



**Banco de Sabadell, S.A.  
Report on the activities of the Audit  
and Control Committee  
2017**

**March 2018**

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## Introduction

### Presentation

This Report on the activities of the Audit and Control Committee for 2017, addressed to the shareholders of Banco de Sabadell S.A. (hereinafter Banco Sabadell or the Bank), was drawn up by the Audit and Control Committee at its meeting on 5 March 2018 and will be submitted to the Board of Directors of Banco de Sabadell S.A. for approval at its meeting on 8 March 2018.

This report describes the activities that the Audit and Control Committee carried out in 2017 in discharging 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 Banco Sabadell's commitment to providing shareholders and investors with the information they need to keep themselves fully informed of the Company's corporate governance and to ensure that it is transparent in everything that it does.

### Regulations

Article 60 of the Articles of Association and Article 13 of the Regulation of the Board of Directors contain basic regulations governing the composition and functioning of the Audit and Control Committee which, in addition, is governed by its own regulations which establish its rules of procedure and powers.

### Composition and attendance at meetings in 2017

At the end of 2017, the Committee was comprised exclusively of non-executive directors, four of whom were independent directors and one an external director. They 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.

The composition of the Committee underwent the following changes in 2017:

- The Board of Directors of Banco Sabadell, at its meeting on 30 March 2017, held after the Ordinary General Shareholders' Meeting, agreed to

appoint the independent director Mr. Manuel Valls Morató as member and Chair of the Audit and Control Committee, in replacement of Ms. María Teresa Garcia-Milà Lloveras, who continues as a member of the Committee.

- As a result of the resignation from the position of director of Mr. Joan Llonch Andreu due to the ending of his term of office, and, consequently, the termination of his position as member of the Committee, the Board of Directors agreed on 25 May 2017 to appoint the external director Mr. José Manuel Lara García as a member of the Audit and Control Committee.
- Finally, on 21 December 2017, the Board of Directors resolved to appoint the independent director Mr. Pedro Fontana García as a member of the Audit and Control Committee.

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.

Section C.2.1. of the Annual Corporate Governance Report, available on the website at [www.grupobancosabadell.com](http://www.grupobancosabadell.com), contains detailed information about the Audit and Control Committee.

As regards the appointment of the members of the Audit and Control Committee by the Board of Directors as proposed by the Appointments Committee, this appointment has taken into account their knowledge, abilities and experience in respect of finance, accounting, auditing, risk management and internal control, so that, as a whole, the members of the Committee possess the appropriate technical knowledge required to carry out their functions. Specifically, the Chair of the Committee is a qualified auditor and a currently non-practising member of the Registro Oficial de Auditores de Cuentas with extensive experience in the auditing of company accounts.

Further information regarding the abilities, knowledge and experience of each of the members of the Committee is available in the corporate governance section of the Group's website ([www.grupobancosabadell.com](http://www.grupobancosabadell.com)).

As of 31 December 2017, the members of the Audit and Control Committee were as follows:

Position	Name	Category	Date of first appointment
Chair	Manuel Valls Morató	Independent	30-03-2017
Members	M. Teresa Garcia-Milà Lloveras	Independent	29-03-2007
	José Manuel Lara García	External	25-05-2017

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	José Ramón Martínez Sufrategui	Independent	24-07-2014
	Pedro Fontana García	Independent	21-12-2017
Secretary (not a director)	Miquel Roca i Junyent	-	-

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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 six times in 2017, in line with the schedule established at the beginning of the year, with the meetings lasting as long as necessary to debate the points on the agenda and adopt the appropriate decisions.

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. In this respect, in 2017 the Chair of the Committee held five preparatory meetings with executives of the Bank and with the external auditor on matters relating to the powers of the Audit and Control Committee.

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 of members of the committee at meetings in 2017 was as follows:

#### Number of meetings and attendance\*

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Manuel Valls Morató	4 / 4
M. Teresa Garcia-Milà Lloveras	6 / 6
José Manuel Lara García**	1 / 3
José Ramón Martínez Sufrategui	6 / 6
Joan Llonch Andreu	3 / 3

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\* Number of meetings attended by the director in relation to the number of meetings held during the period of 2017 in which he/she was a member of the Audit and Control Committee.

\*\* The member granted proxy with specific instructions in the two meetings for which he was absent.

In order to detail matters pertaining to their respective functions, Banco Sabadell executives responsible for the issues to be discussed attended meetings whenever asked to do so.

