

**ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

ISSUER IDENTIFICATION DATA

REPORTING YEAR ENDED

31/12/2018

TAX ID NUMBER:

A-08000143

CORPORATE NAME

BANCO DE SABADELL, S.A.

DOMICILE

AVENIDA ÓSCAR ESPLÁ, 37 - ALICANTE

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the next table about the company's ownership structure:

Date of last change	Share capital (€)	No. of shares	No. of voting rights
16/11/2017	703,370,587.63	5,626,964,701	5,626,964

Comments

Indicate whether there are different classes of shares, with different associated rights:

Yes No

A.2 Detail direct and indirect owners of significant stakes at year-end, excluding directors:

Name of shareholder	Voting rights attributed to the shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)
	Direct	Indirect	Direct	Indirect	
BLACKROCK INC.	0	5.12%	0	0.20%	5.32%
FINTECH EUROPE S.A.R.L.	3.10%		0	0	3.10%
NORGES BANK	3.06%	0	0.11%	0	3.17%
COLTRANE MASTER FUND, L.P.	0	0	1.07%	0	1.07%

Comments

Detail the indirect holding:

Full name/corporate name of indirect owner	Full name/corporate name of direct owner	Voting rights attributed to the shares (%)	Voting rights through financial instruments (%)	Total voting rights (%)
BLACKROCK INC.	SUBSIDIARIES OF BLACKROCK, INC.	5.12%	0.20%	5.32%

Comments
Mr David Martínez Guzmán is the indirect holder of the voting rights attributed to the shares of Fintech Europe, S.À.R.L.”

Indicate significant changes in the ownership structure in the year:

BLACKROCK INC.	23/03/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	27/04/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	01/05/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	03/05/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	04/05/2018	The stake fell below 5% of capital stock
NORGES BANK.	25/05/2018	Acquisition of 3.149% of capital
BLACKROCK INC.	31/05/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	01/06/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	04/06/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	15/06/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	25/07/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	27/07/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	30/07/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	31/07/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	03/08/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	08/08/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	09/08/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	10/08/2018	The stake fell below 5% of capital stock
WINTHROP SECURITIES LTD.	23/08/2018	Attribution of its stake to Fintech Europe S.à.r.l.
BLACKROCK INC.	05/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	07/09/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	11/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	12/09/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	14/09/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	02/10/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	18/10/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	22/10/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	29/10/2018	The stake exceeded 5% of capital stock.
BLACKROCK INC.	3/12/2018	The stake fell below 5% of capital stock
BLACKROCK INC.	17/12/2018	The stake exceeded 5% of capital stock.

Main changes

A.3 Complete the next tables regarding the members of the company's board of directors who hold voting rights in the company:

Name of director	Voting rights attributed to the shares (%)		Voting rights through financial instruments (%)		Total voting rights (%)	Voting rights that may be transferred through financial instruments (%)	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
Mr. JOSÉ OLIU CREUS	0.01%	0.11%	0.03%	0.00%	0.15%	0.00%	0.00%
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. JAIME GUARDIOLA ROMOJARO	0.02%	0.00%	0.03%	0.00%	0.05%	0.00%	0.00%
Mr. ANTHONY FRANK ELLIOTT BALL	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. AURORA CATÁ SALA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. PEDRO FONTANA GARCIA	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ms. MARÍA JOSÉ GARCÍA BEATO	0.00%	0.00%	0.01%	0.00%	0.01%	0.00%	0.00%
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. GEORGE DONALD JOHNSTON	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. DAVID MARTÍNEZ GUZMÁN	0.00%	3.10%	0.00%	0.00%	3.10%	0.00%	0.00%
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	0.04%	0.01%	0.00%	0.00%	0.05%	0.00%	0.00%
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	0.04%	0.00%	0.02%	0.00%	0.06%	0.00%	0.00%
Mr. MANUEL VALLS MORATÓ	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mr. DAVID VEGARA FIGUERAS	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Total % of voting rights held by the board of directors	3.36%
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Comments
The percentage of voting rights through financial instruments reflects the rights attributed to the long-term supplementary incentives for the years 2016, 2017 and 2018, which have not vested.

Detail the indirect holding:

Name of director	Full name/corporate name of direct owner	Voting rights attributed to the shares (%)	Voting rights through financial instruments (%)	Total voting rights (%)	Voting rights that may be transferred through financial instruments (%)
Mr. DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE S.A.R.L.	3.10%		3.10%	

Comments

A.4 Indicate any family, commercial, contractual or business relationships among owners of significant stakes, insofar as they are known to the company, unless they are not material or are derived from ordinary commercial transactions, except those disclosed in section A.6.

A.5 Indicate any commercial, contractual or corporate relationships between owners of significant stakes and the company and/or its group, unless they are not material or are derived from ordinary commercial transactions:

A.6 Indicate any relationships between significant shareholders or shareholders with board representation and the directors, or their representatives, in the case of natural persons representing directors that are legal persons, except where such relations are non-material for the two parties.

Indicate how the significant shareholders are represented. Specifically, identify any directors who were appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders, or who are related to significant shareholders and/or entities in their group, indicating the nature of the relationship. In particular, disclose the existence, identity and position of directors, or representatives of directors, of the listed company who are, in turn, members of the board, or their representatives, in companies that hold significant stakes in the listed company or in entities of such significant shareholders' group.

Full name/corporate name of related director or representative	Name of related significant shareholder	Corporate name of the significant shareholder's group company	Description of relationship/position
DAVID MARTÍNEZ GUZMÁN	FINTECH EUROPE, S.Á.R.L.		

Comments
Fintech Europe S.A.R.L. is owned 100% by Fintech Investment Ltd., the investment fund managed by Fintech Advisory Inc. (FAI). FAI is owned 100% by Mr. David Martínez Guzmán.

A.7 Indicate whether shareholders' agreements that affect the company have been notified to the company as provided in articles 530 and 531 of the Capital Companies Act. If so, briefly describe the agreements and list the shareholders involved:

Yes No

Parties to shareholder agreement	% of share capital affected	Brief description of agreement	Date of expiration of the agreement, if any

Comments

Indicate if the company is aware of any concerted actions among its shareholders. If so, give a brief description:

Yes

No

If the shareholders' agreements or concerted actions have been amended or terminated in the year, indicate this expressly.

On 24 December 2018, in regulatory disclosure no. 273.317, it was announced that the signatories of the shareholders' agreement dated 27 July 2006 had decided to cancel it.

A.8 Indicate if any natural or legal person exercises or can exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify that person:

Yes

No

Comments

A.9 Complete the next tables about the company's own shares:

At year-end:

No. of direct shares	No. of indirect shares (*)	Total % of share capital
88,788,514	2,448,704	1.62%

Comments

(*)

Through:

Name of direct owner of holding	No. of direct shares
TSB Bank plc.	2,448,704
Total:	2,448,704

Comments

Describe the main changes in the year:

Describe the main changes

See detail in table.

A.10 Detail the conditions and term of the current authorisation that the Shareholders' Meeting has given to the Board of Directors to buy or sell own shares.

The current mandate was granted by a resolution of the General Meeting of Shareholders of Banco Sabadell, S.A. on 19 April 2018, under item 6 on the agenda, for five years, in the following terms:

"Revoke the delegation granted under resolution six adopted at the General Meeting on 30 March 2017 in the part not executed, and authorise Banco de Sabadell, Sociedad Anónima so that, either directly or through any of its subsidiaries, and within a maximum period of five years as from the date of this General Meeting, it may acquire, at any time and as often as it sees fit, shares of Banco de Sabadell, Sociedad Anónima by any of the means admitted by law, including against profit for the year and/or unrestricted reserves, and that it may subsequently sell or cancel any shares thus acquired or, as appropriate, deliver them to employees or directors of Banco de Sabadell, Sociedad Anónima as part of their remuneration or as a result of the exercise of stock options which they hold, all in accordance with the provisions of articles 146, 509 and matching articles of the Capital Companies Act.

Approve the limits or conditions of these acquisitions, as follows:

- The par value of the shares thus acquired, directly or indirectly, in addition to any shares already held by Banco de Sabadell, Sociedad Anónima and its subsidiaries, must not exceed, at any time, the legal limit established at any time by the legislation in force (currently ten per cent of share capital), complying in all cases with all the limits for acquisition of treasury shares established by the stock market regulators in the markets on which the shares of Banco de Sabadell, Sociedad Anónima are listed.
- The acquisition, including any shares previously acquired by Banco de Sabadell, Sociedad Anónima (or by a person acting in their own name but on the bank's behalf) and held by it, must not lead to equity being less than the amount of capital plus legal reserves and reserves that are designated as restricted under the Articles of Association.
- The shares acquired must have been fully paid.
- The acquisition price must be no less than par value and no higher than 20 per cent above the stock market price or any other price whereby the shares may be valued as of the date of their acquisition. All acquisitions of treasury shares must be made in accordance with general stock market rules and regulations."

A.11 Estimated free float:

	%
Estimated free float	86.83

Comments

A.12 Indicate whether there are any restrictions (under the Articles of Association, the law or any other type) on the transfer of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might hamper the acquisition of control of the company by purchasing its shares in the market, and the requirements as to prior authorisation or disclosure of the acquisition or disposal of the company's financial instruments that are applicable in its industry.

Yes No

Description of the restrictions

The only existing restrictions are those derived from Spanish legislation applying to all credit institutions. There are no restrictions in the Articles of Association or of any other type. Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, establishes that in any acquisition of at least 10 percent of the capital or of the voting rights of the institution, or that, without attaining that percentage, enables significant influence to be exercised over the institution, as well as any increases such as to exceed 20%, 30% or 50%, or the acquisition of control of the institution, the purchaser must give advance notice to the Bank of Spain, which will process the request for approval or denial by the European Central Bank. The reduction of the stake below those thresholds must be notified by the seller to the Bank of Spain.

A.13 State whether the General Meeting adopted measures to neutralise a takeover bid under the provisions of Act 6/2007.

Yes No

Detail any such methods that have been approved and the terms in which the restrictions will be rendered ineffective:

A.14 Indicate whether the company has issued securities that are not listed in a regulated market in the European Union.

Yes No

If so, state the classes of shares and, for each class of shares, their corresponding rights and obligations.

B GENERAL MEETING

B.1 Indicate whether there are differences with respect to the minimum requirements set out in the Capital Companies Act in connection with the quorum for a General Meeting of Shareholders, and describe any such differences.

Yes No

B.2 Indicate whether there are differences with respect to the rules provided by the Corporations Law for the adoption of corporate resolutions, and describe any such differences:

Yes No

Describe the differences with respect to the rules set out in the Capital Companies Act.

B.3 Describe the rules that apply to amendments of the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and any rules for safeguarding shareholders' rights in the event of an amendment of the Articles.

Association; where required by law, it is also necessary to obtain authorisation from the Bank of Spain under the powers assigned to it by article 10 of Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions, without prejudice to the functions attributed to the European Central Bank in accordance with the provisions of Council Regulation (EU) No 1024/2013, of 15 October, conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

In accordance with the provisions of the Capital Companies Act, where amendments are approved by the General Meeting, the following requirements must be met:

- The directors or shareholders proposing the amendment must provide a written report justifying the proposed amendment.
- The proposed amendments must be clearly set out in the notice of the General Meeting.
- The notice of the General Meeting must state that all shareholders are entitled to inspect the full text of the proposed amendment and accompanying explanations at the Company's registered office and to request that those documents be provided or sent to them free of charge.

The resolutions must be adopted by the Shareholders' Meeting in accordance with Article 43 of the Articles of Association:

Article 43.

In order for an Ordinary or Extraordinary Shareholders' Meeting to validly adopt a resolution to issue bonds that are convertible into shares or that grant entitlement to participate in the company's earnings, to reduce or increase the share capital, to change the legal form of the Company, to merge or de-merge the Company or, generally, to make any amendment to the Articles of Association, the Meeting, if at first call, must be attended, in person or by proxy, by shareholders holding not less than 50 per cent of the subscribed voting shares.

If at second call, 25 per cent of capital must suffice.

Where those present represent less than 50 per cent of the subscribed voting shares, any of the resolutions referred to in the preceding paragraph must require a majority of two-thirds of the capital in attendance, whether in person or by proxy.

B.4 Indicate the attendance at the shareholders' meetings held in the reporting year and the two preceding years:

Date of General Meeting	% in attendance	% represented	% remote voting		Total
			Electronic voting	Other	
31/03/2016	0.84%	65.43%	0.00%	0.00%	66.27%
Of which free float:	0.62%	63.22%	0.00%	0.00%	63.84%
30/03/2017	0.68%	63.30%	0.00%	0.00%	63.98%
Of which free float:	0.55%	62.92%	0.00%	0.00%	63.47%
19/04/2018	0.78%	60.57%	0.00%	0.00%	61.35%
Of which free float:	0.66%	60.38%	0.00%	0.00%	61.04%

Comments
The percentage of free float may include significant holdings held through international custodians.

B.5 Indicate whether any item on the agenda of the general meetings held during the year was not approved by the shareholders, for any reason.

Yes No

Items on the agenda that were not approved	% votes against (*)

(*) If non-approval is due to reasons other than votes against, provide details in the text section and, in the "% votes against" column, enter "n/a".

B.6 Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting or to vote by distance means:

Yes No

Number of shares required to attend the General Meeting.	1,000
Number of shares required to vote by distance means	-

Comments

B.7 Indicate whether there are rules requiring that certain decisions, other than those established by law, involving the acquisition, transfer, contribution to another company of essential assets or other similar corporate operations must be submitted for the approval of the general meeting.

Yes No

Detail the decisions, other than those established by Law, that must be submitted to the general meeting.

B.8 Give the address of the company's website and the way to access the information about corporate governance and other information about General Meetings that must be placed at shareholders' disposal via the company's website.

