



**Banco de Sabadell, S.A.  
Report on the performance and  
activities of the Audit and Control  
Committee  
2016**

January 2017

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## Introduction

### Presentation

This Report on the Activities of the Audit and Control Committee for 2016, addressed to the shareholders of Banco de Sabadell S.A., was authorised by the Audit and Control Committee at its meeting on 24 January 2017 and will be submitted to the Board of Directors of Banco de Sabadell S.A. for approval at its meeting on 26 January 2017.

This report summarizes the range of activities carried out by the Audit and Control Committee in the course of the seven meetings that it held during the year 2016, from which it can be seen that the Committee discharged the duties assigned to it in the Regulations of the Board of Directors of Banco de Sabadell, S.A. within its main areas of responsibility.

Together with the publication of an Annual Report on Corporate Governance and the information available on the group's website, the distribution of this report at the Annual General Meeting underlines once again Banco de Sabadell, S.A.'s commitment to providing shareholders and investors with the tools and resources they need to keep themselves fully informed of the Company's performance and to ensure that it is transparent in everything that it does.

### Regulatory structure

As required by the Act on Measures to Reform the Financial System, on 9 July 2003 the Regulations of the Board of Directors were amended by notarial instrument to incorporate new rules on the composition and working of the Audit Committee. These changes were made having regard to amendments to certain articles of the Bank's Articles of Association that had been adopted by a resolution of the Annual General Meeting on 24 April 2003.

By another instrument executed on that same date, the Audit and Control Committee was set up to replace the former Audit and Budget Control Committees, whose respective remits had been merged following amendments to the Bank's Articles of Association and to the Regulations of the Board of Directors.

On 20 October 2003 the Committee adopted new rules setting out the principles that would govern the work of the Audit and Control Committee of Banco de Sabadell S.A. and basic rules on organisation and procedure, within the framework of the Articles of Association and the Regulations of the Board of Directors. The rules were approved and confirmed by the Board of Directors at a meeting on 30 October 2003 and were executed on 18 November 2003 before a notary in Sabadell, Javier Micó Giner.

On 28 April 2009, the Committee reviewed and reported favourably on a proposed amendment to article 13.1 of the Regulations of the Board of

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Directors to provide for the appointment of alternate members of the Committee. It also resolved to amend article 7.1 of the Rules of Procedure of the Audit and Control Committee accordingly. The amendments to article 13.1 of the Regulations of the Board of Directors and to article 7.1 of the Rules of Procedure of the Audit and Control Committee were approved and confirmed by the Board of Directors at a meeting on 27 May 2009 and executed in a public instrument on 11 June 2009 before the notary in Sabadell, Javier Micó Giner.

In 2010, article 59 bis of the Articles of Association and article 13.1 of the Regulations of the Board of Directors of Banco de Sabadell, S.A. were amended to set the number of members of the Audit and Control Committee at a maximum of five in order to keep the number of members of the Committee in the same proportion with respect to the number of members of the Board. The Committee also resolved to amend article 7.1 of its Rules of Procedure so as to incorporate that amendment concerning the number of members.

In 2012, the committee made amendments to a number of articles of its Rules of Procedure to bring them into line with the amended Articles of Association of Banco de Sabadell, S.A. and at the same time make those articles compliant with changes in the Spanish Capital Companies Act and with Act 12/2010, of 30 June, amending Spanish legislation on auditing (Act 19/1988, of 12 July) and the securities market (Act 24/1988, of 28 July), and to the consolidated text of the Companies Act, approved by Legislative Royal Decree 1564/1989, of 22 December, to make them compliant with EU law.

In 2015, article 59 bis of the Articles of Association was amended and renumbered as article 61, article 13 of the Regulation of the Board of Directors of Banco de Sabadell, S.A. was amended, and the Committee reviewed some articles of the Rules of Procedure of the Audit and Control Committee and amended articles 4, 7 and 8 in order to adapt their wording to the new regulatory framework governing credit institutions and listed companies in the area of corporate governance (Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, Act 31/2014, of 3 December, amending the Capital Companies Act to enhance corporate governance, and the Good Governance Code of Listed Companies dated 18 February 2015).

