service commissions and asset management fees.

Other operating income and expenses in the quarter include the contribution to the SRF of -59 million euros.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 19 million euros, representing a decline due to the extraordinary gains or losses on financial assets and liabilities of the previous year, as well as the impact of the SAREB impairment of -47 million euros.

Administrative expenses and amortisations amounted to -898 million euros, in line with the same period in the previous year.

Provisions and impairments amounted to -238 million euros, lower than in the previous year.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**1,190**	**1,220**	**(2.5)**
Profit or loss on entities valued using the equity method and on	35	36	(2.8)
Net fees and commissions	622	576	8.0
Net trading income and exchange differences	19	205	(90.7)
Other operating income/expenses	(115)	(131)	(12.2)
Gross income	**1,751**	**1,906**	**(8.1)**
Administrative and depreciation expenses	(898)	(897)	0.1
Operating income	**853**	**1,009**	**(15.5)**
Provisions and impairments	(238)	(262)	(9.2)
Gains or losses on asset derecognition and others	140	3	4,566.7
Profit or loss before tax	**755**	**750**	**0.7**
Corporation tax	(178)	(206)	(13.6)
Profit or loss after tax	**577**	**544**	**6.1**
Profit or loss attributed to minority interests	4	2	100.0
Profit or loss attributed to the Group	**573**	**542**	**5.7**
ROE (earnings divided by average equity)	11.9%	11.4%	
Efficiency ratio (administrative expenses divided by gross income)	45.0%	42.3%	
NPL ratio	4.7%	5.5%	
NPL coverage ratio	50.9%	55.0%	

Gross performing loans amounted to 95,482 million euros, representing a slight decline of -0.8% in relation to December in the previous year.

On-balance sheet customer funds increased by 2.8%, with a significant growth in sight accounts. Off-balance sheet customer funds fell by -0.9%, due to the decline in mutual funds.

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**148,394**	**146,411**	**1.4**
Gross performing loans	95,482	93,752	1.8
Liabilities	**139,280**	**137,866**	**1.0**
On-balance sheet customer funds	101,038	98,296	2.8
Wholesale Funding Capital Markets	19,168	19,833	(3.4)
Allocated capital	**9,114**	**8,545**	**6.7**
Off-balance sheet customer funds	**42,606**	**42,976**	**(0.9)**
Other indicators			
Employees	16,027	15,847	1.1
Branches	1,864	1,865	(0.1)

Commercial Banking

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

Payment protection insurance products and payment services are also noteworthy, such as credit cards and the issues of transfers, among others.

Lastly, it includes the Private Banking segment and products, with a high added value for customers.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**1,101**	**1,128**	**(2.4)**
Profit or loss on entities valued using the equity method and on	24	23	4.3
Net fees and commissions	555	518	7.1
Net trading income and exchange differences	2	2	-
Other operating income/expenses	(57)	(52)	9.6
Gross income	**1,625**	**1,619**	**0.4**
Administrative and depreciation expenses	(797)	(776)	2.7
Operating income	**828**	**843**	**(1.8)**
Provisions and impairments	(242)	(255)	(5.1)
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**586**	**588**	**(0.3)**
Corporation tax	(123)	(169)	(27.2)
Profit or loss after tax	**463**	**419**	**10.5**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**463**	**419**	**10.5**
ROE (earnings divided by average equity)	18.5%	18.8%	
Efficiency ratio (administrative expenses divided by gross income)	48.2%	47.1%	
NPL ratio	3.9%	6.0%	
NPL coverage ratio	46.2%	53.5%	

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**193,663**	**170,249**	**13.8**
Gross performing loans	84,307	81,319	3.7
Liabilities	**187,541**	**165,355**	**13.4**
On-balance sheet customer funds	102,101	86,822	17.6
Allocated capital	**6,122**	**4,894**	**25.1**
Off-balance sheet customer funds	**40,545**	**24,223**	**67.4**
Other indicators			
Employees	11,756	11,336	3.7
Branches	1,862	1,852	0.5

