



Banco de Sabadell, S.A.
Risk Committee
Report on functions and activities
2019

27 January 2020

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Introduction

This report on the functions and activities of the Board Risk Committee in 2019 is addressed to the shareholders of Banco de Sabadell, S.A. (Banco Sabadell, the Bank or the Institution); it was adopted by the Board Risk Committee (the Committee) at a meeting on 27 January 2020 and submitted for the approval of the Board of Directors of Banco Sabadell at a meeting on 30 January 2020.

The Report sets out the activities performed by the Board Risk Committee in 2019 to discharge the duties assigned to it in its Regulation by the Board of Directors of Banco Sabadell 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 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 63 of the Articles of Association and article 15 of the Regulation of the Board of Directors set out the basic rules governing the Board Risk Committee, which is also governed by the Board Risk Committee Regulation, approved by the Board of Directors on 24 October 2019, which establishes its rules of procedure, competencies and functions, and the basic rules for its organisation and functioning. Those documents are available on the corporate website www.grupobancosabadell.com.

Through this Regulation, the Board Risk Committee conforms to the legal requirements established in Article 38 of Act 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions, and in Article 42 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26 June, on regulation, supervision and solvency of credit institutions.

It also fulfils the requirements of European law, specifically Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The Committee also complies with the European Banking Authority's Guidelines on internal governance (EBA/GL/2017/11).

Composition and attendance at meetings in 2019

At the end of 2019, the Committee was composed solely of non-executive directors, two of whom were independent and one was "other external"; the Chair was one of the independent directors. The members of the Committee have the necessary knowledge, skills and experience in accordance with the composition rules set out in article 63 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, who have the appropriate knowledge, capacity and experience to fully understand and oversee the Institution's risk strategy and risk appetite; at least two of them must be independent directors and the Chair must be appointed from among the independent directors.

The following change took place in the composition of the Committee in 2019:

Mr. George Donald Johnston was appointed as Chair of the Board Risk Committee in place of Mr. David Vegara Figueras because of the latter's appointment as Chief Risk Officer.

Accordingly, the composition of the Committee fulfils the requirements applicable to credit institutions under Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions.

Section C.2.1. of the Annual Corporate Governance Report, available on the website at www.grupobancosabadell.com, contains detailed information about the Board Risk Committee.

The appointment of the members of the Board Risk 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 risk management and control so as to be able to fully understand and oversee the Institution's risk strategy and risk appetite, in accordance with the provisions of article 5.3 of the Board Risk Committee Regulation, so that, taken as a whole, the Committee members have the pertinent technical knowledge that is required for their function. When appointing members of the Committee, efforts have been made to promote diversity, in terms of gender as well as professional experience, competencies, industry knowledge, international experience and geographical origin.

Further information on the skills, knowledge and experience of each of the Committee members can be found in their professional profiles and in the Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell under "Internal Governance Framework" in the "Corporate governance" section of the Group website (www.grupobancosabadell.com)

As at 31 December 2018, the members of the Board Risk Committee were as follows:

Position	Name	Category	Date of appointment to the Committee
Chairman:	George Donald Johnston	Independent	26/10/2017
Members:	M. Teresa Garcia-Milà Lloveras	Other external	24/07/2014
	Manuel Valls Morató	Independent	25/05/2017
Secretary:	María José García Beato		

As provided in the Committee's Regulation, it must meet as often as necessary, and at least once every two months. The Committee met on eleven occasions in 2019, in accordance with the schedule 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 pertinent decisions.

The Committee may require the attendance at its meetings of such executives, including executive directors, as it sees fit, by notifying the General Manager(s) in question in order to schedule their attendance. The Committee may also require the presence of other directors, executives or professionals of the Institution or Banco Sabadell Group, external experts or any member of the governing bodies of associated companies, whose attendance will be confined to the items on the agenda for which their presence is required.

All meetings of the Committee were announced with at least the required' 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 2019 was as follows:

Number of meetings and attendance

George Donald Johnston	10 / 10
M. Teresa Garcia-Milà Lloveras	10 / 10
Manuel Valls Morató	10 / 10
David Vegara Figueras*	1 / 1

* Number of meetings which the director attended with respect to the number of meetings held during the period in 2019 in which he was a member of the Board Risk Committee.

In order to discuss 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 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 Board Risk Committee is a sub-committee of the Board of Directors and its functions include those defined in article 63 of the Articles of Association of Banco Sabadell, and those defined in Article 15 of the Regulation of the Board of Directors, as well as all the functions set out in the Regulation of the Board Risk Committee and those attributed to it by law.

