Banco de Sabadell, S.A. and Subsidiaries

Condensed Consolidated Half-Yearly Accounts

30 June 2020

Consolidated Half-Yearly Directors' Report

For the period from 1 January to 30 June 2020

(With Auditor's Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

KPMG Auditores, S.L.
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(Barcelona)

Independent Auditor's Report on the Condensed Consolidated Half-Yearly Accounts

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Banco de Sabadell, S.A.

REPORT ON THE CONDENSED CONSOLIDATED HALF-YEARLY ACCOUNTS

Opinion

We have audited the condensed consolidated half-yearly accounts of Banco de Sabadell, S.A. (the "Bank") and its subsidiaries that, together with the Bank, form the Banco de Sabadell Group (the "Group"), which comprise the consolidated balance sheet at 30 June 2020 and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of total changes in equity and consolidated statement of cash flows for the six-month period then ended, and consolidated explanatory notes.

In our opinion, the accompanying condensed consolidated half-yearly accounts of the Group for the six-month period ended 30 June 2020 have been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as adopted by the European Union, for the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Condensed Consolidated Half-Yearly Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the condensed consolidated half-yearly accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the condensed consolidated half-yearly accounts of the current period. These matters were addressed in the context of our audit of the condensed consolidated half-yearly accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to other debtors See notes 1, 2, 4.1 and 10 to the condensed consolidated half-yearly accounts	
Key audit matter	*How the matter was addressed in our audit*
The Group's portfolio of loans and advances to other debtors reflects a net balance of Euros 148,018 million at 30 June 2020, while allowances and provisions recognised at that date for impairment total Euros 3,364 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3), or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of the credit risk provision varies depending on the category in which the financial asset has been included. Impairment is calculated based on an expected loss model, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Individual provisions consider estimates of future business performance and the market value of collateral provided for credit transactions. For the collective analysis, estimates of expected losses are calculated using internal models that use large databases, different macroeconomic scenarios,	Our audit approach in relation to the Group's estimate of impairment of loans and advances to other debtors due to credit risk included an assessment of the relevant controls associated with the processes for estimating impairment, as well as different tests of detail on that estimate, for which we involved our credit risk specialists. Our procedures related to the control environment focused on the following key areas: • Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. • Evaluating the appropriate classification of the loans and advances to other debtors portfolio based on their credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions. • Testing of the relevant controls relating to the information available for the monitoring of loans outstanding. • Evaluating the design and implementation of the relevant controls over the management and measurement of collateral and guarantees. • Evaluating the correct functioning of the internal models for estimating both individual and collective provisions for expected losses. • Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions.

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Impairment of loans and advances to other debtors

See notes 1, 2, 4.1 and 10 to the condensed consolidated half-yearly accounts

Key audit matter	*How the matter was addressed in our audit*
parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past, present and future information to be considered. The Group regularly conducts recalibrations and tests of its internal models in order to improve their predictive capabilities based on actual historical experience. The COVID-19 pandemic is affecting the economy and business activities of the countries where the Group operates, leading to an economic recession in many of these countries. To mitigate the impacts of COVID-19, governments of different countries have launched initiatives to support the most affected sectors and customers through various measures such as the provision of State-backed credit facilities, the deferral of payments without penalties (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Group to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.) and have had a significant effect on the allowances and provisions for impairment of financial assets measured at amortised costs in the six-month period ended 30 June 2020. The consideration of this aspect as a key audit matter is based both on the significance for the Group of the loans and advances to other debtors portfolio, and of the corresponding allowances and provisions recognised, and on the relevance and complexity of the process for classifying these financial assets for the purpose of estimating impairment thereon and of the calculation of that impairment, while also taking into consideration the situation generated by the COVID-19 pandemic.	• Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place. Our tests of detail on the estimated expected losses included the following: • With regard to the impairment of individually significant transactions, we analysed the appropriateness of the cash flow discount models used by the Group. We also selected a sample from the population of significant credit-impaired risks and assessed the adequacy of the provision recognised. • With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Group, assessing the integrity and accuracy of the input balances for the process and the correct functioning of the calculation engine by repeating the calculation process for all contracts, taking into account the segmentation and assumptions used by the Group. In carrying out our audit procedures, we have taken into consideration the impacts of COVID-19 and the government aid on the parameters used to calculate the expected losses. We involved our specialists in valuation of corporate businesses to evaluate the macroeconomic scenarios used by the Group in its internal models to estimate the expected losses. Finally, we analysed whether the disclosures in the explanatory notes to the condensed consolidated half-yearly accounts are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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Recoverability of goodwill See notes 1 and 12 to the condensed consolidated half-yearly accounts	
Key audit matter	*How the matter was addressed in our audit*
At 30 June 2020 the Group has recognised goodwill totalling Euros 1,032 million, from the acquisition of certain entities and businesses in Spain. The Group tests recognised goodwill for impairment annually, or when impairment indicators are identified. The measurement of goodwill requires that associated cash-generating units (CGUs) be determined, that the carrying amount of each CGU be calculated, that their recoverable amount be estimated and that any events that may indicate impairment be identified. This estimate entails, among other matters, financial projections that take into account, inter alia, the expected performance of macroeconomic variables and their impact on the CGU's future business, internal circumstances of the entity and its competitors and the performance of discount rates. These projections have been significantly affected by the economic impact of the COVID-19 pandemic on the business activity. Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, also taking into consideration the situation triggered by the COVID-19 pandemic, the recoverability of goodwill has been considered a key audit matter.	Our audit procedures included analysing the key processes and controls established by management relating to the process followed by the Group to identify CGUs to which goodwill is associated, and evaluating the methodology and estimates used by the Group to determine their future impairment, which has been subject to review by the independent experts engaged by the Group. We also carried out procedures of detail in relation to the evaluation of goodwill impairment, particularly with regard to the reliability of the information used, the reasonableness of the methodology used to calculate the recoverable amount of the CGUs and of the main assumptions considered, as well as the reasonableness of the adjustments to the assumptions which have been affected by the impact of COVID-19. Lastly, we analysed whether the disclosures in the explanatory notes to the condensed consolidated half-yearly accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
The Group operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence of these systems with regard to the processing of the Group's financial and accounting information, make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, operating of systems, or development and maintenance of information applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas: • An understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information. • Tests of the key automatic processes that are involved in generating the financial information. • Tests of the controls of the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems. • Tests of the operation, maintenance and development controls of applications and systems.

Emphasis of Matter

We draw your attention to note 1 to the accompanying condensed consolidated half-yearly accounts, which states that these accounts do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying condensed consolidated half-yearly accounts should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2019. Our opinion is not modified in respect of this matter.

Other Information: Consolidated Half-Yearly Directors' Report

Other information solely comprises the consolidated half-yearly directors' report for the six-month period ended 30 June 2020, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the condensed consolidated half-yearly accounts.

Our audit opinion on the condensed consolidated half-yearly accounts does not encompass the consolidated half-yearly directors' report. Our responsibility for the consolidated half-yearly directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the consolidated half-yearly directors' report with the condensed consolidated half-yearly accounts, based on knowledge of the Group obtained during the audit of the aforementioned condensed consolidated half-yearly accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the consolidated half-yearly directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, we evaluated that the information contained in the consolidated half-yearly directors' report is consistent with that disclosed in the condensed consolidated half-yearly accounts for the six-month period ended 30 June 2020 and the content and presentation of the report are in accordance with applicable legislation.

Responsibilities of the Bank’s Directors' and the Audit and Control Committee for the Condensed Consolidated Half-Yearly Accounts

The Directors of the Bank are responsible for the preparation of the accompanying condensed consolidated half-yearly accounts, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, for the preparation of condensed interim financial information, pursuant to article 12 of Royal Decree 1362/2007, and for such internal control as they determine is necessary to enable the preparation of condensed consolidated half-yearly accounts that are free from material misstatement, whether due to fraud or error.

In preparing the condensed consolidated half-yearly accounts, the Bank'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 Bank’s Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Bank's Audit and Control Committee is responsible for overseeing the preparation and presentation of the condensed consolidated half-yearly accounts.

Auditor's Responsibilities for the Audit of the Condensed Consolidated Half-Yearly Accounts

Our objectives are to obtain reasonable assurance about whether the condensed consolidated half-yearly accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts 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 economic decisions of users taken on the basis of these condensed consolidated half-yearly accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the condensed consolidated half-yearly accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank's Directors.

- Conclude on the appropriateness of the Bank'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 consolidated half-yearly accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the condensed consolidated half-yearly accounts, including the disclosures, and whether the condensed consolidated half-yearly accounts represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the condensed consolidated half-yearly accounts. We are responsible for the management, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

We communicate with the Bank'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 Bank's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Bank's Audit and Control Committee, we determine those that were of most significance in the audit of the condensed consolidated half-yearly accounts for the six-month period ended 30 June 2020 and which 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

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 28 March 2019 for a period of three years, which began on 1 January 2020.

Services Provided

The services other than the audit of accounts provided by KPMG Auditores, S.L. to the Group in the six-month period ended 30 June 2020 consisted of the issuance of a comfort letter in a debt issue process.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Francisco Gibert
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586

5 august 2020

"*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 and consolidated Interim Directors' Report of Banco Sabadell Group for the six-month period ended 30 June 2020

Consolidated interim financial statements

Explanatory notes

Consolidated Interim Directors' Report

Glossary of terms on alternative performance measures

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2020 and 31 December 2019

Thousand euro

Assets	Note	30/06/2020	31/12/2019 (*)
Cash, cash balances at central banks and other demand deposits (**)	7	**29,048,802**	**15,169,202**
Financial assets held for trading		**3,432,027**	**2,440,866**
Derivatives		2,607,569	1,840,245
Equity instruments	9	3,339	3,701
Debt securities	8	821,119	596,920
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*5*	*38,709*
Non-trading financial assets mandatorily at fair value through profit or loss		**144,909**	**171,056**
Equity instruments	9	15,619	-
Debt securities	8	129,290	171,056
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		**6,210,816**	**7,802,025**
Equity instruments	9	150,608	212,074
Debt securities	8	6,060,208	7,589,951
Loans and advances		-	-
Central banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: loaned or pledged as security with sale or pledging rights		*842,107*	*1,179,026*
Financial assets at amortised cost		**178,431,149**	**181,422,646**
Debt securities	8	21,331,218	19,218,721
Loans and advances	10	157,099,931	162,203,925
Central banks		113,453	112,923
Credit institutions		8,968,723	14,275,501
Customers		148,017,755	147,815,501
Memorandum item: loaned or pledged as security with sale or pledging rights		*2,946,109*	*5,133,513*
Derivatives – Hedge accounting		**688,729**	**468,516**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**453,805**	**249,552**
Investments in joint ventures and associates		**775,073**	**733,930**
Joint ventures		-	-
Associates		775,073	733,930
Assets under insurance or reinsurance contracts		**-**	**-**
Tangible assets	11	**3,299,928**	**3,462,399**
Property, plant and equipment		2,788,407	2,947,770
For own use		2,513,783	2,638,484
Leased out under operating leases		274,624	309,286
Investment properties		511,521	514,629
Of which: leased out under operating leases		*511,521*	*514,629*
Memorandum item: acquired through finance leases		*1,037,808*	*1,078,240*
Intangible assets	12	**2,557,115**	**2,564,983**
Goodwill		1,032,325	1,031,824
Other intangible assets		1,524,790	1,533,159
Tax assets		**6,961,871**	**7,008,327**
Current tax assets		385,016	492,395
Deferred tax assets	32	6,576,855	6,515,932
Other assets	13	**1,468,598**	**1,495,936**
Insurance contracts linked to pensions		132,011	133,960
Inventories		878,564	868,577
Rest of other assets		458,023	493,399
Non-current assets and disposal groups classified as held for sale	14	**974,468**	**764,203**
TOTAL ASSETS		**234,447,290**	**223,753,641**

(*) 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 2020.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2020 and 31 December 2019

Thousand euro

Liabilities	Note	30/06/2020	31/12/2019 (*)
Financial liabilities held for trading		**3,626,455**	**2,714,365**
Derivatives		2,471,579	1,842,553
Short positions		1,154,876	871,812
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		**215,166,417**	**205,636,018**
Deposits		188,398,532	178,898,181
Central banks	15	30,810,248	20,064,641
Credit institutions	15	9,247,721	11,471,187
Customers	16	148,340,563	147,362,353
Debt securities issued	17	21,826,957	22,569,896
Other financial liabilities		4,940,928	4,167,941
Memorandum item: subordinated liabilities		*2,915,563*	*3,088,538*
Derivatives – Hedge accounting		**893,393**	**728,769**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**379,233**	**234,537**
Liabilities under insurance or reinsurance contracts		**-**	**-**
Provisions	**18**	**529,803**	**430,434**
Pensions and other post employment defined benefit obligations		97,837	99,346
Other long term employee benefits		3,715	6,938
Pending legal issues and tax litigation		100,876	66,889
Commitments and guarantees given		170,973	110,746
Other provisions		156,402	146,515
Tax liabilities		**251,201**	**240,803**
Current tax liabilities		50,866	42,637
Deferred tax liabilities	32	200,335	198,166
Share capital repayable on demand		**-**	**-**
Other liabilities		**854,568**	**784,154**
Liabilities included in disposal groups classified as held for sale	**14**	**28,552**	**10,155**
TOTAL LIABILITIES		221,729,622	210,779,235

(*) 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 2020.

Consolidated balance sheets of Banco Sabadell Group

As at 30 June 2020 and 31 December 2019

Thousand euro

Equity	Note	30/06/2020	31/12/2019 (*)
Shareholders' equity	19	**13,139,727**	**13,171,806**
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		32,308	39,742
Retained earnings		5,418,556	4,858,681
Revaluation reserves		-	-
Other reserves		(1,017,495)	(977,687)
Reserves or accumulated losses of investments in joint ventures and associates		305,866	223,975
Other		(1,323,361)	(1,201,662)
(-) Treasury shares		(41,654)	(8,533)
Profit or loss attributable to owners of the parent		145,414	767,822
(-) Interim dividends		-	(110,817)
Accumulated other comprehensive income		**(490,399)**	**(266,746)**
Items that will not be reclassified to profit or loss		(68,266)	(44,677)
Actuarial gains or (-) losses on defined benefit pension plans		(2,335)	(2,361)
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		(65,931)	(42,316)
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		(422,133)	(222,069)
Hedge of net investments in foreign operations [effective portion]		229,669	114,237
Foreign currency translation		(726,279)	(445,169)
Hedging derivatives. Cash flow hedges reserve [effective portion]		99,154	89,845
Fair value changes of debt instruments measured at fair value through other comprehensive income		(44,537)	(2,137)
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		19,860	21,155
Non-controlling interests		**68,340**	**69,346**
Accumulated other comprehensive income		(240)	242
Other items		68,580	69,104
TOTAL EQUITY		**12,717,668**	**12,974,406**
TOTAL EQUITY AND TOTAL LIABIITIES		**234,447,290**	**223,753,641**
Memorandum item: off-balance sheet exposures			
Loan commitments given	20	**28,932,827**	**27,563,836**
Financial guarantees provided	20	**2,014,960**	**2,107,412**
Other commitments provided	20	**9,920,144**	**10,398,913**

(*) 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 2020.

Consolidated income statements of Banco Sabadell Group

For the six-month periods ended 30 June 2020 and 2019

Thousand euro

	Note	30/06/2020	30/06/2019 (*)
Interest income	21	2,230,675	2,496,251
Financial assets at fair value through other comprehensive income		36,157	68,069
Financial assets at amortised cost		2,047,704	2,210,146
Other interest income		146,814	218,036
(Interest expenses)	21	(526,148)	(690,174)
(Expenses on share capital repayable on demand)		-	-
Net interest income		**1,704,527**	**1,806,077**
Dividend income		466	3,345
Profit or loss of entities accounted for using the equity method		13,487	32,890
Fee and commission income	22	761,028	797,289
(Fee and commission expenses)	22	(87,796)	(91,348)
Gains or (-) losses on financial assets and liabilities, net	23	332,801	29,355
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		181,518	84,150
Financial assets at amortised cost		143,754	1,297
Other financial assets and liabilities		37,764	82,853
Gains or (-) losses on financial assets and liabilities held for trading, net		178,380	(39,520)
Reclassification of financial assets from fair value through other comprehensive income		-	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		178,380	(39,520)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(31,387)	(19,571)
Reclassification of financial assets from fair value through other comprehensive income		(694)	-
Reclassification of financial assets from amortised cost		-	-
Other gains or (-) losses		(30,693)	(19,571)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		-	6
Gains or (-) losses from hedge accounting, net		4,290	4,290
Exchange differences [gain or (-) loss], net	23	(177,601)	15,509
Other operating income	24	123,553	123,660
(Other operating expenses)	25	(209,913)	(223,015)
Income from assets under insurance or reinsurance contracts		-	-
(Expenses on liabilities under insurance or reinsurance contracts)		-	-
Gross income		**2,460,552**	**2,493,762**

(*) 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 2020.

Consolidated income statements of Banco Sabadell Group

For the six-month periods ended 30 June 2020 and 2019

Thousand euro

	Note	30/06/2020	30/06/2019 (*)
(Administrative expenses)		(1,306,519)	(1,339,966)
(Staff expenses)	26	(797,799)	(810,061)
(Other administrative expenses)	26	(508,720)	(529,905)
(Depreciation and amortisation)		(255,406)	(226,957)
(Provisions or (-) reversal of provisions)	18	(116,518)	(15,944)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	27	(881,499)	(300,461)
(Financial assets at fair value through other comprehensive income)		660	3,178
(Financial assets at amortised cost)		(882,159)	(303,639)
Profit/(loss) on operating activities		**(99,390)**	**610,434**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		732	192
(Impairment or (-) reversal of impairment on non-financial assets)	28	2,016	(20,233)
(Tangible assets)		(948)	(1,370)
(Intangible assets)		-	-
(Other)		2,964	(18,863)
Gains or (-) losses on derecognition of non-financial assets, net	29	526	11,166
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	181,597	90,564
Profit or (-) loss before tax from continuing operations		**85,481**	**692,123**
(Tax expense or (-) income related to profit or loss from continuing operations)		59,052	(154,118)
Profit or (-) loss after tax from continuing operations		**144,533**	**538,005**
Profit or (-) loss after tax from discontinued operations		-	-
Profit or loss for the period		**144,533**	**538,005**
Attributable to minority interest [non-controlling interests]		(881)	6,331
Attributable to owners of the parent		145,414	531,674
Earnings per share (euro)	3	**0.02**	**0.09**
Basic (in euro)		0.02	0.09
Diluted (in euro)		0.02	0.09

(*) 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 2020.

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 2020 and 2019

Thousand euro

	30/06/2020	30/06/2019 (*)
Profit or loss for the period	**144,533**	**538,005**
Other comprehensive income	**(224,135)**	**117,479**
Items that will not be reclassified to profit or loss	(23,590)	(7,405)
Actuarial gains or (-) losses on defined benefit pension plans	38	-
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	(26,151)	(4,009)
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	2,523	(3,396)
Items that may be reclassified to profit or loss	(200,545)	124,884
Hedge of net investments in foreign operations [effective portion]	115,432	(43,879)
Valuation gains or (-) losses taken to equity	115,432	(43,879)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	(281,108)	21,389
Translation gains or (-) losses taken to equity	(281,108)	21,389
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	17,026	146,578
Valuation gains or (-) losses taken to equity	81,891	122,660
Transferred to profit or loss	(64,865)	19,457
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	(60,857)	38,070
Valuation gains or (-) losses taken to equity	110,030	194,772
Transferred to profit or loss	(170,887)	(156,702)
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	(1,295)	17,609
Income tax relating to items that may be reclassified to profit or (-) loss	10,257	(54,883)
Total comprehensive income for the period	**(79,602)**	**655,484**
Attributable to minority interest [non-controlling interests]	(1,363)	6,430
Attributable to owners of the parent	(78,239)	649,054

(*) 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 2020.

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 2020 and 2019

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	Minority interests: Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Opening balance 31/12/2019	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2020	**703,371**	**7,899,227**	**-**	**39,742**	**4,858,681**	**-**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	145,414	-	(223,653)	(482)	(881)	**(79,602)**
Other changes in equity	-	-	-	(7,434)	559,875	-	(39,808)	(33,121)	(767,822)	110,817	-	-	357	**(177,136)**
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) (**)	-	-	-	-	(223,356)	-	-	-	-	110,817	-	-	-	**(112,539)**
Purchase of treasury shares	-	-	-	-	-	-	-	(98,170)	-	-	-	-	-	**(98,170)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	(1,195)	65,049	-	-	-	-	-	**63,854**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	767,822	-	-	-	(767,822)	-	-	-	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments (***)	-	-	-	5,071	-	-	-	-	-	-	-	-	-	**5,071**
Other increase or (-) decrease in equity	-	-	-	(12,505)	15,409	-	(38,613)	-	-	-	-	-	357	**(35,352)**
Closing balance 30/06/2020	**703,371**	**7,899,227**	**-**	**32,308**	**5,418,556**	**-**	**(1,017,495)**	**(41,654)**	**145,414**	**-**	**(490,399)**	**(240)**	**68,580**	**12,717,668**

(**) 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 2020.

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 2020 and 2019

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).

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 2020 and 2019

Thousand euro

	Note	30/06/2020	30/06/2019 (*)
Cash flows from operating activities		**14,323,163**	**(3,953,109)**
Profit or loss for the period		144,533	538,005
Adjustments to obtain cash flows from operating activities		1,018,977	609,018
Depreciation and amortisation		255,406	226,957
Other adjustments		763,571	382,061
Net increase/decrease in operating assets		2,059,434	(5,931,478)
Financial assets held for trading		(991,161)	(344,726)
Non-trading financial assets mandatorily at fair value through profit or loss		26,148	(7,723)
Financial assets designated at fair value through profit or loss		-	-
Financial assets at fair value through other comprehensive income		1,525,854	5,308,043
Financial assets at amortised cost		1,860,238	(10,253,746)
Other operating assets		(361,645)	(633,326)
Net increase/decrease in operating liabilities		10,982,728	928,257
Financial liabilities held for trading		912,089	701,864
Financial liabilities designated at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost		9,736,913	118,015
Other operating liabilities		333,726	108,378
Income tax receipts or payments		117,491	(96,911)
Cash flows from investment activities		**72,228**	**351,228**
Payments		(295,476)	(273,110)
Tangible assets	11	(159,968)	(189,473)
Intangible assets		(122,441)	(81,176)
Investments in joint ventures and associates		(11,661)	(2,461)
Subsidiaries and other business units	Schedule I	(1,406)	-
Non-current assets and liabilities classified as held for sale		-	-
Other payments related to investment activities		-	-
Collections		367,704	624,338
Tangible assets	11,29	61,561	75,571
Intangible assets		-	-
Investments in joint ventures and associates		2,931	114,579
Subsidiaries and other business units		-	-
Non-current assets and liabilities classified as held for sale	14,30	303,212	434,188
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 2020.

Consolidated cash flow statements of Banco Sabadell Group

For the six-month periods ended 30 June 2020 and 2019

Thousand euro

	Note	30/06/2020	30/06/2019 (*)
Cash flows from financing activities		**(359,406)**	**(83,455)**
Payments		(723,260)	(204,666)
Dividends	3	(112,539)	(56,270)
Subordinated liabilities		(412,105)	-
Amortisation of own equity instruments		-	-
Acquisition of own equity instruments		(98,170)	(122,758)
Other payments related to financing activities		(100,446)	(25,638)
Collections		363,854	121,211
Subordinated liabilities	Schedule III	300,000	-
Issuance of own equity instruments		-	-
Disposal of own equity instruments		63,854	121,211
Other collections related to financing activities		-	-
Effect of exchange rate fluctuations		**(156,385)**	**(23,943)**
Net increase (decrease) in cash and cash equivalents		**13,879,600**	**(3,709,279)**
Cash and cash equivalents at the beginning of the period	7	**15,169,202**	**23,494,479**
Cash and equivalents at the end of the period	7	**29,048,802**	**19,785,200**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		2,279,781	2,478,128
Interest paid		612,496	716,990
Dividends received		466	3,345
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Cash	7	683,821	659,664
Cash equivalents in central banks	7	27,729,648	18,286,416
Other demand deposits	7	635,333	839,120
Other financial assets		-	-
Less: bank overdrafts repayable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**29,048,802**	**19,785,200**
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 2020.

Explanatory notes to the consolidated financial statements of Banco Sabadell Group for the six-month period ended 30 June 2020

Note 1 – Activity, accounting policies and practices

Activity

Banco de Sabadell, S.A. (hereinafter, also referred to as "Banco Sabadell" or "the Bank"), with registered office in Alicante, Avenida Óscar Esplá 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The 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 group of entities (see Schedule I to the 2019 consolidated annual financial statements 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 financial statements for 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2019, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2019 and the results of its consolidated operations, changes in equity and cash flows in 2019.

Note 1 to the 2019 consolidated annual financial statements includes a summary of the accounting principles, policies and valuation criteria applied by the Group. The aforesaid consolidated annual financial statements were authorised by the directors of Banco Sabadell at a meeting of the Board of Directors on 30 January 2020 and were approved by shareholders at the Annual General Meeting on 26 March 2020.

These condensed interim consolidated financial statements for the six-month period ended 30 June 2020 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 30 July 2020, 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 with the sole purpose of describing significant events and changes that occurred in the six-month period, without duplicating the information published previously in the most recent consolidated annual financial statements. 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 financial statements for 2019.

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) entering into force in 2020

During the first half of 2020, 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
References to IFRS Conceptual Framework	Amendment of references to IFRS Conceptual Framework
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39 and IFRS 7	Reference rate reform
Amendments to IFRS 3	Business combinations

The implementation of the aforesaid standards has not given rise to any significant effects in terms of these condensed interim consolidated financial statements.

Standards and interpretations issued by the IASB not yet in force

As 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 later than the date of these condensed interim consolidated financial statements, or because they have 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 2023
Amendments to IAS 1	Presentation of financial statements: classification of liabilities as current or non-current	1 January 2023
Amendments to IFRS 16	Covid-19-related rent concessions	1 June 2020
Amendments to IFRS 4	Temporary exemption from applying IFRS 9	1 January 2021
Amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20	Narrow-scope amendments	1 January 2022

(*) The consolidated annual financial statements for 2019 include a brief description of this standard. In the first half of 2020, some amendments have been made, which are described in this Note.

The implementation of standards, amendments and interpretations issued by the IASB but not yet in force is not expected to have any significant impact on the Group's activity. Insurance undertakings associated with the Group are working on the implementation of the new regulatory framework for insurance contracts arising from IFRS 17.

Amendments to IFRS 17 and IFRS 4 "Insurance contracts"

The amendments to IFRS 17 are designed to reduce implementation costs by simplifying some requirements of this Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 1 January 2023 and by reducing the requirements to apply the Standard for the first time.

This amendment has in turn entailed amending the previous Standard on insurance contracts, IFRS 4, so that insurers can still have the option to defer the first application of IFRS 9 "Financial instruments" to 1 January 2023.

Amendments to IAS 1 "Presentation of financial statements: classification of liabilities as current or non-current"

These amendments are designed to make clear how institutions should classify debts and other liabilities as current and non-current, in particular liabilities with no fixed maturity and those that may be converted to equity. The early application of these amendments is permitted.

Amendments to IFRS 16 "COVID-19-related rent concessions"

These amendments introduce a practical expedient to simplify how lessees should account for any rent concessions received as a result of COVID-19, such as rent waivers or reductions, allowing these concessions to be accounted for in the same way as they would if they were not lease modifications. The practical expedient will only apply to COVID-19-related concessions that entail a reduction in lease payments due on or before 30 June 2021. These amendments do not affect how lessors should account for any rent concessions.

Narrow-scope amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20

On one hand, these are amendments made in relation to proceeds received before the intended use of an asset governed by IAS 16 “Property, plant and equipment”, the cost of fulfilling an onerous contract pursuant to IAS 37 “Provisions” and references made in IFRS 3 “Business combinations” to the Conceptual Framework for Financial Reporting. The annual improvements to IFRS 2018-20 have also entailed making minor amendments to IFRS 1 “First-time adoption of IFRS”, IFRS 9 “Financial instruments”, IFRS 16 “Leases” and IAS 41 “Agriculture”.

Impacts arising from COVID-19

The health crisis caused by COVID-19 has led to an unprecedented shock: (i) a supply shock, as it has brought global production chains to a standstill, (ii) a demand shock, as a result of the containment and lockdown measures put in place to reduce infections and slow the pandemic, (iii) an uncertainty shock, generated by the spread of the virus and given the lack of any historical precedent for similar types of shock, as well as (iv) a financial shock, as it has led to an abrupt tightening of financial conditions, illiquid capital markets and financial assets, extreme volatility and a sharp repricing of financial assets.

This situation has triggered an intensive and coordinated response in terms of monetary, fiscal and supervisory policy. Central banks have taken measures to combat the weak performance of financial markets, inject liquidity into the system and allow space for governments to adopt an expansionary fiscal policy. Governments in different countries have also taken various measures, including the provision of support for the financial system, tax payment deferrals, grants for affected workers, guarantees for bank loans and aid for struggling systemic firms. Similarly, the European Central Bank has recommended that no dividends should be paid out and no irrevocable commitments to pay out dividends should be undertaken by financial institutions under its direct supervision for the financial years 2019 and 2020, at least until 1 January 2021. The Bank’s Board of Directors, in its meeting held on 8 April 2020, in accordance with these recommendations, resolved that no dividends would be paid out for 2020, as a prudent measure in light of the crisis caused by COVID-19.

Spain

In Spain, a number of government measures have been put in place in order to cushion the impact of this crisis. These include the economic and social measures described in Royal Decree-Laws (RDL) 6/2020, 8/2020, 11/2020, 15/2020 and 19/2020 on urgent, extraordinary measures to address the economic and social impact of COVID-19. The measures set out in the royal decree-laws are designed to protect the most vulnerable families and social groups, as well as to support and protect self-employed workers and companies.

Statutory and sector moratoria

RDL 8/2020 establishes a moratorium for repayment instalments of debtors who have found themselves in a vulnerable situation following the state of alarm approved by Royal Decree 463/2020, of 14 March, and who have entered into mortgage contracts intended for the purchase of a primary residence, a property or properties tied to economic activities engaged in by employers or staff, or a buy-to-let property not used as a primary residence, where the individual mortgage debtor is also an owner or lessor who has stopped receiving rental payments after the state of alarm was declared or stops receiving them up to one month after the state of alarm has ended.

The effects of the moratorium include: (i) suspension of mortgage payments and waiver of early maturity clause for a three-month period, (ii) lenders cannot demand payment of the instalment or any of its components (principal and interest), (iii) no interest will accrue, (iv) no moratory interest will apply and (v) future payments must be postponed for a length of time equivalent to the payment holiday’s duration. The deadline for applying for this moratorium is 30 September 2020.

Similarly, RDL 11/2020 establishes a moratorium for repayment instalments of non-mortgage loans or credits where the debtor is a natural person who has found themselves in a vulnerable situation following the declaration of the state of alarm. Its terms and duration are similar to those established for the mortgage moratorium.

Additionally, RDL 19/2020 governs the system applicable to moratoria that enforce the provisions of sectoral agreements entered into between lenders through their representative associations.

