



**Banco de Sabadell, S.A.
Audit and Control Committee
Report on functions and activities
2015**

February 2016

Introduction

This report on the activities of the Audit and Control Committee for 2015, addressed to the shareholders of Banco de Sabadell, S.A., was authorised by the Committee at its meeting on 26 January 2016 and will be submitted to the Board of Directors of Banco de Sabadell, S.A. for approval at its meeting on 28 January 2016.

The Committee is regulated by Article 61 of the Articles of Association and Article 13 of the Regulations of the Board of Directors of Banco de Sabadell S.A.; it also has its own rules of organisation and procedure which are published on the group website (www.grupobancosabadell.com).

This regulatory structure ensures that the Audit and Control Committee is compliant with the reporting requirements laid down by Act 44/2002, of 22 November, on Measures to Reform the Financial System, as amended, and the rules on composition, working and functions contained in article 529 *quaterdecies* of the Capital Companies Act, introduced by Act 31/2014, of 3 December, amending the Capital Companies Act in order to enhance corporate governance.

Under those regulations, the Audit and Control Committee may comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors appoints the Chairman of the Committee from among its members who are independent directors; the Chairman's term of office is at most 4 years and he may only be re-elected after a lapse of one year. At least one of the members of the Audit and Control Committee must be appointed in consideration of his expertise in accounting and/or auditing. Other non-executive directors may be designated to attend and speak, but not vote, in order to cover absences or vacancies.

The Board also appoints a Secretary to the Committee, who cannot be a director. The Secretary takes minutes of every meeting and these are approved at the end of the meeting itself or at the next meeting. A report of each meeting of the Committee is read out at the immediately following meeting of the Board of Directors.

As of 31 December 2015, the members of the Audit and Control Committee were as follows:

Chair

Ms Maria Teresa García-Milà Lloveras

Committee members

Mr Joan Llonch Andreu
Mr José Ramón Martínez Sufrategui

Secretary

Mr Miquel Roca i Junyent

The Audit and Control Committee underwent the following changes in 2015:

Since the four-year term for which Mr. Joan Llonch i Andreu was appointed as Chairman of the Committee had expired, the Board of Directors adopted a resolution on 25 June, subsequently amended on 23 July, to appoint Ms. Teresa García-Milà Lloveras as Chair, while Mr. Joan Llonch i Andreu continued as an ordinary member of the Committee.

Accordingly, all directors on the Audit and Control Committee are non-proprietary, independent directors and have the knowledge and experience required to perform the duties assigned to the Committee by the Board of Directors.

The Audit and Control Committee meets as often as necessary and, in any event, not less than once every three months. The 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.

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 in 2015, from which it can be seen that the Committee discharged 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.

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.

Terms of reference

The Audit and Control Committee has the following responsibilities:

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, if any, 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. Making recommendations to the Board of Directors, for submission to the General Meeting, on the appointment of external auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the termination or non-renewal of their engagement; reviewing compliance with the audit agreement and ensuring that the opinion on the financial statements and the main findings of the Auditor's report are expressed in a clear and precise way.
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 or provided for in the audit rules.
7. Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.
8. Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

Regulatory structure

As required by the Law 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 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 the Rules of Procedure setting out the principles that 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. Those Rules of Procedure were approved and ratified by the Board of Directors at a meeting on 30 October 2003 and expressed as a public instrument on 18 November 2003 before the Sabadell notary, Javier Micó Giner.

On 28 April 2009, the Committee reviewed and reported favourably on a proposal to amend article 13.1 of the Regulations of the Board of Directors to provide for the appointment of alternate members of the Committee. It also resolved to amend article 7.1 of the Regulation 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 ratified by the Board of Directors at a meeting on 27 May 2009 and executed in a public instrument on 11 June 2009 before the Sabadell notary, 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 fix 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 total 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 Rules compliant with changes in the Capital Companies Act and with Act 12/2010, of 30 June, amending Act 19/1988, of 12 July, on Auditing, Act

24/1988, of 28 July, on the Securities Markets, and 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 amended some articles of the Rules of Procedure of the Audit 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 Code of Good Governance for Listed Companies dated 18 February 2015).

