



**Banco de Sabadell, S.A.  
Report on the performance of the Audit  
and Control Committee  
2018**

February 2019

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## Introduction

### Presentation

This report on the performance of the Audit and Control Committee in 2018 is addressed to the shareholders of Banco de Sabadell, S.A. (Banco Sabadell or the Bank), and it was prepared by the Audit and Control Committee (the Committee) at its meeting on 20 February 2019 and submitted for the approval of the Board of Directors of Banco Sabadell at its meeting on 21 February 2019.

The report sets out the activities performed by the Audit and Control Committee in 2018 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.

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 General Meeting of Shareholders underlines once again 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 performance and to ensure that it is transparent in everything that it does.

### Regulation

Article 60 of the Articles of Association and article 13 of the Regulation of the Board of Directors set out the basic rules governing the composition and performance of the Audit and Control Committee, which is also governed by the Audit and Control Committee's Rules of Procedure, which establish the rules relating to its performance and remit. The Committee follows the EBA Guidelines on Internal Governance (EBA/GL/2017/11) and the Spanish National Securities Market Commission (CNMV) 3/2017 Technical Guide on Audit Committees at public-interest entities.

### Composition and attendance at meetings in 2018

At the end of 2018, the Committee was comprised exclusively of non-executive directors, all of whom, including the Chair, were independent directors. They have the necessary knowledge, skills and experience in accordance with the composition rules set out in article 60 of Banco Sabadell'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 2018:

- On 24 May 2018, the non-executive director Mr. José Manuel Lara García submitted his resignation as member of the Board of Directors by means of a letter addressed to all members of the Board of Directors, in which he explained that the reason for his resignation was to stand aside from the management carried out by Inversiones Hemisferio and Grupo Planeta, and he also resigned as 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.

The appointment of the members of the Audit and Control Committee by the Board of Directors at the proposal of the Appointments Committee took into account their knowledge, skills and experience in the areas of finance, accounting, auditing, risk management and internal control, so that, taken as a whole, the Committee members have the relevant technical knowledge that is required. Specifically, the Chair of the Committee is a *qualified* auditor and a currently non-practising member of the Official Register of Auditors in Spain (*Registro Oficial de Auditores de Cuentas*) with extensive experience in auditing company accounts.

Further information on the skills, knowledge and experience of each of the Committee members can be found in the corporate governance section of the Group's website ([www.grupobancosabadell.com](http://www.grupobancosabadell.com)).

As of 31 December 2018, 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	Pedro Fontana García	Independent	21-12-2017
	M. Teresa García-Milà Lloveras	Independent	29-03-2007
	José Ramón Martínez Sufrategui	Independent	24-07-2014
Secretary (non- director)	Miquel Roca i Junyent	-	-

As provided in the Committee's Rules of Procedure, it must meet as often as necessary, and at least once every three months. The Committee met on twelve occasions in 2018, following the programme of dates set at the beginning of the year, and the duration of the meetings was that required to discuss the matters on the agenda and to adopt the relevant decisions.

The Audit and Control Committee may request the attendance at its meetings of such executives, even if 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, the Committee Chair held five preparatory meetings in 2018 with the Institution's executives and with the external auditor on matters within the Audit and Control Committee's remit.

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

The attendance by the Committee members at the meetings in 2018 was as follows:

#### Number of meetings and attendance\*

Manuel Valls Morató	12 / 12
Pedro Fontana García**	10 / 12
M. Teresa Garcia-Milà Lloveras	12 / 12
José Manuel Lara García**	3 / 6
José Ramón Martínez Sufrategui**	11 / 12

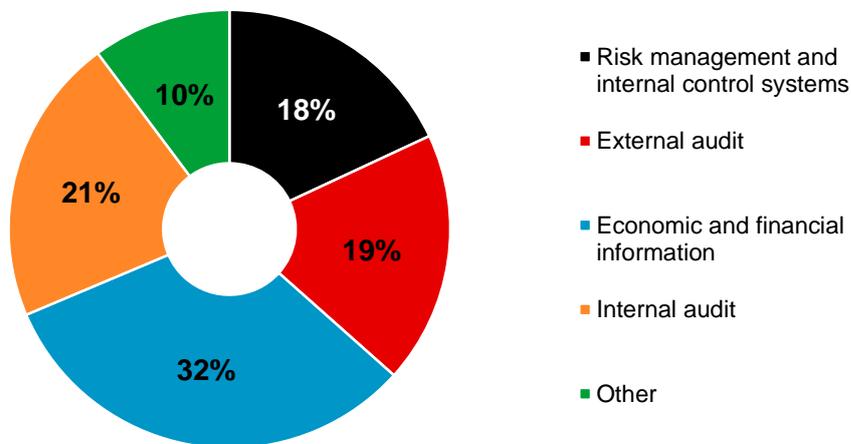
\* Number of meetings which the director attended with respect to the number of meetings held during the period in 2018 in which he/she is or was a member of the Audit and Control Committee.