Representatives of the firm of external auditors also attended meetings to present plans for the audit work, the most important aspects identified during the audit and the results thereof.

The figure below shows the approximate time devoted to each function at the meetings of the Committee in 2017.



The Secretary took detailed minutes of every meeting, which were approved at the end of the meeting itself or at the next meeting. The Board of Directors was promptly informed of the content of those meetings.

## Functions

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, those defined in Article 13 of the Regulation of the Board of Directors, as well as all the functions set out in the Rules of Procedure of the Audit and Control Committee and those attributed to it by law.

The Committee has 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

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- 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. Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.
  10. All other functions attributed to it by law and by the Articles of Association and the regulations implementing them.

## Training

Over the course of the year, as part of the 2017 Directors' Training Programme, various training sessions were given to members of the Board of Directors, including the members of the Audit and Control Committee, on issues relevant to their responsibilities, especially prudential banking regulation and new emerging risks.

## Activities in 2017

### 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 and the Risk Department, 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 eight: 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 28 March 2017 and on the basis of the internal audit conducted for this purpose, the Committee reviewed the content of the "Pillar III Disclosures" document dated 31 December 2016. 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:

At its 25 April 2017 meeting, the Committee reviewed the Internal Capital Adequacy Assessment Progress (ICAAP) report presented by the Finance Department on governance and risk management and control systems, and reached a favourable conclusion regarding their appropriateness to the group's risk profile, and the capital levels of the Banco Sabadell Group on a consolidated basis that ensure compliance with regulatory requirements. At the same meeting, the Internal Liquidity Adequacy Assessment Process (ILAAP) report was also reviewed. Based on this report, the Committee was able to verify that the Banco Sabadell Group has a liquidity position that enables it to honour its payment commitments at a reasonable cost, under business as usual conditions or under a stress situation, that the group has a

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stable and balanced funding structure in line with its risk appetite and risk management strategy, and that it has a sound governance framework in respect of the management and control of liquidity risk and funding.

In 2017, the Committee also received information about the conclusions of the reports issued by the supervisory authorities and the proper implementation of the improvements proposed by the regulatory bodies.

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

At 2017 year-end, the Financial Control Department presented an overall report on the Internal Control over Financial Reporting (ICFR) System to the Audit and Control Committee. The report referred mainly to the operation of the platform that generates the accounts, including the number of controls, distinguishing between automatic and manual controls, a summary for the bank's main transactions of the key controls used to cover the ICFR assertions defined in CNMV Circular 5/2013, and a satisfactory conclusion as to the execution of the controls in the accounting close.

Also, in 2017, the Banco Sabadell's Audit and Control Committee approved the Audit Plan that sets out the specific supervisory activities in respect of the System of Internal Control over Financial Reporting (ICFR). The plan provides for tests on areas considered to be of key importance within the group including critical controls of period-end closing procedures, reviews of judgements and estimates, and general controls on reporting systems.

The Audit and Control Committee supervised the reports issued by the Internal Audit Department in relation to the review of the ICFR and approved the action plans presented by the Internal Audit Department for remedying any control weaknesses that were identified.

In addition, the Audit and Control Committee received the external auditor's report regarding the information in respect of the ICFR, which did not disclose any issues.

### **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 financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication. To this end, the Chief Financial Officer and other heads of the Finance Department attended all the Committee's meetings in 2017 which they were asked to attend to present the regular financial disclosures.

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At a meeting on 28 March 2017, the Committee reviewed and reported favourably on the Share Registration Document of Banco de Sabadell 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 meetings on 25 April, 26 July and 24 October 2017 and 30 January 2018, the Committee reviewed the quarterly financial statements for the periods ending on 31 March, 30 June, 30 September and 31 December 2017, respectively, prior to their being authorised by the Board of Directors and released to the markets.

In order to carry out this review, the Chair of the Committee held preparatory meetings with the Internal Audit Department, with the Finance Department and with the external auditor. Moreover, various parties took part in the Committee's meetings in order to present aspects pertaining to financial information:

- The Finance Department was present at six meetings in 2017 and also at the meeting held on 30 January 2018 to present the half-yearly or annual financial statements or accounts, according to the period, and the accounting standards used in their preparation as well as other financial information.
- The auditor attended four meetings in 2017 and the meeting of 30 January 2018 to present the results of the audit, as described below.

Also in 2017, the Audit and Control Committee received information from the Finance Department regarding the implementation of IFRS 9 and its main impacts.