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large corporations and financial institutions, both national and international. It encompasses Corporate Banking, Structured Finance, Treasury and Capital Markets, Securities Trading and Custody and Global Financial Institutions.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**89**	**107**	**(16.8)**
Profit or loss on entities valued using the equity method and on	-	-	-
Net fees and commissions	84	82	2.4
Net trading income and exchange differences	2	9	(77.8)
Other operating income/expenses	(2)	(2)	-
Gross income	**173**	**196**	**(11.7)**
Administrative and depreciation expenses	(46)	(43)	7.0
Operating income	**127**	**153**	**(17.0)**
Provisions and impairments	13	(1)	(1,400.0)
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**140**	**152**	**(7.9)**
Corporation tax	(34)	(45)	(24.4)
Profit or loss after tax	**106**	**107**	**(0.9)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**106**	**107**	**(0.9)**
ROE (earnings divided by average equity)	27.0%	14.2%	
Efficiency ratio (administrative expenses divided by gross income)	26.7%	25.1%	
NPL ratio	1.0%	6.8%	
NPL coverage ratio	89.1%	59.7%	

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**11,007**	**11,076**	**(0.6)**
Gross performing loans	7,022	6,981	0.6
Liabilities	**10,201**	**10,289**	**(0.9)**
On-balance sheet customer funds	3,039	3,306	(8.1)
Allocated capital	**806**	**787**	**2.4**
Off-balance sheet customer funds	**536**	**472**	**13.6**
Other indicators			
Employees	229	221	3.6
Branches	2	2	-

Asset Transformation

Net profit as at 30 June 2019 amounted to -90 million euros, improving by 64.8% year-on-year, mainly due to the reduction of provisions and the positive results on foreclosed asset sales.

Gross income amounted to -2 million euros, less than in the previous year due to the lower earnings associated with the institutional portfolios of the foreclosed assets that were sold.

Administrative expenses and amortisations amounted to -46 million euros, representing a -28.1% decline year-on-year, driven by the smaller volume of foreclosed assets.

Provisions and impairments amounted to -80 million euros, -78% less than in the same period in the previous year, mainly due to the lower levels of provisions associated with institutional portfolio sales.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**(24)**	**(14)**	**71.4**
Profit or loss on entities valued using the equity method and on	-	-	-
Net fees and commissions	-	1	(100.0)
Net trading income and exchange differences	-	9	(100.0)
Other operating income/expenses	22	70	(68.6)
Gross income	**(2)**	**66**	**(103.0)**
Administrative and depreciation expenses	(46)	(64)	(28.1)
Operating income	**(48)**	**2**	**(2,500.0)**
Provisions and impairments	(80)	(377)	(78.8)
Of which: profit or loss on sales	*50*	*30*	-
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**(128)**	**(375)**	**(65.9)**
Corporation tax	38	119	(68.1)
Profit or loss after tax	**(90)**	**(256)**	**(64.8)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**(90)**	**(256)**	**(64.8)**
ROE (earnings divided by average equity)	-	-	
Efficiency ratio (administrative expenses divided by gross income)	-	-	
NPL ratio	40.1%	27.7%	
NPL coverage ratio	61.9%	64.0%	

Gross performing loans declined by -17.1% from the previous year and the net real estate exposure increased by 8.7%.

Intra-group financing amounted to 9,312 million euros, -9.7% less than in the previous year.

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**10,713**	**11,907**	**(10.0)**
Gross performing loans	708	854	(17.1)
Real estate exposure (net)	1,042	959	8.7
Liabilities	**9,839**	**10,972**	**(10.3)**
On-balance sheet customer funds	273	235	16.2
Intragroup financing	9,312	10,315	(9.7)
Allocated capital	**875**	**935**	**(6.4)**
Off-balance sheet customer funds	**42**	**35**	**20.0**
Other indicators			
Employees	205	1,073	(80.9)
Branches	-	-	-

Banking Business United Kingdom

Net profit amounted to 2 million euros as at the end of June 2019, mainly due to the impact of renegotiating the contract with VISA and the early sale of gilts.

Net interest income amounted to 486 million euros and remained in line with the previous year. The previous year was impacted by remediation activities arising from the IT migration.

Net fees and commissions increased by 60.0% year-on-year, mainly due to the growth of service fees. The previous year was impacted by waiver of overdraft fees following the IT migration.