\*\* The committee member gave specific instructions to a proxy for meetings from which he/she was absent.

In order to explain the areas relating to their respective functions, meetings were also attended by the Banco Sabadell executives responsible for the matters dealt with at the respective meetings, whenever they were invited.

The representatives of the external audit firm also attended to present the audit engagement planning, the most relevant matters observed in the course of the audits and the audit outcomes.

The figure below shows the approximate time devoted to each function at the meetings of the Committee in 2018.



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 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

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- 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 the Articles of Association and the regulations implementing them.

## Training

The Directors Training Programme continued in 2018, including the members of the Audit Committee, with training sessions relating to IFRS 9, investor relations and proxies policy, means of payment and clearing systems, digital presence and competitive environment.

## Activities in 2018

### 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 and control systems as described in reports prepared by the Risk, Finance and Internal Audit Departments.

In compliance with the market disclosure requirements in the framework of Part Eight: "Disclosure by Institutions" of Regulation (EU) No 575/2013 of the European

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Parliament and of the Council of 26 June 2013 (Capital Requirements Regulation; CRR), at its meetings of 16 April and 27 September 2018 and on the basis of the external audit performed for the purpose, the Committee reviewed the content of the "Pillar III Disclosures" at 31 December 2017 and 30 June 2018. At those meetings, 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.

In addition, in accordance with Banco de Sabadell S.A.'s Disclosure Policy on financial and non-financial information, the interim quarterly Pillar III disclosures for the first and third quarters of 2018 were submitted to the Audit and Control Committee.

At a meeting on 16 April 2018, the Committee reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2017 submitted by the Finance Department in connection with risk governance, management and control systems, and concluded that they conformed to the institution's risk profile and reached a favourable conclusion as to the Banco Sabadell Group's consolidated capital, which assures coverage of the regulatory requirements. At the same meeting it also reviewed the Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the contents of the report, the Commission was able to conclude that the Banco Sabadell Group has a liquidity position that enables it to meet payment commitments at a reasonable cost, either under normal conditions or in a situation of stress, that the group has a stable and balanced funding structure, in line with the risk appetite and the defined risk management strategy, and that a robust governance framework is in place for managing and controlling liquidity and funding risk.

In 2018, the Committee also received information about the conclusions of the reports issued by the supervisory authorities and on the implementation of the improvement measures proposed by the regulatory bodies. Also, in the area of the supervision by the European Central Bank, the Committee Chair met with representatives of the Banking Supervisor on 6 November 2018.

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

At each financial close, the Finance Department assesses the internal control model, considering its frequency, the risks in the financial reporting processes, and the adequacy and effectiveness of the controls that mitigate them, and it produces and custodies evidence that each specific control was performed. The Finance Department also continuously evaluates aspects that may lead to changes in the internal control model, including regulatory changes, the introduction of new products and amendments to Banco Sabadell's processes, identifying the risks associated with them and designing controls to mitigate them; it also reviews the

criticality of the controls and the changes in the materiality of processes with an accounting impact.

At 2018 year-end, the Department of Control over Financial Reporting submitted a report to the Audit and Control Committee describing the main changes in the System of Internal Control over Financial Reporting (ICFR) and, in particular, the new risks and controls incorporated into the ICFR in the year.

Also, in 2018, the Audit and Control Committee approved the Audit Plan setting out a detailed programme for the supervision of the group's ICFR. The Plan includes the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2018; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. Also, the general controls over reporting systems were reviewed annually.

The Audit and Control Committee supervised the relevant reports issued by Internal Audit in relation to ICFR evaluation and it approved the action plans submitted by the Internal Audit Department to rectify the internal 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 trading and 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 CFO and other senior members of the Finance Department attended all the meetings held by the Committee in 2018 to which they were invited in order to submit these financial reports.