The information about corporate governance is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Corporate governance and remuneration policy". The information about General Meetings is available on the Group's corporate website (www.grupobancosabadell.com) directly in the section entitled "Shareholder and investor information"

C THE COMPANY'S GOVERNANCE STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles, and the number established by the general meeting:

Maximum number of directors	15
Minimum number of directors	11
Number of directors established by the general meeting	15

Comments

C.1.2 Complete the next table with the members of the board:

Name of director	Representative	Director category	Board position	First appointed	Last appointed	Election procedure
Mr. JOSÉ OLIU CREUS		EXECUTIVE	CHAIRMAN	29/03/1990	28/05/2015	GENERAL MEETING DECISION
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR		INDEPENDENT	DEPUTY CHAIRMAN	18/09/2010	28/05/2015	GENERAL MEETING DECISION
Mr. JAIME GUARDIOLA ROMOJARO		EXECUTIVE	MANAGING DIRECTOR	27/09/2007	19/04/2018	GENERAL MEETING DECISION
Mr. ANTHONY FRANK ELLIOTT BALL		INDEPENDENT	DIRECTOR	30/03/2017	30/03/2017	GENERAL MEETING DECISION
Ms. AURORA CATÁ SALA		INDEPENDENT	DIRECTOR	29/01/2015	28/05/2015	GENERAL MEETING DECISION
Mr. PEDRO FONTANA GARCIA		INDEPENDENT	DIRECTOR	27/07/2017	19/04/2018	GENERAL MEETING DECISION
Ms. MARÍA JOSÉ GARCÍA BEATO		EXECUTIVE	DIRECTOR and VICE-SECRETARY	24/05/2018	24/05/2018	BOARD RESOLUTION
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS		INDEPENDENT	LEAD INDEPENDENT DIRECTOR	29/03/2007	30/03/2017	GENERAL MEETING DECISION
Mr. GEORGE DONALD JOHNSTON		INDEPENDENT	DIRECTOR	25/05/2017	19/04/2018	GENERAL MEETING DECISION
Mr. DAVID MARTÍNEZ GUZMÁN		PROPRIETARY	DIRECTOR	27/03/2014	19/04/2018	GENERAL MEETING DECISION
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ		INDEPENDENT	DIRECTOR	26/03/2013	19/04/2018	GENERAL MEETING DECISION
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI		INDEPENDENT	DIRECTOR	18/09/2010	28/05/2015	GENERAL MEETING DECISION
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ		EXECUTIVE	DIRECTOR	31/05/2012	30/03/2017	GENERAL MEETING DECISION
Mr. MANUEL VALLS MORATÓ		INDEPENDENT	DIRECTOR	22/09/2016	30/03/2017	GENERAL MEETING DECISION
Mr. DAVID VEGARA FIGUERAS		INDEPENDENT	DIRECTOR	28/05/2015	28/05/2015	GENERAL MEETING DECISION

Total number of directors	15
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Indicate any directors who stepped down in the reporting period, due to resignation, removal or any other reason:

Name of director	Director's category at time of removal	Date of last appointment	Date of removal	Specialised committees of which he/she was a member	Indicate whether the director stepped down before the end of his/her
Mr. JOSÉ MANUEL LARA GARCÍA	Other External	28/05/2015	24/05/2018	Audit and Control	Yes

Reason for stepping down, and other comments
On 24 May 2018, Banco Sabadell released a regulatory disclosure to the effect that Mr. José Manuel Lara García had presented his resignation by means of a letter to all the directors in which he explained that his decision was due to the fact that he was no longer involved in managing Inversiones Hemisferio and Grupo Planeta.

C.1.3 Complete the next tables with the members of the board and their category:

EXECUTIVE DIRECTORS

Name of director:

Mr. JOSÉ OLIU CREUS

Position in the company's organisation chart

CHAIRMAN

Profile:

BANKING / RETAIL & CORPORATE BANKING / FINANCE / ACADEMIC / INTERNATIONAL

He holds a degree in economics from the University of Barcelona and a PhD in economics from the University of Minnesota (USA). He was appointed Managing Director of Banco Sabadell in 1990 and has been Chairman of Banco Sabadell since 1999. He is currently non-executive Chairman of Exea Empresarial and the latter's representative on the board of Puig, S.L. He is also a member of FEDEA (Fundación de Estudios de Economía Aplicada), and a member of the Board of Trustees of the Princess of Asturias Foundation and the Princess of Girona Foundation.

Name of director:

Mr. JAIME GUARDIOLA ROMOJARO

Position in the company's organisation chart

MANAGING DIRECTOR

Profile:

BANKING / RETAIL & CORPORATE BANKING / FINANCE

He graduated in Law from Barcelona University and holds a degree in Business and an MBA from ESADE. He commenced working at BBVA in 1990, where he reached the position of General Manager for Spain and Portugal (2006-2007). He has been managing director of Sabadell since 2007. He is a member of the Board of Trustees of Fundación ESADE, Chairman of the Economic Policy Committee of Barcelona Chamber of Commerce, and a member of the Board of Círculo de Economía.

Name of director:

Mr. JOSÉ LUIS NEGRO RODRÍGUEZ

Position in the company's organisation chart

Director - General Manager

Profile:

BANKING / FINANCE / RISKS

Diploma in General Management from IESE. In the course of his career at Banco Sabadell, he has held a number of positions, such as General Secretary - Control (2000-2001) and Controller General (2001-2012), and Vice-Secretary of the Board of Directors (2006-2012). Executive director of Banco Sabadell since 2012 and General Manager since 2013. He is currently a director of Sociedad Rectora de la Bolsa de Valores de Barcelona He is also Vice-Chairman of Barcelona Centro Financiero Europeo.

Name of director:

Ms. MARÍA JOSÉ GARCÍA BEATO

Position in the company's organisation chart

DIRECTOR and COMPANY SECRETARY

Profile:

BANKING / LAW / REGULATORY

Degree in Law and Diploma in Criminology. Spanish State Attorney since 1991. She was appointed Chief of Staff of the Minister of Justice in 2000, and Under-Secretary of Justice in 2002. General Counsel of Banco Sabadell (2005-2008). Company secretary of Banco Sabadell since 2008. Executive director of Banco Sabadell since 2018. She is currently an independent director at listed company Red Eléctrica Corporación, S.A. She is also a member of the Board of Trustees of Fundación Banco Sabadell, Fundación de la Asociación Española de Banca and Fundación Wolters Kluwer.

Total number of executive directors	4
% of total Board	26.67%

Comments

PROPRIETARY EXTERNAL DIRECTORS**Name of director:**

Mr. DAVID MARTÍNEZ GUZMÁN

Name of the significant shareholder whom the director represents or who proposed his/her appointment:

FINTECH EUROPE S.À.R.L.

Profile:

BUSINESS / FINANCE / INTERNATIONAL

Degree in Electrical/Mechanical Engineering from the National Autonomous University of Mexico, and MBA from Harvard Business School. Founder in 1987 of Fintech Advisory, which manages the Fintech Investments Limited fund (New York and London). Proprietary director of Banco Sabadell since 2014. He is currently a director of listed companies Alfa, S.A.B., Vitro, S.A.B. and Cemex, S.A.B.

Total number of proprietary directors	1
% of total Board	6.67%

Comments

INDEPENDENT EXTERNAL DIRECTORS**Name of director:**

Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR

Profile:

BANKING / RETAIL & CORPORATE BANKING / BUSINESS

Holds a degree in Economics and Actuarial Science from the University of the Basque Country. Formerly Director and General Manager of Allianz-Ercos (1982-1990), General Manager of BBVA Group (1992-2001) and Chairman of Banco Guipuzcoano (2009-2012). Formerly a director of many companies in the energy and construction industries and the media. Independent director of Banco Sabadell since 2010 and Vice Chairman of the Board since 2013. He is currently an independent director of listed company ACS, Actividades de la Construcción y Servicios, S.A. and of ACS, Servicios, Comunicaciones y Energía, S.L., both belonging to the same group, of listed company Ence, Energía y Celulosa, S.A., and of listed company Telefónica, S.A. and of Telefónica Móviles México, S.A. de C.V., both belonging to the same group. He is also a trustee of Fundación Novia Salcedo.

Name of director:

Mr. ANTHONY FRANK ELLIOTT BALL

Profile:

BUSINESS/INTERNATIONAL:

Chartered Engineer; MBA from Kingston Business School, Kingston University (London). Honorary Doctorate from the Kingston University Faculty of Business and Law. Formerly Chairman and CEO of Fox Sports International (1995-1996), CEO of Fox Liberty Networks LLC. (1996-1999), CEO of BSKyB Plc. (1999-2004) and Chairman of Kabel Deutschland GmbH (2005-2013), and independent director of BT Group (2009-2018). Independent director of Banco Sabadell since 2017. He is currently Chairman of Ambassadors Theatre Group Ltd and of Bité Group, both part-owned by Providence Equity Partners LLC.

Name of director:

Ms. AURORA CATÁ SALA

Profile:

BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES

Holds a degree in Industrial Engineering (major in Industrial Organisation) from the Polytechnic University of Catalonia and an MBA and PADE from IESE Barcelona. Formerly CFO of Nissan Motor Ibérica, S.A. (1991-1996), Managing Director of Planeta 2010 (1999-2002), Founder of ContentArena (2002-2003), General Manager of Audiovisual Media at Recoletos Grupo de Comunicación (2003-2008) and member of the Governing Board of Institut Català de Finances (2014). Formerly held a number of directorships. Independent director of Banco Sabadell since 2015. Currently partner of Seeliger y Conde, S.L., director of listed company Atresmedia Corporación de Medios de Comunicación, S.A., member of the Executive Committee of IESE and member of the Board of Barcelona Global.

Name of director:

Mr. PEDRO FONTANA GARCIA

Profile:

BANKING / RETAIL / BUSINESS

Degree in Business from Escuela Superior de Administración y Dirección de Empresas (ESADE), Barcelona, and MBA from Harvard Graduate School of Business Administration. General Manager of COOB'92 (1990-1993), General Manager of Turisme de Barcelona (1993-1994), Chairman of Banca Catalana (1994-1999), General Manager of BBVA Catalonia (2000-2009), Executive Chairman of AREAS (Elior Group) (2012-2017), and Deputy General Manager of Elior Group, S.A. (2017-2018). Independent director of Banco Sabadell since 2017. He is currently an independent director of Grupo Indukern, S.L. and representative of EMESA Corporación Empresarial, S.L. on the board of listed company Elior Group, S.A. He is also President of Asociación para el Progreso de la Dirección, Member of the Barcelona Chamber of Commerce, Member of the Board of Trustees of Fundació Privada Cercle d'Economia and of Fundación Barcelona Mobile World Capital, and a director of Fira Internacional de Barcelona.

Name of director:

Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS

Profile:

ACADEMIC/AUDITING/FINANCE

She has a Degree in Economics from the University of Barcelona and a PhD in Economics from the University of Minnesota, and has been a senior lecturer at the Department of Economics and Business at Pompeu Fabra University since 1995. Formerly held a number of directorships. Independent director of Banco Sabadell since 2007, and Lead Director since April 2016. She is also the Director of the Barcelona Graduate School of Economics, and a researcher and Board member of the International Economics Research Centre (CREI).

Name of director:

Mr. GEORGE DONALD JOHNSTON

Profile:

BANKING / CORPORATE BANKING / INTERNATIONAL

BA in Political Science from Middlebury College, Vermont, MA in International Economics and Latin American Studies from Johns Hopkins University. Executive Director at Salomon Brothers (1979-1990), Director of Bankers Trust International and member of its Global Executive Committee (1992-1999), Group Head of M&A for Europe and Member of the Europe Executive Committee and of the Global Operating Committee within the investment banking division of Deutsche Bank (1999-2005), Chairman of the M&A Group for Europe of Deutsche Bank (2005-2010), Director of SCi Entertainment Plc (Eidos) (2007-2009). Independent director of Banco Sabadell since 2017. Currently an independent director of listed companies Acerinox, S.A. and Merlin Properties, SOCIMI, S.A.

Name of director:

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ

Profile:

BUSINESS / RETAIL BANKING / INSURANCE / FINANCE / INTERNATIONAL

A Public Works Engineer, he obtained a degree in Economics and Actuarial Science at the University of Madrid.

Formerly Chairman of MAPFRE (2001-2012), President of Fundación MAPFRE (2007-2012) and member of the Board of Directors of Consorcio de Compensación de Seguros and the International Insurance Society. Independent director of Banco Sabadell since 2013. Currently Honorary Chairman of MAPFRE.

Name of director:

Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI

Profile:

BANKING / BUSINESS

An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly director of Banco Guipuzcoano (1990-2010). Independent director of Banco Sabadell since 2010. Owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Comercial del Campo, S.A., Edificios Cameranos, S.A., Inversiete, S.A., Producción y Desarrollo, S.A., Títulos e Inversiones, S.A., and Villa Rosa, S.A.

Name of director:

Mr. MANUEL VALLS MORATÓ

Profile:

AUDITOR

Degree in Economics and Business Studies from the University of Barcelona and a post-graduate qualification in Business Administration from IESE/University of Navarra: he is a registered auditor and a member of Spain's official register of auditors since its creation. Partner of PwC (1988-2013), Head of the Audit Division at PwC (2006-2013) and Chairman of PwC Auditores (2006-2011). Independent member of the Governing Board of Institut Català de Finances (2015-2016). Independent director of Banco Sabadell since 2016. Currently an independent director of listed company Renta Corporación Real Estate, S.A.

Name of director:

Mr. DAVID VEGARA FIGUERAS

Profile:

FINANCIAL / RISKS / ACADEMIC / REGULATORY

A graduate in Economics and Business Studies, Major in General Economics (Applied Economics) from the Autonomous University of Barcelona, he holds a Master in Economics, major in Capital Markets and Political Science, from London School of Economics. Formerly Secretary of State for the Economy in the Spanish government (2004-2009), Deputy Managing Director, Banking, European Stability Mechanism (ESM) (2012-2015), and Associate Professor in the Department of Economics, Finance and Accounting at ESADE (until 2018). Independent director of Banco Sabadell since 2015. Currently member of the Supervisory Board of Hellenic Corporation of Assets and Participations, S.A.

Total number of independent directors	10
% of total number of Board members	66.67%

Comments

Indicate whether any director classified as independent receives, from the company or the same group, any amount or benefit under a heading other than director remuneration, or holds or has held, during the last year, a business relationship with the company or any other company in its group, either in his/her own name or as a significant shareholder, director or senior manager of an institution that holds or has held such a relationship.

None.

If yes, give the reasons why it is considered that the director qualifies as an independent director.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and detail the reasons why they cannot be classified as proprietary or independent, and any relations they have with the company, its executives or its shareholders.

Name of director:

-
Company, executive or shareholder to which he/she is related:

-

Reason:

-

Profile:

-

Total number of other external directors	
% of total number of Board members	

Comments

--

Indicate any changes in each director's status in the period:

Name of director	Date of change	Previous category	Current category

Comments

C.1.4 Complete the following table with information on the number of female directors in the last four years, and their category:

	Number of female directors				% of total directors in each category			
	2018	2017	2016	2015	2018	2017	2016	2015
Executive	1	0	0	0	25.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Independent	2	2	2	2	20.00%	20.00%	28.57%	22.22%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	3	2	2	2	20.00%	13.33%	14.29%	13.33%

Comments
Banco Sabadell appointed one female director in 2018, with the category of Executive Director, which, considering the two female independent directors, significantly strengthened the presence of women on the Board of Directors.