On 31 March 2016, the General Meeting of Shareholders approved the amendment of article 61 of the Articles of Association of Banco Sabadell, renumbered as 60, which establishes the committee's composition and functions, in order to adapt the wording of the article in connection with the committee's composition to the Audit Act, Act 22/2015, of 20 July, which was due to enter into force shortly (17 June 2016); that Act amended article 529 quaterdecies of the Capital Companies Act, which regulates the composition, functioning and functions of the audit committee of listed

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companies. It also approved technical and drafting improvements by adapting the second competence in article 60 to the literal wording of the legislation and replacing the reference to "Comité" with the more appropriate term "Comisión" (Translator's note: this does not affect the English version, in which the term "Committee" has been used).

### Composition and attendance at meetings in 2016

The Committee comprises only independent directors who have the necessary knowledge, skills and experience in accordance with the composition rules set out in article 60 of the Bank's Articles of Association, which requires that the committee consist of at most five directors, none of whom may be an executive director, at least a majority of whom must be independent directors, and one of whom must have been appointed on the basis of his/her knowledge and experience of accounting, auditing or both; the committee chair must be an independent director.

On 22 September 2016, the Board of Directors resolved to appoint Mr Manuel Valls Morató as an independent director of Banco Sabadell in order to incorporate to the Board and the Committee an independent director with a background in auditing so as to enhance the balance and diversity of knowledge, experience and skills available on the Board. At 31 December 2016, his appointment was being vetted by the European Central Bank, which pronounced him suitable on 20 January 2017.

Accordingly, the composition of the committee fulfils the requirements for listed companies under Act 31/2014, of 3 December, amending the Capital Companies Act to improve corporate governance, and under Act 22/2015, of 20 July, on Auditing, for entities of public interest.

As of 31 December 2016, the members of the Audit and Control Committee were as follows:

Position	Name	Category
Chair	María Teresa Garcia-Milà Lloveras	Independent
Committee members	Joan Llonch Andreu	Independent
	José Ramón Martínez Sufrategui	Independent
Secretary (not a director)	Miquel Roca i Junyent	
Vice-Secretary (not a director)	Núria Lázaro Rubio	

### Functions

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The Audit and Control Committee is a sub-committee of the Board of Directors and its functions include those defined in article 60 of the Articles of Association of Banco Sabadell as amended by the General Meeting of Shareholders on 28 May 2015 and 31 March 2016 to adapt to the amendments made by Act 31/2014, of 3 December, and Act 22/2015, of 20 July, respectively, which amended the Capital Companies Act, as well as the functions set out in the Rules of Procedure of the Audit and Control Committee.

The committee has at least the following functions:

1. Reporting to the General Meeting on all issues raised by shareholders that are within its remit.
2. Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system detected in the course of the audit;
3. Overseeing the drafting and presentation of regulated financial information.
4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
5. Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.
6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules."
7. Supervising the internal audit units, reviewing the appointment and removal of the head of internal audit.
8. Being apprised of the company's financial reporting process and internal control systems.
9. Liaising with the external auditors in order to receive information about matters that might jeopardise their independence and any other matters related to the audit process as well as other communications envisaged in the audit legislation and technical audit standards.
10. Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.

11. All other functions attributed to it by law and by these Articles of Association and the regulations implementing them.