The Bank has adhered to the provisions of the sectoral agreement on the capital moratorium, under which interest payments are not suspended, arranged by the Spanish Banking Association (*Asociación Española de Banca*, or AEB), of 16 April 2020, applicable to natural persons who are borrowers of loans granted prior to 14 March 2020, the date on which the state of alarm was declared in Spain, who have no transactions with recorded defaults, as defined in Bank of Spain Circular 1/2013, and who have experienced a reduction in their payment capacity or income as a result of COVID-19. This moratorium is also applicable to people who have opted for a statutory moratorium and who, upon its expiry, meet the conditions established in the sector moratorium. The sector moratorium will apply for a maximum of 12 months for mortgage loans and 6 months for personal loans. This agreement will remain in effect until 29 September 2020.

The Group's subsidiary Sabadell Consumer Finance, S.A.U. has opted for the sector moratorium arranged by the National Association of Specialised Lending Institutions (*Asociación Nacional de Establecimientos Financieros de Crédito*, or ASNEF), whose beneficiaries, moratorium periods and duration are similar to those of the sector moratorium arranged by the AEB.

COVID-19 ICO-guaranteed loans

RDL 8/2020 has entailed the approval of a facility with government guarantees for businesses and the self-employed of up to 100 billion euros, which cover both rollover loans and new loans granted by credit institutions, specialised lending institutions, electronic money institutions and payment institutions, in order to help them meet their needs, including those arising from invoice management, the need for working capital and the needs arising from maturing financial or tax obligations.

The Bank has signed an agreement with Instituto de Crédito Oficial, E.P.E. (ICO) to grant loans to businesses and the self-employed in order to help them pay, among other things, wages and salaries, invoices for supplies and suppliers and to meet their working capital requirements, including those arising from maturing financial obligations, tax obligations and rent payments. The State guarantees up to 80% of the principal of loans granted to SMEs and the self-employed, up to 70% of the principal of new loans granted to companies other than SMEs and up to 60% of the principal of rollover loans. The maximum term of the guaranteed loans is 5 years.

This contract will remain valid and in effect until 30 September 2020, after which no more applications for the guarantee will be accepted, although the Council of Ministers could defer this date to 31 December 2020.

Support measures for customers

Banco Sabadell has put into motion a commercial plan to support its customers in Spain through specific support plans for each customer segment, including companies and individuals, offering solutions that go beyond the government measures, such as payment holidays of up to 6 months for personal loans and SME loans, renewals of expired lines of credit and extensions of working capital maturities.

United Kingdom

A series of government and regulatory measures have been put in place in the UK to support the economy and protect customers affected by COVID-19, including plans to protect employees and self-employed workers, the establishment of payment holidays and government-backed loans, among other things.

Payment holidays

In March and April 2020, the Financial Conduct Authority (FCA) published guidelines requiring banks to offer customers experiencing temporary financial difficulties due to COVID-19 a capital and interest payment holiday of up to three months on mortgage loans, unsecured loans and credit card debt. At the end of the payment holiday, banks and customers should decide how unpaid amounts, including interest, should be capitalised, generally by increasing the remaining monthly instalments or extending the term of the loan. Furthermore, repossessions of mortgaged properties were stopped during the payment holiday period.

In June 2020, the FCA updated its guidelines in relation to mortgage loans, allowing customers who have had a payment holiday but are still struggling financially to have their payment holiday extended by a further three months. The period for applying for a payment holiday and the ban on lender repossessions of mortgaged properties were also extended to 31 October 2020.

Government guarantees channelled by the banking industry

- Coronavirus Business Interruption Loan Scheme (CBILS)

  SMEs with an annual turnover of less than 45 million pounds can submit an application to participating lenders for up to 5 million pounds in loans, overdrafts, invoice finance facilities and asset finance facilities, with a maximum term of 6 years. The UK government guarantees 80% of each loan and pays interest and any fees for the first 12 months. Additionally, TSB offers customers arranged overdrafts under CBILS terms.

- Bounce Back Loan Scheme (BBLS)

  This is an accelerated loan scheme for SMEs that allows them to apply for loans of between 2,000 and 50,000 pounds, capped at 25% of their turnover. The UK government provides a full (100%) guarantee and pays interest for the first 12 months, with a grace period of 12 months. The interest rate of these transactions after that 12-month period will be 2.5% per annum.

Support measures for customers

The subsidiary TSB Bank plc (TSB) has supported retail customers and companies by applying the measures established by the UK regulator, offering interest-free overdrafts or refunds of any overdraft interest charged, as well as a series of improvements in its customer care service.

Schedule V to these condensed interim consolidated financial statements provides quantitative data relating to the Group's risk exposures arising from statutory and sector moratoria and transactions approved as part of the public support schemes implemented in response to the crisis caused by COVID-19.

Details of how COVID-19 has affected the main risks to which the Group is exposed are provided in Note 4 to these condensed interim consolidated financial statements.

Accounting principles and criteria applied

a) Accounting principles and criteria applied for the first time in the first half of 2020

The accounting principles and policies used to prepare the condensed interim consolidated financial statements are consistent with those used to prepare the Group's consolidated annual financial statements for 2019. Nevertheless, the section "Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2020" describes the standards that have entered into force in the first half of 2020.

Additionally, in the first half of 2020 the Group has carried out its first synthetic securitisation, which involves transferring credit risk by arranging credit derivatives or financial guarantees, where the Group retains the securitised exposures on its balance sheet. In the particular case of this securitisation, the guarantee received has been recognised as a financial guarantee. The fees paid by the aforesaid guarantee accrue during the life of the guarantee (see Note 10).

Lastly, the section "Application of new accounting criteria and changes in judgements and estimates as a result of COVID-19" of this note describes the main impacts that the crisis caused by this pandemic has had on the accounting criteria and the judgements and estimates applied by the Group.

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 when applying the Group's accounting policies. These judgements and estimates may affect the value 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 the income and expenses during the period to which they relate.

The main judgements and estimates made in these condensed interim consolidated financial statements relate to the following:

- Corporation tax expense, which, in accordance with IAS 34, is recognised in each interim period based on the best estimate of the weighted average tax rate that the Group expects for the full financial year.
- The determination of the business models under which financial assets are managed (see Notes 8 and 10).
- The determination of the significant increase in credit risk of financial assets since 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 post-employment obligations (see Note 18).
- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 11 and 12).
- The valuation of consolidated goodwill (see Note 12).
- The duration of lease contracts and the discount rate used in the valuation of the lease liability.
- The provisions and consideration of contingent liabilities (see Note 18).
- The fair value of certain unquoted financial assets (see Note 6).
- The 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).

The COVID-19 pandemic has increased uncertainty surrounding estimates and underlined the need to use expert judgement when assessing how those estimates are impacted by the current macroeconomic situation, fundamentally in relation to the calculation of impairment losses on both financial and non-financial assets.

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

No significant changes in relation to the estimates made at the end of 2019 have occurred during the first half of 2020, other than those indicated in these condensed interim consolidated financial statements.

c) Application of new accounting criteria and changes in judgements and estimates as a result of COVID-19

The accounting criteria adopted as a result of the new transactions and activities that the Group has started to engage in, as well as the main changes in judgements and estimates made during the first half of 2020 as a result of COVID-19, are described hereafter:

Classification of transactions based on their credit risk

Following the recommendations issued by regulators and supervisors, the Group has made use of the existing flexibility of the accounting framework, given the exceptional circumstances of the first half of 2020 and, except where another event has occurred that requires reclassification according to the Group's policies, it has generally stopped automatically classifying transactions with amounts that have become more than 30 days past due during the pandemic as stage 2. Nevertheless, the different regions in which the Group operates have either introduced new triggers for classification to stage 2 or used overlays (adjustments made outside the classification model) to reclassify transactions to stages 2 and 3, in order to reflect the impacts arising from COVID-19.

Loans classified as stage 1 granted to borrowers who have received state-guaranteed loans as part of a government support scheme designed to address the impact of COVID-19, or who have opted for a statutory or sector moratorium, will remain in that category provided there are no doubts as to the repayment of the obligations and provided no significant increase in credit risk has been identified.

Transactions classified as stages 2 or 3 whose borrowers have opted for a statutory or sector moratorium or who have received state-guaranteed loans as part of a government support scheme designed to address the impact of COVID-19 will not be reclassified to a lower credit risk category.

Any amounts suspended due to statutory and sector moratoria are not considered receivable and can therefore not be deemed past-due. Thus, any payments suspended while the moratoria are in effect are not considered for the purpose of the classification of transactions as stage 3. Furthermore, the transactions to which the statutory or sector moratoria relate are not identified as restructured or refinanced transactions, unless they have been flagged as such or if signs of recoverability problems had already emerged prior to the outbreak of the pandemic.

In terms of ICO-guaranteed loans, the Bank takes into account the status of transactions previously granted to the borrower in order to determine the classification of the guaranteed loan on the basis of its credit risk and whether it has been flagged as a refinanced or restructured transaction.

Modifications of financial assets

All transactions subject to the statutory moratorium in Spain and which entail waiving interest for the duration of the moratorium, which the Bank cannot subsequently claim from customers, are treated as modifications of financial assets. The modification losses recognised by the Group in the first half of 2020 as a result of the foregoing have not been significant. On the other hand, transactions that are subject to sector moratoria in Spain or to the government's payment holiday scheme in the UK, whose principal repayments are suspended but which continue to accrue interest throughout the moratoria or payment holiday period, do not in themselves give rise to modification losses on financial assets at the time of their arrangement.

State-guaranteed loans granted as part of a government support scheme designed to address the impact of COVID-19

Credit losses on state-guaranteed loans granted as part of a government support scheme designed to address the impact of COVID-19, irrespective of the credit risk category or categories into which the transaction is classified throughout its life, are calculated based on their expected credit loss less the positive impact of cash flows expected to be recovered with the state guarantee.

Macroeconomic scenarios used to determine the impairment of the lending portfolio

New macroeconomic and financial scenarios have been prepared, influenced by the health crisis, in order to determine how to calculate losses on the lending portfolio. The uncertainty caused by the pandemic has required more expert judgement to be applied in order to determine the different macroeconomic scenarios and their weighting.

Three scenarios have been considered: one baseline scenario (probability of 55%), one more adverse scenario (probability of 30%) and one sharp recovery scenario (with a probability of occurrence of 15%). For the forecasts of these scenarios, a probability of occurrence has been defined and a 5-year time horizon has been used. The main variables considered are changes in GDP, the unemployment rate and changes in house prices.

The health crisis and the measures taken to contain it have led to a sudden decline in activity during the first half of 2020. Similarly, the different types of economic measures that have been implemented (fiscal, monetary and regulatory/supervisory) are prominent in all of the scenarios.

The scenarios consider different levels of recovery from the shock, from the second half of 2020 onwards, which in turn depend on aspects such as the speed with which lockdown measures are lifted, the effectiveness of economic policy and the impacts on different sectors and industries. The scenarios used do not differ significantly from those published by the European Central Bank and the Bank of Spain.

In the baseline scenario, measures taken to contain the virus are successful in stopping the spread in the second quarter of 2020. In 2022, the main developed economies resume their activity levels of the fourth quarter of 2019.

In the adverse scenario, recovery is hindered by difficulties in managing the pandemic, which lead to a slower lifting of lockdown measures.

In the sharp recovery scenario, recovery is swifter due to techno-health developments, which allow lockdown to be decisively lifted, without any flare-ups. Activity levels recorded in the fourth quarter of 2019 are recovered in early 2021.

The main forecast variables considered are:

%	Spain					United Kingdom				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
GDP growth										
Baseline scenario	-9.0	6.8	3.4	1.7	1.5	-11.5	9.7	3.0	1.4	1.4
Adverse scenario	-11.0	5.1	3.6	1.7	1.5	-12.8	7.2	3.0	1.4	1.4
Sharp recovery scenario	-7.7	10.9	3.4	1.7	1.5	-9.6	14.0	3.0	1.4	1.4
Unemployment rate										
Baseline scenario	19.0	16.5	15.1	14.1	13.2	7.4	6.0	4.9	4.4	4.2
Adverse scenario	20.3	18.9	17.4	16.0	14.9	7.9	6.9	5.7	5.3	5.0
Sharp recovery scenario	18.5	15.5	14.1	13.1	12.2	6.6	4.0	3.2	3.0	2.9
House price growth (*)										
Baseline scenario	-9.2	-1.0	4.5	3.5	3.5	-3.2	-3.8	7.2	5.8	5.0
Adverse scenario	-12.9	-3.5	0.0	4.0	3.5	-4.1	-8.3	7.2	5.8	5.0
Sharp recovery scenario	-5.0	4.5	3.6	3.5	3.5	-0.9	0.3	4.4	4.7	5.0

(*) For Spain, the price variation at year-end is calculated and, for the UK, the average price variation over the year is calculated.

When applying the macroeconomic scenarios, the recommendations issued by accounting supervisors and regulators have been taken into account in order to prevent excessive pro-cyclicality as a result of the short-term volatility in the environment, applying longer-term economic outlooks.

Impairment and recoverability of other assets

The evaluations of the recoverability of goodwill and certain intangible assets, and of deferred tax assets, are described in Notes 12 and 32, respectively.

d) Comparability

The information presented in these condensed interim consolidated financial statements corresponding to 2019 is provided solely and exclusively for the purposes of comparison with the information related to the six-month period ended 30 June 2020 (except for the consolidated balance sheet, which is presented as at 31 December 2019).

Segment information for the first half of 2019 has been restated, for comparison purposes, according to the changes made to the Group structure in 2019, as required by IFRS 8 “Segment reporting” (see Note 31).

e) Seasonality of the Group's transactions

Given the activities engaged in by the Group's companies, their transactions are not cyclical or seasonal in nature. Consequently, these explanatory notes to the condensed interim consolidated financial statements for the six-month period ended 30 June 2020 do not contain specific disclosures in this regard.

f) 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

Schedule I to the consolidated annual financial statements for the year ended 31 December 2019 contains material disclosures about the Group companies that were consolidated as at that date and those accounted for using the equity method.

Schedule I to these condensed interim consolidated financial statements gives details of the business combinations, acquisitions and sales of equity holdings of other institutions (subsidiaries and/or associates) carried out by the Group during the six-month period ended 30 June 2020.

Changes in the scope of consolidation in the first half of 2020

On 30 June 2020, having obtained all of the necessary authorisations, the Bank has sold 100% of the share capital of Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal (SabAM) to Amundi for an amount of 430 million euros and a forecast earn-out of up to 30 million euros, payable in 2024, depending on the assets under management pertaining to customers of Banco Sabadell on such date.

This transaction generates a capital gain amounting to 349 million euros net of taxes for Banco Sabadell and will strengthen its capital position by adding 43 basis points to the fully-loaded Common Equity Tier 1 (CET1) ratio.

Of the aforesaid capital gain, 56 million euros (corresponding to 7 basis points of fully-loaded CET1) are subject to specific guarantees in effect over the length of the distribution agreement and will therefore be accrued proportionally over the next 10 years; the remaining amount of the capital gain, 293 million euros, is recognised under the heading "*Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations*" of the consolidated income statement for the six-month period ended 30 June 2020 (see Note 30).

With the exception of the transaction described above, there have been no significant changes in the scope of consolidation in the first half of 2020.

Other corporate operations occurring in the first half of 2020

On 28 March 2020, the Bank and BNP Paribas Securities Services S.C.A., Sucursal en España (BP2S) entered into an agreement by virtue of which BP2S has undertaken to acquire, subject to certain conditions, the institutional depositary business of Banco Sabadell for an amount of 115 million euros.

The agreement foresees additional collections after the closing subject to the fulfilment of certain objectives linked to the volume of the assets under deposit of BP2S and revenues from their fees.

As at the end of 2019, Banco Sabadell's institutional depositary business included approximately 22 billion euros of assets under deposit. The closing of the transaction is expected to take place in the second quarter of 2021, once the relevant authorisations have been obtained.

The transaction will generate a net capital gain of 75 million euros, of which 58 million euros will be recognised upon closing (corresponding to 7 basis points of CET1), the remaining 17 million euros being accrued proportionally during the following financial years.

Other material information

Sale of Challenger, Coliseum and Rex portfolios

As at 30 June 2020, the transfer of 176 million euros worth of real estate assets corresponding to the Challenger, Coliseum and Rex portfolios, whose sale was closed in December 2019, is subject to third parties' potential exercise of their right of first refusal. Furthermore, as at 30 June 2020, the Group had an account receivable with Cerberus amounting to 614 million euros in relation to this divestment, which matures 24 months after the closing of this transaction.

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 the scheme, which covers a specified portfolio of assets with a gross value of 24,644 million euros as at 31 July 2011, the Deposit Guarantee Fund (hereinafter, "DGF") bears 80% of the losses on the portfolio for a period of ten years, once impairment allowances in respect of those assets, which amounted to 3,882 million euros as at the aforementioned date, have been fully applied.

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

Million euro

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

Movements in the balance drawn from the customer lending portfolio protected by the APS from its entry into force until 30 June 2020 were as follows:

Million euro

Balance as at 31 July 2011	**18,460**
Acquisition of real estate assets	(7,875)
Collections and subrogation	(7,025)
Increase in write-offs	(1,822)
Credit drawdowns	90
Balance as at 30 June 2020	**1,828**

Movements in the balance of the real estate asset portfolio protected by the APS from its entry into force until 30 June 2020 were as follows:

Million euro

Balance as at 31 July 2011	**4,663**
Acquisition of real estate assets	5,897
Sales of real estate assets	(10,100)
Balance as at 30 June 2020	**460**

The portfolio of assets protected by the APS as at 30 June 2020 breaks down as follows:

Million euro

	Balance	Provision
Loans and advances, guarantees and contingent liabilities	1,834	144
Of which, amount drawn not classified as Stage 3	*1,484*	*14*
Of which, amount drawn classified as Stage 3	*344*	*130*
Of which: commitments and guarantees not classified as Stage 3	*3*	-
Of which: commitments and guarantees classified as Stage 3	*3*	-
Real estate exposures	236	99
Non-current assets held for sale for which a transfer agreement has been reached	224	122
Of which loans and advances	-	-
Of which real estate exposure	*224*	*122*
Investments in joint ventures and associates	39	27
Write-offs	516	516
Total	**2,849**	**908**

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

%

	30/06/2020
NPL ratio	18.92
NPL coverage ratio	41.60

Million euro

	On Group balance		*Of which, Stage 3*	
	Balance	Provision	*Balance*	*Provision*
Loans and advances - amount drawn	1,828	144	*344*	*130*
Of which, lending to construction and real estate development sector (business in Spain)	*295*	*60*	*113*	*56*
Total	**1,828**	**144**	***344***	***130***

The criteria for recording and presenting assets guaranteed by the APS are described in Note 2 to the 2019 consolidated annual financial statements. 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 those assets), the Group keeps an account receivable recognised under the "*Financial assets at amortised cost – Loans and advances - Customers*" heading of the income statement, in order to reflect the right of collection from the DGF as a result of the guarantee that it provides, 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 2020 amounted to 1,761 million euros (3,092 million euros as at 31 December 2019).

Note 3 – Shareholder remuneration and earnings per share

The dividends paid by the Bank in the six-month period ended 30 June 2020 are detailed below:

Thousand euro

	30/06/2020		
	% of par	Euro per share	Amount
Ordinary shares	16%	0.02	112,539
Other shares (non-voting, redeemable, etc.)	-	-	-
Total dividends paid			
a) Dividends charged to results	16%	0.02	112,539
b) Dividends charged to reserves or share premium	-	-	-
c) Dividends in kind	-	-	-

The Annual General Meeting held on 26 March 2020 approved shareholder remuneration, supplementary to the dividend corresponding to 2019, of 0.02 euros per share, which was paid on 3 April 2020. Previously, in December 2019, shareholders received remuneration in the form of a dividend of 0.02 euros per share, paid out of the earnings of 2019, which was paid on 24 December 2019.

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 Annual General Meeting 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 05 April 2019. Previously, in December 2018, shareholders received remuneration in the form of a dividend of 0.02 euros per share, paid out of the earnings of 2018, which was paid on 28 December 2018.

As indicated in the section entitled “Impacts arising from COVID-19” in Note 1, the Bank’s Board of Directors, in its meeting held on 8 April 2020, resolved that no dividends would be paid out for 2020, as a prudent measure in light of the crisis caused by COVID-19.

Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Group (adjusted by earnings on 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 estimated effect of potential conversions of ordinary shares to the net profit attributable to the Group and the weighted average number of ordinary shares outstanding.

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

	30/06/2020	30/06/2019
Profit or loss attributable to owners of the parent (thousand euro)	145,414	531,674
Adjustment: Remuneration of other equity instruments (thousand euro)	(36,602)	(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)	108,812	506,037
Weighted average number of ordinary shares outstanding (*)	5,590,394,517	5,536,901,826
Conversion undertaken of convertible debt and other equity instruments	-	-
Adjusted weighted average number of ordinary shares outstanding	5,590,394,517	5,536,901,826
Earnings per share (euro)	0.02	0.09
Basic earnings per share adjusted for mandatory convertible bonds (euro)	0.02	0.09
Diluted earnings per share (euro)	0.02	0.09

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

As at 30 June 2020 and 2019, there were no other share-based financial instruments or commitments with 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 2019 consolidated annual financial statements 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.

Material disclosures updated to 30 June 2020 relative to financial risk management are given below.

4.1 Credit risk

Credit risk exposure

In relation to credit risk, COVID-19 and the serious health situation arising from it have had an impact on economic activity and on the Group's at-risk borrowers in terms of solvency, liquidity and turnover. In view of this, the Group has continued to address the liquidity needs of businesses through, among other things, the COVID-19 ICO-guaranteed loans, as well as the needs of individual customers through payment holidays.

Additionally, this situation has caused impairment loss allowances in the first half of 2020 to be significantly higher than in the first half of 2019.

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 2020 and 31 December 2019, 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	30/06/2020	31/12/2019
Financial assets held for trading		**824,458**	**600,621**
Equity instruments	9	3,339	3,701
Debt securities	8	821,119	596,920
Non-trading financial assets mandatorily at fair value through profit or loss		**144,909**	**171,056**
Equity instruments	9	15,619	-
Debt securities	8	129,290	171,056
Financial assets at fair value through other comprehensive income		**6,366,629**	**7,972,968**
Equity instruments	9	306,278	382,903
Debt securities	8	6,060,351	7,590,065
Financial assets at amortised cost		**181,797,154**	**184,356,525**
Debt securities	8	21,331,395	19,218,841
Loans and advances	10	160,465,759	165,137,684
Derivatives		**3,296,298**	**2,308,761**
Total risk, broken down by financial assets		192,429,448	195,409,931
Loan commitments provided	20	28,932,827	27,563,836
Financial guarantees provided	20	2,014,960	2,107,412
Other commitments provided	20	9,920,144	10,398,913
Total off-balance sheet exposures		**40,867,931**	**40,070,161**
Total maximum credit risk exposure		**233,297,379**	**235,480,092**

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 2020 and 2019 year-end, are as follows:

Thousand euro

	30/06/2020	31/12/2019
Value of collateral	89,097,583	93,600,477
Of which: securing Stage 2 loans	*4,555,336*	*5,277,168*
Of which: securing Stage 3 loans	*2,599,041*	*2,745,459*
Value of other guarantees	15,649,307	10,146,890
Of which: securing Stage 2 loans	741,278	*614,257*
Of which: securing Stage 3 loans	376,373	*356,153*
Total value of guarantees received	**104,746,890**	**103,747,367**

Credit quality of financial assets

The breakdown of total exposures, rated based on the various internal rating levels, as at 30 June 2020 and 31 December 2019 is set out in detail below:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	30/06/2020				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	10,320	30	-	-	10,350
A	9,361	26	-	-	9,387
BBB	67,916	128	-	-	68,044
BB	36,007	280	-	*2*	36,287
B	40,546	3,588	-	*87*	44,134
Rest	3,094	5,153	6,115	*95*	14,361
No rating/score assigned	5,747	41	60	-	5,848
Total gross amount	**172,990**	**9,246**	**6,175**	**185**	**188,411**
Impairment allowances	**(566)**	**(288)**	**(2,512)**	***(4)***	**(3,366)**
Total net amount	**172,424**	**8,959**	**3,662**	***181***	**185,045**

Million euro

Breakdown of exposure by rating	Loans assigned rating/score				
	31/12/2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	13,914	33	-	-	13,947
A	7,116	24	-	-	7,140
BBB	75,083	115	-	-	75,198
BB	43,081	482	2	*1*	43,565
B	23,099	2,980	-	*93*	26,079
Rest	2,826	4,258	5,863	*168*	12,947
No rating/score assigned	13,262	39	58	*4*	13,359
Total gross amount	**178,381**	**7,931**	**5,923**	**266**	**192,235**
Impairment allowances	**(400)**	**(269)**	**(2,265)**	***(3)***	**(2,934)**
Total net amount	**177,981**	**7,662**	**3,658**	***263***	**189,301**

The breakdown of total off-balance sheet exposures, rated based on the various internal rating levels, as at 30 June 2020 and 31 December 2019 is as follows:

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 30/06/2020				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	1,636	20	-	-	1,656
A	994	0	-	-	994
BBB	9,900	9	-	-	9,909
BB	11,426	146	-	-	11,572
B	12,043	566	-	*11*	12,609
Rest	504	449	208	*2*	1,161
No rating/score assigned	2,964	2	-	-	2,967
Total gross amount	**39,467**	**1,192**	**208**	***13***	**40,868**
Impairment allowances	**(85)**	**(20)**	**(66)**	**-**	**(171)**
Total net amount	**39,382**	**1,172**	**143**	***13***	**40,697**

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 31/12/2019				
	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
AAA/AA	1,756	25	-	-	1,781
A	1,618	1	-	-	1,619
BBB	11,072	27	-	-	11,099
BB	13,597	220	-	*1*	13,817
B	6,492	655	-	*19*	7,147
Rest	302	347	250	*3*	899
No rating/score assigned	3,683	20	5	-	3,708
Total gross amount	**38,520**	**1,295**	**255**	***23***	**40,070**
Impairment allowances	**(48)**	**(12)**	**(51)**	**-**	**(111)**
Total net amount	**38,472**	**1,283**	**204**	**23**	**39,959**

Further details on the credit rating and credit scoring models are included in Section 4.4.2.2 of the 2019 consolidated annual financial statements.

During the first half of 2020, assets classified as stage 3 increased by 219 million euros, resulting in an increase of the Group's NPL ratio as shown in the table below:

%

	30/06/2020	31/12/2019
NPL ratio (*)	3.95	3.83
NPL coverage ratio (*)	55.62	49.58

(*) The NPL ratio excluding TSB stands at 4.61% and the NPL coverage ratio at 55.97% (in 2019, 4.62% and 50.09%, respectively).

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

%

	Proforma 2T20 (*)	2T20	Proforma 2019 (*)	2019
Real estate development and construction	9.52	9.48	10.96	10.91
Non-real estate construction	4.63	4.62	6.11	6.10
Corporates	1.50	1.50	1.45	1.45
SMEs and self-employed	6.82	6.79	6.73	6.69
Individuals with 1st mortgage guarantee	5.26	3.61	5.33	3.43
Group NPL ratio	**4.61**	**3.95**	**4.62**	**3.83**

(*) Corresponds to the NPL ratio excluding TSB.

A more detailed breakdown of allowances and assets classified as stage 3 can be found in Note 10, and a more detailed breakdown of forborne and restructured transactions is included in Schedule V.

Counterparty credit risk

In relation to counterparty credit risk, sharp price fluctuations occurred in the financial markets during the COVID-19 crisis. However, counterparty credit risk mitigation policies, particularly derivative collateral agreements (Credit Support Annexes (CSAs) and Schedule III), and repo transaction agreements (Global Master Repurchase Agreements (GMRAs) and European Master Agreements (EMAs)), keep exposures at levels similar to those before the crisis. Furthermore, no significant credit event has occurred during this period in relation to counterparty credit risk.

4.2 Liquidity risk

Assessment of liquidity requirements and funding policy

The main elements that have impacted negatively on the Bank's liquidity position during the COVID-19 situation are: larger drawdowns of contingent liquidity for customers or restructuring of customer debt; more intense lending growth, particularly funding granted to SMEs and corporates to equip them with greater capacity to cope with the crisis; increased volatility in long-term wholesale markets at secondary market level, resulting in potential increases in the cost of funding for new issuances, as well as fewer windows of opportunity for potential market execution and a reduced investor base; and, the high market volatility which has resulted in falls in the value of the Bank's fixed income portfolio.

In any event, mainly due to the measures taken by the central banks to manage the crisis arising from COVID-19, there are mitigating factors that lessen the impact of the aforementioned risks on the Bank's liquidity situation. The central banks have introduced measures to give banking institutions greater flexibility in terms of liquidity and capital with the aim of guaranteeing flows of liquidity to households/businesses, and to reduce uncertainty in the financial system, such as allowing temporary non-compliance with regulatory buffers, changing central bank funding requirements to enable access thereto, or the provision of asset purchase programmes to guarantee market liquidity. Additionally, the ECB has applied additional measures to support lending activity in the banking sector, accepting a higher volume of loans as collateral and reducing the valuation haircut on collateral provided for its liquidity injection operations, which allows the impact on liquidity due to increased customer lending to be offset.

During the first half of 2020 the customer funding gap generated at the Group level was negative, reaching -282 million euros, mainly as a result of lending growth which was partially offset by the increased intake of customer deposits.

In the first half of 2020 Banco Sabadell's medium and long-term maturities in the wholesale market amounted to 1,153 million euros (excluding securitisations), and it has carried out three wholesale market issues for a value of 1,800 million euros. In particular, it carried out an issue of subordinated Tier 2 bonds for a value of 300 million euros maturing in 10 years with an early repayment option in favour of Banco Sabadell in year 5, carried out on 17 January 2020, an issue of covered bonds for 1 billion euros maturing in 8 years, carried out on 20 January 2020, which involved the return to the market of tapped covered bonds issued in 2017, and an issue of senior preferred debt for a value of 500 million euros maturing in 3 years with an early repayment option in favour of Banco Sabadell in year 2, carried out on 29 June 2020.

In the second half of 2020, Banco Sabadell anticipates maturities of medium and long-term wholesale funding amounting to 1,275 million euros (excluding partial and total amortisations derived from securitisations placed in the market).

Additionally, with regard to securitisations, a Cleanup Call was exercised on 20 March cancelling the residential mortgage securitisation fund, GC Sabadell 1, FTH, which had been partially placed in the capital markets.

As at 30 June 2020, the balance drawn from the facility held with the Bank of Spain for monetary policy operations with the European Central Bank stood at 27,268 million euros (14,613 million euros as at 31 December 2019), of which 27,000 million euros correspond to the TLTRO III (Targeted Longer Term Refinancing Operations) liquidity auctions and the remaining 268 million euros correspond to US dollar denominated auctions. 13.5 billion euros of outstanding TLTRO II borrowing was repaid in June. Regarding TLTRO III, this programme was announced by the European Central Bank in March 2019 and, because of COVID-19, its conditions have been changed to facilitate its access and encourage lending, particularly to small and medium-sized enterprises.