C.1.5 Indicate whether the company has diversity policies in relation to the board of directors with regard to issues such as age, gender, ability, or professional training and experience. Small and medium-sized undertakings, as defined the Audit Act, must disclose at least the policy they have established in relation to gender diversity.

Yes No Partial policies

If yes, describe the diversity policies, their objectives, the measures and the way in which they have been applied and their results in the year. Also disclose specific measures adopted by the Board of Directors and the Appointments and Remuneration Committee to achieve balance and diversity on the Board of Directors.

If the company does not apply a diversity policy, give the reasons.

Description of the policies, objectives, measures and manner in which they were applied, as well as the results obtained
Banco Sabadell applies its diversity policy through the Banco Sabadell Policy for the Selection of Candidates for

Directorship, which was approved by the Board of Directors on 25 February 2016, and whose goal is to achieve an appropriate balance in the composition of the Board of Directors such as to have the overall effect of enriching decision-making and providing plural viewpoints in debates on matter under its remit.

In order to achieve this diversity objective, the Policy establishes the conditions that the Appointments Committee must vet in candidates for directorships in Banco Sabadell; candidates are required to have professional competence, provide diversity and meet the fitness and suitability requirements. To this end, in accordance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, professional competence will be assessed in persons who have achieved recognition in their profession; particular value is attached to recognition or prominence in the business community, which enables the candidate to contribute a strategic and business vision. Candidates are also expressly required to have an academic background with the appropriate level and profile to comprehend the institution's main activities and risks. Diversity in the Board of Directors is achieved through a variety of professional profiles, experiences, origins, nationalities and, in particular, gender; fitness and suitability is evidenced by an appropriate track record and personal, commercial and professional conduct that shed no doubt as to the person's capacity to exercise healthy, prudent oversight of the institution.

Regarding the measures and manner in which the Banco Sabadell diversity policy is applied, the Appointments Committee fulfils its function of overseeing the qualitative composition of the Board of Directors, as set out in the Articles of Association and the Regulations of the Board of Directors; it oversees the application of and compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, and by ensuring that the selection procedures, when filling vacancies on the Board or appointing new directors, favour a diversity of experience and knowledge, facilitate the selection of female directors and, in general, do not have any implicit biases that may entail discrimination of any kind.

The Appointments Committee ensures that the candidate selection process fulfils the parameters of professional competence, diversity of profiles, origins, experience and knowledge, and good repute and suitability; in assessing the selected candidates, it places special emphasis on ensuring gender diversity in the Board of Directors. To this end, where necessary during the director selection process, the Committee can call on the support of an external consulting firm in order to obtain a diversity of candidate profiles for analysis.

In addition, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee ethical and responsible behaviour throughout the organisation and have an impact on diversity and that are equally applicable to the Board of Directors, both in the director selection procedure and in the day-to-day performance of their functions, in matters such as training and professional experience, age, ability and gender.

These policies are published on the Company's corporate website (www.grupobancosabadell.com), within the Corporate Social Responsibility (CSR) section. One of the primary guidelines of the Banco Sabadell Group Human Resources Policy is to ensure optimal professional development for its employees while providing a working environment free of any kind of discrimination on grounds of age, ability or gender. Additionally, the Banco Sabadell Group Ethics and Human Rights Policy requires that fairness, transparency, professional responsibility, respect for diversity and the rights of individuals and the non-discrimination and exploitation of the human being are values that are part of the way of being and way of doing of the Banco Sabadell Group. Likewise, the Ethics and Human Rights Policy enshrines the principle of equality of persons without any distinction on the basis of race, sex, religion or any other distinguishing characteristic, respecting their dignity and guaranteeing equality of opportunities. In the area of workplace safety, the Banco Sabadell Occupational Safety Plan has a specific procedure for the protection of particularly sensitive persons, including workers with a recognised disability, which applies equally to the Board of Directors.

C.1.6 Describe any measures adopted by the Appointments Committee to ensure that the selection procedure is free of any implicit bias that might prevent the selection of women, and that the company deliberately seeks female candidates with the necessary professional profile, enabling it to attain a balance of women and men:

Detail such measures

The Board of Directors has adopted active policies to promote gender equality within the institution. Specifically, at a meeting on 17 February 2016, the Appointments Committee issued a favourable report to the Board of Directors on the approval of the Banco Sabadell Policy for the Selection of Candidates for Directorship, in

compliance with Recommendation 14 of the Code of Good Governance for Listed Companies.

As indicated in section C.1.5 above, the Policy sets out the criteria to be applied in the process of selecting new members of the Board of Directors and in the re-appointment of directors, under the provisions of the applicable laws and recommendations, and establishes that those selection procedures must facilitate the selection of female directors and, generally, must not have any implicit biases that might hamper the appointment of female directors. The Policy goal is that the under-represented gender accounts for at least 30% of the Board by 2020.

In particular, the Appointments Committee ensures that the director selection process fulfils the requirements as to professional competency, integrity, suitability and diversity and, specifically, seeks to ensure that there is a sufficient number of female directors. To this end, during the director selection process, the Committee focuses particularly on ensuring gender diversity on the Board of Directors, ensuring that the candidates include women with the necessary professional profile, for which purpose it can be assisted by an external consulting firm in order to obtain a diversity of profiles for analysis.

At 2018 year-end, there were 3 female directors out of a total of 15, two of them independent directors and one of them an executive director. Since 2016, the Lead Independent director has been a woman, who is also a member of the Audit and Control Committee, the Appointments Committee, the Remuneration Committee and the Risk Committee. The other female independent director is the Chair of the Appointments Committee and of the Remuneration Committee. As a result, women account for 20% of the Company's Board of Directors, 20% of the independent directors and 25% of the executive directors; they also chair two of the Board's five sub-committees and are members of four of those five committees. Accordingly, female directors account for 25% of the Audit and Control Committee, 25% of the Risk Committee, and 50% of the Remuneration Committee and the Appointments Committee.

Where, despite such measures, there are few or no female directors, indicate the reasons for this situation:

Detail the reasons

C.1.7 Detail the conclusions reached by the Appointments Committee in assessing compliance with the director selection policy. In particular, indicate how this policy promotes the objective that, by 2020, women account for at least 30% of the Board.

In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship that was approved by the Board of Directors on 25 February 2016, the Appointments Committee has placed on record that it checked that the policy was complied with in the director appointments made in 2018, which conformed to the parameters and requirements of both the Policy and the existing regulations governing directorships at credit institutions. Specifically, in the appointment by the Board of Directors on 24 May 2018 of the new executive director, Ms. María José García Beato, whose banking, regulatory and legal profile complements the diversity of knowledge and experience of the Board of Directors. Ms. María José García Beato was appointed on the basis of the procedure described in the Banco Sabadell Policy for the Selection of Candidates for Directorship, in a transparent process that focused particularly on increasing gender diversity, in compliance with the mandate of the Board of Directors and of the Appointments Committee to enhance gender diversity on the Board.

C.1.8 Indicate any reasons for which proprietary shareholders were appointed at the proposal of a shareholder owning less than 3% of capital:

Name of shareholder	Justification
-	-

Disclose any rejection of a formal request for a board seat from shareholders whose equity stake is equal to or greater than that of others which applied successfully for a proprietary directorship. Detail the reasons for any such rejection:

Yes

No

Name of shareholder	Explanation
-	-

C.1.9 Disclose any powers or faculties delegated by the Board of Directors to directors or committees of the Board:

Name of director or committee:	Brief description
Mr. JOSÉ OLIU CREUS	He holds general powers to represent the institution, direct and promote the strategy and all those for the exercise of his functions as Chairman of the Board and Chairman of the Executive Committee; direct oversight and promote the establishment of risk control and management systems for the Bank and the Group, direct supervision of the Internal Audit services of the Bank and the Group; direct and promote the communication strategy of the Bank and the Group; and enter into strategic and collaborative agreements.
Mr. JAIME GUARDIOLA ROMOJARO	All the powers of the Board, except those that may not by law be delegated, and those powers that are necessary for him to manage the institution effectively as its chief executive.
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	The general powers that are necessary to perform his functions in the institution.
Ms. MARÍA JOSÉ GARCÍA BEATO	The general powers that are necessary to perform her functions in the institution.
EXECUTIVE COMMITTEE	It has been expressly delegated with all the powers corresponding to the Board of Directors, except the powers that the law or the Articles reserve exclusively for the Board.

C.1.10 Identify any board members who are directors, representatives of directors, or executives in other companies that form part of the listed company's group:

Name of director	Name of Group company	Position	Does he/she have executive functions?
Mr. JOSÉ OLIU CREUS	SABADELL CONSUMER FINANCE, S.A.U.	CHAIRMAN	No
Mr. JAIME GUARDIOLA ROMOJARO	SABADELL CONSUMER FINANCE, S.A.U.	DIRECTOR	No
Mr. JAIME GUARDIOLA ROMOJARO	BANCO SABADELL, S.A. I.B.M. (MEXICO)	CHAIRMAN	No
Mr. JAIME GUARDIOLA ROMOJARO	SabCapital, S.A. de C.V., SOFOM, E.R.(MEXICO)	CHAIRMAN	No
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	SABADELL CONSUMER FINANCE, S.A.U.	DIRECTOR	No
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	BANSABADELL FINANCIACIÓN, E.F.C. S.A.	CHAIRMAN	No
Mr. DAVID VEGARA FIGUERAS	BANCO SABADELL, S.A. I.B.M. (MEXICO)	DIRECTOR	No
Mr. DAVID VEGARA FIGUERAS	SabCapital, S.A. de C.V., SOFOM, E.R. (MEXICO)	DIRECTOR	No

C.1.11 Detail any directors of the company, or representatives of directors that are legal persons, who are members of the board of directors, or representatives of directors that are legal persons, of other companies listed on official stock markets, other than group companies, of which the company has been notified:

Name of director	Name of listed group company	Position
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ACS ACTIVIDADES DE LA CONSTRUCCIÓN Y SERVICIOS, S.A.	DIRECTOR
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ENCE ENERGÍA Y CELULOSA, S.A.	DIRECTOR
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	TELEFÓNICA, S.A.	DIRECTOR
Ms. MARÍA JOSÉ GARCÍA BEATO	RED ELÉCTRICA CORPORACIÓN, S.A.	DIRECTOR
Ms. AURORA CATÁ SALA	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A.	DIRECTOR
Mr. PEDRO FONTANA GARCÍA	GRUPO ELIOR, S.A.	REPRESENTATIVE OF DIRECTOR
Mr. GEORGE DONALD JOHNSTON	ACERINOX, S.A.	DIRECTOR
Mr. GEORGE DONALD JOHNSTON	MERLIN PROPERTIES, SOCIMI, S.A.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	ALFA, S.A.B. DE C.V.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	CEMEX, S.A.B. DE C.V.	DIRECTOR
Mr. DAVID MARTÍNEZ GUZMÁN	VITRO, S.A.B. DE C.V.	DIRECTOR
Mr. MANUEL VALLS MORATÓ	RENTA CORPORACIÓN REAL ESTATE, S.A.	DIRECTOR

Comments

C.1.12 Indicate whether the company has established rules about the maximum number of directorships that board members can hold; describe any such rules and detail their location:

Yes No

Detail the rules and identify the document where they are set out

Banco Sabadell is bound by article 26 of Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions. which establishes the maximum number of directorships that directors of credit institutions may hold, in transposition of 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, specifically article 91, which establishes the following maximum combination of positions: i) one non-executive position with two non-executive positions, ii) four non-executive positions. Executive and non-executive positions in the same group or in companies in which the institution holds a significant stake count as one position. Also applicable are the European Central Bank's Guide to fit and proper assessments, updated in May 2018, and the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 12 March 2018, which came into force on 30 June 2018. The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

C.1.13 Indicate the amounts of the following items of the overall remuneration for the Board of Directors:

Remuneration earned by the Board of Directors in the year (thousand euro)	6,463
Amount of accumulated pension rights held by current directors (thousand euro)	37,883
Amount of accumulated pension rights held by former directors (thousand euro)	0

Comments

C.1.14 Indicate senior management members who are not executive directors and the total remuneration accrued to them in the year:

Name	Position(s)
Mr. MIQUEL MONTES GÜELL	GENERAL MANAGER
Mr. TOMÁS VARELA MUIÑA	GENERAL MANAGER
Mr. CARLOS VENTURA SANTAMANS	GENERAL MANAGER
Mr. RAFAEL JOSÉ GARCÍA NAUFFAL	DEPUTY GENERAL MANAGER
Mr. RAMÓN DE LA RIVA REINA	DEPUTY GENERAL MANAGER
Mr. ENRIC ROVIRA MASACHS	DEPUTY GENERAL MANAGER
Mr. MANUEL TRESÁNCHEZ MONTANER	DEPUTY GENERAL MANAGER
Mr. JOSÉ NIETO DE LA CIERVA	DEPUTY GENERAL MANAGER
Ms. NURIA LÁZARO RUBIO	DEPUTY GENERAL MANAGER - HEAD OF INTERNAL AUDIT
Total remuneration for senior management (thousand euro)	6,326

Comments

C.1.15 Indicate whether there were any amendments to the board regulation in the year.

Yes No

Describe the amendments

C.1.16 Indicate the procedure for appointing, re-appointing, assessing and removing directors. Indicate the competent bodies, the process and the criteria for each procedure.

In accordance with the provisions of Articles 50, 53, 55 and 61 of the Articles of Association, articles 14, 19 and 20 of the Board of Directors Regulation, the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors on 25 February 2016, and the procedure for assessing the suitability of the members of the Board of Directors and holders of key functions of Banco Sabadell, the procedures for appointment, reappointment, evaluation and removal of directors are as follows:

Selection

The Appointments Committee is responsible for analysing the competencies and diversity of the Board of Directors in order to determine the profile of candidates for director of Banco Sabadell. In compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, it is responsible for performing a prior assessment to ensure that candidates for director possess the necessary competencies, knowledge and experience; to that end, it is necessary to consider the balance of knowledge, skills, diversity and experience of the members of the Board of Directors and, for this purpose, to define the roles and capabilities required of the candidates to fill each vacancy and to evaluate the time and dedication needed for them to effectively perform their duties.