Other operating income and expenses improved mainly because the previous year included the impact of fraud losses arising from the IT migration.

Administrative expenses and amortisations amounted to -524 million euros, representing a year-on-year decline of -13.4%, as the previous year includes one-off migration costs.

Provisions and impairments amounted to -33 million euros, improving in relation to the previous year due to future customer redress provisions in TSB following migration.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**486**	**487**	**(0.2)**
Profit or loss on entities valued using the equity method and on	-	-	-
Net fees and commissions	56	35	60.0
Net trading income and exchange differences	20	26	(23.1)
Other operating income/expenses	(1)	(44)	(97.7)
Gross income	**561**	**504**	**11.3**
Administrative and depreciation expenses	(524)	(605)	(13.4)
Operating income	**37**	**(101)**	**(136.6)**
Provisions and impairments	(33)	(139)	(76.3)
Gains or losses on asset derecognition and others	(1)	1	-
Profit or loss before tax	**3**	**(239)**	**(101.3)**
Corporation tax	(1)	42	(102.4)
Profit or loss after tax	**2**	**(197)**	**(101.0)**
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	**2**	**(197)**	**(101.0)**
ROE (earnings divided by average equity)	-	-	
Efficiency ratio (administrative expenses divided by gross income)	81.4%	112.1%	
NPL ratio	1.3%	1.1%	
NPL coverage ratio	43.8%	53.9%	

Gross performing loans amounted to 33,850 million euros, showing a decline in relation to December in the previous year of -0.2%. Considering a constant exchange rate, this item increased by 1.2% year-on-year due to the growth of core mortgages.

On-balance sheet customer funds amounted to 33,241 million euros, increasing by 2.3% since December in the previous year. Considering a constant exchange rate, they increased by 2.6%.

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**46,648**	**46,182**	**1.0**
Gross performing loans	33,850	33,634	0.6
Liabilities	**45,143**	**44,662**	**1.1**
On-balance sheet customer funds	33,241	32,484	2.3
Wholesale Funding Capital Markets	2,415	1,688	43.1
Allocated capital	**1,505**	**1,520**	**-**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	8,160	8,353	(2.3)
Branches	548	550	(0.4)

Other geographies

Net profit in June 2019 amounted to 46 million euros, representing a 43.8% increase year-on-year.

Net interest income amounted to 154 million euros, increasing by 31.6%, mainly due to the growth of Mexico, foreign branches in EMEA (Paris, London, Lisbon and Casablanca) and Miami.

Net fees and commissions increased by 12.0% year-on-year, mainly due to the improvement in fees and commissions in Mexico and in the Paris and London branches.

Gross income amounted to 182 million euros and increased by 18.1%, due to the improvement of the core business.

Administrative expenses and amortisations increased by +10.0% year-on-year due to expansion costs in Mexico.

Provisions and impairments declined compared to the previous year due to allocations for the one-off transactions recorded last year.

Million euro

	30/06/2019	30/06/2018	Change (%) year-on-year
Net interest income	**154**	**117**	**31.6**
Profit or loss on entities valued using the equity method and on dividends	1	1	-
Net fees and commissions	28	25	12.0
Net trading income and exchange differences	5	6	(16.7)
Other operating income/expenses	(5)	6	-
Gross income	**183**	**155**	**18.1**
Administrative and depreciation expenses	(99)	(90)	10.0
Operating income	**84**	**65**	**29.2**
Provisions and impairments	(23)	(28)	(17.9)
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	**61**	**37**	**64.9**
Corporation tax	(12)	(3)	300.0
Profit or loss after tax	**49**	**34**	**44.1**
Profit or loss attributed to minority interests	3	2	-
Profit or loss attributed to the Group	**46**	**32**	**43.8**
ROE (earnings divided by average equity)	8.0%	8.7%	
Efficiency ratio (administrative expenses divided by gross income)	49.0%	55.2%	
NPL ratio	0.8%	0.6%	
NPL coverage ratio	106.6%	241.1%	

Gross performing loans amounted to 11,662 million euros, 7.0% higher than in the preceding year, mainly due to the growth of the business in Mexico, foreign branches in EMEA, and Miami.