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, through which it made liquidity drawdowns until February 2018. The amount drawn under this programme as at 30 June 2020, following the early repayment of 1,540 million euros in June, was 3,359 million euros, which will mature between 2021 and 2022. Like the ECB, the Bank of England has also launched a package of measures to encourage lending in the current climate. One such measure is the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), which TSB plans to make use of in the coming months.

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 2020 under business-as-usual market conditions:

Thousand euro

30/06/2020										
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	-	31,089,856	1,841,481	1,809,255	765,231	-	32,149	-	-	**35,537,972**
Lending	463,179	5,574,833	4,470,552	14,872,568	13,623,812	17,036,323	11,112,285	9,254,847	68,055,028	**144,463,428**
Debt securities	-	259,214	150,441	1,296,089	562,985	870,717	1,566,486	1,906,557	18,174,370	**24,786,859**
Other assets	-	-	-	-	53	542	315	684	6,703	**8,298**
Total assets	**463,179**	**36,923,904**	**6,462,474**	**17,977,913**	**14,952,081**	**17,907,582**	**12,711,234**	**11,162,088**	**86,236,102**	**204,796,558**
Money Market	-	3,501,964	1,380,913	2,715,771	2,917,317	27,066,655	58,646	77,864	146,184	**37,865,313**
Of which: Repos	-	*2,907,562*	*851,674*	*1,296,838*	*712,614*	-	-	-	-	***5,768,689***
Demand and term deposits	123,433,777	2,996,829	3,564,985	10,408,282	2,777,161	794,470	497,858	480,569	49,844	**145,003,774**
Marketable debt securities	-	224,891	939,981	2,593,468	3,369,130	3,655,682	6,062,530	1,977,491	4,857,434	**23,680,607**
Of which: Secured senior debt	-	*143,654*	*475,152*	*1,704,588*	*1,941,715*	*1,714,882*	*3,691,530*	*644,957*	*3,339,908*	***13,656,385***
Of which: Unsecured senior debt	-	*28,291*	*7,527*	*306,031*	*677,415*	*1,540,800*	*1,871,000*	*1,032,533*	*1,002,500*	***6,466,097***
Of which: Subordinated liabilities	-	-	-	*421,950*	*750,000*	*400,000*	*500,000*	*300,000*	*515,025*	***2,886,975***
Other liabilities	-	48,719	69,093	397,659	310,587	249,544	204,993	173,266	957,567	**2,411,428**
Total liabilities	**123,433,777**	**6,772,402**	**5,954,972**	**16,115,181**	**9,374,194**	**31,766,350**	**6,824,027**	**2,709,190**	**6,011,029**	**208,961,122**
Of which:										
Secured liabilities	-	*3,100,648*	*940,552*	*4,247,779*	*4,753,119*	*1,166,895*	*2,869,550*	*644,957*	*3,339,908*	***21,063,409***
Unsecured liabilities	*123,433,777*	*3,671,753*	*5,014,421*	*11,867,401*	*4,621,074*	*30,599,455*	*3,954,477*	*2,064,233*	*2,671,121*	***187,897,712***
Trading and Hedging Derivatives										
Receivable	-	18,082,267	17,247,775	26,211,100	11,482,254	10,025,961	14,404,976	11,768,376	35,860,522	**145,083,231**
Payable	-	16,954,073	14,017,707	25,588,288	17,475,192	9,923,239	13,010,283	11,707,040	37,829,746	**146,505,569**
Net	**-**	**1,128,194**	**3,230,068**	**622,813**	**(5,992,938)**	**102,722**	**1,394,692**	**61,336**	**(1,969,224)**	**(1,422,338)**
Contingent risks										
Financial guarantees	11,042	22,452	44,045	327,695	136,637	66,297	36,008	27,003	1,343,781	**2,014,960**

Thousand euro

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

Note 4 “Financial risk management” to the 2019 consolidated annual financial statements describes the policies and procedures used by the Group to manage liquidity risk.

Capital Markets

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 with regard to short-term funding, the institution has a corporate commercial paper programme registered with the CNMV, and with regard to 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.

The degree of funding in capital markets has increased due to regulatory requirements, as is the case with MREL (Minimum Requirement for Own Funds and Eligible Liabilities), focusing on products which, given the Bank's credit rating, yield the most efficient cost/term relationship. During the first half of 2020, Banco Sabadell has carried out three issuances in the wholesale market for a value of 1,800 million euros.

The details of funding in capital markets by type of product as at 30 June 2020 and 31 December 2019 are shown below:

Million euro

	30/06/2020	31/12/2019
Outstanding nominal balance	**22,297**	**22,480**
Covered Bonds	12,117	11,951
Of which: TSB	*1,370*	*1,469*
Commercial paper and ECP	247	633
Senior debt	4,121	3,626
Senior non-preferred debt	1,451	1,451
Subordinated debt and preference shares	2,882	3,025
Of which: TSB	*422*	*453*
Securitisation bonds	1,466	1,779
Of which: TSB	*397*	*501*
Other	13	14

Maturities of issues (excluding securitisations, ECP and commercial papers) by product type and considering their legal maturity, aimed at institutional investors as at 30 June 2020, are analysed below:

Million euro

	3Q20	4Q20	2021	2022	2023	2024	2025	>2025	Balance
Covered bonds (*)	130	1,145	1,808	1,688	1,388	2,672	836	2,450	12,117
Senior debt	-	-	294	25	1,473	849	1,480	-	4,121
Senior non-preferred debt	-	-	-	-	-	951	500	-	1,451
Subordinated Debt and Preferred Securities	-	-	-	-	-	-	-	2,882	2,882
Other medium/long term financial instruments	-	-	10	-	-	3	-	-	13
TOTAL	**130**	**1,145**	**2,112**	**1,713**	**2,861**	**4,475**	**2,816**	**5,332**	**20,584**

(*) Collateralised issues.

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

	30/06/2020	31/12/2019
Cash(*) + Net Interbank Position	22,557	7,044
Funds available in Bank of Spain facility (**)	11,106	7,633
ECB eligible assets not pledged in facility	8,690	21,335
Other non-ECB eligible marketable assets	3,026	3,518
Memorandum item:		
Balance drawn from Bank of Spain facility(***)	*27,310*	*14,613*
Balance drawn from Bank of England Term Funding Scheme	*3,359*	*5,254*
Total Liquid Assets Available	**45,379**	**39,530**

(*) Excess reserves at Central Banks.

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

(***) Includes 27 billion euros of TLTRO-III and a drawdown at ECB of 300 million dollars and associated guarantees.

With regard to 2019, the Group's first line of liquidity increased in the first half of the year by 5,850 million euros, mainly reflecting the positive impact of measures introduced by the European Central Bank as a result of COVID-19 to reduce haircuts on eligible assets and the increased range of credit transactions eligible as collateral in their operations. The balance of central bank reserves and the net interbank position increased by 15,513 million euros in the first half of 2020, mainly related to access to TLTRO III. There is also a volume of ECB eligible liquid assets, whose volume has decreased by 9,172 million euros during the six-month period ended 30 June 2020, while available non-ECB eligible assets have declined by 492 million euros.

In the case of TSB, the first line of liquidity as at 30 June 2020 is comprised of 2,197 million euros of liquid assets (2,578 million euros as at 31 December 2019), mainly gilts, and a surplus of reserves in the Bank of England amounting to 5,830 million euros (4,803 million euros as at 31 December 2019).

In addition to the first line of liquidity, a buffer is maintained comprising mortgage loans and loans to general governments eligible as collateral for mortgage covered bonds and public sector covered bonds, respectively, which as at 30 June 2020 contributed a cash value of 5,041 million euros in terms of capacity to issue new own covered bonds eligible as collateral in return for access to the ECB facility (4,640 million euros as at 2019 year-end). As at 30 June 2020, available liquidity amounted to 50,420 million euros in cash equivalent, corresponding to the amount of the first line of liquidity plus the issuing capacity of the institution's mortgage covered bonds and public sector covered bonds as at that date adjusted by the average valuation haircut applied by the ECB to covered bonds (44,170 million euros in cash equivalent as at 31 December 2019).

Compliance with regulatory ratios

As part of its liquidity management approach, the Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of liquidity risk control in the set of Liquidity Generating Units (UGLs, for their acronym in Spanish).

In terms of LCR, from 1 January 2018, the minimum LCR required in regulations is 100%, a level which is amply surpassed by all of the institution's UGLs. At Group level, throughout the six-month period ended 30 June 2020, the LCR has consistently been well above 100%. At the end of June 2020, the LCR was 214% at the Group level, 234% excluding TSB and 247% at TSB.

As for the NSFR, it is due to come into force in June 2021. However, the Group has already started to monitor this ratio as a liquidity metric for UGLs.

Given the Group's funding structure, with a preponderance of customer deposits, and as the majority of its market funding is in the medium-/long-term, the Group's NSFR ratio has maintained stable levels consistently well over 100%.

4.3. Market risk

Trading activity

Market risk in trading activities is measured using the VaR (Value at Risk) and stressed VaR methodologies. This allows for a standardisation of risks across different types of financial market transactions.

Market risk incurred on trading activity in terms of the 1-day VaR with a 99% confidence interval for the first half of 2020 and full year 2019, is as follows:

Million euro

	30/06/2020			31/12/2019		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	1.55	2.71	0.60	0.63	1.23	0.42
Currency risk-trading	0.04	0.11	0.01	0.04	0.13	0.01
Equities	0.17	0.23	0.08	0.43	1.36	0.13
Credit spread	1.57	2.14	0.50	0.54	1.27	0.08
Aggregate VaR	**3.33**	**4.90**	**1.26**	**1.64**	**2.32**	**0.97**

During the first half of 2020, the VaR figures for trading activity increased, mainly driven by the interest rate and credit spread, as a result of the greater volatility in the markets due to COVID-19 and despite the absence of any significant increase in the portfolio.

Structural interest rate risk

The COVID-19 crisis has resulted in a series of elements that can alter the structure of the Group's balance sheet and have an impact on net interest income and/or the economic value of equity, both in absolute terms and relative to sensitivity, reflected in measurements of structural interest rate risk (also referred to as Interest Rate Risk in the Banking Book or "IRRBB").

Specifically, in the Bank the crisis has had an impact on customer lending positions due, on one hand, to the Spanish Government's measures related to ICO guarantees or moratoria on the repayment of loan principal and interest and, on the other hand, because of the credit facilities granted by the Bank to its customers to help them cope with financial difficulties stemming from the crisis. On the liabilities side, the main change was access to TLTRO III amounting to 27 billion euros, having made early repayment of 10.5 billion euros on TLTRO II, as the financial conditions of the new TLTRO III differ from those of the previous one.

For its part, as indicated previously, TSB plans to access funding from the Bank of England through the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), created as a mechanism to fund SMEs in the United Kingdom. The cost of this funding is indexed to the Bank of England's official base rate.

With regard to interest rates, as a supporting measure during the COVID crisis the Bank of England lowered the base rate from 0.25% to 0.10%, while the European Central Bank's marginal deposit rate was maintained at -0.50%. Interbank rates in euros increased as from March, although by the end of June they had returned to their year-end levels. On the other hand, interbank rates in USD and GBP have fallen since the beginning of the crisis (-160bps and -63bps, respectively, for 3-month rates).

In other respects, the Group pays close attention to possible changes in customer behaviour deriving from the COVID-19 crisis that could become more widespread over time, in order to keep the behavioural assumptions used for IRRBB measurement and management in line with expectations. This concerns customer behaviour related to non-maturing items (changes in the stability of sight accounts) and items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of a term deposit or recovery time and balance of non-performing exposures).

Balance sheet management has enabled the Group to keep its IRRBB metrics within its risk appetite, taking into consideration the structural changes outlined previously as well as the episodes of market volatility and interest rate variations.

Structural foreign exchange risk

The most significant permanent investments are denominated in US dollars, pounds sterling and Mexican pesos.

As regards permanent investments in US dollars, the structural position in this currency has gone from 1,051 million as at 31 December 2019 to 1,047 million as at 30 June 2020. In relation to this structural position, as at 30 June 2020, coverage is maintained at 19% of total investment.

With regard to permanent investments in Mexican pesos, the evolution of balances from business in Mexico is monitored, as is the EUR/MXN currency pair. This has enabled the capital buffer to go from 10,418 million Mexican pesos as at 31 December 2019 (of a total exposure of 14,069 million Mexican pesos) to 9,003 million Mexican pesos as at 30 June 2020 (of a total exposure of 14,870 million Mexican pesos), representing 61% of total investment.

As for the structural position in pounds sterling, the Group has been implementing a hedging policy that seeks to mitigate any negative effects on capital ratios and on revenue generated by its business in pounds sterling that may result from fluctuations in the aforementioned EUR/GBP exchange rate. Accordingly, the Bank has continuously monitored the political situation in the United Kingdom and its impact on the exchange rate. Considering the foregoing, during the first half of 2020, the capital buffer has remained stable at 573 million pounds sterling as at 30 June 2020, representing 31% of total investment (excluding intangibles).

Currency hedges are continuously monitored in light of market fluctuations.

The net position of foreign currency assets and liabilities includes the structural position of the institution, valued at the closing exchange rates of the analysed month, which amounted to 2,449 million euros, which includes 1,424 million euros corresponding to permanent equity holdings in pounds sterling, 756 million euros corresponding to permanent equity holdings in US dollars and 226 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at a historic exchange rate are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 30 June 2020, the equity exposure sensitivity to a 2.35% exchange rate devaluation of the main currencies to which the Bank is exposed, against the euro, amounted to 58 million euros, of which 58% correspond to the pound sterling, 31% to the US dollar and 9% to the Mexican peso. This potential devaluation is in line with historical quarterly volatility in recent years.

During the COVID-19 crisis (first half of 2020) the US dollar appreciated by 0.9%, the pound sterling depreciated by 4.5% and the Mexican peso depreciated by 15.2% against the euro. During this period the Bank's strategy, consisting of immunising the capital ratio against exchange rate movements, has remained unchanged from the pre-crisis situation.

4.4. Operational risk

In response to the emergency brought about by COVID-19, Group entities in all geographies activated their various protocols and plans intended for use in pandemics and contingencies, which had been reviewed and updated once monitoring of the evolution and spread of COVID-19 began. This activation enabled the pre-emptive management of potential operational risks that might develop from the situation and helped to prepare Group entities to adapt their systems, processes and activities to the new situation, ensuring adequate functioning and minimising, as far as possible, exposure to operational risks, as well as facilitating the introduction of new activities, products and services developed and implemented due to the COVID-19 crisis, such as the assistance measures promoted by official bodies, government bodies, or by other bodies in the sector or the Bank itself.

Senior Management, particularly the Board Risk Committee, has closely monitored the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including technological, human error, conduct, process, security and fraud risk) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors), without finding impacts of particular note.

4.5. Brexit

The Group has considered the potential developments and consequences of Brexit.

The baseline scenario considers an orderly Brexit. It envisages a basic agreement on the future relationship between the United Kingdom and the EU by the end of the year. This agreement includes an implementation period, possibly leaving a substantial portion of details to be negotiated at a later stage. A smooth transition to new trade arrangements is achieved, with a more distant relationship between the two blocks resulting. All this occurs in an environment in which the economic players involved confront significant challenges to recover from the COVID-19 crisis.

GDP growth in the United Kingdom picks up substantially in the second half of 2020, following the significant adjustment seen at the beginning of the COVID-19 crisis. Economic developments are also influenced by uncertainty around Brexit, considering that the conclusion of the transition period is expected at year-end.

The Group has also analysed the possibility of a disorderly Brexit. In this case, the United Kingdom leaves the transition period at the end of 2020 without having reached an agreement with the EU on their future relationship. The trading relationship between the United Kingdom and the EU as from 1 January 2021 is governed by World Trade Organisation rules, which introduces customs and non-customs barriers. This in turn leads to a significant decline in foreign trade for the United Kingdom. Despite the no-deal scenario, European and UK authorities end up making pragmatic decisions to prevent market-wide disruptions in banking and financial activity. All of this combines to limit the post-COVID recovery of the British economy. In Spain, economic recovery is also negatively impacted given its existing 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 2019.

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).

An amendment of the aforesaid regulation was published on 7 June 2019. This amendment entered into force on 27 June 2019 and its implementation will be carried out in successive stages from that date, although most of the provisions will be applicable from 28 June 2021.

The health crisis caused by COVID-19 has resulted in competent institutions in Europe temporarily lowering liquidity, capital and operational requirements applicable to banks, to ensure that they can continue carrying out their role of providing funding to the real economy.

In particular, the European Commission, the European Central Bank and the EBA have provided clarity regarding the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of COVID-19. The most significant publications are:

- Statement on actions to mitigate impact of Covid-19 on banks. EBA. 12/3/2020.
- ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus. SSM 12/3/2020
- Further flexibility on NPLs and IFRS 9. SSM. 20/03/2020
- Clarity to banks and consumers on the application of the prudential framework in light of COVID-19 measures. EBA. 25/03/2020.
- EBA Guidelines on public and private moratoria. EBA. 02/04/2020.
- EBA statement on additional supervisory measures in the COVID-19 pandemic. EBA. 22/04/2020.

Such guidance includes the interpretative communication of the Commission of 28 April 2020 on the application of the accounting and prudential frameworks to facilitate EU bank lending – Supporting businesses and households amid COVID-19. 24 June 2020 saw the publication, based on the aforesaid communication, of Regulation 2020/873 amending Regulations (EU) 575/2013 and (EU) 2019/876 as regards certain adjustments in response to the COVID-19 pandemic.

The new Regulation is applicable immediately and includes the following measures:

- Guarantees provided in the context of the COVID-19 pandemic by national governments or other public entities are given the same favourable treatment as guarantees provided by official export credit agencies.

- Leverage ratio: the regulation establishes the possibility of temporarily excluding (until 27 June 2021) certain exposures to central banks from the calculation of an institution's total exposure measure. It also brings forward the more favourable treatment introduced in Regulation (EU) 2019/876 for the calculation of the leverage ratio exposure value of regular-way purchases and sales awaiting settlement.

- The Basel Committee on Banking Supervision agreed on 3 April 2020 to allow more flexibility in the implementation of the transitional arrangements that phase in the impact of IFRS 9. Specifically, to mitigate the potential impact that a sudden increase in expected credit loss provisions could have on institutions' capacity to lend to clients in the context of COVID-19, the transitional arrangements are extended by two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise in 2020 and 2021 for their financial assets that are not credit-impaired.

- The regulation brings forward by one year the more favourable treatment of loans granted by credit institutions to pensioners or employees with a permanent contract, the SME supporting factor and the infrastructure supporting factor. Regarding the EBA's RTS on the prudential treatment of certain software assets already envisaged in Regulation (EU) 2019/876, its date of application has also been brought forward 12 months (to the date of its publication, expected in the second half of 2020).

- Public financing through the issuance of government bonds denominated in the domestic currency of another Member State might be necessary to support measures to fight the consequences of the COVID-19 pandemic, therefore transitional arrangements are reintroduced for exposures to central governments and central banks, where those exposures are denominated in the domestic currency of another Member State.

- Prudential filters. Furthermore, institutions may temporarily remove from the calculation of their CET1 the increase in value adjustments made to the fair value portfolio since 31 December 2019, corresponding to exposures to central governments, regional governments or local authorities referred to in Art. 115(2) (includes autonomous communities) and to public sector entities referred to in Art. 116(4) recognised by the competent authority.

In accordance with the aforesaid regulatory framework, 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 4 December 2019, Banco Sabadell received a notification from the European Central Bank with regard to the minimum prudential requirements applicable to the Bank for 2020 as a result of the Supervisory Review and Evaluation Process (SREP). The requirement, applicable on a consolidated basis, requires Banco Sabadell to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 9.51% and a phase-in Total Capital ratio of at least 13.01%. These ratios include the minimum required by Pillar 1 (4.50%) and Pillar 2R (2.25%), the capital conservation buffer (2.50%) and the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%).

Additionally (and this is also included in SREP requirements), the Group must meet the requirement resulting from the calculation of the specific counter-cyclical capital buffer which, as at 30 June 2020, stands at 0% as a consequence of the measures taken to deal with the COVID-19 crisis, which have led different countries to lower their capital requirements, including this buffer's requirement. More specifically, on 11 March 2020, the Bank of England's Financial Policy Committee (FPC) announced that the countercyclical buffer rate (which had been 1% and had been due to reach 2% by December 2020) was being reduced to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase in the countercyclical buffer would not take effect until March 2022 at the earliest.

From 12 March 2020, part of Pillar 2R can be met using AT1 (18.75%) and Tier 2 (25%) instruments, therefore on a consolidated basis, the minimum phase-in Common Equity Tier 1 (CET1) capital that Banco Sabadell is required to meet under the new framework is 8.52%.

As at 30 June 2020, the Group's phase-in CET1 ratio stands at 12.7%, 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 2020 and 31 December 2019:

Thousand euro

	30/06/2020	31/12/2019	Change (%)
Capital	703,371	703,371	-
Reserves	12,478,011	12,364,431	0.92
Convertible bonds	-	-	-
Minority interests	9,548	18,163	(47.43)
Deductions	(3,248,802)	(2,981,119)	8.98
CET1 resources	**9,942,128**	**10,104,845**	**(1.61)**
CET1 (%)	12.7	12.5	2.09
Preference shares, convertible bonds and deductions	1,153,183	1,153,033	0.01
Additional Tier 1 resources	**1,153,183**	**1,153,033**	**-**
AT1 (%)	1.5	1.4	3.52
Tier 1 resources	**11,095,311**	**11,257,878**	**(1.44)**
Tier 1 (%)	14.2	13.9	2.31
Tier 2 resources	**1,660,376**	**1,492,357**	**11.26**
Tier 2 (%)	2.1	1.8	15.22
Capital base	**12,755,687**	**12,750,235**	**0.04**
Minimum capital requirement	6,256,789	6,494,460	(3.66)
Capital surplus	**6,498,897**	**6,255,775**	**3.89**
Total capital ratio (%)	**16.3**	**15.7**	**3.82**
Risk weighted assets (RWAs)	**78,209,863**	**81,180,752**	**(3.66)**

Common Equity Tier 1 (CET1) capital accounts for 78% of eligible capital. Deductions are mainly comprised of goodwill, deferred tax assets and intangible assets.

Tier 1 under Basel III is mainly composed of preference shares and represents 9% of total capital.

Tier 2 capital provides 13% of the BIS or solvency ratio and is made up very largely of subordinated debt.

In the first half of 2020, the issuance of 300 million euros of subordinated debentures (Obligaciones Subordinadas I/2020), which began to qualify as Tier 2 instruments in February, was taken into account to calculate own funds, as was the capital gain of 293 million euros, recognised upon closing the transaction, received on the transfer of 100% of the share capital of SabAM to Amundi, which from June qualifies as CET1 (see Note 2).

It is also necessary to add the impact of applying Regulation 2020/873 from June onwards in the context of COVID-19. This regulation extends the transitional arrangements designed to mitigate the impact of IFRS 9 by two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise in 2020 and 2021 for their financial assets that are not credit-impaired.

In terms of risk-weighted assets, it is worth highlighting the impact of the -721 million euro synthetic securitisation originated in this six-month period (see Note 10). Other significant impacts are due to the application of the new definition of default, the measures resulting from the application of Regulation 2020/873, already mentioned previously and which include the new SME supporting factor and the infrastructure supporting factor (project finance) and, lastly, the impact on the balance sheet arising from new transactions associated with the various payment holidays and government-guaranteed loans (see Note 1).

In fully-loaded terms, all of these actions and events, in terms of both available capital and risk-weighted assets, have allowed Banco Sabadell to reach a Common Equity Tier 1 (CET1) ratio as at 30 June 2020 of 11.9% and a total capital ratio of 15.7%.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. The leverage ratio is the ratio of eligible Tier 1 capital to exposures, calculated according to the criteria set forth for this ratio in Commission Delegated Regulation (EU) 62/2015, with the amendments set out in Regulation 2020/873.

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

The leverage ratio as at 30 June 2020 and 31 December 2019 is shown below:

Thousand euro

	30/06/2020	31/12/2019
Tier 1 capital	11,095,311	11,257,878
Exposure	236,458,589	224,713,387
Leverage ratio	**4.69%**	**5.01%**

Capital and leverage ratios as at 31 December 2019 include neither the gains nor the exposure reduction resulting from the disposal of SDIN Residencial, S.L.U. and a set of real estate assets, mostly land for real estate development, nor the gains on the disposal of the depositary business, as these transactions have not yet been fully closed. If this impact had been included, the CET1 ratio would stand at 12.85%, the Tier 1 ratio would stand at 14.33%, the total capital ratio at 16.46% and the pro forma leverage ratio would stand at 4.73%.

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

Banco Sabadell currently complies with this MREL requirement, which is consistent with Banco Sabadell's expectations and in line with the institution's funding plans. In this respect, in 2019 and 2020 the Group successfully completed the issue of MREL-eligible instruments for a total amount of approximately 4.8 billion euros, of which 1.5 billion euros correspond to senior non-preferred debt. In the first half of 2020, the Bank completed one issuance of 300 million euros of Tier 2 instruments and another issuance of 500 million euros of eligible senior bonds maturing after three years, callable after two years, placing the MREL at 8.6% of TLOF and the subordination ratio at 6.4%.

The table below shows the evolution of the Group's MREL:

	30/06/2020	31/12/2019
CET1 phased-in	12.7%	12.4%
AT1 phased-in	1.5%	1.4%
Tier 2 phased-in	2.1%	1.8%
Senior non-preferred	1.9%	1.8%
Senior preferred	6.3%	5.9%
	24.5%	**23.4%**

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 2019 consolidated annual financial statements.

Determination of the fair value of financial instruments

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

Thousand euro

		30/06/2020		31/12/2019	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	29,048,802	29,048,802	15,169,202	15,169,202
Financial assets held for trading		3,432,027	3,432,027	2,440,866	2,440,866
Non-trading financial assets mandatorily at fair value through profit or loss	8, 9	144,909	144,909	171,056	171,056
Financial assets at fair value through other comprehensive income	8, 9	6,210,816	6,210,816	7,802,025	7,802,025
Financial assets at amortised cost	8, 10	178,431,149	185,947,419	181,422,646	188,332,900
Derivatives – Hedge accounting		688,729	688,729	468,516	468,516
Fair value changes of the hedged items in portfolio hedge of interest rate risk		453,805	453,805	249,552	249,552
Total assets		**218,410,237**	**225,926,507**	**207,723,863**	**214,634,117**

Thousand euro

		30/06/2020		31/12/2019	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading		3,626,455	3,626,455	2,714,365	2,714,365
Financial liabilities measured at amortised cost	15, 16, 17	215,166,417	215,351,746	205,636,018	204,760,043
Derivatives – Hedge accounting		893,393	893,393	728,769	728,769
Fair value changes of the hedged items in portfolio hedge of interest rate risk		379,233	379,233	234,537	234,537
Total liabilities		**220,065,498**	**220,250,827**	**209,313,689**	**208,437,714**

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

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

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

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

The following 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

		30/06/2020			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		698,838	2,727,239	5,950	3,432,027
Derivatives		-	2,607,569	-	2,607,569
Equity instruments	9	629	2,710	-	3,339
Debt securities	8	698,209	116,960	5,950	821,119
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		35,310	24,228	85,371	144,909
Equity instruments	9	15,584	35	-	15,619
Debt securities	8	19,726	24,193	85,371	129,290
Loans and advances		-	-	-	-
Financial assets at fair value through other comprehensive income		5,764,873	349,773	96,170	6,210,816
Equity instruments	9	3,917	65,840	80,851	150,608
Debt securities	8	5,760,956	283,933	15,319	6,060,208
Loans and advances		-	-	-	-
Derivatives – Hedge accounting		-	688,729	-	688,729
Total assets		**6,499,021**	**3,789,969**	**187,491**	**10,476,481**

Thousand euro

		30/06/2020			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		1,154,876	2,471,579	-	3,626,455
Derivatives		-	2,471,579	-	2,471,579
Short positions		1,154,876	-	-	1,154,876
Deposits with credit institutions		-	-	-	-
Derivatives – Hedge accounting		-	893,393	-	893,393
Total liabilities		**1,154,876**	**3,364,972**	**-**	**4,519,848**

Thousand euro

		31/12/2019			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		568,196	1,872,570	100	2,440,866
Derivatives		-	1,840,245	-	1,840,245
Equity instruments	9	1,817	1,884	-	3,701
Debt securities	8	566,379	30,441	100	596,920
Loans and advances – Customers		-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss		51,007	2,663	117,386	171,056
Equity instruments		-	-	-	-
Debt securities	8	51,007	2,663	117,386	171,056
Loans and advances		-	-	-	-
Financial assets at fair value through other comprehensive income		7,420,035	282,809	99,181	7,802,025
Equity instruments	9	22,365	106,389	83,320	212,074
Debt securities	8	7,397,670	176,420	15,861	7,589,951
Loans and advances		-	-	-	-
Derivatives – Hedge accounting		-	468,516	-	468,516
Total assets		**8,039,238**	**2,626,558**	**216,667**	**10,882,463**

Thousand euro

		31/12/2019			
	Note	Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		871,812	1,842,553	-	2,714,365
Derivatives		-	1,842,553	-	1,842,553
Short positions		871,812	-	-	871,812
Deposits with credit institutions		-	-	-	-
Financial liabilities designated at fair value through profit or loss		-	-	-	-
Derivatives – Hedge accounting		-	728,769	-	728,769
Total liabilities		**871,812**	**2,571,322**	**-**	**3,443,134**

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 2019	**216,667**	**-**
Valuation adjustments recognised in profit and loss (*)	(30,332)	-
Valuation adjustments not recognised in profit and loss	(1,916)	-
Purchases, sales and write-offs	(2,812)	-
Net additions/removals in Level 3	5,754	-
Exchange differences and other	130	-
Balance as at 30 June 2020	**187,491**	**-**

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

Income from sales of financial instruments classified as Level 3, recognised in the consolidated income statement for the six-month period ended 30 June 2020, was not material.

Details of financial instruments that were transferred between different valuation levels in the first half of 2020 and in 2019 are as follows:

Thousand euro

	30/06/2020					
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	6,944	5,949	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	19,514	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	-	225	420	-
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**26,458**	**5,949**	**-**	**225**	**420**	**-**

Thousand euro

	31/12/2019					
From	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	-	-	-	-	-	-
Non-trading financial assets mandatorily at fair value through profit or loss	-	22,399	-	62,229	-	505
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	5,209	4,147	-	15,453	-	837
Derivatives	-	-	-	-	-	-
Liabilities:						
Financial liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
Derivatives – Hedge accounting	-	-	-	-	-	-
Total	**5,209**	**26,546**	**-**	**77,682**	**-**	**1,342**

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 are traded are no longer considered as active markets; therefore, their valuations are now calculated using valuation techniques in which one of the main significant inputs (illiquidity discount) is based on unobservable data.

As at 30 June 2020 and 31 December 2019, 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 2020 and 31 December 2019, 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 2019 consolidated annual financial statements.

In the first half of 2020 there were no significant changes in the methods used to value the Group's real estate assets.

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

The composition of this item in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 is as follows:

Thousand euro

	30/06/2020	31/12/2019
By nature:		
Cash	683,821	897,745
Cash balances at central banks	27,729,648	13,587,274
Other demand deposits	635,333	684,183
Total	**29,048,802**	**15,169,202**

The increase in the first half of 2020 of the 'Cash balances at central banks' heading is mainly due to the bank's participation in the TLTRO III liquidity auctions (see Note 4).