To select candidates, the Appointments Committee may, if deemed necessary, engage a prestigious consultant in the field of personnel selection to initiate a process of finding candidates that fit the desired profile. Additionally, any director may suggest candidates for director provided they meet the requirements of the Banco Sabadell Policy for the Selection of Candidates for Directorship.

Suitability assessment

Once a candidate has been selected, the procedure for assessing the suitability of Board members and key personnel must be applied; on this basis, the Appointments Committee will analyse the information about the candidates and the reports presented by the Board Secretary, drawn up by the Bank's Senior Counsel, as to their commercial and professional integrity, knowledge and experience and their willingness to provide good governance, by application of the requirements set out in Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, and having regard to the criteria for assessing the suitability of the members of the Board of Directors as set out in Royal Decree 84/2015, of 13 February, implementing the aforementioned Act 10/2014, of 26 June, and the European Central Bank guidelines on fit and proper assessments dated 15 May 2017, as well as the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 21 March 2018, which came into force on 30 June 2018. The Appointments Committee will check that candidates meet the requirements as to integrity, knowledge, experience and governance envisaged in the applicable legislation and will draw up a candidate suitability assessment report. In addition, candidates for directorships must be vetted by the European Central Bank.

The Appointments Committee is also entrusted with assessing director suitability on an ongoing basis, and evaluating the profile of the persons most suited to being members of the various committees, and making proposals in this regard to the Board of Directors; in particular, it must seek to ensure that the rules on the qualitative composition of the Board of Directors are complied with.

Appointment

After assessing the suitability of candidates for director, the Appointments Committee is entrusted, among its basic responsibilities in accordance with Article 61 of the Articles of Association, with making proposals to the Board for the appointment of independent directors either by co-optation or for submission to a vote at the General Meeting of Shareholders, and must advise on the proposals to appoint other director categories by co-optation or by referral to the General Meeting of Shareholders.

Ordinary members of the Board of Directors are appointed by the General Meeting of Shareholders. Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board decides, in the interests of the bank, to act in accordance with the Capital Companies Act. Directors appointed by co-optation hold office until the next General Meeting of Shareholders.

Re-appointment

Directors are appointed for a term of at most four years and they can be re-appointed one or more times for periods of the same maximum duration.

(This description continues in section H)

C.1.17 Describe the extent to which the annual evaluation of the Board led to significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes

Each year since 2007, the Bank assesses the performance of the Board of Directors and of its sub-committees (Executive Committee, Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee). The assessment for the year 2017 was carried out with the help of an independent external consultant, Deloitte Legal, in compliance with the provisions of the Code of Good Governance of Listed Companies, whose Recommendation 36 establishes that, at least once every three years, the Board of Directors should be assisted in the assessment by an external consultant, whose independence should be vetted by the Appointments Committee.

The report on the assessment by Deloitte Legal of the Board of Directors and the Committees of Banco Sabadell was approved by the Board of Directors at its meeting on 8 March 2018, after a favourable report from the Appointments Committee. The conclusions of the Report were positive: it found that the functioning of the Board of Directors is excellent, complying with the functions attributed to it by the Capital Companies Act, the Articles of Association of Banco Sabadell and its own terms of reference; the report highlighted the position and performance of the Chairman and the Managing Director, and no aspects of internal functioning were found that might affect the overall conclusion that performance is satisfactory.

Nevertheless, the Report established an Action Plan consisting of measures aimed at improving Banco Sabadell's corporate governance and the workings of both the Board of Directors and of its sub-committees.

In compliance with the measures contained in the Action Plan for 2018, the following actions were carried out:

An increase in the diversity of the composition of the Board of Directors through the appointment of a female executive director, which improves the gender balance in the Board of Directors.

Enhancement of the Director training programme. Training addressed specific needs of the directors, and the fact that the training was given by Banco Sabadell executives was considered to be a strength.

The Board worked further on the definition of strategy, with a high degree of director involvement, which resulted in meetings with the executive team to discuss the Strategic Plan.

With regard to sending documentation to directors sufficiently in advance, the technology systems provided to the directors were strengthened.

To encourage and monitor compliance with the specific action plans approved by the Committees for 2018, and by the Board itself, Banco Sabadell undertook measures in addition to those covered by the 2018 Action Plan, by approving a number of policies aimed at more effective control of such aspects as remuneration in the Group, risk control and management in Banco Sabadell, operational risk, privacy and data protection and the Group's scenarios.

Describe the evaluation process and the areas assessed by the Board of Directors with the assistance of an external consultant, if any, with regard to the performance and composition of the Board and its committees, and any other area or aspect that was assessed.

Description of the assessment process and the areas that were assessed

In accordance with article 529 nonies of the Capital Companies Act, the Code of Good Governance for Listed Companies and the Board of Directors Regulation, the Board of Directors assessed its own performance and that of its sub-committees in 2017 with the assistance of an independent external consultant, Deloitte Legal.

The methodology applied in the assessment is based on three main elements:

- Input from the directors. The perception of the members of the Board of Directors and its committees is a key component of the analysis, since they know how it works and are a source of essential information for diagnostic purposes. Directors' opinions on the various issues under assessment were gathered through personal interviews with directors and by asking them all to complete the same questionnaires.
- Analysis of significant corporate documentation of Banco Sabadell relating to key aspects of the corporate governance system. The documentation and information that were reviewed were the agendas and minutes of the Board of Directors and sub-committee meetings, as well as records of member attendance at meetings, the self-assessment report for 2016 and the action plan for 2017, the institution's internal regulations (Articles of Association, Board of Directors Regulations, Regulations of the Audit and Control Committee, and the Code of Conduct in relation to the securities market), and the bank's policies and public disclosures, such as the Annual Corporate Governance Report for 2016.
- Review of the 2017 Reports on the activities of the Appointments Committee, the Remuneration Committee and the Risk Committee. Analysis of these documents provided greater insight into the actions of the committees in 2017, giving a broader vision of their performance and the fulfilment of the duties assigned to them.

The analysis of director feedback, obtained through interviews and questionnaires, as well as the information contained in the activity reports and the analysis of the corporate information and other relevant documentation of Banco Sabadell, enabled the external advisor to acquire extensive knowledge of the performance of the Board of Directors, the degree of participation by its members and key position holders, the efficiency of its committees, the matters that were reported and debated, and other additional information that is germane to the performance assessment and the identification of potential areas for improvement on which to design the action plan for 2018.

In accordance with recommendation 36 of the Code of Good Governance, Deloitte Legal reviewed the quality and efficiency of the Board of Directors' performance; the performance and composition of its committees; the diversity in

the composition and competencies of the Board of Directors; the performance of the Chairman of the Board of Directors and the Chief Executive Officer; and the performance and contribution by each director. The review also covered fulfilment of the action plan for 2017 that arose from the assessment the Board of Directors' performance in 2016, and the action plan for 2018 was defined.

C.1.18 In years where the assessment was performed with the support of an external consultant, detail the business relations between the consultant and any company in its group with the company and any company in its group.

The year 2017 was the first year in which the performance assessment of the Board of Directors and its sub-committees was assisted by an external consultant, Deloitte Legal.

The business relations with the external consultant and any company in its group are within the ordinary course of business. Deloitte Legal has provided advice on matters of criminal liability. Other companies in the Deloitte group have provided advisory services to the Banco Sabadell group, particularly in the field of information technology and security.

C.1.19 Indicate the reasons for which directors may be forced to resign.

Under article 20 of the Banco Sabadell Board of Directors Regulation, directors may be removed:

- a) If they meet any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
- b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious violation.
- c) Where their continuance on the Board may jeopardise the company's interests.

C.1.20 Do any decisions require a supermajority, other than the legal majority?

Yes No

Describe the differences, if any.

Description of differences

C.1.21 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

Yes No

Description of requirements
Those established in the Succession Plan for the Chairman and Managing Director of Banco Sabadell, approved by the Board of Directors on 21 July 2016.

C.1.22 Indicate if the articles or board regulation establish an age limit for directors:

Yes No

C.1.23 Indicate if the articles or board regulation establish a term limit for independent directors or other requirements for them that are stricter than those provided by law, other than those provided in the regulations:

Yes

No

Additional requirements and/or maximum term	
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C.1.24 Indicate whether or not the Articles of Association or the Board Regulation set out specific rules for directors to grant proxy in Board of Directors meetings, the method of doing so and, more specifically, the maximum number of proxies that a director can hold, as well as whether or not a limitation has been set with regard to the categories to which proxy may be granted, above and beyond the limitations imposed by law. Give a brief description of any such rules.

Directors must attend Board of Directors meetings in person. However, when they can not attend in person, they may grant proxy to another director. Article 56 of the Articles of Association establishes that non-executive directors may grant proxy only to another non-executive director.

Additionally, the Director Remuneration Policy for 2018, 2019 and 2020, approved by the Shareholders' Meeting on 19 April 2018, which establishes the system of remuneration for directors for their functions as members of the Board of Directors, breaks down their fixed remuneration under this heading, establishing, in addition to the fixed remuneration for membership of the Board, per diems for meeting attendance, capped at 11 per diems for ordinary meetings; directors may collect per diems for up to two meetings per year missed for just cause provided that they grant proxy.

C.1.25 Indicate the number of board of directors meetings held in the year. Also, state the number of times that the Chairman did not attend Board meetings. Proxies granted with specific instructions are not counted as absences:

Number of Board meetings	14
Number of Board meetings held without the chairman	0

Comments

Indicate the number of meetings held by the lead director with the other directors, without any executive director being present.

Number of meetings	2
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Comments

Indicate the number of meetings held by board sub-committees in the year:

Committee	No. of meetings
Number of Executive Committee meetings	35
Number of Audit and Control Committee meetings	12
Number of Appointments Committee meetings	12
Number of Remuneration Committee meetings	12

Number of Risk Committee meetings	15
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Comments

C.1.26 Indicate the number of board of directors meetings held in the year, and give data on attendance by members:

Number of meetings which were attended in person by at least 80% of directors	14
Attendance in person as a % of the total number of votes during the year	97.58%
Number of meetings at which all the directors were present in person or for which they granted proxy with specific instructions.	14
Votes cast with all directors actually present or having granted proxy with specific instructions, as a % of total votes in the year	100%

Comments

C.1.27 Indicate whether the separate and consolidated financial statements that are presented for board approval are certified beforehand:

Yes No

Identify the person(s) that certified the company's separate and consolidated financial statements for board authorisation:

Name	Position
Mr. JOSÉ OLIU CREUS	CHAIRMAN
Mr. JAIME GUARDIOLA ROMOJARO	MANAGING DIRECTOR
Mr. TOMÁS VARELA MUIÑA	GENERAL MANAGER—CHIEF FINANCIAL OFFICER

Comments

C.1.28 Detail any mechanisms established by the Board of Directors to ensure that the separate and consolidated financial statements authorised by it are presented to the Shareholders' Meeting with an unqualified auditors' report.

The Bank's internal units draw up financial statements drafted clearly such as to present a true and fair view of the company's net worth, financial situation and results, to which end they must apply generally accepted accounting principles to all the financial and accounting information.

The Audit and Control Committee reviews the company's financial statements, both separate and consolidated, before referring them to the Board, and exercises vigilance to ensure compliance with the law and the proper application of generally-accepted accounting principles. To this end, it holds regular meetings with the external auditors in order to be informed punctually about the audit process and to be aware sufficiently in advance of any possible discrepancies or differences of opinion that might arise. In the event of any discrepancy that might lead to a qualification in the auditors' report, the committee seeks to resolve it before the financial statements are authorised.

If the discrepancy cannot ultimately be resolved before the financial statements are authorised, the annual report of the Audit and Control Committee must expressly describe the discrepancies and its position in connection with them.

The auditors' reports on the separate and consolidation financial statements for 2018 were unqualified.

C.1.29 Is the board secretary a director?

Yes

No

If the secretary is not a director, complete the following table:

Name of secretary	Representative
Mr. MIQUEL ROCA I JUNYENT (SECRETARY)	

Comments

C.1.30 Describe the specific mechanisms established by the company to safeguard the independence of the external auditors, and any mechanisms to safeguard the independence of financial analysts, investment banks and rating agencies, including details of how the legal requirements are implemented in practice.

In connection with the external auditors, article 60 of the Articles of Association provides that the Audit and Control Committee has the following competencies:

(...)

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.

(...)

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."

The Board of Directors Regulation expresses itself in similar terms: article 30 provides that: "Relations between the Board and the company's external auditors will be conducted through the Audit and Control Committee."

During 2018, the Audit and Control Committee was composed of four independent directors and one non-executive director until 24 May 2018, when the latter resigned from the Board of Directors of Banco Sabadell. That Committee's Regulation, which was current in 2018, includes the provisions of the Articles of Association and the Board of Directors Regulation; article 21.3 provides that, as directors and members of the Committee, those members must act with independence of opinion and action with respect to the rest of the organisation (...)

On 19 April 2016, in conformity with Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April, the Audit and Control Committee approved the Group policy for safeguarding auditor independence. The policy is implemented through procedures that contemplate measures to preserve the auditor's independence by monitoring possible incompatibilities arising from personal circumstances, prohibited services, rotation requirements and fee limits, as well as measures in the processes of auditor selection, appointment, reappointment or replacement, and processes for authorising all the auditor's services, particularly in connection with non-audit services that the auditor is not prohibited from providing.

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. Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued, and it issued its annual report on that independence.

The institution complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, the institution: i) takes care not to provide financial analysts with any information that might put them in a position of privilege with respect to other market participants, ii) regularly uses the services of three prestigious rating agencies, and iii) where the bank receives

advice from investment banks in certain transactions and, in the course of providing those services, such investment banks become privy to inside information, the institution includes the persons who become privy to such information in its internal control systems, and expressly notifies such persons of the obligation to fulfil their duty of confidentiality and ensure that it, and any trading restrictions, are fulfilled by others.

The institution also acts in accordance with the provisions of its General Policy on Conflicts of Interest, which is based essentially on identifying, logging, managing, avoiding or eliminating any conflicts of interest, and in line with the Banco Sabadell Group Policy on Outsourcing Services or Functions, approved in connection with credit institutions by the Board of Directors on 27 October 2016.