The core function of the Banco Sabadell Board Risk Committee is to supervise management of all material risks and their alignment with the profile defined by the Bank.

The Committee's functions include those established by regulations at European and national level and it has an enhanced supervisory role, being comprised of non-executive directors.

The Board Risk Committee, which oversees the appropriate acceptance, control and management of all risks in accordance with the Group's Risk Appetite Statement, has the following functions:

- a) Supervising implementation of the Overall Risk Policy.
- b) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors.
- c) Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose.
- d) Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.
- e) Advising and supporting the Board of Directors in connection with tracking the Institution's risk appetite and general risk strategy, taking into account all types of risks, to ensure that they are in line with the Institution's business strategy, objectives, corporate culture and values.

- f) Assisting the Board of Directors in monitoring the application of the Institution's risk strategy and established limits.
- g) Monitoring implementation of the capital and liquidity management strategies, as well as all the Institution's other material risks, in order to assess their conformity to the approved risk strategy and appetite.
- h) Providing recommendations to the Board of Directors on such adjustments to the risk strategy as may be considered necessary as a result of, inter alia, changes in the Institution's business model, market performance or recommendations made by the risk control function.
- i) Advising on the appointment of external consultants in connection with overseeing the Institution's activities.
- j) Analysing a series of possible scenarios, including stress scenarios, to assess how the Institution's risk profile would react to external and internal events.
- k) Monitoring the degree to which the major financial products and services offered to customers conform to the Institution's business model and risk strategy. The Board Risk Committee will assess the risks associated with the offered financial products and services and will take into account how the prices of those products and services relate to the rewards obtained.
- l) Assessing internal or external auditors' recommendations and verifying proper implementation of any measures that are adopted.
- m) Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and the provisions of the Articles of Association and applicable regulations.

Activities in 2019

i) Global Risk Framework and Risk Appetite Statement

One of the Board Risk Committee's core functions is proposing the Risk Appetite Statement (RAS) to the Board of Directors for approval both for the Group and for the various geographies, in accordance with the established governance framework.

In 2019, a new Global Risk Framework Policy for the Group was approved, laying common foundations for risk management and control. Additionally, the Risk Appetite Framework (RAF), which establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement,

monitoring and control of the Group's Risk Appetite and its coordination with the subsidiaries, was reviewed.

In 2019 there were several updates of the Risk Appetite Statement (RAS) to ensure that it is comprehensive and adapted to the regulatory requirements and market best practices, and also aligned with financial planning, the ICAAP, the ILAAP and the Recovery Plan.

In particular, the RAS was strengthened by incorporating new metrics in connection with asset quality, technology risk, conduct risk, reputational risk and concentration risk. Additionally, the thresholds for the capital, solvency, profitability, asset quality and liquidity metrics, among others, were updated. And the definition of qualitative aspects of the RAS was reviewed.

The deployment of the Group's RAS to key subsidiaries was strengthened, exercising oversight to ensure proper alignment while incorporating adaptations to the geographies' specific features. In particular, the deployment of the RAS to the Mexican subsidiaries was completed.

ii) Risk Management and Control Policies

The Group's risk governance provides for a review of the risk policy framework at regular intervals or when there are significant changes.

In this same area, as part of the development of the Global Risk Framework, the Board Risk Committee also analysed, and subsequently submitted to the Board of Directors for approval, the risk policies relating to credit, concentration and operational risk, IRRBB, CSRBB and liquidity, market, counterparty, exchange rate, actuarial, model and compliance risk, which set out the core principles and procedures governing the management and control of all the Group's material risks, incorporating the requirements established by the regulations.

Also, 2019 saw continued compliance with the requirements issued by the European Central Bank in the document "Guidance to Banks on Non-performing Loans", submitting to the Board of Directors the updates required in the "Strategic Plan for the management of non-performing assets (NPAs)" and the corresponding "Operational Plan for managing NPAs".

In line with the Group's policy governance, the Board Risk Committee also recommended that the Board of Directors approve the following policies, among others:

- Policy on Outsourcing of Functions (Group and Banco Sabadell)
- Anti Money Laundering and Counter Terrorist Financing Policy (Group and Banco Sabadell)
- Securitisation Policy (Banco Sabadell)

- Crisis Management and Control Policy (Group and Banco Sabadell)
- Capital Management Policy (Group)
- Remuneration Policies (Group and Banco Sabadell)
- Identified Staff and Senior Management Remuneration Policies (Banco Sabadell)
- Information Governance and Data Quality Policy (Group and Banco Sabadell)

iii) Regular monitoring of the Risk Appetite Statement

The Risk Committee regularly performed an extensive review of developments with all of the Group's material risks.