At a meeting on 5 March 2018, the Committee reviewed and reported favourably on the Share Registration Document of Banco Sabadell filed with the National Securities Market Commission (CNMV) in accordance with Commission regulation (EC) No 809/2004 of 29 April 2004 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 the meetings on 25 April, 24 July and 23 October 2018 and 28 January 2019, the Committee supervised the quarterly financial statements as of 31 March, 30 June, 30 September and 31 December 2018, respectively, prior to their approval by the Board of Directors and their disclosure to the markets.

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In order to perform these reviews, the Committee Chair held preparatory meetings with the Internal Audit Department, the Finance Department and the external auditor. Also, various representatives attended the Committee meetings to present matters relating to trading and financial reports:

- The Finance Department attended eleven meetings in 2018 and also the meeting on 28 January 2019 to submit the financial statements or the half-yearly or annual accounts, depending on the period, and the accounting criteria used to prepare them, and other trading and financial reports.
- The auditor attended six meetings in 2018 as well as the meeting on 28 January 2019 to present the outcome of the audit, as described below.

Also, in 2018, the Audit and Control Committee received information from the Finance Department on the implementation of IFRS 9 - Financial Instruments, which entered into force on 1 January 2018 and entailed the amendment of all the accounting requirements for the recognition and measurement of financial assets and liabilities. Also, it analysed the impact of the first-time application of IFRS 16 which basically affects the accounting for the leases of the properties and offices in which the Group performs its activities.

In 2018 the Committee reviewed the most significant judgements and estimates used by the Group in the preparation of the financial statements and the impact of the most significant transactions that arose in 2018 (property asset transfers and TSB technology migration project). Also, the Committee received information from the Tax Advisory Department regarding the fiscal strategy policy applied in the Group.

In accordance with CNMV Technical Guide 3/2017 on Audit Committees at Public-Interest Entities, detailing greater functions for the Audit and Control Committee in relation to the review of the clarity, integrity and updating of relevant public financial and non-financial disclosures, the Committee supervised the implementation and update of the Group's relevant financial and non-financial disclosure policy with a view to establishing corporate principles and control criteria in the preparation, review, approval and publication processes.

Specifically, in view of the entry into force of Act 11/2018 on non-financial disclosures and diversity, the Committee paid particular attention to the Statement of Non-Financial Information and, in particular, to the information contained in it relating to environmental and social matters, the respect for human rights, the fight against bribery and corruption and matters relating to staff, which was subject to an independent verification process by the firm PricewaterhouseCoopers Auditores, S.L.

### Functions related to auditing

At a meeting on 30 January 2018 it reviewed the engagement criteria and, as a result of that review, it proposed to the Board of Directors the renewal of the

engagement of audit firm PricewaterhouseCoopers Auditores, S.L. as auditors of the separate and consolidated financial statements for 2018. The Board of Directors resolved, in turn, to submit that proposal to the General Meeting of Shareholders held on 19 April 2018, which approved it.

The Committee reviewed and approved the auditor's fees for 2018. Details of fees paid to auditors can be found in the financial statements, and below:

€'000

Audits	6,488
Audit-related services	659
Non-audit services	575
<b>Total</b>	<b>7,722</b>

The audit work is broken down below:

€'000

Audit of the bank's separate and consolidated financial statements	1,080
Audit of the financial statements of the Group's subsidiaries in Spain	759
Audit of the financial statements of the bank's branches in other countries	221
Audit of the financial statements of subsidiaries in other countries	4,428
<b>Total</b>	<b>6,488</b>

The main audit services related to regulatory reviews and Pillar III Disclosures, anti-money laundering and terrorist financing, customer asset protection and compliance with the requirements relating to asset issuance programmes, as well as limited review reports and reports on agreed-upon procedures with respect to the financial statements of certain Group companies not obliged to perform a statutory audit.

The non-audit services are detailed below:

€'000

Due diligence services on the Banco de Sabadell, S.A. debt portfolio		100
Sabadell Information Systems, S.A.		383
Evaluation and improvement of the suspicious transaction detection system in the area of Anti-Money Laundering	199	
Advisory services on trends for the Analytics model	184	
Tax services		68
Review of compliance with the Qualified Intermediary (QI) system	45	
Advisory services on the tax on deposits at credit institutions (IDEC)*	10	
Other tax services outside the EU	13	
Other		24
<b>Total</b>		<b>575</b>

\* Fees related to the challenge of the IDEC in 2012, accrued after notification in 2018 of the Judgment of the Supreme Court of Andalusia.