C.1.31 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

Yes

No

Outgoing auditor	Incoming auditor

Comments
Based on a reasoned recommendation from the Audit and Control Committee, the Board of Directors resolved, at a meeting on 20 December 2018, as disclosed via regulatory disclosure no. 273.045, to appoint select KPMG Auditores, S.L. as auditor of the financial statements of Banco de Sabadell, S.A. and the consolidated financial statements of the Banco Sabadell group for the years 2020, 2021 and 2022. This decision was adopted in compliance with current legislation on auditor rotation and as a result of a selection process performed in accordance with the provisions of Regulation (EU) 537/2014 of 16 April, on specific requirements regarding statutory audit of public-interest entities. The Board will propose this appointment to the next Ordinary General Meeting of Shareholders.

If there was a disagreement with the outgoing auditor, describe it:

Yes

No

Explanation of the disagreement

C.1.32 Indicate whether the audit firm performs work for the company and/or its group other than auditing and, if so, state the fees received for such work and those fees as a percentage of the total fees billed to the company and/or its group:

Yes

No

	Company	Group companies	Total
Fees for work other than auditing (thousand euro)	142	433	575
Fees for work other than auditing/Total audit fees (%)	10.91%	8.34%	8.86%

Comments
The amount of fees for non-audit work does not include audit-related services for a total of 659 thousand euros (486 thousand euros corresponding to the Company and 173 thousand euros corresponding to Group subsidiaries), since they are independent assurance services, some of which are required by law.

C.1.33 State whether or not the auditors' report on the previous year's financial statements was qualified. If it was, state the reasons given by the Chairperson of the Audit Committee to the shareholders at the General Meeting of Shareholders to explain the content and scope of the qualification or exception.

Yes

No

Description of the reasons

C.1.34 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or the consolidated financial statements of its group. Also, indicate the number of years audited by the current audit firm as a percentage of the total number of years in which the financial statements have been audited:

	Separate	Consolidated
Number of consecutive years	36	34
No. of years audited by the current audit firm/No. of years that the company has been audited (%)	94.74%	100.00%

Comments

C.1.35 State and detail any procedures in place to ensure that directors can obtain the information they need to prepare in good time for meetings of the Board and committees:

Yes

No

Detail the procedure

Article 17.1 of the Board of Directors Regulation establishes that the notice of meeting must always include the Agenda, which must contain, among other items, information about subsidiaries and Board sub-committees, and proposals and suggestions by the Chairman and other Board members and the bank's General Managers, to be received no less than five days in advance of the Board meeting; such proposals must be accompanied by the appropriate material for distribution to the directors.

Additionally, article 21 provides that:

1. Directors are vested with the broadest powers to be informed about any aspect of the company, to examine its books, records, documents and other background information on the company's transactions and to inspect all of its installations. The right to information extends to subsidiaries, both domestic and foreign.
2. So as not to disturb the ordinary running of the company, requests by directors for information must be channelled through the Chairman or the Secretary to the Board, who must attend to the director's requests by giving the information directly, providing appropriate access to individuals at the relevant level of the organisation, or providing the means by which the director may carry out the desired formal examination and inspection on site.

Banco Sabadell has a procedure for providing the directors with the necessary material to prepare for meetings of

the Board of Directors and its sub-committees in a confidential and encrypted way, using the Diligent Boards software running on iPads. Information for Board meetings is circulated to the directors one week in advance, and it is elaborated upon or updated in the boardbook as needed; hence, they are duly informed.

C.1.36 State and detail any rules in place that oblige the directors to report any circumstances that might jeopardise the company's credit and reputation and, if appropriate, resign:

Yes

No

Describe the rules

The rules in the Capital Companies Act, in the chapter on directors' duties, are applicable: Specifically, under article 50 of the Articles of Association and article 23 of the Board of Directors Regulation, and in compliance with the Banco Sabadell Group Code of Conduct and its Policy on Conflicts of Interest of Directors and Senior Executives, they must disclose any case where there might be a conflict of values or interests in order to enable the Bank to manage such situations appropriately.

Additionally, article 20 of the Board of Directors Regulation provides that directors will be removed:

- a) When they fulfil any of the conditions of incompatibility or prohibition envisaged in the law or the Articles of Association.
- b) If they are arraigned for a crime or are the subject of disciplinary proceedings by the supervisory authorities for a serious or very serious infringement.
- c) Where their continuance on the Board may jeopardise the company's interests.

All the foregoing is without prejudice to the application of the rules on the fitness assessment to be performed by the bank in line with the procedure approved by the Board of Directors, which requires that any potential conflicts of interest or special situations be checked and assessed.

C.1.37 State whether any member of the Board of Directors has informed the company that he/she has faced criminal charges or has been arraigned for any of the offences listed in Article 213 of the Capital Companies Act:

Yes

No

State whether the Board of Directors has analysed the case. If so, give a reasoned explanation of the decision taken as to whether or not the Director should remain in office or, where applicable, detail the actions taken by the Board of Directors until the date of this report or that it plans to take.

C.1.38 Detail any significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

-

C.1.39 Identify and detail, individually, in the case of directors, and in overall terms, in other cases, any agreements between the company and its directors and senior executives or employees that contain indemnities, guarantees or severance clauses in the event of their resignation or unfair dismissal or if the contractual relationship is terminated due to a takeover bid or other transaction.

Number of beneficiaries	45
Type of beneficiary	Description of agreement

Chairman	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Managing Director	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Director - General Manager	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Director and Company Secretary	Clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control.
Other beneficiaries	25 executives have a clause providing indemnity in the amount of 2 years' remuneration for cases of unfair dismissal and some limited cases of change of control, and 16 executives have a post-contractual non-compete clause for a duration of 2 years from the date of unfair dismissal and some limited cases of change of control.

State whether, outside the cases provided for in the regulations, such contracts must be reported and/or approved by the decision-making bodies of the company or group. If so, specify the procedures, cases and nature of the bodies foreseen assumptions and the nature of the parties responsible for approving or disclosing:

	Board of Directors	General Meeting
Body that authorises the clauses	Yes	No

	Yes	No
Is the General Meeting informed of the clauses?	X	

Comments

C.2. Board of Directors sub-committees

C.2.1 Give details of all committees of the Board of Directors, their members, and the proportion of executive, proprietary, independent and other non-executive directors in their composition:

Executive Committee

Name	Position	Category
Mr. JOSÉ OLIU CREUS	CHAIRMAN	Executive
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	MEMBER	Independent
Mr. JAIME GUARDIOLA ROMOJARO	MEMBER	Executive
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	MEMBER	Independent
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	MEMBER	Executive

% executive directors	60.00%
% proprietary directors	0.00%

% independent directors	40.00%
% other external directors	0.00%

Comments

Detail the functions assigned or attributed to this committee other than those already described in section C.1.10 and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

Under article 59 of the Articles of Association and article 12 of the Board of Directors Regulation, the Executive Committee is responsible for the coordination of the Bank's executive management, adopting any resolutions and decisions to this end under the scope of the powers granted to it by the Board of Directors, and overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation.

The Executive Committee must consist of a maximum of six directors, to be appointed by the Board with the favourable vote of two-thirds of its members, with a composition similar to that of the Board in terms of categories; the Chairman of the Board must act as its Chair. The resolutions of the Committee must be entered in a minutes book, and the minutes must be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It must meet whenever convened by its Chairman or by the Vice-Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the matter in question; such persons may speak but not vote.

The Committee Secretary, who need not be a director, must be designated by the Board of Directors, which must also designate a substitute secretary for cases of illness or absence.

In 2018, the Executive Commission monitored the ordinary activities of the Bank, oversaw Bank management, adopted resolutions and decisions falling within the scope of the powers that the Board of Directors delegated to it, and analysed and reviewed other issues, providing favourable reports to the sub-committees with competency in those areas and to the Board of Directors for the adoption of the appropriate resolutions. The most salient actions undertaken in 2018 by the Executive Committee in carrying out its functions and discharging its responsibilities included tracking and analysing the financial information and results of the Bank and its group; analysing the reaction of markets and investors to the institution's results; being apprised of the strategic plan and tracking strategic issues appropriately; and tracking business performance and trends in treasury stock and the share price. The Committee also analysed and, as appropriate, approved transactions in connection with the Group's corporate development. It was informed of new developments in legislation, of relations with the supervisors and of regulatory matters, and adopted the pertinent decisions for action. It was also informed of the Group's risks, deciding on the risk operations that fell under its remit due to their amount or relevance. It issued favourable reports to the Board of Directors on the incorporation and/or dissolution and liquidation of subsidiaries and investees, as well as changes in capital and other amendments to articles of association; it informed the Appointments Committee and the Board of Directors of changes in the composition of such institutions' governing bodies. The Executive Committee also performed a self-assessment of its performance in 2017 with the assistance of an external consultant.

Audit and Control Committee

Name	Position	Category
Mr. MANUEL VALLS MORATÓ	CHAIRMAN	Independent
Mr. PEDRO FONTANA GARCÍA	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%
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Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it fulfilled, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Audit and Control Committee is expressly regulated by article 60 of the Articles of Association and article 13 of the Board of Directors Regulation, and it has its own terms of reference that regulate its organisation, functioning and governance.

The purpose of the Audit and Control Committee is to exercise oversight to ensure good banking and accounting practices in the various echelons of the organisation, as well as to ensure that suitable measures are taken to address improper conduct or methods. It is also a watchdog, ensuring that the measures, policies and strategies defined by the Board are duly implemented.

The Audit and Control Committee has the responsibilities established by law, including:

- a) Reporting to the General Meeting on all issues raised by shareholders that are within its remit.
 - When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.
 -
- b) 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 that were detected in the course of the audit.
 - During the year, the Committee reviewed the Group's risk management and control systems using reports prepared by the Risk, Finance and Internal Audit Departments.

In compliance with the requirements as to disclosure to the markets in the framework of the provisions of Part Eight: "Disclosure by Institutions" of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, (hereinafter, the Capital Requirements Regulation - CRR), the Committee reviewed the contents of the "Pillar III disclosures" and analysed the information in connection with the group's computable equity and capital and the degree to which it conformed to the criteria defined in the CRR and the risk management and control objectives set out in group 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.

The Committee also reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2017 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. It also reviewed 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.

Regarding tax risks, the Committee reviewed the Tax Strategy policy with the objective of strengthening the Banco Sabadell Group's commitment to fiscal transparency and social responsibility in complying with tax obligations.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is entrusted with oversight of Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

In connection with its function of overseeing the internal audit units, on 24 May 2018, following a favourable report by the Appointments Committee, the Board of Directors resolved unanimously to ratify that the Internal Audit Department reports directly to the Board of Directors' Audit and Control Committee. This reinforces its hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design, implementation, and effective functioning of the risk management and control systems.

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, 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. During 2018, the Commission received information about the execution of the planned actions; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls.

In 2018, the Committee also received information about the conclusions of the reports issued by the external auditors and the supervisory authorities and on the proper implementation of the improvement measures proposed by the regulatory bodies.

- c) Overseeing the drafting and presentation of regulated financial information;
- During the year, the Audit and Control Committee supervised the internal control model established in the institution with respect to the process of preparing and presenting regulated financial and non-financial disclosures. To this end, it received information from the Finance Department, the Internal Audit Department and the External Auditors regarding the risks relating to financial reporting processes and the adequacy and effectiveness of the controls that mitigate them, as well as aspects that may give rise to changes in the internal control model, including regulatory changes, the incorporation of new products or the modification of Banco Sabadell's processes.
- d) 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.
- With regard to the external auditor, the Committee reviewed the criteria and conditions of engagement and, as a result, proposed to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank's separate and consolidated accounts for the year 2018. The Board of Directors resolved to submit the Committee's recommendation to the General Meeting of Shareholders, which approved it on 19 April 2018.

Additionally, 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. During 2018, the committee ensured that the selection process was conducted in accordance with the criteria established in Regulation (EU) 537/2014, of 16 April, on specific requirements regarding statutory audit of public-interest entities. 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, the Board of Directors resolved on 20 December to propose this appointment to the General Meeting of Shareholders.

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. The Committee also reviewed in depth the contents of the audit report, as well as 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, required to comply to 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.

- e) 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.
- In the course of the year, the Committee paid particular attention to reviewing the financial statements and the 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. In order to carry out these reviews, the Finance Department and the External Auditor participated in meetings of the Committee to present matters relating to the financial disclosures.
- f) 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.
- In order to comply with 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. The objective of these reviews was to ensure that 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.

Additionally, based on information received from the auditor, the Committee reviewed the procedures and tools used by the firm in connection with the auditor independence requirements. Written confirmation of the firm's independence with respect to the Sabadell Group was received on 24 July 2018 and 28 January 2019.

Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued.

- g) Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.
- In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.
- h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.
- In pursuit of good governance of the Bank's business, 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 the year.

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

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 performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies or had obtained such authorisation based on a recommendation by the Committee, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

Additionally, 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.

The Audit Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority of them must be independent directors, and one must be appointed on the basis of his/her knowledge and experience of accounting and/or auditing. The Board of Directors must appoint the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members, and the committee secretary, who must not be a director. The Secretary must take minutes of every meeting, which must be approved at the end of the meeting itself or at the next meeting. The business transacted at Committee meetings must be reported to the Board of Directors at the next meeting by means of a reading of the minutes.

The Committee must meet at least once every three months, and whenever convened by the Chair at his/her own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors, to discharge the duties assigned to it.

On 24 May, 2018, Mr. José Manuel Lara García stepped down as a member of the Audit and Control Committee as a result of his resignation as director.

Identify the members of the audit committee who were appointed on the basis of their knowledge and experience in accounting, auditing or both, and state the date of appointment of the Chairman of this committee.

<u>Name of directors with experience</u>	Mr. MANUEL VALLS MORATÓ
<u>Date of appointment as Chairman</u>	30/03/2017

Comments

Appointments Committee

Name	Position	Category
Ms. AURORA CATÁ SALA	CHAIR	Independent
Mr. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
Mr. PEDRO FONTANA GARCÍA	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%
% other external directors	0.00%

Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Appointments Committee is regulated in article 61 of the Articles of Association and article 14 of the Board of Directors Regulation. Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors or the Board of Directors Regulation, the Appointments Committee has the following basic duties:

a) Making proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for referral to the General Meeting, and as to the re-appointment or removal of such directors;

- In fulfilment of its functions, it proposed to the Board of Directors that it refer to the General Meeting of Shareholders the proposals to re-appoint, ratify and appoint independent directors, and ratify their fitness and suitability.

b) Advising on proposals to appoint other directors by co-optation or for referral to the General Meeting, and on proposals to re-appoint or remove them.

- In fulfilment of its functions, it advised the Board of Directors on proposals for the re-appointment of an executive director and of a proprietary director, ratifying their fitness and suitability, for submission to the General Meeting of Shareholders, and it advised on the proposal to appoint a female executive director by co-optation and assessed her fitness and suitability.

c) Ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association.