To this end, the Risk Committee analyses and debates fundamental issues and key metrics of the Risk Appetite Statement and trends in portfolio exposure, both domestic and international.

Reporting to the Risk Committee comprises:

- a) Regularly reviewing a scorecard that reflects trends in the main metrics and variables associated with material risks in accordance with the existing risk taxonomy, and ensuring that they conform to the established risk appetite.
- b) A monographic analysis of risks that are detailed in the next section.
- c) Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.

iv) Other regular oversight

At each ordinary meeting of the Board Risk Committee, the risk oversight function entrusted to the Committee also includes regularly:

- a) Tracking risk-adjusted pricing trends and the degree to which prices conform to the related risks.
- b) Monitoring exposure to large groups that are reviewed by the Delegated Committee.
- c) Monitoring quarterly performance of NPAs.

The Board Risk Committee also received information in the form of monographic analyses of specific risk types and a range of other reports. Monographs provide detailed information on the most salient aspects of the current situation, the relationship with the RAS, and policies, processes, models and procedures.

In particular, the following monographs and reports were presented in 2019:

- Operating Risk Monograph.

- Market Trading Risk Monograph.
- Country Risk Monograph.
- Structural Risk Monograph.
- Exposure to Financial Institutions Monograph.
- Report on outsourcing and associated risks.
- Report on foreclosed asset and assets received in payment of debt.
- Analysis of specific loan books.

v) Risk models

The Banco Sabadell Group has extensive experience with the use of internal models as support for decision-making. In recent years, the Group has stepped up work in connection with controlling and supervising the risks related to the use of such models. To this end, during 2019 the Board Risk Committee reviewed the risk management and control model that covers IRB (Internal Rating Based) models, provisioning models, models for projecting fees, revenues and expenses, credit risk management models and models affecting the Interest Rate Risk in the Banking Book (IRRBB), in order to propose that the Board of Directors approve them.

Regarding IRB models, in 2019 the Board Risk Committee monitored the Remediation Plans under the Single Supervisory Mechanism (SSM) in connection with TRIM (Targeted Review of Internal Models) with a focus on the mortgage and company loan books.

Additionally, the Committee tracked the TRIM with respect to the low-default portfolios and the mortgage book at TSB and the integration of TSB into the Group. The Committee also monitored the implementation of the new definition of default for prudential purposes as required by the EBA and it reviewed the plan to roll out IRB models for calculating regulatory capital (the Roll-out plan) and recommended that the Board of Directors approve it.

It is also noteworthy that the Board Risk Committee was properly informed of the performance and outcome of the various SSM processes and communications relating to the various actions relating to IRB models.

With regard to provisioning models, the Board Risk Committee was informed of the conclusions of the oversight of those models and the proposal for updating them for 2019. It also reviewed the new provisioning models for foreclosed properties and recommended that the Board of Directors approve it.

With regard to the models that impact the Interest Rate Risk in the Banking Book, the Board Risk Committee reviewed the new models for non-maturity deposits and recommended that the Board of Directors approve them.

vi) Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), and Recovery Plan

In 2019, the Board Risk Committee reviewed:

- The capital and liquidity adequacy processes (ICAAP and ILAAP reports), which assess the Group's capital and liquidity position.
- It participated in the analysis of risks associated with the new preliminary projections for 2020-2024.
- The Recovery Plan and the internal crisis management framework.

In this process, the Committee was assisted by the Finance and the Risk Control Divisions, which provides assurance that the reports present an accurate picture of the Group's situation in both areas.

The Group's Recovery Plan continued to be enhanced by adapting it to new legislation and aligning it with the Risk Appetite Framework and the Risk Appetite Statement.

vii) Other business

With regard to Operational Risk, the Board Risk Committee participated in monitoring the significant issues and main risks of the TSB migration and its impact on the Group's RAS.

The Board Risk Committee reviewed various issues relating to technology risk, including most notably: Outsourcing, Cloud Strategy, Risk Data Aggregation & Risk Reporting and the outcome of the Independent Validation and the Credit Risk Fire Drill. The Board Risk Committee was also informed of IT security risk through the IT Cyber Risk and IT Resilience reports. It was also informed of the outcome of the SSM questionnaire on IT risk and received regular reports dealing specifically with technology risk.

The Board Risk Committee was also informed about the various SSM reports produced in its ordinary and specific supervisory actions, as well as the 2019 SREP decision.

The Board Risk Committee was informed about the new EBA "Guidelines on Loan Origination and Monitoring" in the process of consultation, which entails a significant impact on loan origination and credit risk monitoring, as well as changes in risk policies, procedures and analysis.