In accordance with the CNMV's Technical Guide 3/2017 regarding audit committees at public-interest entities, which lists functions for the Audit and Control Committee in relation to ensuring that financial and relevant non-financial information disclosed is clear, complete and up to date, the Committee oversaw the actions being taken by the group to prepare and implement a policy that takes regulatory requirements in this respect into account. These actions consist mainly of the analysis of the process of the preparation, review, approval and publication on the website of financial and relevant non-financial information.

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- The definition and implementation of policy in respect of the disclosure of financial and relevant non-financial information for the group, with the

aim of laying down corporate principles and control criteria for the preparation, review, approval and publication process.

### Functions related to auditing

At a meeting on 24 January 2017, the Committee reviewed policy on engagement and, as a result of this review, 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 2017. The Board of Directors resolved to submit the Committee's recommendation to the General Meeting of Shareholders, which approved it on 30 March 2017.

The Committee reviewed and approved the auditor's fees for 2017. Details of fees paid to auditors can be found in the financial statements, and below:

<i>€'000</i>	
Audits	4,736
Audit-related services	321
Non-audit services	832
<b>Total</b>	<b>5,889</b>

The audit work is broken down below:

<i>€'000</i>	
Audit of the bank's separate and consolidated financial statements	1,183
Audit of the financial statements of the Group's subsidiaries in Spain	737
Audit of the financial statements of the bank's branches in other countries	197
Audit of the financial statements of subsidiaries in other countries	2,619
<b>Total</b>	<b>4,736</b>

The main services in relation to the audit were regulatory reports and reviews in respect of money laundering and terrorism finance, the protection of customers' assets and compliance with requirements regarding asset issuance programmes, and reports on limited review and agreed-upon procedures for the financial statements of certain group companies not required to carry out statutory audits.

The various non-audit services are broken down below:

<i>€'000</i>	
Due diligence services for the Banco de Sabadell, S.A.'s debt portfolio.	450
Information reporting benchmarking services provided for	47

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subsidiaries		
For the TSB Banking Group PLC:		239
An independent report on compliance with regulatory reporting	33	
Reports on agreed-upon procedures related to the bonds issued by the Group	206	
Tax services		92
Other		4
	<b>Total</b>	<b>832</b>

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In order to comply with the requirements in respect of the engagement of non-auditing services from audit companies and their network established in the Banco Sabadell Group's policy for safeguarding the independence of the auditor which was approved by the Audit and Control Committee on 19 April 2016, the Audit and Control Committee reviewed the main non-audit services provided by PricewaterhouseCoopers in 2017. All such work complies with the independence requirements set out in Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909.

The ratio between the amount billed by the main auditor for non-audit services (832 thousand euros in 2017) and the total fees billed by the audit firm was 0.14 in 2017 (0.22 in 2016). By way of reference, and according to the information available on listed Spanish financial entities, the average amount billed for non-audit services in 2016 was around 0.15 times the total fees billed to those entities by the audit firms.

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 0.97% 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 26 July 2017 and 30 January 2018.

In accordance with the results of these verifications, prior to the publication of the audit report, the Committee issued a favourable report to the Board of Directors regarding the auditors' independence.

As regards the carrying out of the audit, the Committee remained in contact with the external 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. In this respect, the auditor attended five of the Committee's meetings and presented the following aspects:

- As regards external oversight and control, the external auditors informed the Committee, at its meeting of 26 July, of the main new features regarding the content of the new audit opinion report.
- As part of the Committee's oversight of the auditors' performance of their terms of engagement, and as regards the strategy and plan of work in relation to the audit of the Bank, the auditors presented the Committee with the scope of the audit as defined by prevailing audit rules and regulatory requirements. The Committee also received information about the work schedule, the process followed to determine materiality, and the quality control system established for the audit work.

As regards audit resources, the Committee oversaw the composition of the team comprising professional banking business experts, the IT audit specialists team and the team of specialists in credit risk and foreclosed assets (Risk for Audit) which reviewed compliance with the requirements of Annexe IX of Bank of Spain Circular 4/2016 on the calculation of impairment and pre-assurance in relation to the implementation of IFRS 9.