- The Committee exercised oversight to ensure compliance with the qualitative composition of the Board in all its proposals for the re-appointment, ratification and appointment of independent directors, as well as

advising on the Board's proposals with respect to the other directors. It also verified compliance with the Banco Sabadell Policy for the Selection of Candidates for Directorship, in accordance with Recommendation 14 of the Code of Good Governance of Listed Companies, and analysed and advised the Board on the composition of the Board, the categories of directors, and the approval of the Annual Corporate Governance Report.

d) Checking that the members of the Board of Directors are suitable and possess the necessary competency, knowledge and experience.

- During 2018, it analysed the powers and diversity of the Board of Directors to determine the profiles of the candidates for directorships and assessed the suitability of the directors presented for appointment and/or re-appointment. It also advised the Board of Directors on the director training programme for 2018.

e) Advising on proposals for the appointment and removal of senior executives and of the material risk takers.

- The Committee fulfilled its function of advising the Board of Directors on proposals for the appointment of senior executives, having assessed their suitability. It also reviewed the composition of the list of material risk takers of the Bank, the group and the subsidiaries, and advised the Board of Directors on proposals to amend the list of material risk takers.

f) Advising on the basic conditions of the contracts of executive directors and senior executives;

g) Examining and organising succession plans for the Chairman of the Board of Directors and the Bank's chief executive and, as appropriate, making proposals to the Board.

- The Succession Plan for the Chairman and Managing Director of Banco Sabadell was approved by the Board of Directors on 21 July 2016.

h) Setting a target for representation of the gender that is under-represented on the Board of Directors and drawing up guidelines on how to achieve that target.

- That target is set in the Banco Sabadell Policy for the Selection of Candidates for Directorship, approved by the Board of Directors at a meeting on 25 February 2016. The Appointments Committee verified compliance with this Policy in the resolutions adopted in 2018 regarding the re-appointment, ratification and/or appointment of directors, which conformed to the diversity parameters and requirements set out in the Policy and in the current regulations governing directorships of credit institutions and, in particular, with a view to achieving the objectives as to the weighting in the Board of the under-represented gender.

In addition, the Appointments Committee approved the Report on the functions and activities of the Appointments Committee for the year 2017; it advised on the annual evaluation of the Appointments Committee's performance in 2017 and the evaluation of the Board of Directors' performance, as well as that of its Chairman, the Managing Director, the Lead Independent Director and the Secretary and the Vice-Secretary of the Board of Directors, all with the assistance of an independent external consultant. It also proposed that the Board of Directors make changes in the composition of the Board sub-committees.

The Appointments Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors appoints the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members.

The Appointments Committee meets whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and whenever it is advisable in order to properly discharge its duties. In any case, it must meet once per year to provide advice in advance on the Board's performance evaluation.

On 8 March 2018, Mr. Pedro Fontana García was appointed as a member of the Appointments Committee.

Remuneration Committee

Name	Position	Category
Ms. AURORA CATÁ SALA	CHAIR	Independent
Mr. ANTHONY FRANK ELLIOTT BALL	MEMBER	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. GEORGE DONALD JOHNSTON	MEMBER	Independent

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%
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Comments

Detail the functions assigned to this committee, including any that are additional to those established by law, and describe its procedures and terms of reference. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Remuneration Committee is regulated in article 62 of the Articles of Association and article 14 bis of the Board of Directors Regulation. Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors or the Board of Directors Regulation, the Remuneration Committee has the following basic duties:

a) Proposing, to the Board of Directors, the director remuneration policy;

- The Remuneration Committee issued a favourable report to the Board of Directors on the proposal to the Ordinary General Meeting of Shareholders to approve the Banco Sabadell Director Remuneration Policy for the years 2018, 2019 and 2020, which was approved by the General Meeting of Shareholders on 19 April 2018.

b) Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Executive Committees or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with.

- To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2017 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2018.

c) Regularly reviewing remuneration policy;

- In 2018, the Remuneration Committee analysed an independent report by an external consultant evaluating remuneration policy and practices; and it reviewed the remuneration policies of Banco Sabadell and reported favourably on this matter to the Board of Directors.

d) Advising on remuneration programmes based on shares and/or options;

- The Commission analysed in detail the proposal for the long-term supplementary incentive programme for 2018-2021 based on the appreciation by the shares of Banco Sabadell, for executive directors, senior management and other executives who are part of the Group's list of material risk takers, and issued a favourable report to the Board of Directors on the proposal to be submitted to the Ordinary General Meeting of Shareholders on 19 April 2018, which approved it.

e) Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;

- It examined the independent report by an external consultant evaluating remuneration policy and practices, which analysed whether the remuneration policy and remuneration practices of Banco Sabadell complied with the requirements and recommendations of the supervisory bodies; it analysed the degree of compliance with the Group's objectives for the year 2017, and recommended that the Board of Directors approve the Group's objectives for 2018; it approved the percentages of compliance with the 2017 objectives by the Group's material risk takers, the salary review for 2018 for the material risk takers, the amount of variable remuneration for 2017 and the 2018 variable remuneration target for the Group's material risk takers; it analysed the proposed amendment to the Articles of Association in relation to the remuneration to which directors are entitled for performing their duties, the goal being to adapt the wording to current legislation and to best practices in the area of corporate governance, and it resolved to issue a favourable report to the Board of Directors on the proposed amendments to the Articles; it reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell's remuneration policy and oversight of the remuneration of the bank's executive directors, senior management and other material risk takers; it reported favourably to the Board of Directors

on the fixed remuneration for group's entire workforce and an increase in the total salary expense for the year 2018.

f) Ensuring that remuneration is transparent;

- It cooperated actively in the Corporate Governance Road Show held at the beginning of February 2018 for proxy advisors and the most significant shareholders, in which it detailed the most salient aspects of the remuneration policy.

g) Ensuring that any conflicts of interests are not detrimental to the independence of external advisors; and

h) Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.

- It vetted and cleared the information on remuneration to be included in the Annual Corporate Governance Report, and recommended that the Board of Directors approve the Annual Report on Director Remuneration.

The Remuneration Committee also approved, and resolved to submit to the Board of Directors, the Report on the assessment of the Remuneration Committee for 2017 and the proposal for the action plan for 2018, which were drawn up with the help of an external consultant.

The Remuneration Committee must comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors appoints the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members.

The Remuneration Committee meets whenever the Board or its Chair requests that it issue a report or adopt a proposal, and whenever it is advisable in order to properly discharge its duties. In any event, the Committee must meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.

Risk Committee

Name	Position	Category
Mr. DAVID VEGARA FIGUERAS	CHAIRMAN	Independent
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	MEMBER	Independent
Mr. GEORGE DONALD JOHNSTON	MEMBER	Independent
Mr. MANUEL VALLS MORATÓ	MEMBER	Independent

% executive directors	0.00%
% proprietary directors	0.00%
% independent directors	100.00%
% other external directors	0.00%

Comments

Detail the functions assigned to this committee, and describe its procedures and rules of organisation and operation. For each of these functions, describe the most salient actions during the year and how it exercised, in practice, each of the functions attributed to it, whether by the law, the Articles or other corporate resolutions.

The Risk Committee is regulated in article 63 of the Articles of Association and article 15 of the Board of Directors Regulation. Its functions are focused on supervising and exercising oversight to ensure that all the risks of the bank and its consolidated group are accepted, controlled and managed appropriately, and reporting to the Board on the performance of the functions corresponding to it, in accordance with the law, the Articles of Association and the Board of Directors Regulation, which include:

- a) Supervising implementation of the Risk Appetite Framework;
- b) Determining and proposing, to the full Board, the annual limits on investment in the real estate market and the

criteria and amounts applicable to the various types of investment;

c) Reporting to the full Board regarding the performance of its functions under this article and other applicable legislation and provisions of the Articles of Association;

d) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and 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;

e) Monitoring and detecting any excess above the approved tolerance thresholds, and overseeing the activation of the contingency plans established for this purpose;

f) Advising the Remuneration Committee as to whether the employee compensation programmes are coherent with the Bank's levels of risk, capital and liquidity.

It comprises at most five directors, appointed by the Board of Directors, none of whom may be an executive director; they must have the appropriate knowledge, skill and experience to fully understand and oversee the Bank's risk strategy and risk appetite; at least two of them must be independent directors. The Board of Directors appoints its Chairman from among the members who are independent directors, with the favourable vote of two-thirds of its members.

In the exercise of its functions, the Risk Committee may directly request the information it sees fit from both the director who is Chief Risk Officer and the Risk Control Manager. At the end of 2018, it was decided to create the position of Chief Risk Office, reporting directly to the Risk Committee.

The Risk Committee must meet at least twice per month and whenever convened by its Chairman at his/her own initiative or at the request of any member of the Committee or of the Chairman of the Board of Directors.

For each of the functions of the Risk Committee listed in the preceding paragraphs, items a) through f), the most salient actions carried out by the Committee during the year were as follows:

In relation to Governance functions, as referred to in items a), b) and c) above, the Risk Committee analysed and reviewed matters that required it to issue a recommendation for subsequent approval by the Board of Directors, including the Risk Appetite Statement (RAS), ICAAP, ILAAP, Recovery Plan and IFRS9, as well as the Risk Policies, such as those relating to credit, concentration, market, liquidity and capital risk.

In connection with its function of advising the Remuneration Committee on the employee remuneration programmes' coherence with Bank's risk, capital and liquidity, as set out in f) above, the Risk Committee reviewed the external consultants' report on the degree to which the Banco Sabadell remuneration policy conforms to the regulatory parameters applicable to credit institutions, verifying that the remuneration policy is aligned with the risk, and it issued a favourable report to the Remuneration Committee about the analysis carried out of the objectives for the material risk takers with regard to the bank's risk, capital and liquidity and on the proposal for the 2018 objectives, itemised for each of the material risk takers; it also reviewed and reported favourably on the proposal to update the Policy on Conflicts of Interests for Directors and Key Position Holders, to be approved by the Board of Directors.

Regarding the functions referred to in items d) and e) of the list of functions, the Risk Committee regularly monitored the Risk Appetite Statement during the year, including the following actions:

- Regular tracking, mainly of the Risk Committee scorecard and the Annex to the Risk Committee scorecard.
- Large Groups that are reviewed by the Executive Committee.
- Tracking of risk-adjusted pricing.
- Ad-hoc monitoring, including in particular this year regularly monitoring the TSB Migration Programme, NPA reporting, and other monographic issues related to market risk, operational risk, cyber risk, outsourcing, country risk, and the risk relating to financial institutions and certain portfolios (SMEs and Corporate, among others).

The Risk Committee carried out actions related to IRB risk models, both for management and for capital and provisioning purposes, in accordance with the functions indicated in item e) of the list of functions. The implementation of Risk Models requires a favourable opinion from the Risk Committee in order for it to be approved subsequently by the Board of Directors. Notable action under this heading were related to the Group's Adjustment model and tracking of Remediation Plans under the Single Supervisory Mechanism (SSM) for the retail, shops and self-employed groups, as well as Loss Given Default (LGD) and credit risk models for subsidiaries, such as TSB.

Additionally, the Risk Committee analysed and reviewed ad-hoc monographs covering specific risks (IT Risk, Operational Risk, Outsourcing Risks), among others, as well as specific portfolios.

The Risk Committee also performed a self-assessment for 2017 with the assistance of an external consultant, and approved the report on the functions and activities of the Risk Committee for 2017.

C.2.2 Complete the following table with information on the number of female directors in the Board sub-committees at the end of the last four years:

	Number of female directors							
	2018		2017		2016		2015	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0%	0	0%	0	0.00%	0	0.00%
Audit and Control Committee	1	25.00%	1	20.00%	1	33.33%	1	33.33%
Appointments Committee	2	50.00%	2	66.67%	1	33.33%	1	25.00%
Remuneration Committee	2	50.00%	2	50.00%	2	66.66%	1	25.00%
Risk Committee	1	25.00%	1	25.00%	1	33.33%	1	25.00%

Comments

C.2.3 Indicate if there are any Board sub-committee regulations, where they can be consulted, and amendments made in the year. Also, indicate if an annual report on each committee's activities has been drafted voluntarily.

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Section C.2.1 details the articles of the Articles of Association and the Board of Directors Regulation that contain the rules governing the workings and competencies of the sub-committees.

The current texts of the Articles of Association and Board of Directors Regulation are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

The Audit and Control Committee has an Internal Regulation setting out its functions and procedures. This Regulation has been filed with the Mercantile Register and is accessible on the website (www.grupobancosabadell.com) – in the section entitled "Corporate governance and remuneration policy" - Board of Directors Regulation).

All the Board sub-committees draw up an annual self-assessment report on their activities, which is submitted to the Bank's Board of Directors for evaluation; the reports for 2017 were evaluated with the assistance of an independent external consultant. Additionally, the Audit and Control Committee, Appointments Committee, Remuneration Committee and Risk Committee draw up annual reports on their functions and activities, which are available on the website (www.grupobancosabadell.com) in the section on "Corporate governance and remuneration policy".

D RELATED-PARTY AND INTERCOMPANY TRANSACTIONS

D.1 State, where applicable, the procedure for the approval of related-party and intercompany transactions, and the bodies empowered for this purpose.

Procedure for advising on the approval of related-party transactions.
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The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors.

D.2 Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

Name of significant shareholder	Name of group company or institution	Nature of relationship	Type of transaction	Amount (thousand euro)

Comments

D.3 Give details of any transactions that are material, because of their size or nature, between the company or any group undertakings and the company's directors or executives:

Name of director or executive	Name of related party	Relationship	Nature of relationship	Amount (thousand euro)

Comments

D.4 Detail the material transactions between the company and other companies in the group, except those that are eliminated in consolidation and do not form part of the company's normal operations with regard to their purpose and conditions:

In any event, provide details of any intercompany transactions carried out with organisations based in countries or territories that are considered to be tax havens:

Name of the group institution	Brief description of transaction	Amount (thousand euro)

Comments

D.5 Give details of any material transactions between the company or any group undertakings and other related parties that are not disclosed in the preceding sections:

Name of related party	Brief description of transaction	Amount (thousand euro)

Comments

D.6 Specify the mechanisms established to detect, identify and resolve possible conflicts of interest arising between the company and/or the group and its directors, senior managers or significant shareholders.

1. Under the Board of Directors Regulation, all Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the company itself or in other companies outside the group.