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 are analysed below:

Thousand euro

	30/06/2020	31/12/2019
By heading:		
Financial assets held for trading	821,119	596,920
Non-trading financial assets mandatorily at fair value through profit or loss	129,290	171,056
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	6,060,208	7,589,951
Financial assets at amortised cost	21,331,218	19,218,721
Total	**28,341,835**	**27,576,648**
By nature:		
Central banks	-	-
General governments	25,192,099	24,290,371
Credit institutions	1,383,506	1,376,147
Other sectors	1,347,547	1,452,604
Stage 3 assets	73	73
Impairment allowances	(320)	(234)
Other valuation adjustments (interest, fees and commissions, other)	418,930	457,687
Total	**28,341,835**	**27,576,648**

During the first half of 2020 the Group sold Italian sovereign debt instruments which had a book value of 2,835 million euros and which were recognised under the heading "*Financial assets at amortised cost*". These sales were executed in March with the aim of managing the increased credit risk associated with Italian debt instruments as a result of the impact of COVID-19 on the Italian economy. Consequently, following the sales, the book value of Italian sovereign debt instruments recorded at amortised cost stood at 2,818 million euros as at 30 June 2020. The Group considered that these sales were consistent with the business model under which these assets were managed (hold to collect contractual cash flows). The results obtained from these sales were recognised under the headings *"Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost"* of the consolidated income statement (see note 23).

Impairment allowances recognised as at 30 June 2020 as a result of the recoverability analysis of debt securities were not material.

Additionally, during the first half of 2020, based on the latest strategic plan presented by the Spanish company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish), the book value of subordinated debt held by the Group in this company was written down by 27 billion euros, which was charged to the heading *"Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Other gains or losses"* of the consolidated income statement, reducing the book value to zero (see Note 23).

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 as at 30 June 2020 and 31 December 2019 are analysed below:

Thousand euro

	30/06/2020	31/12/2019
By heading:		
Financial assets held for trading	3,339	3,701
Non-trading financial assets mandatorily at fair value through profit or loss	15,619	-
Financial assets at fair value through other comprehensive income	150,608	212,074
Total	**169,566**	**215,775**
By nature:		
Resident sector	130,543	173,618
Credit institutions	3,957	7,065
Other	126,586	166,553
Non-resident sector	16,005	16,325
Credit institutions	-	-
Other	16,005	16,325
Participations in investment vehicles	23,018	25,832
Total	**169,566**	**215,775**

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 2020 and at 31 December 2019 is as follows:

Thousand euro

	30/06/2020	31/12/2019
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	9,082,176	14,388,424
Total	**9,082,176**	**14,388,424**
By nature:		
Deposits with agreed maturity	1,917,658	1,768,595
Repos	6,949,279	11,805,180
Hybrid financial assets	-	-
Other	214,721	811,986
Stage 3 assets	27	304
Impairment allowances	(2,179)	(492)
Other valuation adjustments (interest, fees and commissions, other)	2,670	2,851
Total	**9,082,176**	**14,388,424**

Customers

The breakdown of the heading "*Loans and advances - Customers*" (General governments and Other sectors) of the consolidated balance sheets as at 30 June 2020 and 31 December 2019 is as follows:

Thousand euro

	30/06/2020	31/12/2019
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	148,017,755	147,815,501
Total	**148,017,755**	**147,815,501**
By nature:		
Overdrafts, etc.	5,651,816	7,376,969
Commercial loans	4,625,381	6,443,041
Finance leases	2,430,889	2,558,211
Secured loans	84,580,656	87,049,502
Repos	100,000	235,749
Other term loans	47,842,415	41,144,218
Stage 3 assets	6,174,863	5,922,593
Impairment allowances	(3,363,648)	(2,933,267)
Other valuation adjustments (interest, fees and commissions, other)	(24,617)	18,485
Total	**148,017,755**	**147,815,501**
By sector:		
General governments	9,877,693	10,509,796
Other sectors	135,353,464	134,297,894
Stage 3 assets	6,174,863	5,922,593
Impairment allowances	(3,363,648)	(2,933,267)
Other valuation adjustments (interest, fees and commissions, other)	(24,617)	18,485
Total	**148,017,755**	**147,815,501**

In June 2020, the Bank carried out the synthetic securitisation of a 1.6 billion euro SME and mid-cap loan portfolio, having received a guarantee from the European Investment Fund for 96 million euros, which covers losses in the range of 1.5%–7.5% on the securitised portfolio. This guarantee has an annual cost of 5.4%, taking into account a 1.5% retrocession fee, and is subject to an undertaking to grant 576 million euros in loans to Spanish SMEs and mid-caps. This operation did not produce any substantial transfer of risks or rewards pertaining to the assets concerned and, as such, did not involve their derecognition from the balance sheet. The operation receives preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401 (see Note 5).

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 2020 and at 31 December 2019 is as follows:

Thousand euro

Stage 1	30/06/2020	31/12/2019
Debt securities	27,923,152	27,119,124
Loans and advances	145,066,679	151,262,299
Customers	135,988,402	136,888,126
Central banks and Credit institutions	9,078,277	14,374,173
Total *stage 1*	**172,989,831**	**178,381,423**
By sector:		
General governments	35,058,174	34,762,568
Central banks and Credit institutions	10,461,783	15,750,320
Other private sectors	127,469,874	127,868,535
Total *stage 1*	**172,989,831**	**178,381,423**

Stage 2	30/06/2020	31/12/2019
Debt securities	-	-
Loans and advances	9,246,138	7,931,152
Customers	9,242,756	7,919,564
Central banks and Credit institutions	3,382	11,588
Total *stage 2*	**9,246,138**	**7,931,152**
By sector:		
General governments	11,616	37,598
Central banks and Credit institutions	3,382	11,588
Other private sectors	9,231,140	7,881,966
Total *stage 2*	**9,246,138**	**7,931,152**

Stage 3	30/06/2020	31/12/2019
Debt securities	73	73
Loans and advances	6,174,890	5,922,896
Customers	6,174,863	5,922,593
Central banks and Credit institutions	27	304
Total *stage 3*	**6,174,963**	**5,922,969**
By sector:		
General governments	11,092	11,772
Central banks and Credit institutions	27	304
Other private sectors	6,163,844	5,910,894
Total *stage 3*	**6,174,963**	**5,922,969**
Total *stages*	**188,410,932**	**192,235,545**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group during the six-month period ended 30 June 2020 were as follows:

Thousand euro

	Stage 1	*Stage* 2	*Stage* 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2019	**178,381,423**	**7,931,152**	**5,922,969**	***265,533***	**192,235,544**
Transfers between impairment stages	(3,012,436)	2,199,820	812,616	-	-
Stage 1	*2,569,597*	*(2,541,637)*	*(27,960)*	-	-
Stage 2	*(5,331,332)*	*5,500,229*	*(168,897)*	-	-
Stage 3	*(250,701)*	*(758,772)*	*1,009,473*	-	-
Increases	27,059,700	457,695	174,063	*4,533*	27,691,458
Decreases	(26,259,725)	(1,039,335)	(467,366)	*(72,175)*	(27,766,426)
Transfers to write-offs	-	-	(224,171)	-	(224,171)
Adjustments for exchange differences	(3,179,131)	(303,194)	(43,148)	*(12,510)*	(3,525,473)
Balance as at 30 June 2020	**172,989,831**	**9,246,138**	**6,174,963**	***185,381***	**188,410,932**

The movements in impaired financial assets derecognised due to the remote likelihood of their recovery during the first half of 2020 are as follows:

Thousand euro

Balance as at 31 December 2019	**5,043,769**
Additions	**311,755**
Use of accumulated impairment balance	229,443
Directly recognised on income statement	43,124
Contractually payable interests	17,073
Other items	22,116
Disposals	**(378,857)**
Collections of principal in cash from counterparties	(22,191)
Collections of interest in cash from counterparties	(821)
Debt forgiveness	(10,475)
Referrals	(129,542)
Forbearance	-
Sales	(196,575)
Foreclosure of tangible assets	(2,429)
Other items	(16,823)
Exchange differences	**(28,089)**
Balance as at 30 June 2020	**4,948,578**

Allowances

The following table shows the impairment allowances of financial assets broken down by consolidated balance sheet heading as at 30 June 2020 and 31 December 2019:

Thousand euro

Stage 1	30/06/2020	31/12/2019
Debt securities	320	234
Loans and advances	565,757	399,628
Central banks and Credit institutions	2,168	191
Customers	563,589	399,437
Total stage 1	**566,077**	**399,862**
Stage 2		
Debt securities	-	-
Loans and advances	287,614	268,743
Central banks and Credit institutions	-	-
Customers	287,614	268,743
Total stage 2	**287,614**	**268,743**
Stage 3		
Debt securities	-	-
Loans and advances	2,512,456	2,265,387
Central banks and Credit institutions	11	300
Customers	2,512,445	2,265,087
Total stage 3	**2,512,456**	**2,265,387**
Total stages	**3,366,147**	**2,933,992**

The movement of impairment allowances allocated by the Group to cover credit risk during the six month period ended 30 June 2020 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 2019	16,149	491,526	399,862	252,593	1,773,862	2,933,992
Movements reflected in impairment gains/(losses) (**)	**4,094**	**32,802**	**138,068**	**109,138**	**514,717**	**798,819**
Increases due to origination	-	-	140,639	-	-	140,639
Changes due to credit risk variance	3,202	51,505	51,716	82,720	525,555	714,698
Changes in calculation approach	-	-	-	-	-	-
Other movements	892	(18,703)	(54,287)	26,418	(10,838)	(56,518)
Movements not reflected in impairment gains/(losses)	**(3,538)**	**(69,921)**	**37,764**	**(85,948)**	**(223,947)**	**(345,589)**
Transfers between impairment stages	(2,590)	23,633	37,803	(85,550)	26,704	-
Stage 1	*(835)*	*(190)*	*82,407*	*(71,443)*	*(9,939)*	-
Stage 2	*(322)*	*(252)*	*(36,481)*	*52,736*	*(15,681)*	-
Stage 3	*(1,433)*	*24,075*	*(8,123)*	*(66,843)*	*52,324*	-
Utilisation of allocated provisions	(948)	(86,618)	(36)	(218)	(221,561)	(309,381)
Other movements (***)	-	(6,936)	(3)	(180)	(29,089)	(36,208)
Adjustments for exchange differences	**-**	**(1,980)**	**(9,617)**	**(4,874)**	**(4,604)**	**(21,075)**
Balance as at 30 June 2020	16,705	452,428	566,077	270,909	2,060,028	3,366,147

(*) 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)

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale and investment property.

GDP sensitivity analysis

An analysis of the sensitivity of expected losses to any changes, *ceteris paribus*, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

	Change in the variable	Impact on expected loss
Deviation of GDP growth in Spain	- 100 pb	4.6%
	+ 100 pb	-4.2%

Note 11 – Tangible assets

The composition of this item in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 is as follows:

Thousand euro

	30/06/2020				31/12/2019			
	Cost	Depreciation and amortisation	Impairment	Net value	Cost	Depreciation and amortisation	Impairment	Net value
Property, plant and equipment	**4,444,075**	**(1,641,814)**	**(13,854)**	**2,788,407**	**4,567,235**	**(1,595,540)**	**(23,925)**	**2,947,770**
For own use (*):	4,089,481	(1,561,858)	(13,840)	2,513,783	4,200,109	(1,543,640)	(17,985)	2,638,484
Computer equipment and related facilities	582,962	(393,833)	-	189,129	525,018	(370,452)	-	154,566
Furniture, vehicles and other facilities	1,114,798	(633,478)	-	481,320	1,274,106	(698,969)	(4,078)	571,059
Buildings	2,307,598	(520,143)	(13,840)	1,773,615	2,312,108	(459,600)	(13,907)	1,838,601
Work in progress	46,486	(1)	-	46,485	53,371	-	-	53,371
Other	37,637	(14,403)	-	23,234	35,506	(14,619)	-	20,887
Leased out under operating leases	354,594	(79,956)	(14)	274,624	367,126	(51,900)	(5,940)	309,286
Investment properties	**617,240**	**(47,713)**	**(58,006)**	**511,521**	**614,308**	**(43,381)**	**(56,298)**	**514,629**
Buildings	614,924	(47,703)	(57,461)	509,760	610,531	(42,796)	(55,752)	511,983
Rural property, plots and sites	2,316	(10)	(545)	1,761	3,777	(585)	(546)	2,646
Total	**5,061,315**	**(1,689,527)**	**(71,860)**	**3,299,928**	**5,181,543**	**(1,638,921)**	**(80,223)**	**3,462,399**

(*) As at 30 June 2020, 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 1,205,747 thousand euros, of which 167,939 thousand euros have been depreciated at that date.

Changes in the balance of the "*Tangible assets*" heading during the first half of 2020 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 2019		**2,400,985**	**1,799,124**	**614,308**	**367,126**	**5,181,543**
Additions		35,073	72,328	16,094	36,474	159,969
Disposals		(4,982)	(43,189)	(14,125)	(48,339)	(110,635)
Transfers/reclassifications		(5,572)	(123,308)	963	-	(127,917)
Exchange rate		(33,783)	(7,195)	-	(667)	(41,645)
Balances as at 30 June 2020		**2,391,721**	**1,697,760**	**617,240**	**354,594**	**5,061,315**
Accumulated depreciation:						
Balances as at 31 December 2019		**474,219**	**1,069,421**	**43,381**	**51,900**	**1,638,921**
Additions (*)		79,731	62,624	6,043	22,549	170,947
Disposals		(4,551)	(37,735)	(1,107)	-	(43,393)
Transfers/reclassifications		(921)	(61,742)	(604)	-	(63,267)
Exchange rate		(13,931)	(5,257)	-	5,507	(13,681)
Balances as at 30 June 2020		**534,547**	**1,027,311**	**47,713**	**79,956**	**1,689,527**
Impairment losses:						
Balances as at 31 December 2019		**13,907**	**4,078**	**56,298**	**5,940**	**80,223**
Impairment through profit or loss	28	(67)	-	6,130	-	6,063
Reversal of impairment through profit or loss	28	-	-	(5,115)	-	(5,115)
Utilisations		-	-	(395)	(5,926)	(6,321)
Transfers/reclassifications		-	(4,078)	1,088	-	(2,990)
Balances as at 30 June 2020		**13,840**	**-**	**58,006**	**14**	**71,860**
Balances as at 31 December 2019		**1,912,859**	**725,625**	**514,629**	**309,286**	**3,462,399**
Balances as at 30 June 2020		**1,843,334**	**670,449**	**511,521**	**274,624**	**3,299,928**

(*) Includes 56,816 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.

The net carrying value of the transfers/reclassifications shown under the "*Tangible assets*" heading of the table above (61,660 thousand euros) corresponds to the transfer of tangible assets to non-current assets held for sale (see Note 14).

Note 12 – Intangible assets

The composition of this item as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
Goodwill:	**1,032,325**	**1,031,824**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Rest	27,779	27,278
Other intangible assets:	**1,524,790**	**1,533,159**
With a finite useful life:	1,524,790	1,533,159
Contractual relations with customers (Banco Guipuzcoano)	2,270	5,007
Private Banking Business, Miami	14,357	16,244
Contractual relations with TSB customers and brand	136,741	167,681
Computer applications	1,370,122	1,342,902
Other	1,300	1,325
Total	**2,557,115**	**2,564,983**

During the first six months of 2020 the Bank implemented some of the operational changes related to monitoring of the development of business resulting from the reorganisation of Banking Business in Spain in which Private Banking became part of Commercial Banking and was integrated within that operating segment. In addition, the development of the Corporate Banking business has led to an increasing portion of its customers executing transactions through foreign branches; the income from those transactions is not allocated to this cash-generating unit (UGE, for its acronym in Spanish). It has also led to asset portfolios being transferred between this business and the Commercial Banking business, which has produced modifications to the scope of both UGEs. These circumstances have led the Bank to take the decision to switch to monitoring the Group's goodwill across the ensemble of UGEs comprising the Banking Business Spain operating segment, instead of doing so individually for each UGE.

The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment up to 2026.

To calculate the terminal value, 2026 has been taken as the reference year using a perpetual growth rate of 1.7%. A discount rate of 9.3% has been used, a figure reached using the CAPM (Capital Asset Pricing Model) approach.

The key variables on which the financial projections are based are: growth in the buy-sell spread (determined by expected trading volumes and interest rates) and changes of other items on the income statement and solvency levels.

The recoverable value obtained is greater than the book value and, consequently, there was no impairment.

In addition, the Group has carried out a sensitivity analysis using reasonable adjustments to the most significant assumptions for the calculation of a recoverable value.

This analysis consisted of adjusting the following:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs +/- 5bps.
- Recurrent cost of risk for the year 2026 +/- 10bps.

The sensitivity analysis does not alter the conclusions drawn from the goodwill impairment test. In all scenarios defined in that analysis, the recoverable value obtained is greater than the book value.

The impairment of the Group's IT applications, which provide services mainly to the Bank and to TSB, is evaluated by reviewing the recoverable amounts of Banking Business Spain and the Banking Business United Kingdom UGEs.

In the case of Banking Business United Kingdom, the valuation method used in the analysis was that of discounting future net distributable profit associated with the activity carried out up to 2026. To calculate the terminal value, 2026 has been taken as the reference year using a perpetual growth rate of 1.7%. A discount rate of 9.1% has been used, a figure reached using the CAPM approach. The evaluation did not reveal the need to recognise any impairment in the value of these assets.

The impairment of goodwill and UGEs is calculated taking into account the central macroeconomic scenario described in Note 1 of these condensed interim consolidated financial statements.

Note 13 – Other assets

The composition of the "*Other assets*" heading as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
Insurance contracts linked to pensions	132,011	133,960
Inventories	878,564	868,577
Rest of other assets	458,023	493,399
Total	**1,468,598**	**1,495,936**

Changes in inventories in the first half of 2020 were as follows:

Thousand euro

	Notes	Land	Buildings under construction	Finished buildings	Total
Balance as at 31 December 2019		**516,561**	**175,386**	**176,629**	**868,577**
Additions		14,625	35,548	19,297	69,470
Disposals		(20,027)	-	(43,611)	(63,638)
Impairment through profit or loss	28	7,618	1,541	(9,656)	(497)
Reversal of impairment through profit or loss	28	1,278	70	2,113	3,461
Other transfers	14	(22,339)	(19,727)	43,258	1,192
Balance as at 30 June 2020		**497,716**	**192,818**	**188,030**	**878,564**

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

The composition of these headings in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
Assets	**1,247,864**	**976,084**
Cash, cash balances at central banks and other demand deposits	4,286	-
Loans and advances	5,861	1,850
Credit institutions	-	-
Customers	5,861	1,850
Debt securities	-	-
Equity instruments	-	-
Real estate exposure	1,158,209	915,557
Tangible assets for own use	92,235	30,967
Investment properties	869	-
Foreclosed assets	1,065,105	884,590
Leased out under operating leases	18,701	13,141
Rest of other assets	60,807	45,536
Impairment allowances	**(273,396)**	**(211,881)**
Non-current assets and disposal groups classified as held for sale	**974,468**	**764,203**
Liabilities		
Financial liabilities measured at amortised cost	21,956	4,016
Tax liabilities	2,169	2,759
Liabilities under insurance or reinsurance contracts	-	-
Rest	4,427	3,380
Liabilities included in disposal groups classified as held for sale	**28,552**	**10,155**

Changes in the "*Non-current assets and disposal groups classified as held for sale*" heading in the first half of 2020 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2019		**976,084**
Additions		268,855
Disposals		(91,333)
Transfer of credit losses (*)		(15,264)
Other transfers/reclassifications		109,523
Balances as at 30 June 2020		**1,247,865**
Impairment allowances:		
Balances as at 31 December 2019		**211,881**
Impairment through profit or loss	30	220,863
Reversal of impairment through profit or loss	30	(112,086)
Utilisations		(78,495)
Other transfers/reclassifications		31,234
Balances as at 30 June 2020		**273,397**
Net balances as at 31 December 2019		**764,203**
Net balances as at 30 June 2020		**974,468**

(*) 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	30/06/2020
Loans and advances		2,378
Tangible assets	11	61,660
Inventories	13	(1,192)
Rest		15,443
Total		**78,289**

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 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
By heading:		
Financial liabilities measured at amortised cost	40,057,969	31,535,828
Total	**40,057,969**	**31,535,828**
By nature:		
Demand deposits	524,131	470,512
Deposits with agreed maturity	33,756,511	23,153,219
Repurchase agreements	5,478,326	7,607,237
Deposits redeemable at notice	-	-
Hybrid financial liabilities	56,700	58,800
Other accounts	235,535	229,414
Valuation adjustments	6,766	16,646
Total	**40,057,969**	**31,535,828**

Note 16 – Customer deposits

The breakdown of customer deposits in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
By heading:		
Financial liabilities measured at amortised cost	148,340,563	147,362,353
Total	**148,340,563**	**147,362,353**
By nature:		
Demand deposits	123,888,006	118,868,376
Deposits with agreed maturity	21,961,481	25,174,407
Hybrid financial liabilities	2,004,962	2,164,716
Repurchase agreements	336,395	951,258
Valuation adjustments	149,719	203,596
Total	**148,340,563**	**147,362,353**
By sector:		
General governments	6,109,165	6,609,279
Other sectors	142,081,679	140,549,479
Other valuation adjustments (interest, fees and commissions, other)	149,719	203,595
Total	**148,340,563**	**147,362,353**

Note 17 – Debt securities in issue

The breakdown of the debt securities issued by the Group by type of issue in the consolidated balance sheets as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

	30/06/2020	31/12/2019
Straight bonds/debentures	6,325,947	6,329,322
Straight bonds	6,219,539	6,219,012
Structured bonds	106,408	110,310
State guaranteed straight bonds	-	-
Commercial paper	549,469	1,094,222
Covered bonds	9,316,000	8,925,100
Covered Bonds (TSB)	1,369,968	1,469,205
Asset-backed bonds	1,381,726	1,691,596
Subordinated marketable debt securities	2,866,922	3,010,465
Subordinated liabilities	1,716,922	1,860,465
Preference shares	1,150,000	1,150,000
Valuation and other adjustments	16,925	49,986
Total	**21,826,957**	**22,569,896**

Schedule IV shows the breakdown of issues carried out by the Group in the first half of 2020.

Note 18 – Provisions and contingent liabilities

Movements in the six-month period ended 30 June 2020 in the "*Provisions*" heading of the consolidated balance sheet 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 2019	99,346	6,938	66,889	110,746	146,515	430,434
Scope additions / exclusions	-	-	-	-	480	480
Interest and similar charges - pension commitments	507	54	-	-	-	561
Allowances charged to income statement - staff expenses (*)	1,377	79	-	-	-	1,456
Allowances not charged to income statement	-	-	-	-	-	-
Allowances charged to income statement - provisions	3	-	45,698	36,619	34,198	116,518
Allocation of provisions	3	-	45,833	116,896	35,608	198,340
Reversal of provisions	-	-	(135)	(80,277)	(1,410)	(81,822)
Actuarial losses / (gains)	-	-	-	- -		-
Exchange differences	-	-	-	(1,261)	(3,378)	(4,639)
Utilisations:	(4,215)	(3,095)	(11,711)	-	(21,349)	(40,370)
Net contributions by the sponsor	44	-	-	-	-	44
Pension payments	(4,259)	(3,095)	-	-	-	(7,354)
Other	-	-	(11,711)	-	(21,349)	(33,060)
Other movements	819	(261)	-	24,869	(64)	25,363
Balance as at 30 June 2020	97,837	3,715	100,876	170,973	156,402	529,803

(*) See Note 26.

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 benchmark 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 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 benchmark 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, referred a case to the Court of Justice of the European Union (CJEU) on 16 February 2018 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.

In its ruling of 3 March 2020, the CJEU ruled on the validity of the IRPH applicable to variable interest mortgage loans, in which it declared that it considered the use of the IRPH to be fully valid, although it was for the Spanish courts to assess the transparency of the marketing of such loans and to do so on a case-by-case basis. Even if a judge considers that the clause might not be transparent in a particular case, in these circumstances the effect is to substitute the IRPH with another index, which can be the IRPHCe (group of entities), the Euribor, or the legal interest rate.

As at 30 June 2020, the Bank's exposure to IRPH-indexed loans was around 700 million euros (750 million euros as at 31 December 2019). In the legal claims closed to date, in more than 90% of the cases, the ruling has been in favour of the Bank because the required transparency conditions were met; therefore, the likely impact of this contingency for the Group is not considered material.

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 as at the end of 2019. In accordance with the foregoing, no provisions have been allocated for this item as at 30 June 2020.

Note 19 – Own funds

Share capital as at the end of the first half of 2020

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 2020

No changes in share capital have taken place in the first half of 2020.

Note 20 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 30 June 2020 and 31 December 2019 was as follows:

Thousand euro

Commitments and guarantees given	Note	30/06/2020	31/12/2019
Loan commitments provided		**28,932,827**	**27,563,836**
Of which, amount classified as Stage 2		*777,654*	*889,215*
Of which, amount classified as Stage 3		*52,101*	*56,253*
Can be drawn by third parties		28,932,827	27,563,836
By credit institutions		1,249	96
By general governments		1,773,748	1,213,587
By other resident sectors		16,966,305	16,341,791
By non-residents		10,191,525	10,008,362
Amount recognised within liabilities on the balance sheet	18	87,320	48,204
Financial guarantees provided (*)		**2,014,960**	**2,107,412**
Of which, amount classified as Stage 2		*92,599*	*90,063*
Of which, amount classified as Stage 3		*41,734*	*41,534*
Amount recognised within liabilities on the balance sheet (**)	18	21,926	21,041
Other commitments provided		**9,920,144**	**10,398,913**
Of which, amount classified as Stage 2		*322,023*	*315,842*
Of which, amount classified as Stage 3		*114,739*	*156,918*
Other guarantees given		7,538,644	7,506,189
Assets earmarked for third-party obligations		-	-
Irrevocable letter of credit		749,575	806,348
Additional settlement guarantee		20,000	20,000
Other guarantees and sureties given		6,769,069	6,679,841
Other contingent risks		-	-
Other commitments provided		2,381,500	2,892,724
Financial asset forward purchase commitments		2,117,476	2,468,533
Conventional financial asset purchase contracts		138,609	275,922
Capital subscribed but not paid up		1,939	1,939
Underwriting and subscription commitments		-	-
Other loan commitments given		123,476	146,330
Amount recognised within liabilities on the balance sheet	18	61,727	41,501
Total		**40,867,931**	**40,070,161**

(*) Includes 71,355 thousand euros and 135,624 thousand euros as at 30 June 2020 and 31 December 2019, respectively, relating to financial guarantees given in relation to construction and real estate development.
(**) Includes 3,285 thousand euros and 5,225 thousand euros as at 30 June 2020 and 31 December 2019, respectively, in relation to construction and real estate development.

Guarantees given classed as stage 3

The balance of guarantees given classed as stage 3 as at 30 June 2020 amounted to 156,474 thousand euros (198,452 thousand euros as at 31 December 2019).

Credit risk allowances corresponding to guarantees given as at 30 June 2020 and 31 December 2019, broken down by the method used to determine such allowances and the credit risk of off-balance sheet exposures, are as follows:

Thousand euro

	30/06/2020	31/12/2019
Specific individually measured allowances:	**58,547**	**38,939**
Stage 2	2,255	1,403
Stage 3	56,291	37,536
Specific collectively measured allowances:	**25,107**	**22,762**
Stage 1	11,110	8,399
Stage 2	6,061	4,571
Stage 3	7,301	9,284
Allowances for country risk	635	508
Total	**83,653**	**61,701**

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 2020 and 2019, as well as returns and average costs of the various components which comprise the total investment and funds, is as follows:

Thousand euro

	30/06/2020						
	1st quarter			2nd quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**220,337,733**	**2.09**	**1,143,474**	**222,558,306**	**1.83**	**1,013,548**	**2,157,022**
Cash and cash equivalents (*)	26,254,634	0.19	12,589	28,340,676	0.10	6,985	**19,574**
Loans and advances	142,034,120	2.80	988,433	143,837,623	2.52	899,910	**1,888,343**
Fixed-income portfolio (**)	27,498,622	1.16	79,200	26,549,681	0.96	63,359	**142,559**
Equity portfolio	1,000,487	-	-	1,038,194	-	-	**-**
Tangible and intangible assets	5,475,464	-	-	5,411,995	-	-	**-**
Rest of other assets	18,074,406	1.41	63,252	17,380,137	1.00	43,294	**106,546**
Cost of resources	**220,337,733**	**(0.47)**	**(258,988)**	**222,558,306**	**(0.35)**	**(193,507)**	**(452,495)**
Credit institutions	22,792,000	(0.14)	(7,687)	23,720,351	0.08	4,841	**(2,846)**
Customer deposits (***)	149,636,087	(0.22)	(82,390)	151,934,692	(0.16)	(60,571)	**(142,961)**
Capital markets	25,329,889	(1.33)	(83,523)	24,211,144	(1.28)	(77,177)	**(160,700)**
Other liabilities	9,671,576	(3.55)	(85,388)	9,953,190	(2.45)	(60,600)	**(145,988)**
Own funds	12,908,181	-	-	12,738,929	-	-	**-**
Net interest income			**884,486**			**820,041**	**1,704,527**
Average total assets			**220,337,733**			**222,558,306**	**221,448,020**
Ratio (margin/ATA)			**1.62**			**1.48**	**1.55**

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

(**) Includes 613 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 21,085 thousand euros, while the cost of funds comprises interest income amounting to 52,568 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

	30/06/2019						
	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**
Average total assets			**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.

The net interest margin as a percentage of average total assets declined due to the reduction in the customer spread and the lower returns on the fixed income portfolio due to asset rotations. As a result, net interest margin as a percentage of average total assets was 1.55% in the first half of 2020 (1.63% in the first half of 2019).

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 2020 and 2019 were as follows:

Thousand euro

	30/06/2020	30/06/2019
Fees from risk transactions	**127,251**	**123,915**
Lending operations	75,954	69,367
Sureties and other guarantees	51,297	54,548
Service fees	**369,884**	**396,193**
Payment cards	97,609	126,290
Payment orders	27,998	31,179
Securities	36,290	29,770
Sight accounts	114,079	96,752
Rest	93,908	112,202
Asset management and marketing fees	**176,097**	**185,833**
Mutual funds	72,843	74,069
Sale of pension funds and insurance products	92,191	98,850
Asset management	11,063	12,914
Total	**673,232**	**705,941**
Memorandum item		
Fee and commission income	761,028	797,289
Fee and commission expenses	(87,796)	(91,348)
Fees and commissions (net)	**673,232**	**705,941**

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

The composition of this heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	30/06/2020	30/06/2019
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	181,517	84,150
Financial assets at fair value through other comprehensive income	37,752	82,516
Financial assets at amortised cost	143,754	1,297
Financial liabilities measured at amortised cost	11	337
Gains or (-) losses on financial assets and liabilities held for trading, net	178,381	(39,520)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(31,387)	(19,571)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	6
Gains or (-) losses from hedge accounting, net	4,290	4,290
Total	**332,801**	**29,355**
By type of financial instrument:		
Net gain/(loss) on debt securities	120,912	60,916
Net gain/(loss) other equity instruments	130	1,053
Net gain/(loss) on derivatives	213,268	(34,248)
Net gain/(loss) on other items (*)	(1,509)	1,634
Total	**332,801**	**29,355**

(*) Mainly includes gains on the sale of several loan portfolios disposed of during the first half of the year.