Activities

Seven meetings were held by the Audit and Control Committee in 2015 in accordance with the regulatory structure described above. Meetings were attended regularly, at the Committee's request, by the Director-General Manager and the Director of Internal Audit. Meetings were also attended by the Chief Financial Officer when the business on the agenda included pre-publication reviews of quarterly and half-yearly trading and financial reports, and by other Group senior executives when the nature of the business on the agenda made their attendance desirable.

The Committee also maintained regular contacts with the external auditors to keep itself informed of progress in the auditing of the accounts.

These contacts and attendances ensured that the Committee was able to obtain all the information it required to perform the tasks delegated to it by the Board of Directors within its main areas of responsibility, as follows:

Functions related to financial reporting, risk management and internal control.

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 and 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.

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 21 April 2015 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 2014. 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 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 the Group's conservative risk profile in the different categories of risk and other aspects 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.

With regard to the Group-wide implementation of internal ratings-based (IRB) credit risk assessment models, the Committee reviewed the findings of internal audits carried out on these models at the request of the Bank of Spain's Supervision Department. These audits enabled the Committee to keep itself informed of the action being taken to comply with requirements specified by the Bank of Spain in its approval notices for the use of Basel II risk assessment models.

From internal audit reports during the year, the Committee was able to observe the significant progress being made by the Group in developing and deploying advanced systems for managing and measuring operational risk.

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.

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

In 2014, the BS Group's Audit and Control Committee approved Internal Audit's strategic plan for 2014-2016 setting out specific activities for supervising the system of internal control over financial reporting (ICFR). The plan provides for tests on areas considered to be of key importance within the BS Group over the three-year period to which the plan refers, with 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 2015, the reports provided by Internal Audit on the ICFR evaluation tests were presented and reviewed by members of the Audit and Control Committee; any weaknesses identified in the reports were evaluated and action plans for correcting them were approved.

A favourable opinion on the ICFR was also expressed by the external auditor (PricewaterhouseCoopers) in a report dated 30 January 2015 with reference to the accounts for the year ended 31 December 2014.

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 28 January 2015, 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 2015. The Board of Directors resolved to submit the Committee's recommendation to the General Meeting of Shareholders, which approved it on 28 May 2015.

The Committee reviewed and approved the auditor's fees for 2015. Details of fees paid to auditors can be found in the financial statements.

As regards compliance with independence requirements, the Audit and Control Committee reviewed the main non-audit services provided by PriceWaterhouseCoopers in 2015, which were mainly advisory services on the disposal of asset portfolios, advice on drafting the Recovery Plan, review procedures in asset securitisation transactions, security of payments via the internet and cybersecurity, prevention of money-laundering, and Solvency II. All these tasks were undertaken in conformity with the independence requirements contained in the consolidated text of the Audit Act, enacted by Legislative Royal Decree 1/2011, of 1 July, and in the Audit Technical Standards issued by Spain's Institute of Accounting and Auditing.

To verify the group's compliance with statutory limits on concentration of auditing business, the Committee reviewed the proportion which the fees paid to PricewaterhouseCoopers by the Group represent in the firm's total annual revenue. The share was less than 0.02% of the total for the PricewaterhouseCoopers worldwide organisation, and 0.96% of the total for its Spanish organisation. From information provided by the auditors, the Committee also 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 26 January 2016. Based on the results of its enquiries, the Committee submitted a report to the Board of Directors, before the auditor's 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.

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 supervision and external regulation, at a meeting on 15 December 2015, the external auditors informed the Committee of the main developments in accounting regulations, related to impairment of goodwill, recoverability of deferred tax assets, and credit losses (draft annex IX, IFRS 9) and other regulatory initiatives that are applicable to the Group (MiFID II, MiFIR II, Market Abuse Regulation, and Royal Decree 1060/2015, of 20 November, on regulation, supervision and capital adequacy of insurers and reinsurers).

As part of the Committee's oversight of the auditors' performance of their terms of engagement, at its meeting on 21 July 2015 the auditors reported on the results of their review of the summary consolidated financial statements for the first half of 2015, giving an unqualified opinion.

At a meeting on 26 January 2016, the auditor presented the results of its review of the separate and consolidated financial statements for the year 2015 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 and financial situation of the Bank and the 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 18 March 2015, 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 dissemination of advertisements.

At a meetings on 21 April, 21 July and 20 October 2015 and 26 January 2016, the Committee reported favourably on the quarterly financial statements for the periods ending on 31 March, 30 June, 30 September and 31 December 2015,

respectively, prior to their being approved by the Board of Directors and released to the markets.