On-balance sheet customer funds amounted to 7,309 million euros and increased by 15.5%, due to the growth in Mexico and Miami. Off-balance sheet funds amounted to 1,072 million euros and increased by 4.8% in relation to December of the previous year.

Million euro

	30/06/2019	31/12/2018	Change (%) year-on-year
Assets	**19,097**	**17,822**	**7.2**
Gross performing loans	11,662	11,126	4.8
Real estate exposure (net)	-	-	-
Liabilities	**17,875**	**16,705**	**7.0**
On-balance sheet customer funds	7,309	6,328	15.5
Wholesale Funding Capital Markets	-	-	-
Allocated capital	**1,222**	**1,117**	**9.4**
Off-balance sheet customer funds	**1,072**	**1,023**	**4.8**
Other indicators			
Employees	980	908	7.9
Branches	42	42	-

Subsequent events

Since 30 June 2019, there have been no events worthy of mention, with the exception of that indicated hereafter:

On 24 July 2019, Banco Sabadell, having obtained the relevant authorisations, completed the transfer of a portfolio of loans, mostly secured loans with a gross book value of approximately 1,834 million euros and a net book value of approximately 268 million euros, as well as foreclosed assets with a gross book value of approximately 290 million euros and a net book value of approximately 106 million euros, to Deutsche Bank and Carval Investors. This transaction was described in Note 2 to the 2018 consolidated annual accounts.

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

Corporate Governance

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared the Annual Report on Corporate Governance for the year 2018, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report for the 2018 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" section of the aforementioned 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 industry (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 institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents 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 million euros)	30/06/2019	30/06/2018
ROA	(*) (**) (***)	Consolidated profit/(loss) during the year / average total assets. Considers linear annualisation of profit obtained to date excluding the capital gain on the sale of Solvia and adjusted by the relative accrual of contributions to deposit guarantee and resolution funds and the tax on deposits of credit institutions (IDEC), except at year-end.	Average total assets	223,909	216,960
			Consolidated profit/(loss) during the year	538	124
			Adjustment for DGF-SRF-IDEC net of taxes	(32)	(29)
			ROA (%)	**0.40**	**0.09**
ROE	(*) (***)	Profit attributed to the Group / average equity. The numerator considers the linear annualisation of profit obtained to date excluding the capital gain on the sale of Solvia and adjusted by the relative accrual of contributions to deposit guarantee and resolution funds and the tax on deposits of credit institutions (IDEC), except at year-end.	Average equity	12,756	12,762
			Profit attributed to the Group	532	121
			Adjustment for DGF-SRF-IDEC net of taxes	(32)	(29)
			ROE (%)	**6.85**	**1.45**
RORWA	(*)	Profit/(loss) attributed to the Group / risk-weighted assets (RWAs). The numerator considers the linear annualisation of profit obtained to date excluding the capital gain on the sale of Solvia and adjusted by the relative accrual of contributions to deposit guarantee and resolution funds and the tax on deposits of credit institutions (IDEC), except at year-end.	Risk-weighted assets (RWA)	83,124	80,455
			Net profit attributed to the Group	532	121
			Adjustment for DGF-SRF-IDEC net of taxes	(32)	(29)
			RORWA (%)	**1.05**	**0.23**
ROTE	(*) (***)	Profit attributed to the Group / average own funds. The numerator considers the linear annualisation of profit obtained to date excluding the capital gain on the sale of Solvia and adjusted by the relative accrual of contributions to deposit guarantee and resolution funds and the tax on deposits of credit institutions (IDEC), except at year-end. The denominator excludes goodwill.	Average own funds (excl. intangible assets)	10,292	10,484
			Net profit attributed to the Group	532	121
			Adjustment for DGF-SRF-IDEC net of taxes	(32)	(29)
			ROTE (%)	**8.49**	**1.77**

(*) The linear accrual of contributions to deposit guarantee and resolution funds has been made based on the Group's best estimates.

(**) Average calculated based on average daily balances.

(***) Average calculated using the last month-end positions since December of the previous year.