Throughout the first half of 2020, 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 37,752 thousand euros during the six-month period ended 30 June 2020. Of these earnings, 20,358 thousand euros are from the sale of debt securities held with general governments.

Furthermore, throughout the first half of 2020, the Group has carried out sales of certain debt securities that it held in the portfolio of financial assets at amortised cost for the purpose of managing increased credit risk (see Note 8).

Meanwhile, the "*Net gain/(loss) on derivatives*" heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading "*Gains or (-) losses on financial assets and liabilities held for trading, net*" of the consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "*Exchange differences (gain or (-) loss), net*" of the consolidated income statement.

Note 24 – Other operating income

The composition of this heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	30/06/2020	30/06/2019
Income from use of investment properties	14,047	23,958
Sales and other income from the provision of non-financial services	8,580	20,998
Other operating income	100,926	78,704
Total	**123,553**	**123,660**

The year-on-year decrease in "Income from use of investment properties" is due to the gradual reduction of the Group's real estate portfolio over the last year. The decrease in "Sales and other income from the provision of non-financial services", meanwhile, is due to the sale of Solvia Servicios Inmobiliarios, S.L. in the second quarter of 2019, a subsidiary company that generated income from this type of activities.

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

Note 25 – Other operating expenses

The composition of this heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	30/06/2020	30/06/2019
Contribution to deposit guarantee schemes	(5,871)	(5,333)
Banco Sabadell	(52)	(53)
TSB	700	(695)
BS IBM México	(6,519)	(4,585)
Contribution to resolution fund	(78,388)	(58,647)
Other items	(125,654)	(159,035)
Monetisation rates of tax assets (*)	(23,864)	(22,780)
Rest	(101,790)	(136,255)
Total	**(209,913)**	**(223,015)**

(*) See Note 32.

The "Other" subheading in the above table mostly includes 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 2020 and 2019 were as follows:

Thousand euro

	Note	30/06/2020	30/06/2019
Payrolls and bonuses for active staff		(595,510)	(593,849)
Social Security payments		(125,983)	(125,624)
Contributions to defined benefit pension plans	18	(1,456)	(850)
Contributions to defined contribution pension plans		(34,301)	(36,791)
Other staff expenses		(40,549)	(52,947)
Total		**(797,799)**	**(810,061)**

The average workforce of the Bank and Group in the six-month periods ended 30 June 2020 and 2019 is detailed below:

Number of employees

	Bank		Group	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019
Average of employees	**15,375**	**15,394**	**24,334**	**25,799**
Men	7,436	7,496	10,767	11,387
Women	7,939	7,898	13,567	14,412

As at 30 June 2020 and 2019, the breakdown of Group employees by category and gender was as follows:

Number of employees

	30/06/2020			30/06/2019		
	Men	Women	Total	Men	Women	Total
Management staff	536	185	721	525	177	702
Technical staff	9,390	10,460	19,850	9,645	10,668	20,313
Administrative staff	806	2,829	3,635	1,015	3,342	4,357
Total	**10,732**	**13,474**	**24,206**	**11,185**	**14,187**	**25,372**

The change in the Group's workforce, both on average and as at 30 June 2020, mainly corresponds to the reduction in TSB's workforce due to the adjustment to business needs.

Non-recurring staff expenses as at 30 June 2020 amounted to 5,939 thousand euros (20,214 thousand euros as at 30 June 2019). Expenses which do not form part of the Group'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 heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	30/06/2020	30/06/2019
Property, plant and equipment	(42,748)	(60,649)
Information technology	(178,235)	(164,551)
Communication	(20,197)	(21,143)
Publicity	(39,611)	(46,152)
Subcontracted administrative services	(89,107)	(74,907)
Contributions and taxes	(66,694)	(57,584)
Technical reports	(13,308)	(17,699)
Security services and fund transfers	(9,085)	(10,646)
Entertainment expenses and staff travel expenses	(4,998)	(10,268)
Membership fees	(2,901)	(16,152)
Other expenses	(41,836)	(50,154)
Total	**(508,720)**	**(529,905)**

As at 30 June 2020, other non-recurring administrative expenses amounted to 9,030 thousand euros (30,831 thousand euros as at 30 June 2019), which mainly include expenses related to the transformation of TSB's branches.

The cost-to-income ratio stood at 53.65% as at 30 June 2020 (54.72% as at 30 June 2019).

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

Number of branches

	30/06/2020	30/06/2019
Branches	**2,271**	**2,454**
Spain	1,728	1,864
Outside Spain	543	590

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 heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	Note	30/06/2020	30/06/2019
Financial assets at fair value through other comprehensive income		660	3,178
Debt securities		660	3,178
Other equity instruments		-	-
Financial assets at amortised cost	10	(882,159)	(303,639)
Debt securities		(3)	(317)
Loans and advances		(882,156)	(303,322)
Total		**(881,499)**	**(300,461)**

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

The composition of this heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	Note	30/06/2020	30/06/2019
Property, plant and equipment	11	67	-
Investment properties	11	(1,015)	(1,370)
Goodwill and other intangible assets		-	-
Inventories	13	2,964	(18,863)
Total		**2,016**	**(20,233)**

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

The breakdown of this heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	30/06/2020	30/06/2019
Property, plant and equipment	(673)	(2,062)
Investment properties	1,313	6,689
Intangible assets	(568)	(549)
Interests (*)	454	7,088
Other capital instruments	-	-
Other items	-	-
Total	**526**	**11,166**

(*) 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 heading of the consolidated income statements for the six-month periods ended 30 June 2020 and 2019 was as follows:

Thousand euro

	Note	30/06/2020	30/06/2019
Property, plant and equipment for own use and foreclosed		(95,197)	(44,764)
Gains/losses on sales		13,580	42,851
Impairment/Reversal	14	(108,777)	(87,615)
Investment properties		124	515
Intangible assets		-	-
Interests (*)		300,124	134,971
Other capital instruments		-	-
Other items		(23,454)	(158)
Total		**181,597**	**90,564**

(*) 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

This section gives information regarding earnings and other indicators of the Group's business units.

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

- Three regions: Banking Business Spain, United Kingdom and Mexico.
- Each business unit is allocated capital equivalent to 11% of its risk-weighted assets (capital divided by RWAs) and the surplus of own funds is allocated to Banking Business Spain.

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

Segmentation by region and business units

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 other things. It also includes the Private Banking segment and products, which have been designed to provide high added value to customers.

Asset Transformation: It comprehensively manages NPA risk and real estate exposures. In terms of NPA risk and real estate exposures, the unit focuses on developing the asset transformation strategy and integrating the end-to-end vision of the Group's balance sheet in order to maximise its value.

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 lending and cash management, as well as import and export activities, among others. It includes foreign branches and representative offices.

- **Banking Business United Kingdom:**

The TSB franchise includes retail banking business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.

- **Banking Business Mexico:**

Offers Corporate Banking and Commercial Banking financial services.

The information presented herein for each business unit is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made, and on analytical accounting of income and expenses where particular business lines are split across one or more legal entities, which allows income and expenses to be allocated to each customer in line with the business line to which they are assigned.

Each business unit is treated as an independent business line; therefore, flows of income and expenses take place between businesses for the provision of services involving the distribution of products. The final impact on the Group's income statement is nil.

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

Capital is allocated in such a way that each business unit is assigned capital equivalent to the minimum regulatory capital requirements for risk-weighted assets. This regulatory minimum requirement depends on the body responsible for supervising each business.

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

Million euro

	30/06/2020 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**1,202**	**442**	**61**	**1,705**
Fees and commissions (net)	626	43	4	673
Net banking revenues	**1,828**	**485**	**65**	**2,378**
Net trading income and exchange differences	133	19	3	155
Equity-accounted affiliates and dividends	14	-	-	14
Other operating income/expense	(93)	13	(6)	(86)
Gross income	**1,881**	**517**	**62**	**2,461**
Operating expenses and depreciation and amortisation	(1,026)	(499)	(36)	(1,562)
Pre-provisions income	**855**	**18**	**26**	**899**
Provisions and impairments	(958)	(121)	(11)	(1,090)
Capital gains on asset sales and other revenue	275	1	-	276
Profit/(loss) before tax	**173**	**(102)**	**15**	**85**
Corporation tax	31	31	(3)	59
Profit or loss attributed to minority interests	(1)	-	-	(1)
Profit attributable to the Group	**205**	**(71)**	**12**	**145**
ROE (profit / average shareholders' equity)	3.4%	–	4.5%	2.0%
Cost-to-income (general administrative expenses / gross income)	45.4%	81.3%	52.0%	53.7%
NPL ratio	4.7%	1.6%	0.8%	4.0%
NPL coverage ratio	55.6%	51.9%	132.5%	55.6%
Employees	16,570	7,133	503	24,206
Domestic and foreign branches	1,753	503	15	2,271

(*) Exchange rates applied in the income statement: GBP 0.87 (average), MXN 23.87 (average), USD 1.10 (average) and MAD 10.89 (average).

Million euro

	30/06/2020 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**184,315**	**45,099**	**5,033**	**234,447**
Outstanding gross loans and advances	107,175	34,190	3,767	145,131
Non-performing real estate assets (net)	946	-	-	946
Liabilities	**173,634**	**43,600**	**4,496**	**221,730**
On-balance sheet customer funds	109,485	36,047	2,040	147,572
Wholesale Funding Capital Markets	19,842	2,189	-	22,031
Allocated capital	**10,680**	**1,499**	**538**	**12,718**
Off-balance sheet customer funds	**41,718**	**-**	**-**	**41,718**

(*) Exchange rates applied in the balance sheet: GBP 0.91, MXN 25.95, USD 1.12 and MAD 10.89.

Million euro

	30/06/2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**1,263**	**486**	**57**	**1,806**
Fees and commissions (net)	641	56	8	706
Net banking revenues	**1,904**	**542**	**65**	**2,512**
Net trading income and exchange differences	24	20	-	44
Equity-accounted affiliates and dividends	36	-	-	36
Other operating income/expense	(94)	(1)	(5)	(99)
Gross income	**1,871**	**561**	**61**	**2,494**
Operating expenses and depreciation and amortisation	(1,001)	(524)	(42)	(1,567)
Pre-provisions income	**870**	**37**	**19**	**927**
Provisions and impairments	(333)	(33)	(7)	(374)
Capital gains on asset sales and other revenue	141	(1)	-	139
Profit/(loss) before tax	**677**	**3**	**11**	**692**
Corporation tax	(151)	(1)	(1)	(154)
Profit or loss attributed to minority interests	6	-	-	6
Profit attributable to the Group	**520**	**2**	**10**	**532**
ROE (profit / average shareholders' equity)	6.7%	-	3.8%	6.9%
Cost-to-income (general administrative expenses / gross income)	47.6%	81.4%	60.6%	54.7%
NPL ratio	4.9%	1.3%	0.6%	4.1%
Stage 3 exposure coverage ratio (%)	51.4%	43.8%	186.1%	51.7%
Employees	16,750	8,160	462	25,372
Domestic and foreign branches	1,891	548	15	2,454

(*) Exchange rates used in the income statement: GBP 0.88 (average), MXN 21.68 (average), USD 1.13 (average) and MAD 10.86 (average)

Million euro

	31/12/2019 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**172,503**	**46,449**	**4,802**	**223,754**
Outstanding gross loans and advances	104,436	36,496	3,640	144,572
Non-performing real estate assets (net)	791	-	-	791
Liabilities	**161,695**	**44,924**	**4,160**	**210,779**
On-balance sheet customer funds	108,890	35,423	1,996	146,309
Wholesale Funding Capital Markets	19,912	2,423	-	22,335
Allocated capital	**10,914**	**1,525**	**535**	**12,974**
Off-balance sheet customer funds	**43,163**	**-**	**-**	**43,163**

(*) Exchange rates used in the balance sheet: GBP 0.85, MXN 21.22, USD 1.12 and MAD 10.74.

Core revenue generated by each business unit as at 30 June 2020 and 2019 was as follows:

Thousand euro

	Consolidated			
	Income from ordinary activities		Profit/(loss) before tax	
SEGMENTS	**30/06/2020**	**30/06/2019**	**30/06/2020**	**30/06/2019**
Banking Business Spain	1,884,354	2,201,349	172,728	677,317
Banking Business UK	581,354	625,634	(102,243)	3,464
Banking Business Mexico	128,839	145,417	14,996	11,342
(-) Adjustments and disposals of ordinary income between segments	-	-	-	-
Total	**2,594,546**	**2,972,401**	**85,481**	**692,123**

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

The distribution of interest income by region for the period between 1 January and 30 June 2020, and the comparison with the same period of the preceding year, is as follows:

Thousand euro

	Breakdown of interest income by geography			
	Individual		Consolidated	
	30/06/2020	30/06/2019	30/06/2020	30/06/2019
National market	1,401,032	1,577,053	1,418,972	1,571,456
International market	139,172	152,038	811,703	924,795
European Union	18,362	41,824	18,362	644,567
Euro zone	18,362	14,710	18,362	14,710
Non Euro zone	-	27,114	-	629,857
Other	120,810	110,214	793,341	280,228
Total	**1,540,204**	**1,729,091**	**2,230,675**	**2,496,251**

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 2020 and 31 December 2019 are as follows:

Thousand euro

Deferred tax assets	30/06/2020	31/12/2019
Monetisable	**5,098,622**	**5,127,453**
Due to credit impairment	3,348,843	3,356,167
Due to real estate asset impairment	1,619,410	1,643,538
Due to pension funds	130,369	127,748
Non-monetisable	**983,812**	**979,288**
Tax credits for losses carried forward	**474,640**	**394,422**
Deductions not applied	**19,781**	**14,769**
Total	**6,576,855**	**6,515,932**

Deferred tax liabilities	30/06/2020	31/12/2019
Property restatements	62,058	62,576
Adjustments to value of wholesale debt issuances arising in business combinations	24,445	29,336
Other financial asset value adjustments	60,614	53,802
Other	53,218	52,452
Total	**200,335**	**198,166**

According to the information available as at the date of authorisation of these interim financial statements, and the forecasts taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income so as to offset tax loss carry-forwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a maximum of 11 years.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

Note 33 – Related party transactions

During the first half of 2020, 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 2020 and 31 December 2019, as well as the impact of related party transactions on the income statements for the six-month periods ended 30 June 2020 and 2019, are shown below:

Thousand euro

	30/06/2020					31/12/2019
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Customer lending and other financial assets	-	129,150	7,034	180,779	**316,963**	**418,894**
Liabilities:						
Customer deposits and other financial liabilities	-	275,536	8,321	65,549	**349,406**	**485,613**
Off-balance sheet exposures:						
Financial guarantees provided	-	16	-	771	**787**	**1,435**
Loan commitments given	-	969	442	38,218	**39,629**	**25,094**
Other commitments provided	-	6,749	-	817	**7,566**	**9,248**
Income statement:						
Interest and similar income	-	1,162	27	704	**1,893**	**1,433**
Interest and similar charges	-	(41)	(1)	-	**(42)**	**(1,520)**
Return on capital instruments	-	-	-	-	**-**	**-**
Fees and commissions (net)	-	66,360	23	200	**66,583**	**67,333**
Other operating income	-	11,473	-	13	**11,486**	**23,874**

(*) Includes employee pension schemes.

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 2020 and 2019 is shown below:

Thousand euro

	30/06/2020	30/06/2019
Type of remuneration		
Remuneration for membership of the Board and/or Board Committees	1,101	1,160
Wages	2,554	2,498
Variable remuneration in cash	-	2,199
Share-based remuneration schemes	-	-
Severance pay	-	-
Long-term savings schemes	-	-
Other items	63	43
Total	3,718	5,900

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 1,961 thousand euros as at 30 June 2020, of which 1,765 thousand euros corresponded to loans and advances and 196 thousand euros related to guarantees and documentary credits (2,414 thousand euros as at 30 June 2019, consisting of 2,246 thousand euros in loans and advances and 168 thousand euros in guarantees and documentary credits). Liabilities amounted to 7,265 thousand euros as at 30 June 2020 (9,148 thousand euros as at 30 June 2019).

Contributions to pension funds and pension plans made by members of the Board of Directors in the first half of 2020 amounted to 5 thousand euros (4 thousand euros in the first half of 2019).

The remuneration received by members of Senior Management in the six-month periods ended 30 June 2020 and 2019 is shown below:

Thousand euro

	30/06/2020	30/06/2019
Total remuneration	2,549	4,171

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.

With regard to the remuneration corresponding to 2020, the Chairman, CEO, executive directors and members of Senior Management have waived their variable remuneration corresponding to 2020. The Board of Directors accepted this waiver in its extraordinary meeting of 8 April 2020.

Note 35 – Subsequent events

Since 30 June 2020, there have been no events worthy of mention.

Schedule I – Changes in the scope of consolidation

Newly consolidated companies in the first half of 2020:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Cost of combination: Cost of acquisition	Cost of combination: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Gate Solar 21 S.L.	Subsidiary	21/02/2020	213	-	100%	100%	Indirect	Full consolidation	b
Same Age Wallets, S.L.	Associate	01/01/2020	1,011	-	20%	20%	Indirect	Equity method	c
Serveis i Mitjans de Pagament XXI, S.A.	Associate	01/01/2020	12	-	20%	20%	Indirect	Equity method	c
Torenia Solar, S.L.	Subsidiary	21/02/2020	193	-	100%	100%	Indirect	Full consolidation	b
Gate Solar Gestión, S.L.	Subsidiary	11/05/2020	900	-	50%	100%	Indirect	Full consolidation	d
Hydrophytic, S.L.	Subsidiary	11/05/2020	100	-	50%	100%	Indirect	Full consolidation	d
Total newly consolidated subsidiaries			**1,406**						
Total newly consolidated associates			**1,023**						

(a) Incorporation of subsidiaries.

(b) Acquisition of subsidiaries.

(c) Acquisition or incorporation of associates.

(d) Change in consolidation method.

Companies no longer consolidated in the first half of 2020:

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
Gate Huerta Solar 44, S.L	Subsidiary	29/05/2020	100%	-	48	Indirect	Full consolidation	a
Gate Solar 21 S.L.	Subsidiary	29/05/2020	100%	-	32	Indirect	Full consolidation	a
Inversiones Samiac 14 S.L.	Subsidiary	29/05/2020	100%	-	44	Indirect	Full consolidation	a
Nueva Pescanova, S.L.	Associate	03/04/2020	25%	-	25,272	Indirect	Equity method	a
Sabadell Asset Management Luxembourg, S.A.	Subsidiary	30/06/2020	100%	-	-	Indirect	Full consolidation	a
Sabadell Asset Management, S.A., S.G.I.I.C.	Subsidiary	30/06/2020	100%	-	292,507	Direct	Full consolidation	a
Torenia Solar, S.L.	Subsidiary	29/05/2020	100%	-	118	Indirect	Full consolidation	a
Gate Solar Gestión, S.L.	Associate	11/05/2020	-	-	-	Direct	Equity method	c
Hydrophytic, S.L.	Associate	11/05/2020	-	-	-	Indirect	Equity method	c
Other					(17,445)			
Total					**300,578**			

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

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

(c) Change in consolidation 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 2020 and 31 December 2019 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 2020 and 2019.

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2020 and 31 December 2019

Thousand euro

Assets	30/06/2020	31/12/2019
Cash, cash balances at central banks and other demand deposits	**21,641,955**	**8,792,496**
Financial assets held for trading	**3,131,931**	**2,303,449**
Derivatives	2,346,938	1,724,407
Equity instruments	-	-
Debt securities	784,993	579,042
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	*5*	*38,709*
Non-trading financial assets mandatorily at fair value through profit or loss	**102,615**	**119,164**
Equity instruments	15,619	-
Debt securities	86,996	119,164
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	**4,379,193**	**5,419,218**
Equity instruments	52,853	106,921
Debt securities	4,326,340	5,312,297
Loans and advances	-	-
Central banks	-	-
Credit institutions	-	-
Customers	-	-
Memorandum item: loaned or pledged as security with sale or pledging rights	*703,655*	*1,179,026*
Financial assets at amortised cost	**145,958,667**	**146,894,393**
Debt securities	19,926,510	18,425,483
Loans and advances	126,032,157	128,468,910
Central banks	-	-
Credit institutions	10,793,152	16,065,122
Customers	115,239,005	112,403,788
Memorandum item: loaned or pledged as security with sale or pledging rights	*2,946,109*	*5,133,513*
Derivatives – Hedge accounting	**481,365**	**358,373**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**352,153**	**225,437**
Investments in subsidiaries, joint ventures and associates	**5,464,736**	**5,490,128**
Subsidiaries	5,137,143	5,204,829
Joint ventures	-	-
Associates	327,593	285,299
Tangible assets	**2,174,942**	**2,197,750**
Property, plant and equipment	2,029,468	2,064,995
For own use	2,029,468	2,064,995
Leased out under operating leases	-	-
Investment properties	145,474	132,755
Of which: leased out under operating leases	*145,474*	*132,755*
Memorandum item: acquired through finance leases	*914,196*	*928,729*
Intangible assets	**131,567**	**160,724**
Goodwill	99,963	126,547
Other intangible assets	31,604	34,177
Tax assets	**5,215,025**	**5,315,734**
Current tax assets	178,319	323,542
Deferred tax assets	5,036,706	4,992,192
Other assets	**298,331**	**404,409**
Insurance contracts linked to pensions	132,011	133,960
Inventories	-	-
Rest of other assets	166,320	270,449
Non-current assets and disposal groups classified as held for sale	**858,630**	**717,526**
TOTAL ASSETS	190,191,110	178,398,801

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2020 and 31 December 2019

Thousand euro

Liabilities	30/06/2020	31/12/2019
Financial liabilities held for trading	**3,370,828**	**2,563,334**
Derivatives	2,215,952	1,691,522
Short positions	1,154,876	871,812
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	**173,072,193**	**162,419,750**
Deposits	149,048,912	138,879,755
Central banks	27,446,725	14,791,893
Credit institutions	8,553,071	11,028,153
Customers	113,049,116	113,059,709
Debt securities issued	19,474,881	19,863,995
Other financial liabilities	4,548,400	3,676,000
Memorandum item: subordinated liabilities	*2,482,528*	*2,623,162*
Derivatives – Hedge accounting	**497,218**	**380,884**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**238,104**	**173,129**
Provisions	**875,336**	**823,452**
Pensions and other post employment defined benefit obligations	93,687	95,056
Other long term employee benefits	1,282	3,583
Pending legal issues and tax litigation	100,869	66,882
Commitments and guarantees given	570,779	571,712
Other provisions	108,719	86,219
Tax liabilities	**183,026**	**206,501**
Current tax liabilities	25,975	36,557
Deferred tax liabilities	157,051	169,944
Share capital repayable on demand	**-**	**-**
Other liabilities	**617,084**	**515,244**
Liabilities included in disposal groups classified as held for sale	**-**	**-**
TOTAL LIABILITIES	**178,853,789**	**167,082,294**

Balance sheets of Banco de Sabadell, S.A.

As at 30 June 2020 and 31 December 2019

Thousand euro

Equity	30/06/2020	31/12/2019
Shareholders' equity	**11,291,257**	**11,258,263**
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	7,591	17,077
Retained earnings	4,405,698	3,481,494
Revaluation reserves	-	-
Other reserves	(1,896,453)	(1,776,853)
(-) Treasury shares	(41,338)	(8,503)
Profit or loss for the period	213,161	1,053,267
(-) Interim dividends	-	(110,817)
Accumulated other comprehensive income	**46,064**	**58,244**
Items that will not be reclassified to profit or loss	(82,917)	(66,175)
Actuarial gains or (-) losses on defined benefit pension plans	(1,754)	(1,754)
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	(81,163)	(64,421)
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	128,981	124,419
Hedge of net investments in foreign operations [effective portion]	(793)	(221)
Foreign currency translation	48,876	46,576
Hedging derivatives. Cash flow hedges reserve [effective portion]	130,030	96,461
Fair value changes of debt instruments measured at fair value through other comprehensive income	(49,132)	(18,397)
Hedging instruments [not designated elements]	-	-
Non-current assets and disposal groups classified as held for sale	-	-
TOTAL EQUITY	**11,337,321**	**11,316,507**
TOTAL EQUITY AND TOTAL LIABIITIES	**190,191,110**	**178,398,801**

Memorandum item: off-balance sheet exposures		
Loan commitments given	**25,221,615**	**23,867,895**
Financial guarantees provided	**2,836,093**	**2,830,293**
Other commitments provided	**9,875,000**	**10,362,134**

Income statements of Banco de Sabadell, S.A.

For the six-month periods ended 30 June 2020 and 2019

Thousand euro

	30/06/2020	30/06/2019
Interest income	1,540,204	1,729,091
Financial assets at fair value through other comprehensive income	22,067	47,948
Financial assets at amortised cost	1,354,144	1,465,699
Other interest income	163,993	215,444
(Interest expenses)	(402,161)	(517,041)
(Expenses on share capital repayable on demand)	-	-
Net interest income	**1,138,043**	**1,212,050**
Dividend income	28,388	109,873
Fee and commission income	625,690	643,877
(Fee and commission expenses)	(60,757)	(67,415)
Gains or (-) losses on financial assets and liabilities, net	320,488	20,368
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	161,559	55,403
Financial assets at amortised cost	143,790	1,189
Other financial assets and liabilities	17,769	54,214
Gains or (-) losses on financial assets and liabilities held for trading, net	188,845	(15,782)
Reclassification of financial assets from fair value through other comprehensive income	-	-
Reclassification of financial assets from amortised cost	-	-
Other gains or (-) losses	188,845	(15,782)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(31,350)	(20,121)
Reclassification of financial assets from fair value through other comprehensive income	(694)	-
Reclassification of financial assets from amortised cost	-	-
Other gains or (-) losses	(30,656)	(20,121)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	-	-
Gains or (-) losses from hedge accounting, net	1,434	868
Exchange differences [gain or (-) loss], net	(170,086)	17,426
Other operating income	30,656	39,714
(Other operating expenses)	(119,354)	(121,006)
Gross income	**1,793,068**	**1,854,887**

Thousand euro

	30/06/2020	30/06/2019
(Administrative expenses)	(884,872)	(898,866)
(Staff expenses)	(553,774)	(539,733)
(Other administrative expenses)	(331,098)	(359,133)
(Depreciation and amortisation)	(123,597)	(118,407)
(Provisions or (-) reversal of provisions)	(77,835)	(65,510)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	(782,988)	(230,074)
(Financial assets at fair value through other comprehensive income)	674	3,142
(Financial assets at amortised cost)	(783,662)	(233,216)
Profit/(loss) on operating activities	**(76,224)**	**542,030**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	14,300	(32,968)
(Impairment or (-) reversal of impairment on non-financial assets)	(241)	363
(Tangible assets)	(241)	363
(Intangible assets)	-	-
(Other)	-	-
Gains or (-) losses on derecognition of non-financial assets, net	(2,036)	331
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	237,893	136,239
Profit or (-) loss before tax from continuing operations	**173,692**	**645,995**
(Tax expense or (-) income related to profit or loss from continuing operations)	39,469	(130,238)
Profit or (-) loss after tax from continuing operations	**213,161**	**515,757**
Profit or (-) loss after tax from discontinued operations	-	-
Profit or loss for the period	**213,161**	**515,757**
Earnings per share (euro)	**0.03**	**0.09**
Basic (in euro)	0.03	0.09
Diluted (in euro)	0.03	0.09

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 2020 and 2019

Thousand euro

	30/06/2020	30/06/2019
Profit or loss for the period	**213,161**	**515,757**
Other comprehensive income	**(12,180)**	**140,164**
Items that will not be reclassified to profit or loss	(16,742)	(13,438)
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	(18,570)	(9,739)
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	1,828	(3,699)
Items that may be reclassified to profit or loss	4,562	153,602
Hedge of net investments in foreign operations [effective portion]	(572)	(98)
Valuation gains or (-) losses taken to equity	(572)	(98)
Transferred to profit or loss	-	-
Other reclassifications	-	-
Foreign currency translation	2,300	8,817
Translation gains or (-) losses taken to equity	2,300	8,817
Transferred to profit or loss	-	-
Other reclassifications	-	-
Cash flow hedges (effective portion)	47,955	158,254
Valuation gains or (-) losses taken to equity	132,159	142,019
Transferred to profit or loss	(84,204)	11,774
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	(44,829)	47,293
Valuation gains or (-) losses taken to equity	(27,072)	101,170
Transferred to profit or loss	(17,757)	(53,877)
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	(292)	(60,664)
Total comprehensive income for the period	**200,981**	**655,921**

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 2020 and 2019

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 31/12/2019	**703,371**	**7,899,227**	**-**	**17,077**	**3,481,494**	**-**	**(1,776,853)**	**(8,503)**	**1,053,267**	**(110,817)**	**58,244**	**11,316,507**
Effects of corrections of errors	-	-	-	-	-	-	-	-	-	-	-	**-**
Effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	**-**
Opening balance 01/01/2020	**703,371**	**7,899,227**	**-**	**17,077**	**3,481,494**	**-**	**(1,776,853)**	**(8,503)**	**1,053,267**	**(110,817)**	**58,244**	**11,316,507**
Total comprehensive income for the period	-	-	-	-	-	-	-	-	213,161	-	(12,180)	**200,981**
Other changes in equity	-	-	-	(9,486)	924,204	-	(119,600)	(32,835)	(1,053,267)	110,817	-	**(180,167)**
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)	-	-	-	-	(112,539)	-	-	-	-	-	-	**(112,539)**
Purchase of treasury shares	-	-	-	-	-	-	-	(97,455)	-	-	-	**(97,455)**
Sale or cancellation of treasury shares	-	-	-	-	-	-	(958)	64,620	-	-	-	**63,662**
Reclassification of financial instruments from equity to liability	-	-	-	-	-	-	-	-	-	-	-	**-**
Reclassification of financial instruments from liability to equity	-	-	-	-	-	-	-	-	-	-	-	**-**
Transfers among components of equity	-	-	-	-	942,450	-	-	-	(1,053,267)	110,817	-	**-**
Equity increase or (-) decrease resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	**-**
Share based payments	-	-	-	3,019	-	-	-	-	-	-	-	**3,019**
Other increase or (-) decrease in equity	-	-	-	(12,505)	94,293	-	(118,642)	-	-	-	-	**(36,854)**
Closing balance 30/06/2020	**703,371**	**7,899,227**	**-**	**7,591**	**4,405,698**	**-**	**(1,896,453)**	**(41,338)**	**213,161**	**-**	**46,064**	**11,337,321**

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 2020 and 2019

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**

Cash flow statements of Banco de Sabadell, S.A.