At its 21 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 disclosure requirements specified by the CNMV in its Circular 1/2008 of 30 January, and with article 12 of Royal Decree 1362/2007.

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 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 responsibility was met largely through the approval and oversight of the Internal Audit Plan for the year.

The Committee assessed the Internal Audit Department's main lines of action in 2015, 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 2015.

Specifically, as a result of the Risk Assessment, audit activities are structured along 6 main axes: governance, risk and control culture, risk behaviour and reputational risk, capital and liquidity management, strategic risks and emerging risks

The implementation of that Audit Plan resulted in the production of over 500 audit reports whose main findings, along with replies from management to the recommendations contained in them, were evaluated by the Committee.

All meetings held by the Committee were attended by the Director of Internal Audit. The following reports were presented:

- A report on the main internal audit results for the fourth quarter of 2015, at the meeting on 28 January 2015.
- A summary of Internal Audit's annual report on its activities in 2014 and the plan of activities for 2015, at the meeting on 28 January 2015.

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- A report on the main internal audit results for the first quarter of 2015, at the meeting on 21 April 2015.
 - A report on the main internal audit results for the second quarter of 2015, at the meeting on 21 July 2015.
 - A report on the main internal audit results for the third quarter of 2015, at the meeting on 20 October 2015.

The Committee also kept itself fully informed of progress in implementing the recommendations of previous audit reports and each meeting included the presentation of a specific report on the Audit Department's monitoring of the Group scorecard of key quality indicators.

Also, as a result of the inclusion of TSB in the Group, the Committee was informed during the year about the organisation of TSB's internal audit team and the audit plan approved by that company's Audit Committee on 23 April 2015. The Committee was apprised of progress with the plan, and of the plans to integrate TSB's internal audit function with that of the Group, as well as the impact on the IT systems, with the goal of including them in the overall TSB migration plan.

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 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 28 January 2015, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Executive Committee on the corporate governance structure and practices at Banco de Sabadell, S.A. in 2014.

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.

Also included in this section was the report on related party transactions referred to in recommendation 6 of the new corporate governance code for listed companies, approved by the Board of the CNMV on 18 February 2015. Additionally, and in view of best practices in corporate governance, the Committee reviewed the corporate transactions performed by the Bank during the year, including those with directors, significant shareholders and shareholders with Board representation, and their related parties, and a favourable report was submitted to the Board of Directors, where necessary. Specifically, in relation to the latter, at a meeting on 17 September 2015, the Audit and Control Committee expressed a favourable opinion on the related party transaction whereby Banco de Sabadell, S.A. acquired 8,238,084 shares of Colombian bank GNB Sudameris, S.A., representing 4.99% of its capital, whose indirect majority shareholder is Starmites Corporation S.a.r.l., a company related to a significant shareholder of the Bank.

Treasury shares

In conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 setting out recommended principles and practices to be observed by issuers of securities and by financial intermediaries acting for issuers engaging in discretionary trading in their 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 its conformity to the regulator's recommendations.

Self-assessment

In line with corporate governance standards, the members of the Audit and Control Committee carried out a self-assessment and submitted a report on the Committee's performance to the Board of Directors for consideration at its meeting on 15 December. The report found that the Committee had discharged its duties properly and had conducted sufficient debates on the basis of the information and documentation submitted to it, which was considered to be sufficient.

The directors expressed their satisfaction with their performance in all the items that were analysed, particularly the active participation by all members in discussions at Committee meetings and the quality of the debates about the items on the agenda, as well as the members' willingness to conform to corporate governance standards, as evidenced by, among other factors, their flexibility to extend the Committee meetings where the items being discussed required more time.

Reports from supervisory authorities

In 2015, the Committee received information about the conclusions of the reports issued by the supervisory authorities. From the information provided, the Committee was 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 Director of Internal Audit and the external auditor, the Committee was able to conclude that the financial statements 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 also able to verify that all business, financial and legal risks to which Banco de Sabadell, S.A. and its subsidiary undertakings might be exposed are described clearly and straightforwardly in the financial statements and the report of the Directors. Finally, it reviewed the contents of the auditor's report to ensure that the opinion on the financial statements and the main findings of the auditor's report are expressed in a clear and precise way.