- At its meeting on 26 July 2017, the auditors reported to the Committee on the results of their review of the summary consolidated accounts for the first half of 2017. At this meeting, the auditors presented the work carried out and the main audit conclusions on key questions (impairment due to credit risk and foreclosed assets, the recoverability of goodwill, provisions for legal and regulatory lawsuits, and the automation of financial reporting systems). The audit report was issued with a favourable opinion, as no audit adjustments were identified, in accordance with technical audit rules.
- At a meeting on 30 January 2018, the auditor presented the results of its review of the separate and consolidated accounts for the year 2017 and expressed the opinion that, as in previous years, the accounts presented a true and fair view, in all material respects, of the equity and financial position of the Bank and the group at 31 December 2017, and of the results of their operations and their individual and consolidated cash flows for the year ended on that date as required by international financial reporting standards and regulations adopted by the European Union, and other financial reporting regulations applicable

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in Spain. In relation to the audit work, at said meeting the Committee reviewed with the auditor the way in which they had dealt with key questions of the annual audit which coincided with those identified in the half-year audit in addition to the entry into force of IFRS9 "Financial instruments" in 2018.

In addition, the Committee reviewed in depth the additional report presented by the auditors to the Audit and Control Committee in relation to the audit for the year ended 31 December 2017, required to comply with Article 36 of Act 22/2015, of 20 July 2015, on Auditing, and Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

### Functions related to the internal audit

This responsibility was met largely through the approval and oversight of the Internal Audit Plan for the year. As a result of the growing internationalisation of the Group, in 2017 the Internal Audit Department presented a global 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 the following types of action:

- 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.
- Local actions: actions specific to the bank or one of the group subsidiaries, affecting only one company.

The Committee reviewed in detail the execution of the audits planned for each geography, their scope and the human/financial resources allocated to them.

The execution of the Audit Plan in 2017 resulted in the preparation of 448 audit reports, almost completely fulfilling the audit plan. The main results were assessed by the Committee as were the responses of Management to the recommendations of these audit reports.

In 2017 the Internal Audit Department attended all meetings of the Audit and Control Committee in order to present the main findings of its work as well as the work it plans to perform in the next period.

Prior to the meetings of the Audit and Control Committee, the Chair of the Committee met with the Internal Audit Department to review and obtain a better understanding of the matters to be discussed at the committee's meetings.

At the meeting on 30 January 2018, the Annual Report on Activities was presented to the Committee by the Internal Audit Department, detailing all the work performed and the degree to which the plan approved by the Committee was fulfilled.

Also, in 2017 the Committee verified that the internal audit function was independent and objective in discharging its duties, had the appropriate resources and access to information to be able to fulfil its functions, and that it was equipped to act in accordance with the professional standards that are applicable to internal auditing. Based on regular monitoring, 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 2017 the Committee received information about the internal evaluations of the internal audit function in order to satisfy itself that the function's objectives, policies and procedures adhere to those international standards. Based on the foregoing, the Committee was able to evaluate the adequacy and effectiveness of the internal audit function and the performance of its head, which was communicated to the Remuneration Committee and the Board in order to determine his/her variable remuneration.

At its meeting on 30 January 2018, the Audit and Control Committee reviewed, approved and referred to the Board the Internal Audit Strategic Plan for 2018-2020, the goal of which is to be used as the basis for supervising the Group's risk management and internal control during the next three years. This plan was based on an evaluation of the Group's strategic objectives established in the 2018-2020 Master Plan, of the business risks arising from the current economic context, and the systems for analysis, measuring and control adopted by the Group, together with the supervisor's requirements and regulatory requirements. The Committee also reviewed, approved and referred to the Board the Internal Audit Activities Plan for 2018 with the execution of

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the audits planned for each geography, their scope and the human/financial resources allocated to them.

The Committee was informed of the contents and the main impacts of Technical Guide 3/2017 on Audit Committees at Public-Interest Entities, published by the CNMV in June 2017. As a result of this presentation, the Committee asked the Internal Audit Department to prepare a report to assess the extent to which the recommendations established in the Technical Guide issued by the CNMV are being implemented. As a result of this analysis, presented at the meeting of 19 December, it was concluded that the functioning of the Audit and Control Committee meets the principal recommendations of the Guide and has no significant weaknesses, with a plan of action being established to adapt the functioning of the Audit and Control Committee to the CNMV's Technical Guide which will be completed in the first quarter of 2018.

#### **Functions related to compliance with legal and regulatory requirements, codes of good governance and corporate social responsibility policy**

In respect of the governance of the Bank's activity, at its meeting on 30 January 2018, the Committee decided to report favourably to the Board of Directors in relation to the report on the corporate governance structure and practices at Banco Sabadell S.A. in 2017 that had been submitted by the Executive Committee.

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.

By reviewing these reports, the Committee also received information on the functioning of the whistleblower channel, including the number of complaints received, their source and type, the outcome of investigations and proposed actions.

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) and subsequent amendments to same, 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.