Specifically, Article 25 of the Regulation states that a director may not provide professional services to Spanish companies whose corporate purpose coincides wholly or partly with that of the company. An exception is made for offices they hold in companies in the group. Directors must notify the Appointments Committee before accepting any executive appointment in another company or institution.

Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake.

It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.

2. The Banco Sabadell Group's Code of Conduct provides a set of rules for the guidance of all persons employed by the group and its stakeholders (customers, suppliers, shareholders, authorities and the local community) based on principles which we consider fundamental to carrying on our business.

It expressly contemplates rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.

3. Banco Sabadell Group's Internal Rules of Conduct in connection with the securities markets (IRC), approved by the Board of Directors on 24 May 2018, are applicable to the members of the Bank's Board of Directors, and to all executives and employees whose work is directly or indirectly related to activities and services in the field of the stock markets or who have frequent or habitual access to price-sensitive information related to the Bank itself or group companies.

Section 4 of the IRC sets out the mechanisms for identifying, preventing and resolving possible conflicts of interest that are detected by persons concerned, who are obliged to declare any significant relations of a financial, family or other nature with customers of the Bank in connection with services related to the securities markets or to companies listed on the Stock Exchange, as well as any other relationships that, in the opinion of an external and neutral observer, might compromise the impartiality of the persons concerned.

4. The Banco Sabadell Group's General Policy Regarding Conflicts of Interest is an internal set of regulations laying down the criteria and procedures to be followed to guarantee that decisions taken within the Banco Sabadell Group with respect to the provision of investment services or other services that potentially create such conflicts of interest are made so as to avoid, eliminate or, in the final instance, disclose any conflict of interest to the customer. The Compliance Department is responsible for correctly applying the general conflicts of interest policy and, when necessary, it will urge the other departments in the group to which it applies to take the necessary action.

5. The Policy on Conflicts of Interest of Directors and Senior Executives, approved by the Board of Directors on 28 January 2016 and amended by the Board of Directors on 8 March 2018, establishes the necessary measures for managing conflicts of interest of directors and senior executives and their related parties in connection with corporate transactions or non-bank activities and also with ordinary banking business.

The Credit Transactions Committee analyses all credit operations carried out by directors, senior executives and their related parties and makes proposals to the Board of Directors for their approval. Royal Decree 84/2005, implementing Act 10/2014, of 26 June, on Ordering, Supervision and Solvency of Credit Institutions, sets out the requirements in connection with disclosure of transactions by directors, senior executives and their related parties to the competent authority and for authorisation by the latter.

6. The Banco Sabadell Group's Corporate Ethics Committee is responsible for fostering ethical conduct throughout the organisation and for making proposals and giving advice to the Board of Directors, via the Audit and Control Committee, and to the corporate and business units on decisions involving issues that might lead to conflicts of interest. The Committee is also responsible for overseeing the group's compliance with its obligations as set out in the Code of Conduct and in the Internal Rules of Conduct in connection with the securities market. To achieve its objectives, the Corporate Ethics Committee can call upon the resources of the Compliance Department, and has been given extensive powers by the Board to gain access to all the documents and

information it requires to perform its supervisory function.

D.7 Is more than one company in the Group listed in Spain?

Yes

No

Identify the other companies that are listed in Spain and their relationship to the company:

-

Indicate whether the respective areas of activity and any business relationships between them have been defined publicly and accurately, as well as those of the listed subsidiary company with other companies in the group;

Yes

No

Define any business relationships between the parent company and the listed subsidiary, and between the latter and the rest of the group companies

Identify the mechanisms established to resolve any conflicts of interest between the listed subsidiary and the other companies in the group:

Mechanisms to resolve conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the scope of the company's Risk Control and Management System, including that relating to tax risks.

The Banco Sabadell Group Risk Management system is based on the Risk Appetite Framework contained in the Risk Appetite Statement (RAS), the associated management policies and the reporting system and overall governance model for the risk function, which contemplate tax risk under the terms described below.

The system applies throughout the group, consolidating by area, business unit or activity, subsidiary and geography at corporate level.

The Banco Sabadell Group includes tax risk in its Risk Policy as a specific risk.

Additionally, the Board of Directors of Banco de Sabadell, S.A. has approved the group's tax strategy. That strategy is governed by the principles of efficiency, prudence, transparency and minimisation of tax risk, it is broadly aligned with the Banco Sabadell Group's business strategy, and it is applied in all the companies controlled by the group, regardless of their geographic location.

E.2 Identify the bodies of the company responsible for drawing up and executing the Risk Control and Management System, including tax risk.

The Board of Directors has indelegable responsibility for: (i) determining the tax strategy; (ii) approving investments or operations considered strategic by virtue of their amount or special characteristics, strategic nature or particular tax risks, unless their approval corresponds to the General Meeting; (iii) approving the creation special-purpose vehicles or entities resident in jurisdictions considered tax havens or the acquisition of shares in such undertakings; and (iv) the approval of any other transactions or operations of a comparable nature whose complexity might impair the transparency of Banco de Sabadell, S.A. and its group.

The Board of Directors is the body responsible for establishing the general guidelines on the organisational distribution of the risk management and control functions and for determining the main lines of strategy in this respect. Therefore, the Board is the body responsible for approving the Risk Appetite Framework and ensuring its consistency with the institution's short- and long-term strategic objectives, together with the business plan, capital planning, risk-taking capacity and compensation schemes.

Within the Board itself there is a Risk Committee which is responsible for ensuring compliance with the Risk Appetite Statement (RAS) approved by the Board and with the associated risk management policies, including those related to tax risk; its functions are described in section C.2.1. In addition, another three Board sub-committees participate in risk management and control: the Executive Committee, responsible for coordinating executive management of the Bank, for approving transactions and limits of risk groups that exceed the limits of the delegated powers and for approving asset allocation proposals within the Risk Appetite Framework; the Audit and Control Committee, which oversees the effectiveness of the risk management systems, and is the body responsible for the regular oversight of the tax risk management and control framework to validate its effectiveness and ensure that the main risks are properly identified, managed and communicated; and the Appointments and Remuneration Committee, which ensures that the Group's remuneration practices are coherent with its risk profile, avoiding inappropriate risk-taking and promoting sound and effective risk management.

The departments involved in risk management and control, including tax risk, include, among others, the following:

- Risk Control Department, with the following functions: (i) proposing and implementing the Risk Appetite Framework; (ii) systematically monitoring and analysing the evolution of all major risks and verifying the degree to which they conform to the established policies; (iii) proposing the guidelines, methodology and strategy for managing all risks; (iv) defining and establishing the risk monitoring and control model, developing internal advanced measurement systems, in line with supervisory requirements, to enable risks to be quantified and discriminated, and activating their application in the business; (v) establishing procedures to optimise the credit approval function, and (vi) promoting and standardising, with the assistance and advice of the Tax Advisory Department (within Legal), the management and control of tax risks within the group's risk control environment, systematically overseeing and analysing trends in tax risk and the degree to which the controls conform to the policy framework that is in place. At the end of 2018, it was decided to create the position of Chief Risk Office, reporting directly to the Risk Committee.

- Risk Management Department, with the following functions: (i) managing and integrating exposures in accordance with the pre-determined levels of autonomy, via selective acceptance of risk to ensure its quality, achieve growth and optimise business profitability; (ii) aligning the priorities of the strategic plan and the vision of the Risk Management Department in all segments, identifying the initiatives to be implemented as regards risk.

- Finance Department, with the following functions: (i) supporting the Managing Director and Chief Risk Officer in implementing the Risk Appetite Framework; (ii) as part of the planning, budgeting and management control processes, it calculates provisions and assigns capital in keeping with the Bank's strategy, ensuring the risk variable is taken into account in all decisions and overseeing the specific risk measurement models, ensuring their standardisation in terms of generally accepted principles and methodologies and particularly vis-à-vis the supervisory authorities. Additionally, it develops and manages the stress test analysis framework within the institution's financial planning; and (iii) in relation to tax risk, it is the department responsible for implementing and complying with the tax obligations in relation to corporate income tax, value added tax and transfer pricing, implementing the tax principles and rules in this connection.

- Asset Transformation and Industrial and Real Estate Investees Department: Manages the group's entire exposure to real estate, the developer loan book and real estate assets on the Bank's balance sheet together with processes for recovering problematic assets.

- Treasury and Capital Markets Department: responsible for managing the Bank's liquidity, and management and compliance with its regulatory coefficients and ratios. It also manages the risk of the proprietary trading book, interest rate and exchange rate risk and various books, basically due to operational flows with both internal and external clients, originating from the activity of the Distribution units and also the Finance Department and the network of branches and offices.

- Compliance Department: promotes and seeks to ensure the highest possible level of compliance with the legislation in force and with the group's professional ethics, thereby mitigating compliance risk, which is understood as the risk of incurring legal or administrative sanctions, significant financial losses or reputational losses due to non-compliance with laws, regulations, standards, self-regulations and codes of conduct applicable to banking activities.

- Internal Audit Department: (i) oversees the control system established for effective compliance with management policies and procedures, assessing the adequacy and effectiveness of the management and control activities of each functional and executive unit, reporting directly to the Audit and Control Committee; (ii) verifies the design and effectiveness of the Risk Appetite Statement and its alignment with the supervisory framework; and (iii) provides assurance concerning the implementation of the RAS both in the documentation structure (consistency between it and the RAS) and in the subsequent integration into the Bank's management practices, verifying compliance with the established metrics and action plans.

- Tax Advisory Department (Legal Department): responsible for setting the tax approach in matters of importance

for tax reasons and for advising the Board of Directors and the group's divisions. It may also obtain advice from independent experts where it is considered necessary.

- The other divisions, areas and departments, including Human Resources and the Centralised Administration, must implement the tax strategy in all actions or operations that may have a tax impact.

(This description continues in section H)

E.3 Describe the main risks, including tax risks, and corruption-related risks, to the extent that they are material (within the scope of Royal Decree-Act 18/2017), that may affect attainment of the business targets.

Credit and concentration risk

Credit risk is the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. The following risks stand out because of their specific characteristics:

- **Concentration risk**

Complementary to credit risk, concentration risk refers to exposures that can potentially generate losses large enough to threaten the institution's financial solvency or the viability of its ordinary business activity.

- **Counterparty risk**

The regulations on bank capital risk use the term counterparty risk to refer to exposure to certain financial contracts (derivatives and repos) for which risk exposure does not match the notional value of the contract. This includes counterparty risk, settlement risk and delivery risk.

- **Country risk**

Country risk is that arising in the debts of a country, taken as a whole, as a result of reasons inherent to the country's sovereignty and economic situation, i.e. for circumstances other than regular credit risk. It manifests itself in a debtor's potential inability to honour their foreign currency payment obligations to external creditors due, among other reasons, to the country preventing access to foreign currency, the inability to transfer it, or the non-enforceability of legal action against borrowers for reasons of sovereignty, war, expropriation or nationalisation. Country risk affects not only debts contracted with a State or entities guaranteed by it but also all private debtors that belong to such State and who, for reasons outside their control and not at their volition, are generally unable to honour debts.

- **Non-performing asset (NPA) risk**

NPA risk is defined as the risk of incurring higher costs or losses associated with managing doubtful assets and/or foreclosed assets.

Liquidity risk

Liquidity risk arises due to the possibility of losses being incurred as a result of the Bank being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of it being unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the institution itself.

Market risk

This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices or volatility or the correlation between them.

Structural risks: Including, because of their special features:

- **Interest rate risk**

Structural interest rate risk (also known as Interest Rate Risk in the Banking Book, or IRRBB) is inherent to banking and is defined as the possibility of incurring losses as a result of the impact of interest rate fluctuations on the income statement (revenues and expenses) and on the entity's equity structure (current value of assets, liabilities and off-balance sheet positions that are sensitive to interest rates).

- **Exchange rate risk**

This risk arises from changes in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in overseas offices and subsidiaries which use currencies other than the euro.

- **Credit spread risk in the banking book**

Credit spread risk in the banking book (CSRBB) refers to any risk with respect to the spread of credit instruments not attributable to structural interest rate risk or to default risk.

- **Insurance risk**

Defined as the risk arising from the institution's equity holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).

Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This definition includes reputational, behavioural, technology, model and outsourcing risks. The following risks stand out because of their specific characteristics:

- **Reputational risk**

The possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution, with an impact on its solvency.

- **Conduct risk**

The possibility of losses for the Institution derived from inadequate provision of financial services, including cases of malice or negligence.

- **Technology risk**

Impact or effect on services to customers (both internal and external) in terms of service and quality, which may lead to data losses and/or integrity failures derived from improper management, operation, control and/or failure of information systems, of their resilience capabilities or of the teams that manage them.

- **Model risk**

The possibility of losses arising from decision-making based on the use of inadequate models.

- **Outsourcing risk**

The possibility of losses deriving from: failure by suppliers to provide subcontracted services or their discontinuation, weaknesses in their systems' security, disloyal conduct on the part of their employees or a breach of applicable regulations.

Business risk

The possibility of incurring losses as a result of adverse events with a negative impact on the capacity, strength and recurrence of the income statement.

Tax risk

Tax risk is defined as the probability of failing to comply with the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to comply with the tax obligations that may result in a failure to pay taxes that are due or the occurrence of any other event that impairs attainment of the Bank's goals.
- On the other hand, the probability of paying taxes not actually due under tax obligations, thus impairing the position of shareholders or other stakeholders.

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, internal rules or codes of conduct applicable to the Group's business.

E.4 Identify whether the institution has levels of tolerance to risk, including tax risk.

The chief element of the Risk Appetite Framework approved by the Board of Directors is the Risk Appetite Statement. The group understands the Risk Appetite Statement as expressing the quantity and diversity of risks that the Banco Sabadell Group seeks and tolerates in order to achieve its business objectives, maintaining a balance between returns and risk.

The RAS comprises the quantitative metrics and qualitative elements that together define the Bank's risk appetite levels, both globally and for each of the major risks assumed in the ordinary course of business.

As for tax risk, one of the main principles of the tax strategy referred to in section E1 above is to minimise tax risk.

This statement applies to all risks identified in section E3 above.

E.5 State what risks, including tax risks, materialised during the year.

The Group provides detailed information of the risks in the Annual Report, which is available on the corporate website (www.grupobancosabadell.com – section Information for shareholders and investors – Financial information – Annual Reports), specifically under section 4 of the consolidated directors' report.

E.6 Describe the response and supervision plans for the company's main risks, including tax risks, as well as the procedures applied by the company to ensure that the Board of Directors responds to emerging challenges.