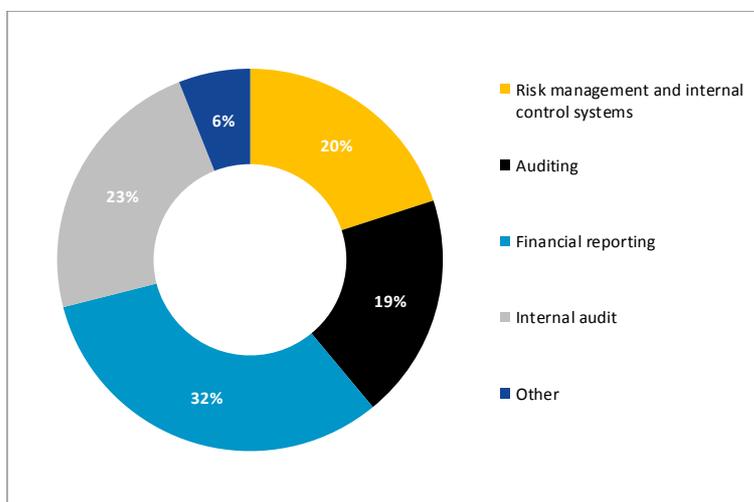
### Committee performance

As provided in the Committee's Rules of Procedure, it must meet as often as necessary, and at least once every three months. It met seven times in 2016, in line with the schedule established at the beginning of the year. The Audit and Control Committee may request the attendance at its meetings of such executives, including executive directors, as it sees fit. It may also seek assistance from external advisors in carrying out its duties. The committee also maintains regular contacts with the external auditors to keep itself informed of progress in the auditing of the accounts.

All meetings of the committee were announced with at least seven days' advance notice, attaching the agenda and the available documentation. The use of documentation support tools provided the directors with regular and segmented access to committee information and enabled them to have the information sufficiently in advance to be able to debate and make decisions about the matters on the agenda of the committee meetings.

The attendance rate of members of the committee at meetings in 2016 was 100%. The figure below shows the approximate time devoted to each function at the meetings of the Committee in 2016.

**Time devoted to each function**



Meetings lasted as long as was necessary to deal with the items on the agenda, and their duration varied as a function of the matters being discussed, enabling the members to participate actively in committee meetings.

The Secretary took minutes of every meeting, which were approved at the end of the meeting itself or at the next meeting. The minutes of the committee

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meetings set out in detail the matters discussed and the resolutions adopted at the meetings, following the agenda of each meeting to make it easy to read and locate issues. A report of each meeting of the Committee was read out at the immediately subsequent meeting of the Board of Directors.

### Self-assessment

The Audit and Control Committee of Banco de Sabadell, S.A. performed a self-assessment of its performance, in application of the principles of transparency and good governance that govern its actions and in line with the provisions of the Regulations of the Board of Directors, which include, among the Board of Directors' general supervisory functions, the assessment of sub-committees' performance on the basis of their self-assessments.

The committee's performance in 2016 was declared by its members to have been satisfactory, since the issues were debated sufficiently and members were given the necessary documentation and information to be able to assess the issues within their remit and those referred to them for approval.

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## Activities in 2016

### Functions related to financial reporting and risk management and internal control systems

The committee carried out a review to verify that banking or accounting best practices were being applied at all levels of the organisation. On the basis of reports from the external auditor, Internal Audit or the Director-General Manager, the Committee satisfied itself that suitable steps were being taken at General Manager level and by other senior executive functions to ensure that the group's main risks were being appropriately identified, measured and controlled.

### Risk management and control systems

During the year the Committee reviewed the Group's risk management systems as described in reports prepared by the Risk, Finance and Internal Audit Departments.

At its 26 January 2016 meeting, the Committee reviewed a report presented by the Risk Department on governance and risk management and control systems for the year 2015, and reached the conclusion that these systems were appropriate to the group's risk profile.

Additionally, to meet the market disclosure obligations set out in part 8, Disclosure by Institutions, of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (hereinafter, the CRR, Capital Requirements Regulation), at a meeting on 29 March 2016 and on the basis of the internal audit conducted for this purpose, the Committee reviewed the content of the "Basel Pillar III Disclosures" dated 31 December 2015. At that meeting, it examined information concerning the Group's qualifying capital resources and its capital adequacy position, and discussed their compliance with the criteria set out in the CRR and with the risk management and control objectives set out in the Group's policies. The Committee also carried out a detailed review of all financial data to be relied on as a basis for characterising the group's risk profile as conservative in the various categories of risk for which disclosure was required, including: credit and dilution risk, market risk in the trading book, operational risk, interest rate risk on non-trading positions, and liquidity risk, among others.

### Internal controls over the preparation and presentation of regulated financial information

In 2014, the Audit and Control Committee approved Internal Audit's strategic plan for 2014-2016 setting out a detailed programme for the supervision of the group's system of internal control over financial reporting (ICFR). The Plan provides for tests on areas considered to be of key importance within the Banco Sabadell Group over the three-year period to which the Plan refers, with

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the exception of certain areas or processes considered to be of especial significance; these include critical controls of period-end closing procedures, reviews of judgements and estimates, and general oversight of reporting systems on an annual basis.