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In order to fulfil the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to safeguard auditor independence, 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 during 2018. All that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in 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/EC.

The amount billed by the main auditor for non-audit services (€575 thousand in 2018) was 8.86% of the fees for audit services in 2018 (17.57% in 2017).

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 0.023% of the total for the PricewaterhouseCoopers worldwide organisation, and 1.26% of the total for its Spanish organisation.

Additionally, based on information received from the auditors, the Committee vetted 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 on 24 July 2018 and 28 January 2019.

In accordance with the outcome of these verifications, the Committee issued a report expressing a favourable opinion as to the independence of the external auditor, prior to the issuance of the auditor's report.

The Committee remained in contact with the external auditor constantly 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 regard, the auditor attended six Committee meetings and raised the following matters:

- With regard to the supervision of compliance with the audit contract and to the engagement strategy and plan relating to the Bank's audit, the auditors presented to the Committee the scope of the audit as determined by the audit standards in force and by the requirements of the regulators. The Committee also received information regarding the engagement timetable, the process used to determine materiality and the quality control system established in the audit engagements. With regard to the audit resources, the Committee reviewed the composition of the team, comprising professionals with expertise in the banking business, specialists in IT auditing and of specialists in credit risk and foreclosure models.
- As regards the half-yearly condensed consolidated financial statements for the first half of 2018, the auditors presented the outcome of their review to the Committee at the meeting on 24 July 2018. At that meeting, the auditor

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presented the work carried out and the main audit conclusions on the key questions identified (impairment due to credit risk and foreclosed assets, recoverability of goodwill, provisions for litigation, legal and regulatory issues and automation of financial reporting systems). The auditor's report contained an unqualified opinion, since no audit adjustments were identified, in accordance with the Technical Auditing Standards.

- At a meeting on 28 January 2019, the auditors submitted the outcome of their review on the separate and consolidated financial statements for 2018 and stated that, as in previous years, they present fairly the equity and financial position of the Bank and of the Group at 31 December 2018, and their separate and consolidated results and cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union and other provisions contained in the financial reporting standards applicable in Spain. In relation to the audit engagement, at that meeting the Committee reviewed with the auditor the manner in which the key annual audit matters were dealt with in the audit, which coincided with those identified in the half-yearly audit. They also reviewed the content of the ISAE 3000 R limited assurance report on the consolidated Statement of Non-Financial Information for 2018, which contained an unqualified opinion.
- The external auditors also presented the results of their review of the half-year and full-year Pillar III Disclosures to the Audit Committee. As a general conclusion of that review, the auditors stated that the Institution was consistent in the quantitative data published throughout the report, maintaining linearity with the various public reports and the confidential information communicated to the supervisors.

The Committee also reviewed in depth the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2018, as required to comply with the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with 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.

At a meeting on 28 January 2019, the Committee evaluated the activities of PricewaterhouseCoopers as auditors in 2018 and expressed a positive opinion with respect to the quality of the audit and its contribution to the integrity of the financial information. The evaluation took into account the key issues in the Group's relationship model with the auditor: technical quality of the team of professionals and of their work, fees, audit approach, relationship with supervisors and internal quality and control. On the basis of this evaluation, the Committee proposed that the Board of Directors renew the engagement of audit firm PricewaterhouseCoopers Auditores, S.L. as auditors of the separate and consolidated financial statements for 2019.

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Additionally, with respect to the External Audit, on 30 January 2018 the Audit and Control Committee resolved to begin planning an orderly process for selecting the auditor for the years 2020-2022. In 2018 the Committee exercised oversight to ensure that the selection process was carried out in accordance with the criteria established in Regulation (EU) 537/2014, of 16 April, on the specific requirements regarding statutory audit of public-interest entities, and the obligations and responsibilities relating to the selection process contained in Act 22/2015, of 20 July, on Auditing and in the consolidated text of the Capital Companies Act approved by Legislative Royal Decree 1/2010, of 2 July. On the basis of the reasoned recommendation of the Audit and Control Committee, which contained two alternatives and in which it indicated its preference for the firm KPMG Auditores, S.L., the Board of Directors resolved on 20 December 2018 to select KPMG Auditores, S.L. as the auditor of Banco Sabadell and of the consolidated financial statements of the Banco Sabadell Group for 2020, 2021 and 2022 and to propose this appointment at the next General Meeting of Shareholders.