With regard to compliance risk, the Board Risk Committee received and debated, in its fundamental aspects, the MiFID Report drafted by the Compliance and Corporate Governance Division in compliance with Royal Decree 217/2008, of 15 February, on the rules governing investment firms and other entities that provide investment services, partly amending the Regulation under Act 35/2003, of 4 November, on collective investment institutions, approved by Royal Decree 1309/2005, of 4 November, and the Annual External Expert's Anti Money Laundering and Counter Terrorist Finance Report.

Acting as second line of defence, the Risk and Regulation Division issued a number of specific assessments on material transactions.

Additionally, the Board Risk Committee was informed of the possible impact of the macroeconomic events that arose during the year, with particular emphasis on Brexit.

The Board Risk Committee informed the Remuneration Committee about the suitability of the composition of the Identified Staff and the alignment of their objectives with the Bank's risk profile and capital and liquidity levels.

Main progress in relation to the 2019 Action Plan

During the year, the Board Risk Committee fulfilled the Action Plan established for 2019 by adopting the following measures:

- In relation to strengthening risk control and establishing appropriate methods for relating with the risk control function, the post of Group Chief Risk Officer (Risks and Regulation Division) was created in 2019; this position reports directly to the Board Risk Committee and leads the second line of defence. The activities of the second line of defence have been expanded and it has been assigned additional resources. A new Group Global Risk Framework Policy was approved, laying common foundations for risk management and control, and the Risk Appetite Framework Policy, which establishes the structure and mechanisms associated with the governance, definition, disclosure, management, measurement, monitoring and control of the Group's Risk Appetite and its coordination with the subsidiaries, was reviewed.
- With regard to the establishment of lines of cooperation for policy definition, the Committee continuously monitored policy approval and reviews, in accordance with the established policy governance. Where necessary, the Committee was supported by external experts to ensure that the policies were complete and appropriate.
- In relation to continuous training, the Committee exercised oversight to ensure that the supporting documentation relating to material issues reviewed by the

Committee includes an appropriate vision of the context and, in particular, contains any amendments to the regulations.

- Internal procedures and technical systems for circulating meeting documentation to Committee members were stepped up, and the structure of the supporting documentation was enhanced to include an executive summary, background information and the purpose of each document.
- With regard to communication with the Audit and Control Committee, the Board Risk Committee provided an assurance of alignment, particularly because the Chair of the Audit and Control Committee is a member of the Board Risk Committee.
- In connection with the development of new RAS metrics and threshold recalibration, as detailed in the Activities in 2019 section, new RAS metrics for a range of risks (including asset quality, technology, conduct, reputational and concentration risk) were defined and implemented during the year. The existing thresholds were recalibrated to ensure that they are appropriate and in line with the supervisors' expectations, market best practices and internal Planning exercises, ICAAP, ILAAP and the Recovery Plan.
- As for the thematic analysis of specific risks, as detailed in the Activities in 2019 section, the Board Risk Committee carried out monographic analyses of a range of risks, notably operational risk, market and trading risk, country risk, structural risks (liquidity, interest rate and exchange rate), financial institution risk, outsourcing risk, foreclosed assets and assets received in payment of debt, and the analysis of specific loan books.

Evaluation of the performance of the Board Risk Committee

Article 529 nonies of the Capital Companies Act establishes the obligation of the Board of Directors to 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.

In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, whose scope was expanded by Technical Guide 1/2019 on Nomination and Remuneration Committees of listed companies, the Board of Directors performs the assessment every three years with the support of an external consultant whose independence is verified by the Appointments Committee.

Although the aforementioned Recommendation 36 of the Good Governance Code recommends a frequency of at least every three years, and the last time Banco Sabadell was assisted by an external consultant for this assessment was in 2017, the Appointments Committee decided that the performance assessment of the

Board of Directors and its Committees for 2019 should be conducted by an independent external consultant, Deloitte Legal, S.L.P.

The performance assessment of the Board Risk Committee for the year 2019 is being performed with the assistance of independent external consultant, Deloitte Legal, S.L.P. The support of an external consultant makes it possible to perform the assessment and draw up the resulting action plan from an impartial, independent standpoint based on knowledge of numerous organisations of different types.

The outcome of the assessment will make it possible to draw up an improvement plan that will enable the Board of Directors and the Board Risk Committee to identify possible areas for development and progress in the design of, and compliance with, a corporate governance system on the basis of the identified milestones.

Conclusion

During 2019, the Board Risk Committee properly discharged the duties assigned to it by the Articles of Association and its own Regulation.

On 27 January 2020, the members of the Board Risk Committee signed this report on the functioning of the Committee in 2019, 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.