In 2016, the reports provided by Internal Audit on the ICFR evaluation tests were presented and were reviewed by members of the Audit and Control Committee; any weaknesses identified in the reports were evaluated and the action plans proposed for correcting them were approved.

Additionally, a favourable opinion on the ICFR system was also expressed by the external auditor (PricewaterhouseCoopers Auditores, S.L.) in a report dated 28 January 2016 with reference to the accounts for the year ended 31 December 2015.

### Functions related to auditing

The Committee's functions in relation to auditing include making recommendations to the Board regarding the appointment of auditors and reviewing their terms of engagement. At a meeting on 26 January 2016, the Committee reviewed policy on engagement and, as a result, recommended to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank's separate and consolidated financial statements for the year 2016. The Board of Directors resolved to submit the Committee's recommendation to the General Meeting of Shareholders, which approved it on 31 March 2016.

With the entry into force of Regulation (EU) No 537/2014 and Act 22/2015, on Auditing (Audit Act), the functions of the Audit and Control Committee have been enhanced, particularly those relating to the duty to contribute to enhancing auditor independence and audit quality.

The new legislation seeks, inter alia, to strengthen auditors' independence and objectivity in carrying out the duties. To that end, they include more restrictive rules than existed previously, to reinforce professional scepticism and the particular attention required to ensure that there are no conflicts of interest or commercial or other interests.

In order to avoid conflicts of interest arising from the provision of non-audit services, the Audit Act of 20 July prohibits auditors from rendering certain services, requires that permitted services be accompanied by an analysis of the threats to independence and the safeguards to be implemented, and introduces rules that limit the fees that auditors may receive for permitted non-audit services.

The new Audit Act came into force on 17 June 2016, and in certain areas, for fiscal years beginning on or after that date.

At a meeting on 19 April 2016 and in conformity with the Audit Act, the committee adopted a policy that regulates its own obligations with respect to:

- Auditor independence: preserve auditor independence by monitoring possible incompatibilities arising from personal situations, prohibited services, rotation requirements and fee caps.
- Service engagement: make proposals to the Board of Directors for the selection, appointment, re-appointment and removal of the auditor, and formally authorise any permitted non-audit services.

The policy includes measures and controls to cover these obligations, including a framework for approval of auditor services and the establishment of a steering committee to ensure proper implementation of the proposed actions and act as a collegiate body to draw up proposals and/or mechanisms for referral to the committee for formal approval.

The Committee reviewed and approved the auditor's fees for 2016. Details of fees paid to auditors can be found in the financial statements, and below:

€'000

Audits		4,448
Audit-related services		485
Non-audit services		1,362
	Tax advisory services	183
	Other advisory services	1,179
<b>TOTAL</b>		<b>6.295</b>

The audit work is broken down below:

€'000

Audit of the bank's separate and consolidated financial statements	857
Audit of the financial statements of the Group's subsidiaries in Spain	809
Audit of the financial statements of the bank's branches in other countries	162
Audit of the financial statements of subsidiaries in other countries	2,620
<b>TOTAL</b>	<b>4,448</b>

The detail of expenditure on audit-related services is as follows:

€'000

Regulatory work and reviews	361
Review of adaptation by TSB to IFRS 9	141
Report on protection of client assets by the bank and collective investment institution management companies	76
Report on money laundering prevention	55
Review of the finances and regulatory capital of Mediterráneo Vida	30

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Review of the corporate social responsibility report	23
Report on the Internal Control on Financial Reporting system,	15
Other work and regulatory reviews	21
Reports on limited reviews and agreed-upon procedures	76
Initial review of the information and issuance of comfort letters	48
<b>TOTAL</b>	<b>485</b>

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Also, in relation to compliance with the rules on independence, the Audit and Control Committee reviewed the main non-audit services provided by PriceWaterhouseCoopers in 2016. All such work complies with the independence requirements set out in the Consolidated Text of the Audit Act, enacted by Legislative Royal Decree 1/2011, of 1 July, and in its secondary legislation, as well as the applicable provisions of Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April.