### Functions related to the internal audit

On 26 April 2018, following the supervision of the Audit and Control Committee, the Board of Directors approved the Internal Audit Policy of the Banco Sabadell Group and of Banco Sabadell. In relation to the supervision of the internal audit services, on 24 May 2018, based on a favourable report by the Appointments Committee, Banco Sabadell's Board of Directors resolved unanimously to ratify the Internal Audit Department's reporting lines to the Audit and Control Committee of the Board of Directors, thus reinforcing its function as the organization's third line of defence and its independence and separation from the business lines and activities whose monitoring and control have been entrusted to it, in accordance with the Guidelines on Internal Governance (EBA/GL/2017/11) of 21 March 2018.

The Committee reviewed the implementation of the 2018-2020 Strategic Internal Audit Plan, the objective of which is serve as the basis for the supervision of the Group's internal control and risk management during these 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, measurement and control adopted by the Group, together with the supervisor's requirements and regulatory requirements.

In line with the factors of the current climate and with its planning model, the Internal Audit Department established six focus points on which supervision was centred in 2018. The focus points are detailed below:

- Business management and transformation: this comprises the audit actions whose objective was the supervision of the Group's business model and the transformation projects of the institution's various businesses.
- Normalisation of the Balance Sheet: this comprises all the audit actions aimed at supervising the initiatives of the institution's strategic and

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operating plan regarding the activities aimed at reducing non-performing assets.

- Risk management: this includes the audit actions aimed at supervising the policies, procedures and systems to measure and control the institution's various risks.
- Financial reporting/prudential regulation: all of the audit actions aimed at supervising the financial and non-financial information.
- Compliance, Conduct and Governance: The objective of the actions was to review the established control framework to ensure compliance with the applicable standards on customer protection and market performance, AML/CTF, market infrastructure and internal governance.
- Resources, Persons, Organization, Transactions and Technology: Actions aimed at supervising risk management and the control of the management and evolution of projects with a technological impact, IT risk strategy, business continuity, new digital capacities, outsourcing, cybersecurity and resource management.

The fulfilment of the Audit Plan in 2018 resulted in the production of 443 auditors' reports. The main results were evaluated by the Committee, along with Management's responses to the recommendations of these auditors' reports.

In 2018, the Internal Audit Department attended all the Audit and Control Committee meetings with a view to presenting the main outcomes of the work that had been carried out, as well as that to be carried in the following year.

It should be noted that, prior to the Audit and Control Committee meetings, the Committee Chair met with the Internal Audit Department to review and obtain a greater understanding of the matters to be dealt with in the Committee meetings.

Also, at a meeting on 28 January 2019, the Internal Audit Department submitted the Annual Activities Report to the Committee, which detailed all the work carried out and the degree of coverage with respect to the plan approved by the Committee.

The Committee also exercised oversight in 2018 to ensure 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 ready to act in accordance with the professional standards applicable to internal auditing. Due to regular monitoring of the audit activity, the Committee was able to conclude that the internal audit activity is well positioned and dimensioned to meet the group's needs in this connection.

In accordance with the International Standards for the Professional Practice of Internal Auditing, in 2018 the Committee received the report on the external evaluation of the Internal Audit function carried out by the Spanish Institute of Internal Auditors and by the firm KPMG Auditores, S.L., both of which were selected by the Audit and Control Committee to carry out that evaluation. The content of the evaluation report by the Spanish Institute of Internal Auditors of October 2018,

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presented at a meeting on 19 December 2018, concluded that the Internal Audit activity "Generally Complies" with the International Standards for the Professional Practice of Internal Auditing; "Generally Complies" is the highest grade granted by the Spanish Institute of Internal Auditors, and it means that the Internal Audit procedures, structures and policies comply with the Definition of the Profession, the requirements of the Standards and the Code of Ethics in all material respects.

On the basis of all of the above, the Committee was able to assess the suitability and effectiveness of the internal audit function, as well as the performance of the person responsible for it, which was the subject of evaluation in the meeting of 28 January 2019 and communicated to the Remuneration Committee and to the Board of Directors for the purpose of determining his/her variable remuneration.