For the six-month periods ended 30 June 2020 and 2019

Thousand euro

	30/06/2020	30/06/2019
Cash flows from operating activities	**12,859,101**	**(4,953,614)**
Profit or loss for the period	213,161	515,757
Adjustments to obtain cash flows from operating activities	691,819	443,159
Depreciation and amortisation	123,597	118,407
Other adjustments	568,222	324,752
Net increase/decrease in operating assets	47,678	(4,978,222)
Financial assets held for trading	(828,481)	(338,351)
Non-trading financial assets mandatorily at fair value through profit or loss	16,550	35,048
Financial assets designated at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	993,221	4,491,760
Financial assets at amortised cost	(52,681)	(8,590,815)
Other operating assets	(80,931)	(575,864)
Net increase/decrease in operating liabilities	11,786,733	(864,138)
Financial liabilities held for trading	807,493	712,393
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortised cost	10,824,264	(1,997,967)
Other operating liabilities	154,976	421,436
Income tax receipts or payments	119,710	(70,170)
Cash flows from investment activities	**254,843**	**407,599**
Payments	(86,708)	(38,634)
Tangible assets	(74,341)	(32,906)
Intangible assets	(5,190)	(4,504)
Investments in subsidiaries, joint ventures and associates	-	(1,224)
Other business units	(7,177)	-
Non-current assets and liabilities classified as held for sale	-	-
Other payments related to investment activities	-	-
Collections	341,551	446,233
Tangible assets	1,512	9,948
Intangible assets	-	-
Investments in subsidiaries, joint ventures and associates	4,546	167,264
Other business units	25,003	-
Non-current assets and liabilities classified as held for sale	310,490	269,021
Other collections related to investment activities	-	-
Cash flows from financing activities	**(354,755)**	**(86,023)**
Payments	(718,417)	(204,185)
Dividends	(112,539)	(56,270)
Subordinated liabilities	(424,600)	-
Amortisation of own equity instruments	-	-
Acquisition of own equity instruments	(97,455)	(122,277)
Other payments related to financing activities	(83,823)	(25,638)
Collections	363,662	118,162
Subordinated liabilities	300,000	-
Issuance of own equity instruments	-	-
Disposal of own equity instruments	63,662	118,162
Other collections related to financing activities	-	-
Effect of exchange rate fluctuations	**90,270**	**(24,482)**
Net increase (decrease) in cash and cash equivalents	**12,849,459**	**(4,656,520)**
Cash and cash equivalents at the beginning of the period	**8,792,496**	**14,816,294**
Cash and equivalents at the end of the period	**21,641,955**	**10,159,774**

COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Cash	538,724	507,821
Cash equivalents in central banks	20,929,837	9,095,630
Other demand deposits	173,394	556,323
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 DGF.

a) Asset-side transactions

Details of the aggregate nominal values of mortgage lending portfolio as at 30 June 2020 and 31 December 2019 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)		
	30/06/2020	31/12/2019
Total mortgage loan and credit portfolio	**50,958,420**	**51,704,089**
Participation mortgages issued	**2,071,878**	**2,333,714**
Of which: Loans held on balance sheet	*2,019,871*	*2,267,172*
Mortgage transfer certificates	**6,214,625**	**6,505,016**
Of which: Loans held on balance sheet	*6,120,861*	*6,405,988*
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of mortgage bonds and covered bonds	**42,671,917**	**42,865,358**
Ineligible loans	10,724,505	11,478,524
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	10,041,252	10,838,235
Rest	683,253	640,289
Eligible loans	31,947,412	31,386,834
Non-qualifying portions	78,551	68,264
Qualifying portions	31,868,861	31,318,570
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for covered bond issues	31,868,861	31,318,570
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

	30/06/2020		31/12/2019	
	Total	*Of which: Eligible loans*	Total	*Of which: Eligible loans*
Loans backing issues of mortgage bonds and covered bonds	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Origin of operations	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Originated by the institution	42,105,969	*31,576,538*	42,270,777	*30,974,128*
Subrogated from other entities	273,922	*232,820*	278,494	*233,425*
Rest	292,026	*138,054*	316,087	*179,281*
Currency	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Euro	42,610,130	*31,896,848*	42,797,267	*31,349,794*
Other currencies	61,787	*50,564*	68,091	*37,040*
Payment status	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Satisfactory payment	37,719,210	*29,360,872*	37,958,995	*28,923,510*
Other situations	4,952,707	*2,586,540*	4,906,363	*2,463,324*
Average residual maturity	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Up to 10 years	10,316,192	*8,457,511*	10,530,752	*8,364,734*
10 to 20 years	16,818,223	*13,236,690*	16,913,750	*13,114,430*
20 to 30 years	13,877,958	*9,763,359*	13,554,446	*9,372,057*
More than 30 years	1,659,544	*489,852*	1,866,410	*535,613*
Interest rate	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Fixed	16,434,728	*13,090,055*	15,649,048	*12,302,334*
Variable	26,237,189	*18,857,357*	27,216,310	*19,084,500*
Mixed	-	-	-	-
Borrowers	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Legal entities and individual entrepreneurs	12,661,510	*8,719,871*	13,064,592	*8,615,114*
Of which: Real estate developments	*2,647,438*	*1,268,298*	*2,592,657*	*1,168,147*
Other individuals and NPISHs	30,010,407	*23,227,541*	29,800,766	*22,771,720*
Type of guarantee	42,671,917	*31,947,412*	42,865,358	*31,386,834*
Assets /finished buildings	41,725,376	*31,367,496*	41,648,120	*30,766,388*
Residential	*33,944,704*	*25,837,183*	*33,886,692*	*25,263,855*
Of which: Subsidised housing	*1,529,421*	*1,235,416*	*1,595,969*	*1,253,735*
Commercial	*7,594,810*	*5,395,458*	*7,544,133*	*5,341,589*
Other	*185,862*	*134,855*	*217,295*	*160,944*
Assets/ buildings under construction	195,928	*167,834*	197,324	*165,674*
Residential	*153,069*	*128,922*	*154,640*	*127,281*
Of which: Subsidised housing	*140*	*140*	*173*	*173*
Commercial	*42,616*	*38,669*	*41,050*	*36,759*
Other	*243*	*243*	*1,634*	*1,634*
Land	750,613	*412,082*	1,019,914	*454,772*
Developed	*165,681*	*61,558*	*322,786*	*69,652*
Rest	*584,932*	*350,524*	*697,128*	*385,120*

The nominal values of available funds (i.e. undrawn commitments) within the total mortgage lending portfolio were as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds

	30/06/2020	31/12/2019
Potentially eligible	1,174,765	1,099,810
Ineligible	2,387,208	2,824,979

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage lending portfolio eligible for the issuance of mortgage bonds and covered bonds is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds

	30/06/2020	31/12/2019
Secured on residential property	**25,994,320**	**25,411,025**
Of which LTV <= 40%	*7,662,988*	*7,362,006*
Of which LTV 40%-60%	*9,366,131*	*9,237,433*
Of which LTV 60%-80%	*8,965,201*	*8,811,586*
Of which LTV > 80%	-	-
Secured on other property	**5,953,092**	**5,975,809**
Of which LTV <= 40%	*3,558,746*	*3,510,121*
Of which LTV 40%-60%	*2,394,346*	*2,465,688*
Of which LTV > 60%	-	-

Movements during the first half of 2020 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 2019	**31,386,834**	**11,478,524**
Derecognised during the year	**(2,024,309)**	**(1,729,987)**
Terminations at maturity	(1,253,277)	(382,752)
Early terminations	(409,246)	(279,630)
Subrogations by other entities	(13,879)	(2,757)
Rest	(347,907)	(1,064,848)
Additions during the year	**2,584,887**	**975,968**
Originated by the institution	1,600,354	923,866
Subrogations by other entities	14,403	554
Rest	970,130	51,548
Balance as at 30 June 2020	**31,947,412**	**10,724,505**

b) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage lending 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	30/06/2020	31/12/2019
Covered bonds issued	**21,533,854**	**21,429,687**
Of which: Not reflected under liabilities on the balance sheet	*10,787,000*	*10,927,900*
Debt securities. Issued through public offering	**6,450,000**	**6,200,000**
Time to maturity up to one year	1,000,000	1,750,000
Time to maturity from one to two years	1,350,000	1,350,000
Time to maturity from two to three years	-	-
Time to maturity from three to five years	2,000,000	2,000,000
Time to maturity from five to ten years	2,100,000	1,100,000
Time to maturity more than ten years	-	-
Debt securities. Other issues	**13,653,000**	**13,653,000**
Time to maturity up to one year	4,980,000	5,380,000
Time to maturity from one to two years	3,150,000	3,000,000
Time to maturity from two to three years	695,000	1,695,000
Time to maturity from three to five years	3,688,000	1,938,000
Time to maturity from five to ten years	1,140,000	1,640,000
Time to maturity more than ten years	-	-
Deposits	**1,430,854**	**1,576,687**
Time to maturity up to one year	300,000	145,833
Time to maturity from one to two years	300,000	300,000
Time to maturity from two to three years	394,444	694,444
Time to maturity from three to five years	436,410	100,000
Time to maturity from five to ten years	-	336,410
Time to maturity more than ten years	-	-

	30/06/2020		31/12/2019	
	Nominal value (thousand euro)	Average residual maturity (years)	Nominal value (thousand euro)	Average residual maturity (years)
Mortgage transfer certificates	**6,214,625**	**22**	**6,505,016**	**22**
Issued through public offering	-	-	-	-
Other issues	6,214,625	22	6,505,016	22
Participation mortgages	**2,071,878**	**12**	**2,333,714**	**12**
Issued through public offering	-	-	-	-
Other issues	2,071,878	12	2,333,714	12

Banco de Sabadell's over-collateralisation ratio (the nominal value of the full mortgage lending portfolio backing the issuance of mortgage bonds and covered bonds, divided by the nominal value of issued covered bonds) stood at 198% as at 30 June 2020.

The policies and procedures aimed at guaranteeing compliance with the regulations governing the mortgage market are described in Schedule III to the 2019 consolidated annual financial statements.

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 2019 consolidated annual financial statements). As one element of the Group's funding strategy, Banco de Sabadell is an issuer of covered bonds. Covered bond issues are backed by the Bank's portfolio of mortgage loans granted by the issuer that meet the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire mortgage lending portfolio (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 public issues during the first half of 2020 were as follows:

Million euro

Issuer	Type of issuance	Date of issue	Amount 30/06/2020	Interest rate ruling as at 30/06/2020	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	Subordinated bonds	17/01/2020	300	2.00%	17/01/2030	Euro	Institutional
Banco de Sabadell, S.A.	Covered bonds	20/01/2020	1,000	0.13%	10/02/2028	Euro	Institutional
Banco de Sabadell, S.A.	Straight bonds	29/06/2020	500	1.75%	29/06/2023	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 type of guarantee, excluding advances not classed as loans, as at 30 June 2020 and 31 December 2019, respectively, is as follows:

Thousand euro

	30/06/2020							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**9,888,195**	**43,302**	**1,680**	**16,749**	**16,746**	**660**	**775**	**10,052**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,174,917**	**365,809**	**79,842**	**159,104**	**250,267**	**25,075**	**6,772**	**4,433**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,399,445**	**15,000,462**	**6,881,920**	**7,915,069**	**5,449,548**	**2,902,925**	**2,400,443**	**3,214,397**
Construction and real estate development (including	3,380,714	2,315,626	362,533	863,749	950,364	350,584	248,650	264,812
Civil engineering construction	895,137	39,059	93,056	21,980	20,361	4,950	2,029	82,795
Other purposes	56,123,594	12,645,777	6,426,331	7,029,340	4,478,823	2,547,391	2,149,764	2,866,790
Large enterprises	25,583,882	1,938,447	2,420,915	2,017,771	558,096	330,116	631,809	821,570
SMES and individual entrepreneurs	30,539,712	10,707,330	4,005,416	5,011,569	3,920,727	2,217,275	1,517,955	2,045,220
Rest of households	**75,470,416**	**67,737,894**	**909,700**	**14,430,484**	**19,494,119**	**21,728,784**	**8,664,470**	**4,329,737**
Home loans	66,926,948	66,387,158	30,127	13,589,284	18,919,823	21,373,557	8,483,247	4,051,374
For consumption	4,875,525	60,725	542,586	162,730	193,552	95,910	50,449	100,670
Other purposes	3,667,943	1,290,011	336,987	678,470	380,744	259,317	130,774	177,693
TOTAL	**146,932,973**	**83,147,467**	**7,873,142**	**22,521,406**	**25,210,680**	**24,657,444**	**11,072,460**	**7,558,619**
MEMORANDUM ITEM **Forbearance (refinanced and restructured loans)**	3,543,364	2,311,519	322,175	482,864	527,646	557,292	423,223	642,669

Thousand euro

	31/12/2019							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,524,898**	**45,589**	**6,425**	**14,233**	**22,478**	**2,709**	**2,078**	**10,516**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,016,161**	**345,606**	**81,667**	**109,731**	**229,585**	**43,815**	**38,954**	**5,188**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**56,181,367**	**14,244,242**	**9,687,652**	**8,532,188**	**5,889,168**	**3,407,264**	**2,414,739**	**3,688,535**
Construction and real estate development (including	3,184,046	2,225,353	645,191	758,141	937,242	476,725	182,227	516,209
Civil engineering construction	802,490	40,222	62,737	21,662	24,486	10,919	7,419	38,473
Other purposes	52,194,831	11,978,667	8,979,724	7,752,385	4,927,440	2,919,620	2,225,093	3,133,853
Large enterprises	22,886,000	1,140,591	3,688,598	2,367,475	600,043	353,985	553,439	954,247
SMES and individual entrepreneurs	29,308,831	10,838,076	5,291,126	5,384,910	4,327,397	2,565,635	1,671,654	2,179,606
Rest of households	**78,230,486**	**70,392,038**	**766,420**	**14,500,163**	**20,022,312**	**22,854,631**	**9,109,453**	**4,671,899**
Home loans	69,559,754	69,032,294	38,639	13,899,046	19,460,093	22,451,028	8,885,914	4,374,852
For consumption	5,166,943	69,133	580,875	145,094	190,038	117,918	73,141	123,817
Other purposes	3,503,789	1,290,611	146,906	456,023	372,181	285,685	150,398	173,230
TOTAL	**145,952,912**	**85,027,475**	**10,542,164**	**23,156,315**	**26,163,543**	**26,308,419**	**11,565,224**	**8,376,138**
MEMORANDUM ITEM **Forbearance (refinanced and restructured loans)**	3,553,489	2,332,091	334,972	488,778	534,854	560,366	392,761	690,304

Forborne and restructured transactions

Information on forborne and restructured transactions as at 30 June 2020 and 31 December 2019 is shown below. The Group's refinancing policy and strategy is described in Note 4 on "Financial risk management" to the 2019 consolidated annual financial statements. The changes in accounting criteria made in the first half of 2020 are described in Note 1(c) to these condensed interim consolidated financial statements.

Thousand euro

	30/06/2020						
	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	-	13	67	19,853	*457*	62,473	**82,406**
Gross carrying amount	-	9,936	6,998	1,195,597	*108,981*	388,048	**1,600,579**
Secured with collateral							
Number of transactions	-	3	21	8,743	*570*	19,043	**27,810**
Gross carrying amount	-	575	13,960	1,556,950	*194,370*	1,503,623	**3,075,108**
Impairment allowances	**-**	**1,231**	**10,430**	**796,948**	***104,342***	**323,714**	**1,132,323**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*12*	*38*	*12,378*	*336*	*40,964*	***53,392***
Gross carrying amount	-	*9,116*	*709*	*874,746*	*103,449*	*231,980*	***1,116,551***
Secured with collateral							
Number of transactions	-	*3*	*15*	*6,061*	*409*	*11,685*	***17,764***
Gross carrying amount	-	*575*	*13,753*	*923,175*	*103,637*	*956,857*	***1,894,360***
Impairment allowances	**-**	***1,231***	***10,348***	***710,029***	***93,000***	***288,841***	***1,010,449***
TOTAL							
Number of transactions	-	16	88	28,596	*1,027*	81,516	**110,216**
Gross amount	-	10,511	20,958	2,752,547	*303,351*	1,891,671	**4,675,687**
Impairment allowances	-	1,231	10,430	796,948	*104,342*	323,714	**1,132,323**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

Thousand euro

	31/12/2019						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	TOTAL
TOTAL							
Not secured with collateral							
Number of transactions	-	12	71	17,928	*434*	48,601	**66,612**
Gross carrying amount	-	9,468	7,415	1,196,253	*126,165*	343,758	**1,556,894**
Secured with collateral							
Number of transactions	-	3	18	8,617	*615*	18,488	**27,126**
Gross carrying amount	-	914	21,731	1,431,372	*239,124*	1,543,459	**2,997,476**
Impairment allowances	**-**	1,306	10,418	714,477	*119,723*	274,681	**1,000,882**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	-	*12*	*43*	*10,861*	*321*	*26,071*	***36,987***
Gross carrying amount	-	*9,468*	*780*	*836,649*	*118,037*	*200,883*	***1,047,780***
Secured with collateral							
Number of transactions	-	*3*	*15*	*6,122*	*456*	*11,823*	***17,963***
Gross carrying amount	-	*914*	*13,821*	*872,627*	*135,300*	*1,014,352*	***1,901,714***
Impairment allowances	**-**	*1,306*	*10,347*	*646,167*	*113,555*	*249,673*	***907,493***
TOTAL							
Number of transactions	-	15	89	26,545	*1,049*	67,089	**93,738**
Gross amount	-	10,382	29,146	2,627,625	*365,289*	1,887,217	**4,554,370**
Impairment allowances	-	1,306	10,418	714,477	*119,723*	274,681	**1,000,882**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	**-**

The values of the guarantees received to ensure collection associated with forborne and restructured transactions, broken down into collateral and other guarantees, as at 30 June 2020 and 31 December 2019, were as follows:

Thousand euro

Guarantees received	30/06/2020	31/12/2019
Value of collateral	2,574,083	2,762,628
Of which: securing Stage 3 loans	*1,496,958*	*1,521,410*
Value of other guarantees	447,370	441,249
Of which: securing Stage 3 loans	*251,260*	*225,534*
Total value of guarantees received	**3,021,453**	**3,203,877**

Movements in the balance of forborne and restructured transactions during the first half of 2020 were as follows:

Thousand euro

	30/06/2020
Opening balance	**4,554,370**
(+) Forbearance (refinancing and restructuring) in the period	869,626
Memorandum item: impact recognised on the income statement for the period	*93,636*
(-) Debt amortisations	(434,881)
(-) Foreclosures	(19,798)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(66,044)
(+)/(-) Other changes (*)	(227,586)
Balance at the end of the year	**4,675,687**

(*) 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 or restructuring, have been classed as stage 3 during the period:

Thousand euro	30/06/2020	31/12/2019
General governments	-	-
Other legal entities and individual entrepreneurs	121,659	152,315
Of which: Lending for construction and real estate development	*16,286*	*11,876*
Other natural persons	186,415	341,041
TOTAL	308,074	493,356

The average probability of default on current forborne and restructured transactions, broken down by activity, as at 30 June 2020 and 31 December 2019 is as follows:

%	30/06/2020	31/12/2019
General governments (*)	-	-
Other legal entities and individual entrepreneurs	8	8
Of which: Lending for construction and real estate development	*8*	*7*
Other natural persons	9	9

(*) 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 risk concentration by activity and at global level as at 30 June 2020 and 31 December 2019 is as follows:

Thousand euro

	30/06/2020				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world (*)
Central banks and Credit institutions	**40,192,144**	**23,207,520**	**7,175,935**	**1,565,396**	**8,243,293**
General governments	**35,606,833**	**27,882,539**	**4,906,382**	**1,140,969**	**1,676,943**
Central governments	28,336,329	21,242,283	4,906,333	541,487	1,646,226
Rest	7,270,504	6,640,256	49	599,482	30,717
Other financial corporations and individual entrepreneurs	**4,477,992**	**2,105,056**	**1,374,728**	**441,102**	**557,106**
Non-financial corporations and individual entrepreneurs	**63,806,511**	**47,804,042**	**4,348,115**	**9,179,380**	**2,474,974**
Construction and real estate	3,452,050	3,028,482	4,029	262,951	156,588
Civil engineering construction	985,382	931,451	13,057	15,365	25,509
Other purposes	59,369,079	43,844,109	4,331,029	8,901,064	2,292,877
Large enterprises	28,213,725	15,026,504	3,860,278	7,845,819	1,481,124
SMEs and individual entrepreneurs	31,155,354	28,817,605	470,751	1,055,245	811,753
Rest of households	**75,979,164**	**38,691,765**	**807,201**	**360,867**	**36,119,331**
Home loans	67,195,003	31,989,778	773,657	194,580	34,236,988
For consumption	4,875,525	3,190,532	8,590	4,176	1,672,227
Other purposes	3,908,636	3,511,455	24,954	162,111	210,116
TOTAL	**220,062,644**	**139,690,922**	**18,612,361**	**12,687,714**	**49,071,647**

(*) In the first half of 2020, UK risks have been classified in the "Rest of the world" column.

Thousand euro

	31/12/2019				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**31,188,227**	**9,284,592**	**20,017,993**	**1,597,456**	**288,186**
General governments	**35,372,796**	**24,234,966**	**9,960,911**	**1,057,904**	**119,094**
Central governments	28,659,248	18,050,464	9,960,832	554,788	93,243
Rest	6,713,548	6,184,502	79	503,116	25,851
Other financial corporations and individual entrepreneurs	**3,763,467**	**2,016,542**	**1,158,393**	**564,947**	**23,585**
Non-financial corporations and individual entrepreneurs	**60,413,597**	**46,139,954**	**5,168,415**	**8,450,222**	**655,006**
Construction and real estate development	3,319,641	2,934,240	10,304	290,595	84,502
Civil engineering construction	901,545	864,354	27,334	9,157	700
Other purposes	56,192,411	42,341,360	5,130,777	8,150,470	569,804
Large enterprises	26,244,735	14,919,231	3,921,055	7,065,402	339,047
SMEs and individual entrepreneurs	29,947,676	27,422,129	1,209,722	1,085,068	230,757
Rest of households	**78,679,821**	**38,284,908**	**38,836,363**	**509,888**	**1,048,583**
Home loans	69,864,435	32,203,418	36,477,234	185,639	998,065
For consumption	5,188,697	3,285,595	1,860,575	5,734	36,793
Other purposes	3,626,689	2,795,895	498,554	318,515	13,725
TOTAL	**209,417,908**	**119,960,962**	**75,142,075**	**12,180,417**	**2,134,454**

By Autonomous Community

The risk concentration broken down by activity and by Spanish Autonomous Community as at 30 June 2020 and 31 December 2019, respectively, is as follows:

Thousand euro

	30/06/2020									
		AUTONOMOUS COMMUNITIES								
	TOTAL	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Central banks and Credit institutions	**23,207,520**	**18,882**	**1**	**1**	**6,036**	**16**	**866,749**	**1**	**1**	**203,695**
General governments	**27,882,539**	**169,674**	**48,795**	**292,700**	**237,937**	**1,398**	**34,059**	**31,028**	**413,711**	**1,278,813**
Central governments	21,242,283	-	-	-	-	-	-	-	-	-
Rest	6,640,256	169,674	48,795	292,700	237,937	1,398	34,059	31,028	413,711	1,278,813
Other financial corporations and individual entrepreneurs	**2,105,056**	**4,327**	**2,794**	**3,105**	**1,508**	**796**	**335**	**419**	**12,494**	**519,890**
Non-financial corporations and individual entrepreneurs	**47,804,042**	**2,525,209**	**963,701**	**1,507,097**	**2,286,208**	**1,447,583**	**241,999**	**601,277**	**1,150,734**	**13,993,649**
Construction and real estate	3,028,482	197,128	46,160	74,280	92,637	31,189	11,331	24,871	29,586	751,592
Civil engineering construction	931,451	29,601	25,914	23,639	7,158	2,410	4,261	4,779	16,115	158,526
Other purposes	43,844,109	2,298,480	891,627	1,409,178	2,186,413	1,413,984	226,407	571,627	1,105,033	13,083,531
Large enterprises	15,026,504	625,866	274,992	326,877	1,012,885	373,082	99,272	163,850	277,572	4,077,953
SMEs and individual entrepreneurs	28,817,605	1,672,614	616,635	1,082,301	1,173,528	1,040,902	127,135	407,777	827,461	9,005,578
Rest of households	**38,691,765**	**2,671,988**	**503,751**	**1,229,628**	**1,402,085**	**578,879**	**108,460**	**507,644**	**784,452**	**14,731,590**
Home loans	31,989,778	2,203,385	419,922	936,171	1,223,005	413,735	89,263	410,969	597,775	12,357,442
For consumption	3,190,532	296,403	42,294	92,546	91,647	138,283	7,537	56,177	79,619	1,027,743
Other purposes	3,511,455	172,200	41,535	200,911	87,433	26,861	11,660	40,498	107,058	1,346,405
TOTAL	**139,690,922**	**5,390,080**	**1,519,042**	**3,032,531**	**3,933,774**	**2,028,672**	**1,251,602**	**1,140,369**	**2,361,392**	**30,727,637**

Thousand euro

	30/06/2020								
	AUTONOMOUS COMMUNITIES								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarra**	**Valencia**	**Basque Country**	**La Rioja**	**Ceuta and Melilla**
Central banks and Credit institutions	**-**	**2,211**	**21,005,425**	**7**	**287**	**234,968**	**869,239**	**-**	**1**
General governments	**68,494**	**281,036**	**1,919,597**	**66,921**	**290,681**	**692,244**	**698,231**	**78,216**	**36,721**
Central governments	-	-	-	-	-	-	-	-	-
Rest	68,494	281,036	1,919,597	66,921	290,681	692,244	698,231	78,216	36,721
Other financial corporations and individual entrepreneurs	**144**	**5,036**	**1,498,167**	**3,344**	**500**	**33,311**	**18,775**	**111**	**-**
Non-financial corporations and individual entrepreneurs	**176,468**	**2,236,594**	**11,813,099**	**1,107,316**	**503,925**	**4,663,651**	**2,361,421**	**205,552**	**18,559**
Construction and real estate	2,111	58,160	1,355,483	44,816	19,732	180,825	96,104	11,898	579
Civil engineering construction	5,288	61,247	426,403	8,201	2,418	38,869	116,033	546	43
Other purposes	169,069	2,117,187	10,031,213	1,054,299	481,775	4,443,957	2,149,284	193,108	17,937
Large enterprises	28,425	699,718	4,444,638	207,939	176,330	1,223,708	949,571	63,102	724
SMEs and individual entrepreneurs	140,644	1,417,469	5,586,575	846,360	305,445	3,220,249	1,199,713	130,006	17,213
Rest of households	**132,356**	**818,459**	**5,040,989**	**2,098,930**	**169,264**	**6,572,106**	**1,190,962**	**80,469**	**69,753**
Home loans	97,067	586,671	4,109,821	1,762,680	125,666	5,514,838	1,017,964	57,868	65,536
For consumption	27,020	125,341	538,811	130,873	18,493	426,816	76,219	12,701	2,009
Other purposes	8,269	106,447	392,357	205,377	25,105	630,452	96,779	9,900	2,208
TOTAL	**377,462**	**3,343,336**	**41,277,277**	**3,276,518**	**964,657**	**12,196,280**	**5,138,628**	**364,348**	**125,034**

Thousand euro

		31/12/2019								
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**9,284,592**	**7,867**	**1**	**37**	**6,105**	**3**	**584,764**	**2**	**35**	**321,105**
General governments	**24,234,966**	**132,854**	**25,109**	**250,550**	**250,242**	**32,135**	**34,779**	**74,523**	**501,109**	**1,167,624**
Central governments	18,050,464	-	-	-	-	-	-	-	-	-
Rest	6,184,502	132,854	25,109	250,550	250,242	32,135	34,779	74,523	501,109	1,167,624
Other financial corporations and individual entrepreneurs	**2,016,542**	**4,104**	**2,413**	**2,421**	**2,388**	**805**	**356**	**510**	**12,025**	**546,527**
Non-financial corporations and individual entrepreneurs	**46,139,954**	**2,396,251**	**945,194**	**1,390,499**	**2,131,098**	**1,392,454**	**242,384**	**610,089**	**1,111,539**	**14,058,351**
Construction and real estate	2,934,240	172,201	48,788	75,440	108,127	34,809	10,893	23,804	27,071	690,271
Civil engineering construction	864,354	27,954	27,086	20,447	4,646	3,605	2,961	3,822	15,623	120,571
Other purposes	42,341,360	2,196,096	869,320	1,294,612	2,018,325	1,354,040	228,530	582,463	1,068,845	13,247,509
Large enterprises	14,919,231	612,165	260,510	276,313	885,038	325,445	101,668	160,104	287,006	5,436,446
SMEs and individual entrepreneurs	27,422,129	1,583,931	608,810	1,018,299	1,133,287	1,028,595	126,862	422,359	781,839	7,811,063
Rest of households	**38,284,908**	**2,646,155**	**500,660**	**1,184,455**	**1,393,873**	**580,771**	**107,762**	**512,165**	**760,032**	**14,510,918**
Home loans	32,203,418	2,197,795	417,083	941,575	1,225,265	420,564	90,873	422,052	605,048	12,288,338
For consumption	3,285,595	293,760	46,961	92,918	92,007	136,607	7,531	55,315	80,174	1,120,240
Other purposes	2,795,895	154,600	36,616	149,962	76,601	23,600	9,358	34,798	74,810	1,102,340
TOTAL	**119,960,962**	**5,187,231**	**1,473,377**	**2,827,962**	**3,783,706**	**2,006,168**	**970,045**	**1,197,289**	**2,384,740**	**30,604,525**

Thousand euro

	31/12/2019								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarra	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**-**	**3,968**	**7,656,942**	**16**	**180**	**166,542**	**537,025**	**-**	**-**
General governments	**69,491**	**200,394**	**1,724,337**	**40,956**	**241,551**	**658,006**	**664,432**	**78,261**	**38,149**
Central governments	-	-	-	-	-	-	-	-	-
Rest	69,491	200,394	1,724,337	40,956	241,551	658,006	664,432	78,261	38,149
Other financial corporations and individual entrepreneurs	**125**	**5,350**	**1,378,933**	**3,270**	**392**	**32,666**	**24,174**	**83**	**-**
Non-financial corporations and individual entrepreneurs	**138,741**	**2,006,521**	**11,220,806**	**1,098,702**	**451,494**	**4,507,992**	**2,230,047**	**191,230**	**16,562**
Construction and real estate	2,291	59,956	1,317,390	50,281	20,157	184,676	98,693	8,889	503
Civil engineering construction	2,917	59,799	415,282	6,887	4,580	35,871	111,784	519	-
Other purposes	133,533	1,886,766	9,488,134	1,041,534	426,757	4,287,445	2,019,570	181,822	16,059
Large enterprises	33,797	577,432	4,181,661	192,354	131,924	513,556	891,825	51,475	512
SMEs and individual entrepreneurs	99,736	1,309,334	5,306,473	849,180	294,833	3,773,889	1,127,745	130,347	15,547
Rest of households	**134,177**	**791,874**	**5,015,644**	**2,081,432**	**162,817**	**6,576,926**	**1,178,491**	**78,893**	**67,863**
Home loans	99,285	583,112	4,162,789	1,809,437	127,980	5,674,616	1,015,379	58,025	64,202
For consumption	27,495	124,422	552,443	123,769	19,477	417,210	80,831	12,552	1,883
Other purposes	7,397	84,340	300,412	148,226	15,360	485,100	82,281	8,316	1,778
TOTAL	**342,534**	**3,008,107**	**26,996,662**	**3,224,376**	**856,434**	**11,942,132**	**4,634,169**	**348,467**	**122,574**

Sovereign risk exposure

The breakdown of the exposure to sovereign risk, by type of financial instrument, applying the criteria required by the European Banking Authority (EBA), as at 30 June 2020 and 31 December 2019, is as follows:

Thousand euro

	30/06/2020											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures	%
Spain	430,201	(1,122,465)	-	2,982,265	14,573,950	11,659,901	-	23,372	(9)	28,547,215	-	78.7%
Italy	13,611	-	-	-	2,817,726	-	-	-	-	2,831,337	-	7.8%
United States	-	-	2,732	423,716	272,363	7	-	-	-	698,818	-	1.9%
United Kingdom	-	-	-	1,075,343	406,612	4	-	-	-	1,481,959	-	4.1%
Portugal	30,014	-	-	-	1,851,912	-	-	-	-	1,881,926	-	5.2%
Mexico	-	-	-	309,570	99,900	2	-	-	-	409,472	-	1.1%
Rest of the world	17,033	-	-	301,763	35,839	66,412	-	-	-	421,047	-	1.2%
Total	**490,859**	**(1,122,465)**	**2,732**	**5,092,657**	**20,058,302**	**11,726,326**	**-**	**23,372**	**(9)**	**36,271,774**	**-**	**100.0%**

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

(**) Includes those available under credit transactions and other contingent risks (1,795 million euros at 30 June 2020).