Also, 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.

### **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.

### **Functions related to the analysis of related-party transactions**

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, the Committee has verified that the related-party transactions carried out during the year met the terms and conditions established by prevailing regulations so as not to require authorisation by the governing bodies, or obtained a prior favourable report by the Committee, after having verified that the consideration and other conditions proposed were within market parameters.

The Committee has also reviewed information regarding related-party transactions contained in the annual accounts.

### **Principal progress in relation to the Plan of Action for 2017**

During the year, the Audit and Control Committee took into consideration the Plan of Action established for 2017 in its plan of activities for the year, which mainly comprised the following specific projects:

- In relation to the implementation of the policy approved by the Committee in 2016 for safeguarding the independence of the auditor, 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, the Committee received information and oversaw the implementation of that policy via the development of rules

of procedure which are of obligatory application to all the units of the group.

- As regards fostering co-operation activities with the audit committees of significant group subsidiaries, especially the Audit Committee of TSB, during the year the Committee received information regarding the activities of the Audit Committee of TSB via specific meetings held between the Chairs of both committees to discuss questions and/or areas of attention on important aspects such as TSB's Technological Migration Project. The Committee also oversaw the appropriate functioning of the protocol for functional coordination and cooperation for relations between the group's Internal Audit Department and the audit functions of Banco Sabadell's international subsidiaries.

It also oversaw the satisfactory implementation of the GOAL Internal Audit Programme (Global Operating Model for effective Audit Leadership) whose aim is to ensure consistency between the approaches and methodologies applied in audits throughout the group.

- In relation to the supervision and insurance of the group's main risks, the Audit and Control Committee made progress on establishing channels for the coordination of activities with the Risk Committee, principally through the following measures:
  - a) At least one of the members of the Audit and Control Committee is also a member of the Risk Control Committee.
  - b) The minutes of each meeting of the Risk Control Committee will be sent to the Chair of the Audit and Control Committee by the head of the entity's Risk Control function.
  - c) Treatment of common issues by both committees.

### Annual evaluation of the functioning of the Audit and Control Committee

Article 529 nonies of the Capital Companies Act, establishes the obligation of the Board of Directors to annually evaluate its own performance and that of its sub-committees and propose, on the basis of the results, a plan of action to correct any deficiencies detected.

In addition, the Code of Good Governance of Listed Companies recommends that, every three years, the board of directors of listed companies should engage an external consultant to aid in the evaluation process.

Accordingly, at a meeting of the Appointments Committee held on 24 November 2017, the appointment of an external consultant was approved to carry out the annual evaluation of the functioning of the Board of Directors and

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of its sub-committees. This appointment was ratified at the meeting of the Appointments Committee on 21 December 2017 after confirmation that said external auditor met the conditions for accepting the task, and the Board of Directors was informed of this on 21 December 2017.

The external evaluation concluded that the functioning of the Audit and Control Committee in 2017 had been satisfactory, having complied with the functions attributed to it in accordance with article 60 of the Articles of Association, Article 13 of the Regulation of the Board of Directors, and its own Rules of Procedure in respect of organisation and functioning. The size and composition of the Committee were deemed satisfactory for the proper performance of its functions, as were the documents provided, the preparation of meetings, the level of involvement and attendance, and the participation in discussions by all its members.

In addition, the external consultant made a very positive evaluation of the orderly nature of debates and appropriate leadership of these by the Chair, as well as the high degree of co-ordination with the Risk Control Committee in respect of matters of common interest to both committees.

### Conclusions and Plan of Action for 2018

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 regards 2018, 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 two-pronged plan to the Board of Directors:

- Carry out the usual activities of oversight and advice to the Board within the scope of its powers, ensuring the satisfactory functioning of the Committee and compliance with the requirements of Technical Guide 3/2017 on Audit Committees at Public-Interest Entities, published by the CNMV in June 2017, and, specifically, monitor the action plan established to adapt the Committee's functioning to same.
- As a result of the annual evaluation:
  - As part of the Board's training plan, specific topics of interest to members of the Audit and Control Committee will be included.
  - Continue to meet the deadlines envisaged in the Rules of Procedure of the Committee for the submission of the documents for each meeting, except for those documents that, due to their

characteristics and deadlines for submission, must be presented exceptionally and justifiably within a shorter period of time.

- Continue to promote continual and fluid communications with the auditor through regular meetings both with the Audit and Control Committee and with the Board of Directors with the aim of obtaining information about their opinion of the performance of the entity's accounting and risks.