Performance measure		Definition and calculation	Reconciliation (in million euros)	30/06/2019	30/06/2018
Efficiency ratio	(*)	Administrative expenses divided by adjusted gross income. The denominator includes the linear accrual of contributions to deposit guarantee and resolution funds and the tax on deposits of credit institutions (IDEC), except at year-end.	Gross income	2,494	2,631
			Adjustment for DGF-SRF-IDEC	(45)	(41)
			Adjusted gross income	2,449	2,590
			Administrative expenses	(1,340)	(1,479)
			Efficiency ratio (%)	**54.72**	**57.11**
Other operating income and expenses		Includes the following accounting headings: other operating income and other operating expenses as well as income from assets and expenses on liabilities under insurance or reinsurance contracts.	Other operating income	124	148
			Other operating expenses	(223)	(247)
			Income from assets under insurance or reinsurance contracts	-	-
			Expenses on liabilities under insurance or reinsurance contracts	-	-
			Other operating income and expenses	**(99)**	**(98)**
Gains on sale of assets and other results		Includes the following accounting items: net gains or losses on derecognition of non-financial assets, excluding investment properties and participating interests included in 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	11	7
			Gains on sale of participating interests	135	-
			Profit/(loss) on sales of investment properties	(7)	(3)
			Gains on sale of assets and other results	**139**	**4**

(*) The linear accrual of contributions to deposit guarantee and resolution funds has been made based on the Group's best estimates.

Performance measure	Definition and calculation	Reconciliation (in million euros)	30/06/2019	30/06/2018
Total provisions and impairments	Includes the following accounting items: (i) impairment or reversal of impairment of investments in joint ventures and associates, (ii) impairment or reversal of impairment on non-financial assets, (iii) investment properties in the net gains or losses on derecognition of non-financial assets, (iv) profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding participating interests), (v) provisions or reversal of provisions and (vi) impairment or reversal of impairment and cash flow modification gains or losses on financial assets not measured at fair value through profit or loss and net modification losses or gains.	Impairment or reversal of impairment of investments in joint ventures and associates	-	-
		Impairment or reversal of impairment on non-financial assets	(20)	(36)
		Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	91	(262)
		Gains on sale of participating interests	(135)	-
		Profit/(loss) on sales of investment properties	7	3
		Other provisions and impairments	**(58)**	**(295)**
		Provisions or reversal of provisions	(16)	(84)
		Impairment or reversal of impairment and cash flow modification gains or losses on financial assets not measured at fair value through profit or loss and net modification losses or gains	(300)	(427)
		Provisions for loan losses and financial assets	**(316)**	**(511)**
		Total provisions and impairments	**(374)**	**(806)**
Pre-provisions income	Includes the following accounting items: gross income plus administrative and amortisation/depreciation expenses.	Gross income	2,494	2,631
		Administrative expenses	(1,340)	(1,479)
		Staff expenses	(810)	(799)
		Other general administrative expenses	(530)	(681)
		Amortisation/Depreciation	(227)	(177)
		Pre-provisions income	**927**	**975**
Customer spread (*)	Difference between return and cost of assets and liabilities related to customers, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated taking into account the difference between the average rate charged by the bank for customer loans and the average rate paid by the bank for customer deposits. The average customer loan rate is the annualised ratio between the financial income from customer loans and the average daily balance of customer loans. The average customer deposit rate is the annualised ratio between the financial expenses on customer funds and the average daily balance of customer funds.	Customer lending (net)		
		Average balance	138,725	134,964
		Profit or loss	2,033	1,975
		Interest rate (%)	2.96	2.95
		Customer deposits		
		Average balance	146,286	139,542
		Profit or loss	(204)	(145)
		Interest rate (%)	(0.28)	(0.21)
		Customer spread	**2.68**	**2.74**

(*) Average calculated based on average daily balances.