Thousand euro

	31/12/2019											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures	%
Spain	339,969	(788,822)	-	2,960,341	10,411,251	11,880,486	-	19,679	(54)	24,822,850	-	69.1%
Italy	20,150	(54,598)	-	-	5,712,700	-	-	-	-	5,678,252	-	15.8%
United States	-	-	2,719	536,317	218,095	1	-	-	-	757,132	-	1.9%
United Kingdom	-	-	-	1,402,838	120,958	3	-	-	-	1,523,799	-	0.3%
Portugal	-	-	-	616,724	1,621,113	-	-	-	-	2,237,837	-	6.2%
Mexico	-	-	-	267,999	-	-	-	-	-	267,999	-	0.5%
Rest of the world	11,398	-	-	488,208	28,665	89,862	-	-	-	618,133	-	6.1%
Total	**371,517**	**(843,419)**	**2,719**	**6,272,427**	**18,112,781**	**11,970,352**	**-**	**19,679**	**(54)**	**35,906,002**	**-**	**100.0%**

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

(**) Includes available balances of credit transactions and other contingent risks (667 million euros as at 31 December 2019).

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows:

Million euro

	30/06/2020		
	Gross carrying amount	Excess value of the collateral	Impairment allowances
Lending for construction and real estate development (including land) (business in Spain)	3,185	777	211
Of which: risks classified as Stage 3	*383*	*157*	*178*

Million euro

	31/12/2019		
	Gross carrying amount	Excess value of the collateral	Impairment allowances
Lending for construction and real estate development (including land) (business in Spain)	**3,105**	**747**	**221**
Of which: risks classified as Stage 3	*437*	*161*	*197*

Million euro

	Gross carrying amount	
Memorandum item	**30/06/2020**	**31/12/2019**
Write-offs (*)	27	145

Million euro

	Amount	Amount
Memorandum item	**30/06/2020**	**31/12/2019**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	89,188	87,450
Total assets (total business) (carrying amount)	234,447	223,754
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	566	400

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

The breakdown of lending for construction and real estate development for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 30/06/2020	Gross carrying amount 31/12/2019
Not secured with real estate	**542**	**519**
Secured with real estate	**2,643**	**2,585**
Buildings and other finished constructions	1,101	1,176
Housing	795	815
Rest	306	361
Buildings and other construction in progress	1,222	1,003
Housing	1,150	950
Rest	72	52
Land	320	407
Consolidated urban land	278	361
Other land	42	46
TOTAL	**3,185**	**3,105**

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

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

Million euro

Guarantees received	30/06/2020	31/12/2019
Value of collateral	2,478	2,415
Of which: securing Stage 3 loans	*173*	*204*
Value of other guarantees	313	202
Of which: securing Stage 3 loans	*17*	*22*
Total value of guarantees received	**2,790**	**2,617**

The breakdown of lending to households for home purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	30/06/2020	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**33,892**	**1,276**
Not secured with real estate	550	102
Secured with real estate	33,342	1,174

Million euro

	31/12/2019	
	Gross carrying amount	*Of which: securing Stage 3 loans*
Lending for house purchase	**34,018**	***1,316***
Not secured with real estate	537	*113*
Secured with real estate	33,481	*1,203*

The tables below show mortgage loans granted to households for home purchase, broken down 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

	30/06/2020	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**33,342**	***1,174***
LTV <= 40%	6,075	*123*
40% < LTV <= 60%	8,507	*174*
60% < LTV <= 80%	10,306	*239*
80% < LTV <= 100%	4,523	*229*
LTV > 100%	3,931	*409*

Million euro

	31/12/2019	
	Gross amount	*Of which: securing Stage 3 loans*
LTV ranges	**33,481**	***1,203***
LTV <= 40%	6,008	*120*
40% < LTV <= 60%	8,402	*169*
60% < LTV <= 80%	10,173	*245*
80% < LTV <= 100%	4,678	*231*
LTV > 100%	4,220	*438*

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

Million euro

	30/06/2020			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**2,386**	**995**	*758*	*270*
Finished buildings	807	195	*674*	*228*
Housing	559	125	*440*	*143*
Rest	249	70	*234*	*85*
Buildings under construction	358	124	*15*	*8*
Housing	357	124	*15*	*8*
Rest	1	0	*1*	*0*
Land	1,220	677	*69*	*33*
Building land	526	229	*36*	*16*
Other land	695	448	*33*	*17*
Real estate assets acquired through mortgage lending to households for house purchase	**578**	**130**	*675*	*233*
Rest of real estate assets foreclosed or received in lieu of debt	**30**	**4**	*27*	*11*
Capital instruments foreclosed or received in lieu of debt	**23**	**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	**3,017**	**1,138**	*1,460*	*514*

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	31/12/2019			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**2,382**	**1,007**	***676***	***234***
Finished buildings	759	168	*593*	*195*
Housing	521	110	*385*	*121*
Rest	238	57	*209*	*73*
Buildings under construction	328	111	*14*	*8*
Housing	327	111	*13*	*7*
Rest	1	0	*1*	*1*
Land	1,296	728	*69*	*32*
Building land	484	220	*27*	*10*
Other land	812	508	*42*	*22*
Real estate assets acquired through mortgage lending to households for house purchase	**442**	**86**	***509***	***160***
Rest of real estate assets foreclosed or received in lieu of debt	-	-	-	-
Capital instruments foreclosed or received in lieu of debt	**25**	**9**	-	-
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
Financing to institutions holding assets foreclosed or received in lieu of debt	-	-	-	-
TOTAL	**2,849**	**1,102**	**1,185**	**394**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

The reconciliation of the real estate assets shown in the two previous tables of this Schedule as at 30 June 2020 and 31 December 2019 is shown below:

Million euro

	30/06/2020		
	Gross amount	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**2,994**	**1,129**	**1,865**
Performing real estate (*)	(16)	(1)	(15)
Total operations outside the national territory and others	28	8	20
Provision allocated in original loan	323	323	-
Credit risk transferred in portfolio sales (**)	(1,869)	(945)	(924)
Total non-performing real estate	**1,460**	**514**	**946**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

(**) Mainly corresponds to the agreement for the disposal of Solvia Desarrollos Inmobiliarios, S.L.U., together with a portfolio of real estate assets, a transaction not yet closed as at the date of authorisation of these condensed interim consolidated financial statements (see Note 2 to the 2019 consolidated annual financial statements).

Million euro

	2019		
	Gross amount	Allowances	Net carrying value
Total real estate portfolio in the national territory (in books)	**2,824**	**1,093**	**1,731**
Performing real estate (*)	(41)	(1)	(39)
Total operations outside the national territory and others	24	7	18
Provision allocated in original loan	275	275	-
Credit risk transferred in portfolio sales (**)	(1,897)	(980)	(918)
Total non-performing real estate	**1,185**	**394**	**791**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

(**) Mainly corresponds to the agreement for the disposal of Solvia Desarrollos Inmobiliarios, S.L.U., together with a portfolio of real estate assets, a transaction not yet closed as at the date of authorisation of these condensed interim consolidated financial statements (see Note 2 to the 2019 consolidated annual financial statements).

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 2019 consolidated annual financial statements).

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes

Below is certain information as at 30 June 2020 on the loans and credits granted by the Group that are subject to statutory or sector moratoria, as well as the financing granted that has benefited from the government guarantee schemes established to enable the Group's customers to cope with the impact of COVID-19:

Thousand euro

	30/06/2020						
	Gross carrying amount	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**7,593,772**	**7,155,500**	***222,372***	***2,923,044***	**438,272**	***251,152***	***351,022***
Of which: Households	*7,382,310*	*6,944,055*	*222,372*	*2,922,665*	*438,254*	*251,152*	*351,022*
Of which: Collateralised by residential immovable property	*6,909,819*	*6,510,538*	*179,836*	*2,517,460*	*399,281*	*215,283*	*315,468*
Of which: Non-financial corporations	*211,448*	*211,430*	-	*379*	*18*	-	-
Of which: Small and Medium-sized Enterprises	*201,230*	*201,212*	-	*303*	*18*	-	-
Of which: Collateralised by commercial immovable property	*3,907*	*3,907*	-	*299*	-	-	-

Thousand euro

	30/06/2020						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**(79,841)**	**(62,275)**	**(12,479)**	**(44,042)**	**(17,566)**	***(11,900)***	***(14,145)***
Of which: Households	*(77,586)*	*(60,039)*	*(12,479)*	*(43,997)*	*(17,548)*	*(11,900)*	*(14,145)*
Of which: Collateralised by residential immovable property	*(51,212)*	*(38,218)*	*(6,923)*	*(18,417)*	*(12,994)*	*(8,185)*	*(10,495)*
Of which: Non-financial corporations	*(2,254)*	*(2,235)*	-	*(46)*	*(19)*	-	-
Of which: Small and Medium-sized Enterprises	*(2,203)*	*(2,184)*	-	*(42)*	*(19)*	-	-
Of which: Collateralised by commercial immovable property	*(235)*	*(235)*	-	*(39)*	-	-	-

	30/06/2020							
				Residual maturity of moratoria				
	Gross carrying amount	**Of which: legislative moratoria**	**Of which: expired**	**<= 3 months**	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances for which moratorium was offered	8,022,726	6,348,947	428,953	6,223,232	271,427	513,972	585,142	-
Loans and advances subject to moratorium (granted)	7,810,996	6,345,248	428,687	6,033,045	250,855	513,879	584,530	-
Of which: Households	7,265,521	6,068,172	355,702	5,759,374	150,419	464,099	535,927	-
Of which: Collateralised by residential immovable property	*211,715*	*3,684*	*267*	*190,187*	*20,557*	*93*	*611*	-
Of which: Non-financial corporations	201,497	3,684	267	186,479	14,048	93	610	-
Of which: Small and Medium-sized Enterprises	*3,907*	*3,321*	-	-	*3,321*	-	*586*	-
Of which: Collateralised by commercial immovable property	-	-	-	-	-	-	-	-

Thousand euro

	30/06/2020		
	Gross carrying amount	***Of which: forborne***	**Maximum amount of the guarantee that can be considered**
			Public guarantees received
Newly originated loans and advances subject to public guarantee schemes	**6,344,970**	**29,376**	**4,527,111**
Of which: Households	**612,488**	**-**	**-**
Of which: Collateralised by residential immovable property	**-**	**-**	**-**
Of which: Non-financial corporations	**5,730,109**	**26,976**	**4,400,331**
Of which: Small and Medium-sized Enterprises	**4,094,268**	**-**	**-**
Of which: Collateralised by commercial immovable property	**1,558**	**-**	**-**

Consolidated Directors’ Report for the first six months of 2020

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 Directors’ Report of the most recent consolidated annual financial statements. Consequently, for proper comprehension of the information contained in this interim consolidated Directors’ Report, it should be read together with the Group’s 2019 consolidated annual financial statements, 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.

CONTENTS

1- ECONOMIC AND FINANCIAL BACKGROUND

1.1 Global economic, political and financial environment

The coronavirus pandemic has been the main economic and financial determining factor in the first half of the year, overshadowing issues such as Brexit and international geopolitical tensions.

The spread of the virus in developed economies caused different countries to impose lockdown measures to stop its spread, which led to a substantial activity freeze in many economies.

In this environment, different governments announced various important measures with the aim of strengthening the health system, ensuring business funding and safeguarding employment and household income. In general, governments have tried to preserve the payment chain of the economies and their actions are being reflected in a deterioration of fiscal metrics.

These measures did not prevent GDP from experiencing an unprecedented contraction in many economies in 1Q20. Spain's GDP, for example, fell by 5.2% quarter-on-quarter, twice as much as the worst record seen during the global financial crisis. The Spanish economy was particularly affected by the severity of the lockdown measures and by the relatively high weight of the sectors hardest hit by the crisis.

From May onwards, when the infection rate began to slow down in developed countries, these countries gradually began to lift lockdown measures in order to reactivate economic activity. Therefore, mobility began to recover in Europe and the United States and, with it, activity, something that can be seen especially in high-frequency indicators such as demand for electricity. Thus, the worst in economic terms could be behind us. Despite this, GDP for 2Q20 as a whole is expected to have contracted again at unprecedented rates.

In relation to pan-European policy, the European Commission (EC) has proposed the creation of a European Recovery Fund. This fund would provide grants to countries, part of which would be through transfers, thus avoiding a deterioration of national fiscal metrics. The funds would be obtained through debt issues by the EC in the financial markets.

More recently, despite the fact that the spread of the virus seems relatively under control in the euro zone, in the United States, there are concerns about the upsurge of cases in some Southern and Western states.

1.2 Central banks and fixed income markets

Central banks in major developed economies have taken significant steps to support economic activity and ensure stability in the financial markets. The United States Federal Reserve, the European Central Bank (ECB) and the Bank of England have increased and extended their asset purchase programmes, while expanding the range of assets acquired. These central banks, with the exception of the ECB, have lowered benchmark interest rates to record lows. The ECB, meanwhile, has increased liquidity transactions and offered them under more attractive terms.

The coronavirus crisis had an initial impact on the financial markets that was substantial and only comparable to what happened in the international financial crisis. Long-term sovereign debt yields reached historic lows, and the primary market for corporate debt was almost completely closed, with strong tensions in the interbank funding market. In addition, fears of fragmentation emerged in the euro zone financial markets.

The measures to support activity put on the table by the various economic authorities, together with the control of the pandemic in the developed economies and the reactivation of activity, stabilised the financial markets, halted the falls in US government bond yields, allowed the yield on German bonds to rise and led to a fall in risk premiums on the European periphery.

In the first half of the year as a whole, the yield on core government bonds fell and the Spanish risk premium ended up at a slightly higher level than at the end of 2019.

1.3 Currency market

The euro began the year depreciating against the dollar in an environment of risk aversion caused by the health crisis in China. When coronavirus spread and reached Europe, the currency market experienced high volatility, and the dollar appreciated sharply. Later, the announcement of the European Recovery Fund led to the strengthening of the single currency to 1.13 dollars per euro, levels close to those of the end of the six-month period.

Meanwhile, the pound sterling was one of the major victims of the coronavirus crisis, depreciating by more than 10% against the euro from mid-February to mid-March, reaching levels not seen since the global financial crisis. Later, the pound regained some of the ground lost. In the last two months, however, the British currency has again been negatively affected by political issues (Brexit and domestic issues), the debate about the possibility that the Bank of England will end up pushing interest rates into negative territory and concerns about the high tax costs of the government programmes.

1.4 Emerging markets

Despite the favourable tone of emerging markets at the beginning of the year, this was quickly reversed in the wake of the coronavirus crisis. In a short period of time, portfolio outflows (debt and stock market) from emerging economies more than doubled those recorded during the 2008 financial crisis, exchange rate depreciations were very substantial and country risk premiums rose significantly. As some developed economies began to resume activity and the virus seemed to be under control, emerging financial markets performed better between April and May. At the end of the first half of the year, this positive trend was slowed by new virus outbreaks detected in Beijing, some Asian countries and, especially, the United States, coinciding with the resumption of activity. In most Latin American countries, the virus is still far from being under control.

In this environment, most central banks in emerging countries have chosen to relax monetary policy and take additional measures in this regard in line with the response offered by developed countries. On the fiscal front, with the exception of Mexico, emerging countries have also introduced major stimulus packages to support the economy. In general, an unprecedented economic downturn is expected for 2020, and some forecasts even consider negative growth rates for China. In this country, industrial activity has so far recovered faster than consumption, due to the weak momentum of spending on leisure activities.

Finally, in Mexico, economic and political management continues to weigh heavily on investment and the country's economic performance. The Government introduced a set of policies that represented a clear obstacle to the entry and operation of renewable energies. So far, the courts have stopped their implementation, but this is a burden for legal certainty in the country. In this environment, the Mexican peso, which lost more than 20% of its value against the dollar during the most stressful periods in recent months, has only partially recovered and continues to trade at considerably more depreciated levels than before the crisis.

2- BUSINESS PERFORMANCE

Banco Sabadell and its group ended the first half of the year with a net attributable profit of 145 million euros, compared to 532 million euros in the same period of 2019. The change is mainly due to the allocation of higher provisions for loan losses and the reduction of income caused by lower activity levels as a result of the pandemic.

2.1 Impacts arising from COVID-19

The crisis triggered by COVID-19 has entailed a paradigm shift in terms of working methods and the way in which the Group interacts with its customers on a daily basis. The Group's response in this regard has been very effective, as it has ensured its operational continuity at all times without undermining its customer service and while safeguarding the health of its customers and employees.

Specifically in terms of operational continuity, when the health crisis was at its peak in Spain, the proportion of branches open to customers was scaled back to 70%, although the Bank was able to continue to successfully serve all of its customers, who were also supported through reinforced digital channels. Today, most of its branches have reopened. More specifically, 93% of all branches are already open to the public.

In terms of staff, those working in the Bank's headquarters have been working from home, and most of them continue to do so today. The response of the Group's systems has been very positive, as its IT systems have made it possible for a large number of employees to work remotely, thus demonstrating the capacity and resilience of the Group's IT platform.

Customer use of digital channels doubled, but systems continued to work as normal and in line with expectations. New, fully digital processes have also been rolled out (e.g. digital signature for ICO loans), in order to prevent customers from having to visit branches in person.

In TSB, the IT response has been similar. 85% of its branches have remained open to the public and, like in Spain, the UK franchise has also made new services available to its customers that they can access remotely. Today, 96% of TSB's branches are operating as normal.

As regards the commercial response to the crisis, the Group has launched a support plan with extraordinary measures to deal with this unprecedented situation, which include providing corporates and SMEs with access to the government's support schemes and offering payment holidays to its individual customers, in order to help them overcome this period of economic instability.

The crisis caused by the pandemic has undoubtedly had an impact on the Group's financial statements in the first half of the year. Core revenue (including net interest income and fees and commissions) has contracted as a result of the lockdown. Net interest income was affected by lower overdraft fees and the change in the credit mix. Fees were also lower due to lower levels of activity. The Group has also been obliged to allocate additional provisions in order to reflect the new macroeconomic scenario.

The guidance it set itself in early 2020 no longer applies in the current economic environment, where activity levels have fallen considerably and which is unprecedented and still changing.

Following the outbreak of the pandemic and the resulting economic crisis, the Group overlaid its strategic priorities with specific measures to manage COVID-19, which include ensuring operational and service continuity, taking care of customers and employees, responding quickly to our customers' needs, contributing to society through a number of social measures, as well as focusing on and investing in digitisation, all the while ensuring the resilience of our IT systems. Additionally, the Group has established additional strategic priorities, which include cutting costs, focusing on risk management, and incorporating an improved offering of products and services for SMEs and individuals, in order to consolidate the commercial recovery following the slowdown in activity.

In terms of the Group's financial metrics at the end of the six-month period, it is worth noting that the Group has comfortable levels of solvency and liquidity, in addition to a derisked balance sheet, putting it in a good position to face potential adversities brought about by the current situation.

The phase-in CET1 capital ratio is 12.7%. It is worth noting that this ratio has increased by 85 basis points in year-on-year terms, demonstrating the Group's commitment to maintaining a strong solvency position. The Group also has a sound capital position in terms of regulatory requirements, which is 330 basis points above the total capital ratio (i.e. 2,558 million euros), meaning that it has a large capital buffer.

The Group also has a robust liquidity position, with 49,310 million euros worth of liquid assets, representing over 20% of its balance sheet, and a liquidity coverage ratio (LCR) of 214%. It also has a balance sheet that is evenly balanced between loans and deposits (loan-to-deposit ratio of 99%).

Lastly, the Group has a de-risked balance sheet. As a result of the NPA portfolio sales carried out in 2018 and 2019 and the continuous organic disposal of non-performing assets, the Group's risk profile has improved considerably and today it has a net NPAs to total assets ratio of 1.6% and an NPL ratio of 3.95%.

Furthermore, the Group has a diversified loan portfolio, in which 45% of performing loans are mortgages given to individuals in Spain and the United Kingdom, 42% are loans to large enterprises and SMEs, 6% are public sector loans, 3% are consumer loans, with the remaining 4% corresponding to other loans. The large enterprises and SMEs segment includes a number of sectors that are particularly sensitive to the health crisis, such as tourism, hospitality and leisure, transportation, the automotive industry, non-essential retail and oil. The Group's total exposure to these sectors is limited, at 11,842 million euros, which represents 8% of its performing loans. It is also worth noting that 80% of the exposure to large enterprises and SMEs is rated BB+ or investment grade.

As a result of the unprecedented economic shock triggered by the spread of the COVID-19 pandemic, the different authorities have taken a series of measures designed to support the economy. These measures include the tax policy measures implemented by governments to support the liquidity of economic operators, families and businesses.

In this regard, the main measures taken in Spain have been: (i) a payment holiday or moratorium, which can be either statutory (provided in Royal Decree-Law 8/2020 and 11/2020) or sector-specific (provided in Royal Decree-Law 19/2020), and (ii) state-guaranteed loans of up to 100,000 million euros for companies and the self-employed, approved in Royal Decree-Law 8/2020. On 3 July 2020, the Spanish government announced a new package of measures, which included the creation of a new line of ICO guarantees, of 40 billion euros. This new line is designed to promote investment activity in areas with the highest added value, based on two main pillars: environmental sustainability and digitisation.

The statutory moratorium consists of offering a 3-month payment holiday on mortgages and consumer loans, which applies to both interest and principal, for customers that meet certain vulnerability criteria. The sector moratorium, on the other hand, consists of offering a payment holiday of up to 12 months for mortgages and up to 6 months for consumer loans to those affected by COVID-19. In this case, the payment holiday applies only to capital, meaning that the customer continues to pay interest. This moratorium is also applicable to people who have opted for a statutory moratorium and who, upon its expiry, meet the conditions established in the sector moratorium.

As at 30 June 2020, Banco Sabadell had granted statutory moratoria amounting to 949 million euros, mainly in relation to the mortgage segment and in terms of consumer loans, while the sector moratorium had been applied to 1,405 million euros of the existing stock of mortgages and consumer loans (primarily).

Under the ICO guarantee line, put in place as a result of COVID-19 and which amounts to 100 billion euros, loan guarantees are assigned to banks depending on their market share. Under this scheme, the ICO provides a state guarantee of between 60% and 80% of the loans, depending on whether the customer is self-employed, an SME or a large enterprise, up to a maximum period of 5 years. As at 30 June, Banco Sabadell had granted a total of 7,804 million euros worth of these loans.

The UK government and the UK regulator have also implemented various measures in order to help the economy and protect bank customers who have been affected by COVID-19. In addition to sector-specific measures, TSB has also taken a series of actions designed to protect customers affected by COVID-19.

As regards the UK government's support measures, particular note should be taken, firstly, of the Coronavirus Job Retention Scheme, under which Her Majesty's Revenue and Customs (HMRC) will issue a grant to cover up to 80% of furloughed employees' wages (up to 2,500 pounds per month), including the company's national insurance and pension contributions. Employers can also choose to top up this grant, enabling employees to receive up to 100% of their contractual salary, although they are under no obligation to do so. The scheme has been extended to 31 October 2020. Secondly, the Self-Employment Income Support Scheme offers a taxable grant for those who are self-employed or members of a partnership and whose trading profits are no more than 50,000 pounds and at least equal to their non-trading income. Those eligible for the scheme can apply for a taxable grant to cover 80% of their average monthly trading profits, which will be paid out in a single instalment covering three months' worth of profits, capped at 7,500 pounds in total. The period for applying for the first grant began on 13 May and ended on 13 July 2020. The period for applying for a second and final grant will begin in August and will allow those eligible to claim a grant worth 70% of their average monthly trading profits, capped at 6,570 pounds.

The UK regulator (Financial Conduct Authority, or FCA) has put the following measures in place: (i) payment holiday for mortgages and consumer loans, (ii) waiver of overdraft interest payments, (iii) Coronavirus Business Interruption Loan Scheme (CBILS), for SMEs with a turnover of up to 45 million pounds, (iv) Coronavirus Large Business Interruption Loan Scheme (CLBILS) and (v) Bounce Back Loan Scheme (BBLS), although companies cannot apply for this if they are already claiming under other schemes.

In relation to the 3-month mortgage payment holiday announced by the UK government in March, which can be requested by any customers who have experienced financial difficulties due to COVID-19, the FCA published its supervisory expectations, specifying that payment holiday in this context means no payments of either principal or interest. At the end of the payment holiday, banks and customers should decide how unpaid amounts should be capitalised, generally by increasing the remaining monthly instalments or extending the term of the loan. On 2 June 2020, the deadline for applying for this payment holiday was extended to 31 October 2020.

In relation to the 3-month payment holiday for credit products (personal loans and credit cards) announced by the government in April, which can be requested by any customers who have experienced financial difficulties due to COVID-19, the FCA published its supervisory expectations, specifying that payment holiday in this context means no payments of either principal or interest. At the end of the payment holiday, banks and customers should decide how unpaid amounts should be capitalised, generally by increasing the remaining monthly instalments or extending the term of the loan. On 1 July 2020, the FCA announced that the deadline for applying for this payment holiday would be extended to 31 October 2020.

As at 30 June 2020, TSB had granted 5,395 million euros in payment holidays on both mortgages and loan products (personal loans and credit cards).

Regarding the waiver of overdraft interest, the FCA published its guidelines specifying that those exempt from interest and fees would be customers with an overdraft allowance of up to 500 pounds, and that arranged overdrafts would be in place for up to 3 months. This measure was applied to all customers until 9 July. The deadline by which customers could apply for an arranged overdraft beyond that date was extended to 31 October 2020.

Under the Coronavirus Business Interruption Loan Scheme (CBILS), SMEs with an annual turnover of less than 45 million pounds can submit an application to participating lenders to receive up to 5 million pounds in loans, overdrafts, invoice finance facilities and asset finance facilities, with a maximum term of 6 years. The government guarantees 80% of each loan and pays interest during the first 12 months.

Companies cannot apply for the Bounce Back Loan Scheme (BBLS) if they are already claiming under other schemes. The loan amount that they receive is irrespective of their annual turnover. The BBLS allows companies to request loans of up to 25% of their turnover, capped at 50,000 pounds. The government provides a full (100%) guarantee and pays interest for the first 12 months. Companies are required to start repaying the loan after one year at an interest rate of 2.5%, set by the government. No repayments are made in the first 12 months.

Up to 30 June 2020, TSB had granted a total of 435 million euros under both the Bounce Back Loan Scheme (BBLS) and the Coronavirus Business Interruption Loan Scheme (CBILS).

TSB also supports retail customers and companies through the aforesaid government-backed support measures, offering interest-free overdrafts or refunds of any overdraft interest charged, in addition to a series of improvements in its customer care service. For instance, TSB employees have reached out to their most vulnerable customers to offer them help and assistance, and they have issued ATM cards to customers who previously only used savings books, allowing them to easily access to their money without having to visit a branch in person. Additionally, it has taken an innovative approach to enable TSB's telephone operators to work remotely, thus enabling them to make large numbers of calls to prevent transaction fraud and deal with telephone banking enquiries. Lastly, TSB has developed 'Smart Agent', in partnership with IBM, improving the website by serving customers and giving them access to a series of services that they can apply for without having to make a call or visit a branch.

2.2 Balance sheet

At the end of the first half of 2020, total assets of Banco Sabadell and its group amounted to 234,447 million euros, representing a 4.3% increase with respect to the end of the second quarter of 2019.

Gross performing loans amounted to 145,131 million euros, increasing by 2.4% compared to the balance at the end of the second quarter of 2019.

The largest component of gross performing loans was mortgage loans, which amounted to 80,919 million euros as at 30 June 2020 and accounted for 55.8% of total performing loans.

The NPL ratio reached 4.0% at the end of June 2020, compared to 3.8% as at 2019 year-end. The stage 3 coverage ratio was 55.6% as at the end of June, compared to 49.6% as at 2019 year-end.

As at 30 June 2020, on-balance sheet customer funds amounted to 147,572 million euros, compared to 141,862 million euros at the end of the second quarter of 2019, representing a 4.0% increase year-on-year.

Sight account balances amounted to 123,888 million euros, representing a 9.0% increase on the figure at the end of the second quarter of 2019, while customer term deposits (including deposits redeemable at notice and hybrid financial liabilities) amounted to 23,966 million euros (-15.3% lower than in the same period of the previous year). The downward trend of interest rates in financial markets has caused a shift in the composition of on-balance sheet customer funds from term deposits to sight accounts.

Total off-balance sheet customer funds amounted to 41,718 million euros, a -4.6% decrease compared to the end of the second quarter of the previous year. In this item, the decline in mutual funds was particularly notable. As at the end of June 2020, they amounted to 25,059 million euros, representing a -4.1% decrease compared to the end of the second quarter of 2019.

Debt securities in issue (borrowings, other marketable securities and subordinated liabilities) amounted to 21,827 million euros at the end of the first half of the current year, compared to 21,636 million euros at the end of the second quarter of 2019.

Total funds under management amounted to 211,886 million euros as at 30 June 2020, compared to 208,587 million euros at the end of the second quarter of the previous year, representing a 1.6% increase year-on-year.

2.3 Income and profit performance

Net interest income amounted to 1,705 million euros in the first half of the year, -5.6% less than in the first half of 2019, due to fewer overdraft fees after the measures taken because of COVID-19, lower interest rates, lower income due to the consumer loan securitisation carried out in the third quarter of the previous year, as well as lower income from the ALCO portfolio, which were partially offset by the lower cost of funding and TLTRO III.

Dividends received and equity-accounted profits amounted to 14 million euros in the first half of the year, compared with 36 million euros in the first six months of 2019. These revenues are due mainly to the insurance and pension fund business.

Net fees and commissions in the six-month period amounted to 673 million euros and declined by -4.6% year-on-year, due to lower activity levels as a result of the pandemic.