In connection with compliance with the statutory limits on concentration of auditing business, the Committee reviewed the proportion which the fees paid to the audit firm by the Group represent with respect to the firm's total annual revenue. The share was less than 0.02% of the total for the PricewaterhouseCoopers worldwide organisation, and 1.00% of the total for its Spanish organisation. Additionally, based on confirmation received from the auditor, the Committee reviewed the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm's independence with respect to the Banco Sabadell Group was received by the Committee on 19 July 2016 and 24 January 2017. Based on the results of its enquiries, the Committee submitted a report to the Board of Directors, before the auditors' report on the accounts had been issued, giving a favourable opinion on compliance with the auditor independence requirement and concluding that all work for which auditors had been engaged satisfied the independence requirements of the Consolidated Text of the Audit Act, enacted by Legislative Royal Decree 1/2011, of 1 July, and its secondary legislation, as well as the applicable provisions of Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April.

The Committee remained in contact with the Auditor constantly throughout the year to ensure that it was kept informed of any significant accounting or financial reporting issues arising in the course of the auditor's work.

With regard to external supervision and regulation, at the Committee meeting on 20 December 2016, the external auditors presented the main regulatory developments in the area of tax, specifically the new features introduced by Royal Decree-Act 3/2016, of 2 December, adopting tax-related measures to strengthen the exchequer and other urgent measures related to employment. At that same meeting, it received a report on the main impacts of Bank of Spain Circular 4/2016, of 27 April, amending Circular 4/2004, of 22

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December, to credit institutions, on standards for public and private financial information and financial statement formats, and Circular 1/2013, of 24 May, on the Risk Information Clearing House. The Committee conducted a detailed review of the changes in the wording of Annex IX in connection with the classification of transactions as a function of the default risk, the establishment of levels of coverage, and other aspects related to the general management framework.

As part of the Committee's oversight of the auditors' performance of their terms of engagement, at its meeting on 19 July 2016, the auditors reported on the results of their review of the summary consolidated accounts for the first half of 2016, giving an unqualified opinion.

At a meeting on 24 January 2017, the auditor presented the results of its review of the separate and consolidated accounts for the year 2016 and expressed the opinion that, as in previous years, the accounts presented a true and fair view, in all material respects, of the consolidated equity of the Bank and Group and of the results of their operations and their consolidated cash flows for the year, as required by applicable financial reporting standards and regulations and, in particular, the accounting principles and practices embodied therein.

#### Functions related to financial disclosures

In the course of the year, the Committee paid particular attention to reviewing the Company's accounts and its quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication.

At a meeting on 29 March 2016, the Committee reviewed and reported favourably on the Share Registration Document of Banco de Sabadell, S.A. to be filed with the National Securities Market Commission (CNMV) in accordance with Commission Regulation (EC) 809/2004 of 29 April 2004, which came into effect on 18 July 2005, implementing Directive 2003/71/EC as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and advertisements.

At a meetings on 19 April, 19 July and 25 October 2016 and 24 January 2017, the Committee reported favourably on the quarterly financial statements for the periods ending on 31 March, 30 June, 30 September and 31 December 2016, respectively, prior to their being authorised by the Board of Directors and released to the markets.

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At its 19 July meeting, the Committee reported favourably on the summary consolidated first half-year financial statements of the Banco Sabadell Group for filing with the National Securities Market Commission (CNMV), finding them to have been prepared and presented in conformity with IAS 34 on Interim Financial Reporting as incorporated into EU-IFRS, with the detailed disclosures specified by the CNMV in its Circular 5/2015, of 28 October.

To undertake this work, the Committee received documents and held meetings with the Director-General Manager, the Chief Financial Officer and the auditor to satisfy itself that the applicable accounting standards had been properly applied.

### Functions related to the internal audit

One of the Committee's tasks is to approve the plans and methodologies of the Internal Audit Department and assess the extent to which the department's plans are being followed and its recommendations are being implemented. This function was performed essentially through approving and tracking the annual Internal Audit Plan, which focused on covering the main lines of the Internal Audit Strategic Plan for 2014-2016. Based on that Strategic Plan, which identifies the internal audit tasks and plans them over time using the audit universe, the Risk Assessment was updated in order to configure the Audit Plan for 2016.