Performance measure	Definition and calculation	Reconciliation (in million euros)	30/06/2019	31/12/2018
Gross performing loans	Includes gross loans to customers excluding repos, accrual adjustments and non-performing loans (classified as Stage 3).	Loans and credit secured with mortgages	81,293	80,872
		Loans and credit secured with other collateral	3,240	2,767
		Trade credit	5,945	6,186
		Finance leases	2,707	2,565
		On-demand loans and other term loans	48,517	46,976
		Gross performing loans	**141,703**	**139,366**
Gross customer lending	Includes loans and advances to customers excluding impairment allowances.	(Customer) loans classified as Stage 3	6,274	6,472
		Accrual adjustments	17	(13)
		Gross customer lending (excluding repos)	**147,993**	**145,824**
		Assets acquired under repurchase agreements	94	596
		Gross customer lending	**148,087**	**146,420**
		Impairment allowances	(3,192)	(3,433)
		Loans and advances to customers	**144,895**	**142,987**
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 measured at amortised cost	207,301	206,077
		Non-retail financial liabilities	65,440	68,734
		Deposits from central banks	22,910	28,799
		Deposits from credit institutions	13,284	12,000
		Institutional Issues	23,005	24,334
		Other financial liabilities	6,241	3,601
		On-balance sheet customer funds	**141,862**	**137,343**
On-balance sheet funds	Includes accounting sub-headings of customer deposits, debt securities issued (debt and other marketable securities and subordinated liabilities).	Customer deposits	143,231	139,079
		Demand deposits	113,607	107,665
		Deposits with agreed maturity, including deposits redeemable at notice and hybrid	28,303	28,709
		Assets sold under repurchase agreements	1,115	2,533
		Accrual adjustments and hedging derivatives	205	172
		Debt and other marketable securities	18,617	19,568
		Subordinated liabilities (*)	3,019	3,031
		On-balance sheet funds	**164,867**	**161,678**
Off-balance sheet customer funds	Includes mutual funds, assets under management, pension funds and insurance products sold.	Mutual funds	26,127	26,379
		Assets under management	3,371	3,595
		Pension funds	3,708	3,594
		Insurance products sold	10,514	10,465
		Total off-balance sheet customer funds	**43,720**	**44,034**
Funds under management	Sum of on-balance sheet funds and off-balance sheet customer funds.	**Funds under management**	**208,587**	**205,711**

(*) Subordinated liabilities of debt securities issued.

Performance measure	Definition and calculation	Reconciliation (in million euros)	30/06/2019	31/12/2018
Stage 3 exposures (non-performing)	Sum of accounting items: stage 3 (non-performing) loans and advances to customers, not classified as non-current assets held for sale, together with guarantees given classified as Stage 3.	Loans and advances to customers	6,290	6,472
		Guarantees given classified as Stage 3	90	81
		Stage 3 exposures (non-performing)	**6,380**	**6,554**
NPL coverage ratio	Gives the percentage of non-performing (Stage 3) exposures covered by provisions. Calculated using the ratio between impairment allowances for loans and advances to customers not classified as non-current assets held for sale (including allowances for guarantees given) / total exposures classified as Stage 3 (including guarantees given classified as Stage 3).	Stage 3 exposures (non-performing)	6,380	6,554
		Provisions	3,301	3,544
		NPL coverage ratio	**51.7%**	**54.1%**
Non-performing assets	Sum of non-performing loans (classified as Stage 3) and foreclosed real estate assets.	Stage 3 exposures (non-performing)	6,380	6,554
		Foreclosed real estate assets	1,873	1,726
		Non-performing assets	**8,253**	**8,279**
		Non-performing asset provisions	4,132	4,311
		Non-performing assets coverage ratio	**50.1%**	**52.1%**
NPL ratio	Gives the percentage of non-performing exposures (classified as Stage 3) over total exposures granted to customers not classified as non-current assets held for sale. Calculated using the ratio between exposures classified as Stage 3, including guarantees given classified as Stage 3 / loans to customers not classified as non-current assets held for sale and guarantees given. See definition of exposures classified as Stage 3 in this table.	Stage 3 exposures (non-performing)	6,380	6,554
		Customer loans and guarantees given	157,586	155,206
		NPL ratio	**4.0%**	**4.2%**
Loan-to-Deposit ratio	Net loans and receivables divided by retail funding. The numerator excludes mediation loans. The denominator considers retail funding and customer funds, defined in this table.	Net lending, excl. ATA adjusted by mediation loans	142,590	139,583
		On-balance sheet customer funds	141,862	137,343
		Loan-to-Deposit ratio	**100.5%**	**101.6%**