Also, at a meeting on 28 January 2019, the Audit Committee reviewed and reported favourably to the Board of Directors on the internal audit plan as well as the budget for 2019, exercising oversight to ensure that the function is equipped with the material and human resources to discharge its duties. At a meeting on 31 January 2019, the Board of Directors was informed of the internal audit activities in 2018 and it approved the annual audit plan for 2019.

#### Functions relating to compliance with the regulatory provisions, legal requirements, codes of good governance and the corporate social responsibility policy

In pursuit of good governance of the Bank's business, at a meeting of 28 January 2019 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 Sabadell, S.A. in 2018.

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 Internal 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 performance of the whistle-blower channel, including the number of complaints received, their origin and types, the results of the investigations and the proposals for action.

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.

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## Treasury shares

In conformity with the recommendations contained the "Recommendations by the CNMV for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares" dated 18 July 2013, 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 relating 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 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 were so authorised based on a favourable report by the Committee, after having verified that the consideration and other proposed conditions were within market parameters.

The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

## Main progress in relation to the 2018 Action Plan

In 2018, the Audit and Control Committee fulfilled the Action Plan established for 2018 in its activities plan for that year, which basically included the following specific projects:

- In 2018 the Committee performed all of the habitual activities of supervision and advisory services to the Board of Directors within its remit, ensuring the adequate performance of the Committee and the full conformity to the requirements of Technical Guide 3/2017 on Audit Committees at Public-Interest Entities published by the CNMV in June 2017. Also, in accordance with the requirements of the Guide, it established a timetable for the mandatory matters to be dealt with in its meetings during the year, with the aim, inter alia, of assisting the organization of tasks, and which will make it possible to focus on significant issues whose regular monitoring is advisable.
- With regard to the Director training plan and the inclusion in it of specific matters of interest to members of the Audit and Control Committee, the Directors Training Programme continued in 2018, with training sessions relating to IFRS 9, the institution's investor relationships and proxies policy, means of payment and clearing systems, digital presence and competitive environment.

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- Also, 2018 saw the continuation of the lines of action to improve early delivery of the documentation made available to the Audit and Control Committee for its review.
  - As regards fostering ongoing fluid communication with the auditor regarding its opinion on the Institution's accounting and risk performance through regular meetings with both the Audit and Control Committee and the Board of Directors, the external auditor attended six meetings of the Audit and Control Committee in 2018 and presented its conclusions at the Board of Directors meeting on 31 January 2019.

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

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

Also, the Good Governance Code of Listed Companies recommends that, at least once every three years, the Board of Directors of a listed company be assisted by an external consultant in carrying out the evaluation.

As provided for in that Code, and as reported in the Report on the performance of the Audit and Control Committee for 2017, an external consultant carried out the annual evaluation of the performance of the Board of Directors and its Sub-Committees in 2017. In view of its satisfactory conclusions and the fact that there were no significant changes in 2018, the Board of Directors performed an in-depth reflection on its own performance and achievements and those of its Sub-Committees, without the assistance of the external consultant.

The committee's performance in 2018 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, reporting on the resolutions adopted and on the proposed resolutions to be adopted by the Board of Directors.

### Conclusions and Action Plan for 2019

All 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.

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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 a plan with the following proposals to the Board of Directors for 2019:

- Give continuity to the Committee's activities planned with the aim of ensuring compliance with the requirements of Technical Guide 3/2017 on Audit Committees at Public-Interest Entities.
- Given the increase in the number of extraordinary meetings held in 2018, programme monthly Audit and Control Committee meetings in 2019 in order to properly cover all the areas within its remit.
- Following the audit tender performed in 2018, supervise the management of the "cooling-in" risk from the beginning of 2019 as well as the transition risk from the beginning of the second half of 2019 up to the issuance of the auditor's report for 2019, between the outgoing auditor and the incoming auditor, in order to ensure an adequate transfer of knowledge and the minimisation of this risk.
- Increase communication with other Audit Committees of Public-Interest Entities of relevance to the Group with the aim of coordinating activities appropriately.
- Continue to promote ongoing fluid communication with the Risk Committee with the aim of obtaining information on the evaluation of the Entity's risks, in particular with regard to their impact on the Bank's financial statements.

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On 20 February 2019, the members of the Audit and Control Committee signed this report on the performance of the Committee in 2018, which will be presented to the Board of Directors and published on the corporate website prior to the date of the General Meeting of Shareholders.