Following the acquisition of TSB and the growing internationalisation of the Banco Sabadell Group, the Internal Audit Department presented a corporate level Risk Assessment considering the main geographies in which the group operates. In this context, the audit universe and the geographical scope were examined to decide on actions at a global or corporate level, to ensure coverage from the perspective of the local audit plans and comply with the principles established by the Basel Committee, under which the Internal Audit Department must decide on the group's audit strategy and propose and implement a risk-based audit plan.

In addition to the global Risk Assessment, Banco Sabadell, TSB and the subsidiaries comprising the BS America business conducted local risk analyses in order to assess the specific features of each business and prioritise actions appropriately on a global level.

The Internal Audit Department's Annual Plan envisaged two types of audit actions:

- Global or corporate actions: actions with a horizontal impact on the various geographies, implemented from a corporate standpoint by the Group's Internal Audit Department. They were executed using local resources or resources from corporate level.

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- Local actions: actions specific to the bank or one of the group subsidiaries, affecting only one company. They were generally implemented using local resources.

As a result of the Risk Assessment, audit activities are structured along 6 main axes: governance, risk and control culture, behavioural and reputational risk, regulatory and reporting risk, technology environment and strategic risks, and business risks.

The implementation of that Audit Plan resulted in the production of over 450 audit reports whose main findings, along with replies from management in connection with the recommendations contained in them, were evaluated by the Committee.

The Internal Audit Department regularly presents the main findings of its work to the Audit and Control Committee, as well as the work it plans to perform in the next period so as to enable the Committee to assess the degree of fulfilment of the Plan and/or any deviations.

At the end of the year, the Annual Report on Activities is presented to the Committee, detailing all the work performed and the degree to which the plan approved by the Committee was fulfilled.

The Committee also exercises oversight to ensure that the internal audit function is independent and objective in discharging its duties, has the appropriate resources and access to information to be able to fulfil its functions, and that it is ready to act in accordance with the professional standards that are applicable to internal auditing. Based on regular monitoring and the high degree of fulfilment of the audit plans, the Commission was able to conclude that the internal audit activity is well positioned and appropriately dimensioned to meet the group's needs in this connection. Additionally, in line with the provisions of the International Standards for the Professional Practice of Internal Auditing, in 2016 the Committee received information about the internal and external evaluations of the internal audit function in order to satisfy itself that the function's objectives, policies and procedures adhere to those international standards.

During 2016, the Audit and Control Committee focused particularly on obtaining assurances that the entity's risk management, control and corporate governance systems are appropriate and effective. To that end, the Committee obtained assurance that there is an appropriate system for tracking implementation of the audit recommendations. In 2016, the Committee regularly reviewed the plans for implementing the recommendations made by the internal audit function.

As regards coordinating the group's internal audit with the audit function of the international subsidiaries of Banco Sabadell, in line with the BCBS (Basel)

guidelines on internal auditing, the Committee obtained information on the protocol for functional coordination and cooperation between those functions.

The protocol's objectives are as follows:

- Clarify the respective functions of the group's internal audit function and those of the international subsidiaries.
- Establish a framework for cooperation in planning and conducting audits and presenting auditors' report that complies with the Basel principles.

The Committee also received information about the GOAL programme (Global Operating Model for effective Audit Leadership) established by the internal audit department to ensure consistency between the approaches and methodologies applied in audits throughout the group. At the same time, global audits were defined for all entities in order to ensure appropriate overall audit coverage.

**GOAL programme (Global Operating model for effective Audit Leadership)**

*Global  
Operating model for effective  
Audit  
Leadership*

- The GOAL programme was established to develop a global operating model for the Internal Audit function in the Banco Sabadell Group.
- It will ensure that the BS Group's Internal Audit function is aligned and consistent with the Internal Audit functions of the international subsidiaries.
- The operating model will provide effective leadership in Internal Audit so as to maximise the Group's added value.



**Functions related to compliance with legal and regulatory requirements on Corporate Governance**

One aspect of the Committee's work in the area of corporate governance was to review reports prepared by the Director-General Manager and Internal Audit on compliance with applicable laws, internal rules and regulatory requirements.