Gains or (-) losses on financial assets and liabilities and exchange differences, net amounted to 155 million euros, compared to 45 million euros in the first half of 2019. This change is mainly explained by the ALCO portfolio sales carried out in the first quarter of the year, which are partially offset by the recognition of the impairment of SAREB debt of -27 million euros, meaning that this debt held has already been 100% provisioned for.

Other operating income and expenses amounted to -86 million euros, compared with -99 million euros in the first half of 2019. Particularly worthy of note under this heading was the contribution to the single resolution fund (SRF) of -78 million euros (-59 million euros in 2019).

Operating expenses (staff and general) during the first half of 2020 amounted to -1,307 million euros. In the first half of 2019, operating expenses amounted to a total of -1,340 million euros, therefore the reduction is -2.5% due to lower expenses, both staff and general.

The cost-to-income ratio at the end of June 2020 stood at 53.7%, compared with 54.7% at the end of the first half of 2019.

As a result of the foregoing, the first half of 2020 ended with pre-provisions income of 899 million euros (927 million euros in 2019), due to the fall in activity levels as a result of COVID-19.

Allowances for loan losses and other impairments (primarily real estate and financial assets) amounted to -1,089 million euros, compared with -374 million euros in the first six months of 2019. The deviation is mainly due to the recognition of additional loan loss provisions, after updating the macroeconomic scenarios.

Capital gains on asset sales and other revenue amounted to 276 million euros, which notably included the disposal of Sabadell Asset Management, with a net capital gain of 293 million euros, while in the first half of 2019 they amounted to 139 million euros, with the capital gain on the sale of 80% of Solvia Servicios Inmobiliarios being particularly noteworthy.

After deducting income tax and minority interests, net profit attributable to the Group amounted to 145 million euros at the end of the first half of 2020. These results represent a sharp year-on-year decrease, mainly due to lower income caused by lower activity levels as a result of COVID-19, as well as the recognition of additional loan loss provisions after updating the macroeconomic scenarios.

2.4 Solvency

The phase-in Common Equity Tier 1 (CET1) ratio stood at 12.7%, and the fully-loaded CET1 ratio at 11.9% as at 30 June 2020.

Capital ratios include neither the gains nor the exposure reduction resulting from the disposal of SDIN Residencial, S.L.U. and a set of real estate assets, mostly land for real estate development, nor the gains on the sale of the depository business, as these transactions have not yet been fully closed. Had this impact had been included, the CET1 ratio in pro forma terms would stand at 12.8% (phase-in) and 12.05% (fully-loaded).

The Group retains its investment grade rating given by all credit rating agencies.

On 2 June 2020, DBRS GmbH affirmed Banco Sabadell's long-term and short-term ratings of 'A (low)' and 'R-1 (low)', respectively. Previously, on 15 April 2020, the agency changed the Bank's rating outlook to negative (from stable), in order to reflect the increase of Spanish banks' exposures following the economic disruption caused by the COVID-19 pandemic.

On 29 April 2020, S&P Global Ratings revised down Banco Sabadell's rating outlook to negative (from stable) and affirmed its long-term rating of 'BBB' and its short-term rating of 'A-2'. This rating outlook revision reflects the deterioration of the economic environment in both Spain and the United Kingdom, as well as the pressure that the combination of lower income and higher provisions could exert on the bank's capitalisation.

On 27 March 2020, Fitch Ratings affirmed Banco Sabadell's long-term rating of 'BBB' and its short-term rating of 'F2'. It also put the Bank's ratings on Negative Watch, reflecting the risks arising from the short-term financial impact generated by the COVID-19 pandemic.

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

2.5 Branches

At the end of the first half of 2020, Banco Sabadell had 2,271 branches. Of the total number of Banco Sabadell Group branches and offices, 1,277 operate under the Sabadell brand (including 27 business banking and 2 corporate banking branches); 104 operate as Sabadell Gallego (3 business banking branches); 133 as Sabadell Herrero (3 business banking branches); 104 as Sabadell Guipuzcoano (5 business banking branches), 10 as Sabadell Urquijo, and 100 branches operate under the Solbank brand. The other 543 branches and offices make up the international network, of which 15 correspond to Sabadell Mexico, 7 to BancSabadell d'Andorra and 503 to TSB.

3 - BUSINESS REVIEW

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the segment information described in Note 31 to the 2020 condensed interim consolidated financial statements.

3.1 Banking business Spain

Net profit as at the end of June 2020 stood at 205 million euros, down -60.6% year-on-year, due to higher provisions for loan losses after the macroeconomic scenarios were updated.

Net interest income amounted to 1,202 million euros and is down -4.8% compared to the same period in 2019, mainly due to lower overdraft fees, lower interest rates, as well as lower contributions from the ALCO portfolio which are partially offset by higher volumes, lower wholesale funding costs and TLTRO III. Additionally, it is worth noting the impact of lower income following the consumer loan securitisation carried out in the third quarter of the previous year.

Net fees and commissions amounted to 626 million euros, -2.3% less than in the previous year due to lower activity levels caused by the lockdown imposed due to the pandemic.

Gains or (-) losses on financial assets and liabilities and exchange differences, net stood at 133 million euros and include capital gains on the sale of the ALCO portfolio and the SAREB impairment.

Operating expenses amounted to -854 million euros, increasing by 1.0% year-on-year due to higher staff expenses.

Provisions and impairments amounted to -958 million euros, higher than in the previous year, mainly due to higher provisions for loan losses following the updates of the macroeconomic scenarios.

Capital gains on asset sales and other revenue increased year-on-year due to the recognition of the disposal of Sabadell Asset Management, which generated a net capital gain of 293 million euros. The first half of 2019 included the disposal of 80% of Solvia Servicios Inmobiliarios.

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**1,202**	**1,263**	**(4.8)**
Fees and commissions (net)	626	641	(2.3)
Net banking revenues	**1,828**	**1,904**	**(4.0)**
Net trading income and exchange differences	133	24	454.2
Equity-accounted affiliates and dividends	14	36	(61.1)
Other operating income/expense	(93)	(94)	(1.1)
Gross income	**1,881**	**1,871**	**0.5**
Operating expenses and depreciation and amortisation	(1,026)	(1,001)	2.5
Pre-provisions income	**855**	**870**	**(1.7)**
Provisions and impairments	(958)	(333)	187.7
Capital gains on asset sales and other revenue	275	141	95.0
Profit/(loss) before tax	**173**	**677**	**(74.4)**
Corporation tax	31	(151)	(120.5)
Profit or loss attributed to minority interests	(1)	6	(116.7)
Profit attributable to the Group	**205**	**520**	**(60.6)**
ROE (profit / average shareholders' equity)	3.4%	6.7%	
Cost-to-income (general administrative expenses / gross income)	45.4%	47.6%	
NPL ratio	4.7%	4.9%	
NPL coverage ratio	55.6%	51.4%	

Banking Business Spain includes Commercial Banking, Corporate Banking, Asset Transformation and Sabadell Andorra, the corporate group and ALM (Asset & Liability Management).

Performing loans amounted to 107,175 million euros, a 2.6% increase year-on-year due to ICO loans to companies, SMEs and self-employed workers. The organic growth[1] of lending was 3.9%.

On-balance sheet customer funds posted a year-on-year increase of 2.5%, driven by the increase in sight accounts as a result of smaller cash drawdowns during lockdown.

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**184,315**	**172,503**	**6.8**
Outstanding gross loans and advances	107,175	104,436	2.6
Non-performing real estate assets (net)	946	791	19.6
Liabilities	**173,634**	**161,695**	**7.4**
On-balance sheet customer funds	109,485	108,890	0.5
Wholesale Funding Capital Markets	19,842	19,912	(0.4)
Allocated capital	**10,680**	**10,914**	**(2.1)**
Off-balance sheet customer funds	**41,718**	**43,163**	**(3.3)**
Other indicators			
Employees	16,570	16,750	(1.1)
Branches	1,753	1,891	(7.3)

Banking Business Spain includes Commercial Banking, Corporate Banking, Asset Transformation and Sabadell Andorra, the corporate group and ALM (Asset & Liability Management).

(1) Excludes CAM APS and the account receivable created for the right of first refusal associated with the NPA sales of 0.5 million euros in 1Q20 and 0.2 million euros in 2Q20.

Commercial Banking

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**1,031**	**1,101**	**(6.4)**
Fees and commissions (net)	574	608	(5.6)
Net banking revenues	**1,605**	**1,709**	**(6.1)**
Net trading income and exchange differences	3	1	200.0
Equity-accounted affiliates and dividends	29	24	20.8
Other operating income/expense	(74)	(55)	34.5
Gross income	**1,563**	**1,679**	**(6.9)**
Operating expenses and depreciation and amortisation	(808)	(860)	(6.0)
Pre-provisions income	**755**	**819**	**(7.8)**
Provisions and impairments	(613)	(241)	154.4
Capital gains on asset sales and other revenue	-	-	-
Profit/(loss) before tax	**142**	**578**	**(75.4)**
Corporation tax	(38)	(177)	(78.5)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**104**	**401**	**(74.1)**
ROE (profit / average shareholders' equity)	2.6%	11.2%	
Cost-to-income (general administrative expenses / gross income)	46.6%	46.5%	
NPL ratio	5.1%	5.4%	
NPL coverage ratio	51.9%	48.0%	

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**196,322**	**188,838**	**4.0**
Outstanding gross loans and advances	86,187	80,032	7.7
Non-performing real estate assets (net)	-	-	-
Liabilities	**189,740**	**182,096**	**4.2**
On-balance sheet customer funds	100,180	98,691	2
Wholesale funding in the capital markets	-	-	-
Allocated capital	**6,582**	**6,742**	**(2.4)**
Off-balance sheet customer funds	**40,739**	**40,196**	**1.4**
Other indicators			
Employees	11,607	11,642	-
Branches	1,728	1,822	(5.2)

Corporate Banking

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**164**	**165**	**(0.6)**
Fees and commissions (net)	65	70	(7.1)
Net banking revenues	**229**	**235**	**(2.6)**
Net trading income and exchange differences	5	1	400.0
Equity-accounted affiliates and dividends	(2)	10	(120.0)
Other operating income/expense	(3)	(1)	200.0
Gross income	**229**	**245**	**(6.5)**
Operating expenses and depreciation and amortisation	(76)	(73)	4.1
Pre-provisions income	**153**	**172**	**(11.0)**
Provisions and impairments	(118)	3	(4,033.3)
Capital gains on asset sales and other revenue	-	-	-
Profit/(loss) before tax	**35**	**175**	**(80.0)**
Corporation tax	(7)	(44)	(84.1)
Profit or loss attributed to minority interests	3	(3)	(200.0)
Profit attributable to the Group	**25**	**134**	**(81.3)**
ROE (profit / average shareholders' equity)	4.0%	21.8%	
Cost-to-income (general administrative expenses / gross income)	30.1%	27.7%	
NPL ratio	3.7%	1.5%	
NPL coverage ratio	64.8%	87.7%	

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**22,443**	**24,749**	**(9.3)**
Outstanding gross loans and advances	16,055	14,910	7.7
Non-performing real estate assets (net)	-	-	-
Liabilities	**21,110**	**23,467**	**(10.0)**
On-balance sheet customer funds	6,894	7,533	(8.5)
Allocated capital	**1,333**	**1,282**	**4.0**
Off-balance sheet customer funds	**602**	**768**	**(21.6)**
Other indicators			
Employees	742	709	4.7
Branches	7	20	(65.0)

Asset Transformation

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**2**	**(7)**	**(128.6)**
Fees and commissions (net)	1	2	(50.0)
Net banking revenues	**3**	**(5)**	**(160.0)**
Net trading income and exchange differences	-	-	-
Equity-accounted affiliates and dividends	(14)	-	-
Other operating income/expense	4	31	(87.1)
Gross income	**(7)**	**26**	**(126.9)**
Operating expenses and depreciation and amortisation	(34)	(44)	(22.7)
Pre-provisions income	**(41)**	**(18)**	**127.8**
Provisions and impairments	(146)	(96)	52.1
Of which: profit or loss on sales	5	50	(90.0)
Capital gains on asset sales and other revenue	-	-	-
Profit/(loss) before tax	**(187)**	**(114)**	**64.0**
Corporation tax	42	48	(12.5)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**(145)**	**(66)**	**119.7**
ROE (profit / average shareholders' equity)	-	-	
Cost-to-income (general administrative expenses / gross income)	-	-	
NPL ratio	41.2%	40.2%	
NPL coverage ratio	43.7%	51.5%	

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**8,953**	**8,810**	**1.6**
Outstanding gross loans and advances	849	883	(3.9)
Non-performing real estate assets (net)	946	791	19.6
Liabilities	**8,048**	**7,997**	**0.6**
On-balance sheet customer funds	266	253	5.1
Intercompany funding	7,352	7,549	(2.6)
Allocated capital	**905**	**813**	**11.3**
Off-balance sheet customer funds	**-**	**45**	**(100.0)**
Other indicators			
Employees	236	209	12.9
Branches	-	-	-

3.2 Banking business United Kingdom

Net profit stood at -71 million euros as at the end of June 2020, impacted by higher provisions for loan losses after the macroeconomic scenarios were updated.

Net interest income amounted to 442 million euros and was therefore -9.1% lower than in the previous year, mainly due to lower current account overdraft fees applied as part of the measures taken in response to COVID-19, pressure on mortgage yields, an interest rate cut in the UK as well as the depreciation of the pound sterling.

Net fees and commissions fell by -23.2% year-on-year, mainly due to lower activity levels as a result of COVID-19. They were also affected by lower debit card fees after the volume of proceeds from abroad was reduced (new regulations).

Other income and expenses presented a positive change, as this quarter includes the final payment made by Lloyds due to the migration and the six-month period also includes 14 million pounds in insurance compensation related to the IT migration. The previous year included the positive impact of the renegotiation of the service contract with VISA Inc.

Operating expenses amounted to -420 million euros and fell by -8.2% year-on-year due to lower non-recurrent costs, as the previous year included migration-related expenses. The year's figures include -11 million euros of restructuring costs.

Provisions and impairments amounted to -121 million euros, a significant increase on the previous year due to higher provisions for loan losses after the macroeconomic scenarios were updated.

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**442**	**486**	**(9.1)**
Fees and commissions (net)	43	56	(23.2)
Net banking revenues	**485**	**542**	**(10.5)**
Net trading income and exchange differences	19	20	(5.0)
Equity-accounted income and dividends	-	-	-
Other operating income/expense	13	(1)	(1,400.0)
Gross income	**517**	**561**	**(7.8)**
Operating expenses and depreciation and amortisation	(499)	(524)	(4.8)
Pre-provisions income	**18**	**37**	**(51.4)**
Provisions and impairments	(121)	(33)	266.7
Capital gains on asset sales and other revenue	1	(1)	(200.0)
Profit/(loss) before tax	**(102)**	**3**	**(3,500.0)**
Corporation tax	31	(1)	(3,200.0)
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**(71)**	**2**	**(3,650.0)**
ROE (profit / average shareholders' equity)	0%	0%	
Cost-to-income (general administrative expenses / gross income)	81.3%	81.4%	
NPL ratio	1.6%	1.3%	
NPL coverage ratio	51.9%	43.8%	

Lending amounted to 34,190 million euros, an increase of 1.0% year-on-year, affected by the depreciation of the pound. Considering a constant exchange rate, this item increased by 2.8% year-on-year, due to the larger mortgage book and the UK government's coronavirus Bounce Back Loan Scheme (BBLS).

On-balance sheet customer funds amounted to 36,047 million euros, representing an increase of 8.4%. Considering a constant exchange rate, this item increased by 10.4% year-on-year, due to the increase in current accounts and deposits, reflecting lower consumer spending levels and benefiting from the Bounce Back Loan Scheme (BBLS).

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**45,099**	**46,449**	**(2.9)**
Outstanding gross loans and advances	34,190	36,496	(6.3)
Non-performing real estate assets (net)	-	-	-
Liabilities	**43,600**	**44,924**	**(2.9)**
On-balance sheet customer funds	36,047	35,423	1.8
Wholesale Funding Capital Markets	2,189	2,423	(9.7)
Allocated capital	**1,499**	**1,525**	**(1.7)**
Off-balance sheet customer funds	-	-	-
Other indicators			
Employees	7,133	8,160	(12.6)
Branches	503	548	(8.2)

3.3 Banking business Mexico

Net profit as at the end of June 2020 amounted to 12 million euros, representing a year-on-year increase of 20.0%, mainly due to lower costs.

Net interest income amounted to 61 million euros and increased by 7.0%, due to the cheaper cost of funding. Considering a constant exchange rate, this increase was 8.7%.

Net fees and commissions amounted to 4 million euros, down from the previous year due to lower activity levels.

Other operating income and expenses increased in the year, mainly due to the larger payment made to the Instituto para la Protección al Ahorro Bancario (IPAB) following the significant increase in customer funds acquired.

Gross income amounted to 62 million euros and increased by 1.6%, due to higher revenue from exchange differences.

Operating expenses fell by -12.2% year-on-year and mainly included general IT and outsourcing expenses.

Provisions and impairments amounted to -11 million euros, representing a significant increase compared to the previous year due to the depreciation of the MXN currency in relation to the USD and the updated macroeconomic scenarios.

Million euro

	30/06/2020	30/06/2019	Year-on-year change (%)
Net interest income	**61**	**57**	**7.0**
Fees and commissions (net)	4	8	(50.0)
Net banking revenues	**65**	**65**	**-**
Net trading income and exchange differences	3	-	-
Equity-accounted affiliates and dividends	-	-	-
Other operating income/expense	(6)	(5)	20.0
Gross income	**62**	**61**	**1.6**
Operating expenses and depreciation and amortisation	(36)	(42)	(14.3)
Pre-provisions income	**26**	**19**	**36.8**
Provisions and impairments	(11)	(7)	57.1
Capital gains on asset sales and other revenue	-	-	-
Profit/(loss) before tax	**15**	**11**	**36.4**
Corporation tax	(3)	(1)	200.0
Profit or loss attributed to minority interests	-	-	-
Profit attributable to the Group	**12**	**10**	**20.0**
ROE (profit / average shareholders' equity)	4.5%	3.8%	
Cost-to-income (general administrative expenses / gross income)	52.0%	60.6%	
NPL ratio	0.8%	0.6%	
NPL coverage ratio	132.5%	186.1%	

Performing loans amounted to 3,767 million euros, a 3.5% increase year-on-year.

On-balance sheet customer funds amounted to 2,040 million euros, up 2.2%.

Million euro

	30/06/2020	31/12/2019	Change (%)
Assets	**5,033**	**4,802**	**4.8**
Outstanding gross loans and advances	3,767	3,640	3.5
Non-performing real estate assets (net)	-	-	-
Liabilities	**4,496**	**4,160**	**8.1**
On-balance sheet customer funds	2,040	1,996	2.2
Wholesale Funding Capital Markets	-	-	-
Allocated capital	**538**	**535**	**0.6**
Off-balance sheet customer funds	**-**	**-**	**-**
Other indicators			
Employees	503	462	8.9
Branches	15	15	-

4 – OTHER MATERIAL INFORMATION

4.1 Subsequent events

Since 30 June 2020, there have been no events worthy of mention.

4.2 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 2019, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report for the 2019 consolidated annual financial statements. 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 use or purpose. Their reconciliation is also shown below.

Performance indicator	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross loans to customers, excluding repos, accrual adjustments and stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities in issue (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Customer spread	Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution to net interest income solely from customer-related transactions. Calculated as the difference between the average rate that the bank charges its customers for loans and the average rate that the bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.

Performance indicator	Definition and calculation	Use or purpose
Other operating income and expenses	Comprises the following accounting items: other income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: Gross income plus administrative expenses and depreciation and amortisation.	It is one of the key figures that reflects the performance of the Group's consolidated results.
Total provisions and impairments	Comprises the following accounting items: i) impairment or reversal of impairment from financial assets not measured at fair value through profit or loss and net modification losses or gains; ii) provisions or reversal of provisions; iii) impairment or reversal of impairment of investments in joint ventures or associates; iv) impairment or reversal of impairment of non-financial assets; v) profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding profit or loss on sale of equity holdings); and vi) gains or losses on derecognition of non-financial assets and equity holdings, net.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Capital gains on asset sales and other revenue	Comprises the following accounting items: i) gains or losses on derecognition of non-financial assets and equity holdings, net (excluding gains/losses on sale of investment properties) and ii) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (includes only gains or losses on the sale of equity holdings).	Grouping of items used to explain part of the performance of the Group's consolidated results.
ROA	Consolidated profit or loss for the year / Average total assets. The numerator is the annualisation of the profit obtained to date, except for the capital gains on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. **Average total assets:** arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.

Performance indicator	Definition and calculation	Use or purpose
RORWA	Profit attributable to the Group / Risk weighted assets (RWA). The numerator is the annualisation of the profit obtained to date, except for the capital gain on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Risk-weighted assets: total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.
ROE	Profit attributable to the Group / Average shareholders' equity. The numerator is the annualisation of the profit obtained to date, except for the capital gain on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting return on the Group's own funds.
ROTE	Profit attributable to the Group / Average shareholders' equity. The numerator is the annualisation of the profit obtained to date, except for the capital gain on the sale of Solvia Servicios Inmobiliarios, S.L. in 2019. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting return on own funds, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses / Adjusted gross income. The denominator contains accrual on a straight-line basis of the contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end.	Main indicator of efficiency or productivity of the banking activity.
Stage 3 exposures	The sum of the following accounting items: customer loans and advances classified as stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as stage 3.	Key figure among the main indicators used in the banking sector to monitor the status and evolution of credit risk quality with customers and to assess its management.
Coverage ratio of Stage 3 exposures	Percentage of exposures classified as stage 3 that are covered by provisions. Calculated as impairments of customer loans and advances not classified as non-current assets held for sale (including provisions for guarantees given) / Total risks classified as stage 3 (including guarantees given classified as stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the credit risk quality with customers and shows the provisions that the institution has allocated for loans classified as stage 3.

Performance indicator	Definition and calculation	Use or purpose
Non-performing assets	The sum of risks classified as stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Indicator of total exposure to risks classified as stage 3 and to non-performing real estate assets.
Non-performing real estate coverage ratio	The non-performing real estate coverage ratio is obtained by dividing provisions for non-performing real estate assets by total non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of real estate risk and shows the provisions that the institution has allocated for real estate exposure.
NPA coverage ratio	This is the ratio between the provisions associated with non-performing assets / total non-performing assets.	It is one of the main indicators used in the banking sector to monitor the status and evolution of credit risk quality together with real estate and shows the provisions that the institution has allocated for non-performing exposures.
NPL ratio	Exposures classified as stage 3 expressed as a percentage of total exposures granted to customers that are not classified as non-current assets held for sale. All components of the calculation are headings or sub-headings of the financial statements.. Calculated as the ratio of exposures classified as stage 3, including guarantees given classified as stage 3 / Customer loans and advances not classified as non-current assets held for sale and guarantees given. See definition of exposures classified as stage 3 elsewhere in this table	It is one of the main indicators used in the banking sector to monitor the status and evolution of credit risk quality with customers and to assess its management.
Cost of risk (bps)	The ratio between provisions for loan losses / customer loans and guarantees given. The numerator considers annualisation on a straight-line basis of provisions for loan losses. Additionally, the costs associated with managing assets classified as stage 3 are adjusted.	A relative measure of risk, being one of the main indicators used in the banking sector to monitor the situation and evolution of credit risk quality through the cost or impairment losses on financial assets that have taken place in one year.

Performance indicator	Definition and calculation	Use or purpose
Loan-to-deposit ratio	Net loans and receivables in retail financing. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table.	It measures a Bank's liquidity through the ratio of its available funds to the volume of loans granted to customers. Liquidity is one of the material aspects that define the structure of an institution.

Equivalence of headings from the income statement of businesses and management units that appear in the note on “Segment information” and in the consolidated interim Directors’ Report with those of the consolidated income statement (*)

Net fees and commissions:
- Fee and commission income.
- (Fee and commission expenses).

Core revenue:
- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:
- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:
- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:
- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:
- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification gains or (-) losses).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (only includes the gain or (-) loss on the sale of investment property).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification gains or (-) losses).
- (Provisions or (-) reversal of provisions) (only includes commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excludes commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (only includes the gain or (-) loss on the sale of investment property).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excludes gains or losses on the sale of investment property).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (only includes gains or (-) losses on the sale of equity holdings).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

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

BALANCE SHEET	30/06/2020	31/12/2019
<u>Gross loans to customers / Gross performing loans to customers</u>		
Mortgage loans & credit	80,919	83,720
Loans and credit secured with other collateral	3,662	3,330
Commercial loans	4,625	6,443
Finance leases	2,431	2,558
Overdrafts, etc.	53,494	48,521
Gross performing loans to customers	**145,131**	**144,572**
Stage 3 assets (customers)	6,175	5,923
Accrual adjustments	(25)	18
Gross loans to customers, excluding repos	**151,281**	**150,513**
Repos	100	236
Gross loans to customers	**151,381**	**150,749**
Impairment allowances	(3,364)	(2,933)
Loans and advances to customers	**148,018**	**147,816**
<u>On-balance sheet customer funds</u>		
Financial liabilities measured at amortised cost	215,166	205,636
Non-retail financial liabilities	67,594	59,327
Deposits from central banks	30,810	20,065
Deposits from credit institutions	9,248	11,471
Institutional issues	22,595	23,623
Other financial liabilities	4,941	4,168
On-balance sheet customer funds	**147,572**	**146,309**
<u>On-balance sheet funds</u>		
Customer deposits	148,341	147,362
Sight accounts	123,888	118,868
Deposits with agreed maturity, including deposits redeemable at notice, and hybrid financial liabilities	23,966	27,339
Repos	336	951
Accrual adjustments and hedging derivatives	150	204
Debt securities in issue	18,931	19,514
Subordinated liabilities	2,896	3,056
On-balance sheet funds	**170,168**	**169,932**
<u>Off-balance sheet customer funds</u>		
Mutual funds	25,059	26,003
Asset management	3,226	3,363
Pension funds	3,248	3,367
Insurance products sold	10,185	10,430
Off-balance sheet customer funds	**41,718**	**43,163**
<u>Funds under management</u>		
On-balance sheet funds	170,168	169,932
Off-balance sheet customer funds	41,718	43,163
Funds under management	**211,886**	**213,095**

INCOME STATEMENT	30/06/2020	30/06/2019
<u>**Customer spread**</u>		
Loans and advances to customers (net)		
Average balance	142,936	138,725
Profit/(loss)	1,888	2,033
Rate (%)	2.66	2.96
Customer deposits		
Average balance	150,785	146,286
Profit/(loss)	(143)	(204)
Rate (%)	(0.19)	(0.28)
Customer spread	**2.47**	**2.68**
<u>**Other operating income and expenses**</u>		
Other operating income	124	124
Other operating expenses	(210)	(223)
Income from assets under insurance or reinsurance contracts	-	-
Expenses on liabilities under insurance or reinsurance contracts	-	-
Other operating income and expenses	**(86)**	**(99)**
<u>**Pre-provisions income**</u>		
Gross income	2,461	2,494
Administrative expenses	(1,307)	(1,340)
Staff expenses	(798)	(810)
Other general administrative expenses	(509)	(530)
Depreciation and amortisation	(255)	(227)
Pre-provisions income	**899**	**927**

	30/06/2020	30/06/2019
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	1	-
Impairment or reversal of impairment on non-financial assets, adjusted	3	(14)
Impairment or reversal of impairment on non-financial assets	2	(20)
Gains or losses on sale of investment property	1	7
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(95)	(44)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	182	91
Gains on sale of equity holdings	(277)	(135)
Other provisions and impairments	**(91)**	**(58)**
Provisions or reversal of provisions	(117)	(16)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(881)	(300)
Provisions for loan losses and financial assets	**(998)**	**(316)**
Total provisions and impairments	**(1,089)**	**(374)**

	30/06/2020	30/06/2019
Capital gains on asset sales and other revenue		
Gains or losses on derecognition of non-financial assets, net	1	11
Gains on sale of equity holdings	277	135
Gains or losses on sale of investment property	(1)	(7)
Capital gains on asset sales and other revenue	**276**	**139**

PROFITABILITY AND EFFICIENCY	30/06/2020	30/06/2019
ROA		
Average total assets	221,448	223,909
Consolidated profit or loss for the year	145	538
Adjustment for DGF, SRF & IDEC (tax on deposits at credit institutions), net of tax	(18)	(32)
ROA (%)	**0.12**	**0.40**
RORWA		
Net profit attributable to the Group	145	532
Risk-weighted assets (RWAs)	78,210	83,124
Adjustment for DGF, SRF & IDEC (tax on deposits at credit institutions), net of tax	(18)	(32)
RORWA (%)	**0.33**	**1.05**
ROE		
Average shareholders' equity	13,106	12,756
Net profit attributable to the Group	145	532
Adjustment for DGF, SRF & IDEC (tax on deposits at credit institutions), net of tax	(18)	(32)
ROE (%)	**1.96**	**6.85**
ROTE		
Average shareholders' equity (excluding intangible assets)	10,522	10,281
Net profit attributable to the Group	145	532
Adjustment for DGF, SRF & IDEC (tax on deposits at credit institutions), net of tax	(18)	(32)
ROTE (%)	**2.44**	**8.50**
Cost-to-income ratio		
Gross income	2,461	2,494
Adjustment for DGF, SRF & IDEC (tax on deposits at credit institutions)	(25)	(45)
Administrative expenses	(1,307)	(1,340)
Cost-to-income ratio (%)	**53.65**	**54.72**

RISK MANAGEMENT	30/06/2020	31/12/2019
<u>Stage 3 exposures</u>		
Loans and advances to customers	6,203	5,942
Stage 3 guarantees given	156	198
Stage 3 exposures	**6,359**	**6,141**
<u>Coverage ratio of Stage 3 exposures</u>		
Stage 3 exposures	6,359	6,141
Provisions for loan losses	3,537	3,045
Coverage ratio of Stage 3 exposures (%)	**55.6%**	**49.6%**
<u>Non-performing assets</u>		
Stage 3 exposures	6,359	6,141
Non-performing real estate assets	1,460	1,185
Non-performing assets	**7,820**	**7,326**
<u>NPA coverage ratio (%)</u>		
Provisions for non-performing assets	4,051	3,439
Non-performing assets	7,820	7,326
NPA coverage ratio (%)	**51.8%**	**46.9%**
<u>Non-performing real estate coverage ratio</u>		
Non-performing real estate assets	1,460	1,185
Provisions for non-performing real estate assets	514	394
Non-performing real estate coverage ratio (%)	**35.2%**	**33.3%**
<u>NPL ratio</u>		
Stage 3 exposures	6,359	6,141
Customer loans and guarantees given	160,835	160,127
NPL ratio (%)	**4.0%**	**3.8%**
<u>Cost of risk (bps)</u>		
Loans to customers and guarantees given	160,835	160,127
Provisions for loan losses	(918)	(672)
NPL expenses	(63)	(140)
Cost of risk (bps)	**107**	**33**

LIQUIDITY MANAGEMENT	30/06/2020	31/12/2019
<u>Loan-to-deposit ratio</u>		
Net loans and advances excluding ATAs, adjusted for brokered loans	145,573	144,246
On-balance sheet customer funds	147,572	146,309
Loan-to-deposit ratio (%)	**98.6%**	**98.6%**