To meet the requirement of Royal Decree 217/2008 for regular reviews of compliance by investment firms with the EU Directive on Markets in Financial Instruments (MiFID), the Audit and Control Committee received information

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specifically related to the implementation of MiFID rules by the Banco Sabadell Group, based on an internal audit report prepared for the purpose.

As required by CNMV Circular 5/2009, of 25 November, the Committee also reviewed the Auditor's annual report on the protection of customer assets held or managed by Banco de Sabadell, S.A. from the point of view of the measures adopted by those undertakings to comply with customer asset protection requirements. The report's conclusions were satisfactory and no material weaknesses were detected in relation to the existence or suitability of internal asset protection systems at the undertaking.

### **Corporate governance and related party transactions**

At its meeting on 26 January 2016, the Committee decided to recommend that the Board of Directors give its approval to a report on the corporate governance structure and practices at Banco Sabadell in 2015 that had been submitted by the Executive Committee.

During the year, the Committee also considered the amendment of a number of articles in the Articles of Association and Regulations of Banco Sabadell in order to adapt their wording to the current legislation and introduce technical and drafting improvements in certain articles of the Articles of Association in order to clarify or complete them, thereby facilitating comprehension by the shareholders and enhancing the Bank's corporate governance.

The Committee also examined half-yearly reports from the Group's Corporate Ethics Committee on action taken to ensure compliance with the Banco Sabadell Group Code of Conduct in relation to the securities market, the Group's general Code of Conduct, initiatives undertaken in the area of Corporate Social Responsibility and other key aspects.

In connection with related party transactions as referred to in recommendation 6 of the Good Governance Code of Listed Companies approved by the Board of the National Securities Market Commission (CNMV) on 18 February 2015, no transactions were performed in the bank in 2016 that met the conditions to require authorisation by the Board of Directors following a favourable report by the Audit and Control Committee.

### **Treasury shares**

In conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank's own shares and on compliance with the regulator's recommendations.

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**Reports from supervisory authorities**

In 2016, the committee received information about the conclusions of the reports issued by the supervisory authorities. From the information provided, the Committee was also able to satisfy itself that the improvements recommended by the supervisory authorities were being fully implemented.

## **Conclusion**

The activities described in this report ensured that the Audit and Control Committee was able fully to discharge the duties assigned to it in its Rules of Procedure by the Board of Directors of Banco de Sabadell, S.A., within its main areas of responsibility.

As a result of its review and oversight of reports received during the year from the Director-General Manager, the Chief Financial Officer, the head of Internal Audit and the external auditor, the Committee was able to conclude that the Annual Accounts to be authorised by the Board of Directors provide a true and fair view of the equity and financial position and the results of operations, and contain necessary and sufficient information for their comprehension.

The Committee was, in addition, able to verify that all business, financial and legal risks to which Banco de Sabadell S.A. and its subsidiary undertakings may be exposed are clearly described in a straightforward manner in the financial statements and the directors' report. Finally, it reviewed the contents of the auditor's report to ensure that the opinion on the annual accounts and the main findings of the auditor's report are expressed in a clear and precise way.

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## Plan of action for 2017

In compliance with article 529 nonies of the Capital Companies Act with regard to the establishment of a plan of action, the Audit and Control Committee proposes the following to the Board of Directors for 2017:

- Ensure proper deployment of the policy approved by the Committee in 2016 which defines the relationship between the auditor and the Banco Sabadell Group, and the functions attributed to the Audit and Control Committee in this area, having regard to the requirements of Act 22/2015, of 20 July, on Auditing, which is fully applicable for the first time to the financial statements for 2017.
- Promote coordination between the audit committees of the group's significant subsidiaries, particularly TSB's Audit Committee.
- Seek effective assurance about the group's main risks through coordination of the activities in this area between the Audit and Control Committee and the Risk Committee.

*On 24 January 2017, the members of the Audit and Control Committee signed this report on its performance in 2016, for submission to the General Meeting of Shareholders.*

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M<sup>a</sup> Teresa García-Milà Lloveras  
Chair

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Joan Llonch Andreu  
Member

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José Ramón Martínez Sufrategui  
Member

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Miquel Roca i Junyent  
Secretary