The Risk Appetite Framework establishes the monitoring systems for major risks. At the highest level, this monitoring is carried out by the Risk Committee. Additionally, the Risk Control Department and the Technical Risk Committee exercise more frequent and detailed oversight.

The Risk Committee seeks to ensure appropriate acceptance, management and control of the group's tax risks, ensuring compliance with the general principles of the tax strategy and advising on decisions that are within the brief of the Board of Directors.

Risk management is underpinned by solid procedures for checking that risks conform to pre-set limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk measurement methodology.

The group has risk control systems that are appropriate to the commercial banking activities and businesses in which it operates and to the risk profile it wishes to assume. These control systems form part of the above-mentioned risk approval, monitoring, mitigation and recovery procedures and, in turn, are subject to supervision.

In this regard, the group has a framework for risk reporting and control intended to oversee compliance with the Risk Appetite Framework both group-wide and at a lower level for objectives set at Business Unit or Portfolio level.

The Risk Committee is in charge of coordinating oversight, although in this regard it relies on the various committees and areas, depending on the type and level of disaggregation of each risk.

The Risk Reporting and Control Framework, which includes tax risk, comprises:

- Drawing up and regularly updating a Scorecard that reflects trends in the main metrics and variables associated with the Risk Appetite Framework, and ensuring that they conform to the established framework and limits.
- Systematic oversight and analysis of trends in all significant risks, with detailed second-tier metrics.
- Reporting and proposing the appropriate action (activating protocols, changing guidelines, etc.) as a result of analysing risk trends.
- There is a reporting procedure that includes the top-level metrics defined in the RAS, as well as additional second-tier metrics for significant risks. This report is compiled, transmitted and presented by the CRO to the various governing and control bodies (Technical Risk Committee, Risk Committee, Board of Directors). The report identifies warning or overshoot situations, and the metrics and their performance.
- The process of reporting in connection with the Risk Appetite Framework is headed by the Risk Control Department, which defines the content of the Scorecard, including top-tier and second-tier metrics. The process of monitoring the Group's metrics includes tracking Banco Sabadell's top-tier metrics.
- By agreement with the departments in charge, the Risk Control Department establishes a regular process for compiling information drawn from databases or processes with built-in controls that are subject to review and audit procedures.

Also, in the event that the limits established for a given metric in the RAS are exceeded, a protocol of action is triggered that is linked to the group's Recovery Plan for the RAS metrics in question, in order to review, control and, as necessary, correct any deviation.

The protocol also includes monitoring the execution and outcome of the action plan once it has been approved and set in motion.

Risk assessment also forms part of the control system and is established through advanced measuring methodologies. In this regard, the Basel Committee on Banking Supervision has been working on a new capital adequacy framework for financial institutions, known as the New Basel Capital Accord, a fundamental principle of which is that banks' regulatory capital requirements should be more closely related to the risks actually incurred, based on internal risk measurement models and parameters and internal estimates that have been validated beforehand.

The Bank has an advanced methodology in place to ensure that risks incurred can be assessed reliably and managed actively, following the guidelines defined by the Basel Committee in developing the components required to complete its risk measurement systems.

On the basis of the risk metrics provided by these new methodologies, the bank has developed a consolidated risk measurement model with a common internal unit of measurement — allocated capital — the purpose of which is to determine, on the basis of internal parameters, the amount of capital required to ensure a specified level of solvency. Evaluating risk in terms of allocated capital requirements means that the risk can be linked to returns, from individual customer up to business unit level. Banco Sabadell has also developed an analytical pricing system associated with the risk, which provides this assessment and incorporates it into the transaction pricing process.

(This description continues in section H)

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

F.1 The organisation's control environment

Provide details, highlighting the main characteristics of, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR system; (ii) its implementation; and (iii) its supervision.

Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.

In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.

The functions of the group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

The group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.

Part of that contribution materialises in the responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.

F.1.2. The following elements, if any, with regard to the process in which the financial reporting is formulated:

- Departments and/or mechanisms entrusted with: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for proper dissemination within the company.

The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department which, based on the Banco Sabadell Group Master Plan (which normally runs for three years), analyses and reviews the resources required by each division for compliance. This review is carried out regularly and decides not only the necessary workforce but also the structural organisation of each unit. Once an agreement has been reached, it is submitted to the Management Committee for approval and referral to each of the general divisions.

At the same time, the details of all the departments/units/offices are sent on a monthly basis to the Human Resources Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

The organisation chart of the Banco Sabadell Group arising from the above process addresses all the departments, areas and divisions into which the Banco Sabadell Group is divided. This organisation chart is supplemented by a "process map" giving greater details of the functions and responsibilities assigned to each area of the Banco Sabadell Group, including details of the presentation, analysis and review of financial reporting. The Banco Sabadell Group organisation chart and process map are accessible to all personnel on the corporate intranet.

- Code of conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the recognition of transactions and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

The Banco Sabadell Group has a General Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency, particularly vis-à-vis shareholders, and a commitment to place all the financial and corporate information at their disposal. The purpose is to comply strictly with the Banco Sabadell Group's obligation to offer reliable financial reporting prepared in accordance with the applicable

regulations, presenting a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that include aspects that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions.

- A whistleblowing channel, that allows reporting to the audit committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.

The Banco Sabadell Group has, and encourages the use of, a whistle-blower channel to report all types of irregularities, particularly possible breaches of the General Code of Conduct. Any reports received are treated confidentially and, once handled by the Corporate Ethics Committee (comprising a chairperson and six members appointed by the Board of Directors), are referred to the Audit and Control Committee, if appropriate. This channel is managed internally and may be contacted by email at 0901CEC@bancsabadell.com.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least accounting standards, auditing, internal control and risk management.

As regards training and refresher programmes and particularly regarding the financial reporting process, the Banco Sabadell Group's Finance Department has an on-site training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

These training sessions are programmed based on two criteria:

- Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.
- Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

These training sessions are not only for Finance Department personnel but also for other departments (Audit, Risk Control, Asset Transformation, etc.), depending on the content.

The on-site training is taught chiefly by internal professionals of the Banco Sabadell Group and by external experts who are specialists in the subject area.

In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IAS-IFRS (International Financial Reporting Standards), financial mathematics, Spain's General Accounting Plan and general tax matters.

The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In the 2018-2019 academic year, ten audit professionals were taking this programme, and 65 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2018, the members of the Internal Audit Department participated in workshops on new regulatory impacts, including new accounting and financial reporting.

F.2 Evaluation of financial reporting risks

Provide information on, at least:

F.2.1. What are the chief characteristics of the process for identifying risk, including error or fraud, in relation to:

- If the process exists and is documented.

The Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a procedure which sets out the frequency, methods, types of risks and other basic features of the process.

- Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; valuations; presentation, itemisation and comparability; and rights and obligations), and if it is updated and how often.

The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an annual basis. If (i) circumstances not previously identified which reveal possible errors in the financial information, or (ii) material changes to the operations of the Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

The process is structured such that, on a half-yearly basis, an analysis is conducted to identify which areas or processes and in which companies and locations material transactions arise.

Once they have been identified, they are reviewed so as to analyse the potential risks of error for these types of transactions in each financial reporting objective.

- The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles.

The process for identifying the scope of consolidation is described in section F.3.1. of this document.

- If the process takes into account the effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

In addition, the process considers the risk of error in certain processes not linked to specific transaction types but which are especially important in view of their impact on drafting the financial reporting, such as the process of reviewing judgements and estimates, significant accounting policies and the closing and consolidation process. In this respect, and with a view to covering the risks of these processes, the Banco Sabadell Group has the control activities described in section F.3.1. of this document. It should also be noted that the risk identification process takes into account the possible effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

- What governing body of the institution supervises the process.

The aforementioned process is conducted and documented by the Banco Sabadell Group's Finance Department and is supervised ultimately by the Audit and Control Committee.

F.3 Control activities

State whether the company has at least the following, and describe their characteristics:

F.3.1. Review and authorisation procedures for financial reporting and description of the ICFR, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting close procedure and specific review of the

judgements, estimations, evaluations and major projections.

The procedure for reviewing and authorising the Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly financial reports are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with the provisions of its Regulation, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Managing Director of the Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a significant impact on the financial statements, the Banco Sabadell Group has descriptions of the controls in place to mitigate the risk of material error (intentional or otherwise) in the information reported to the markets. For the critical areas of the Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

- Loans and advances
- Fixed-income portfolio and issuance
- Equity securities
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

The Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, the Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all the subsidiaries; the analysis covers all types of corporate structures.

The review of judgements and estimates is carried out at different levels by members of the Finance Department. In addition, in its financial statements the Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions made in this connection. It also has procedures for reviewing accounting estimates. The main estimates relate to impairment losses on certain financial assets, actuarial calculations of pension liabilities and obligations, the useful life of tangible and intangible assets, measurement of goodwill, and the fair value of unlisted financial assets and of real estate.

F.3.2. Internal control policies and procedures on security, the information systems (among others, access control, change control, operation, operational continuity and segregation of functions) that support the institution's major processes with regard to the formulation and publication of financial reporting.

The Banco Sabadell Group uses information systems to maintain an adequate record and control of its operations and is, consequently, highly dependent on them working properly.

As part of the process to identify risks of error in financial reporting, the Banco Sabadell Group identifies which systems and applications are important in each of the areas or processes considered to be material. The identified systems and applications include those used directly in preparing the financial information and those that are important for ensuring that the controls to mitigate the risk of errors are effective.

The design and implementation of the applications define a methodological framework that establishes various points of control to ensure that the solution complies with user requirements and meets the

required standards of reliability, efficiency and maintainability.

Any change regarding infrastructures or applications is handled via the change management service, which defines the change approval flow, which may be escalated to the Change Committee, with definition of the impact and the possibility of roll-back.

The Banco Sabadell Group Information Security and Operational Continuity Department has policies aimed at covering access security by segregating functions and defining virtual roles and resources, and the continuity of operations by creating BRS centres, and performing periodic operating tests.

F.3.3. Internal control policies and procedures for managing outsourced activities, and measurement, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Banco Sabadell Group regularly examines whether activities carried out by third parties are material to the financial reporting process or might indirectly affect its reliability. To date, the Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, the Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2018, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate valuations, measuring post-employment benefits for employees, and reviewing goodwill.

The units of the Banco Sabadell Group responsible for these operations exercise oversight on the work of the external experts to check their competence, skills, accreditation and independence together with the validity of the data and methods used and the reasonableness of the assumptions, applied as described in section F.3.1.

F.4 Information and reporting

State whether the company has at least the following, and describe their characteristics:

F.4.1. A specific function responsible for defining the accounting policies and keeping them up to date (accounting policies department or area) and for resolving doubts or conflicts arising from their interpretation, maintaining regular communication with the persons responsible for operations within the organisation, together with an updated accounting policies manual distributed to all the bank's operating units.

The Accounting Regulation and Financial Reporting Department (under the Financial Reporting Department) is the unit responsible for identifying and defining the accounting policies that affect the Banco Sabadell Group and for responding to queries concerning accounting from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of the Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of the Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial and Non-Financial Disclosures include identifying transactions that, in accordance with established procedures, must be cross-checked by an independent accounting expert, identifying and review accounting issues to be referred to the Audit and Control Committee for approval, approving accounting procedures, and overseeing and checking the conclusions provided by the work groups that analyse one-off transactions, as well as any accounting treatment that has a material impact and involves a significant judgement and estimate component.

The Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of the Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

F.4.2. Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the bank or group, to support the main financial statements and notes as well as detailed disclosures on ICFR.

The chief IT systems and applications used in generating financial reporting by the Banco Sabadell Group are centralised and interconnected. There are procedures and controls that ensure proper development and maintenance of those systems, as well as their proper performance, continuity and security.

During the consolidation and preparation of the financial reporting, inputs such as the financial statements issued by the Group subsidiaries are used in the established formats, together with the rest of the financial information required both for accounting harmonisation and for meeting the disclosure requirements.

The Banco Sabadell Group has a number of software applications for consolidation, including a series of controls to ensure the reliability and proper processing of the information received from subsidiaries, notably checks to ensure consolidation entries were posted correctly, an analysis of variations in all balance sheet and income statement items, variations in the results obtained with respect to proper insertion of group undertakings' financial statements, the monthly and annual budget, and specific Bank of Spain checks on the financial statements, in which the balance sheet and profit and loss account items are cross-checked.

F.5 Supervision of system operation

Report on at least the following, giving details of their main features:

F.5.1. Supervision of ICFR by the Audit Committee, and whether the institution has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the institution has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

At each financial close, the Financial 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.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is the body empowered with overseeing Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation, and the effective functioning of the risk management and control systems.

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, 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. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2018 the external auditor reviewed the

information relating to the ICFR, with no adverse findings.

F.5.2. Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The group's auditor has direct access to the group's senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by group management and any action plans implemented to remedy internal control weaknesses.

F.6 Other material information

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls, while at the same time ensuring ongoing identification of new risks to be considered and updates to mitigating controls in each accounting close. This application enables the controls to be validated on time and properly with the aim of guaranteeing the reliability of the financial reporting. The software features are designed to take account of the recommendations in the CNMV's guide entitled "Internal Control over Financial Reporting in Listed Companies," based on the principles and good practices contained in the COSO report (Committee of Sponsoring Organisations of the Treadway Commission).

F.7 External auditor report

Report on:

F.7.1. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The Banco Sabadell Group submitted the ICFR information supplied to the markets for 2018 to the external auditor for review. The report by the external auditor (PricewaterhouseCoopers), once it is available, will be attached as an annex to this annual report on corporate governance.

The scope of the auditor's review is determined by Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.

G DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

Indicate the degree of compliance by the company with the recommendations of the Unified Good Governance Code for Listed Companies. If any recommendation is not followed or is followed only in part, give a detailed explanation of the reasons so that shareholders, investors and the market in general have sufficient information to be able to evaluate the company's course of action. Explanations of a general nature will not be sufficient.

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies Explain

2. When a dominant and a subsidiary company are both listed, the two should provide detailed disclosure on:

a) The respective fields of business and any business relationships between them, as well as those between the listed subsidiary and other companies in the group.

b) The mechanisms for settling any conflicts of interest that might arise.

Complies Partially complies Explain Not applicable

3. During the Annual General Meeting, in addition to the written corporate governance annual report, the Chairman of the Board of Directors should verbally inform the shareholders, providing sufficient detail, of the most significant aspects of the company's corporate governance and, in particular:

a) Any changes since the last General Meeting.

b) The specific reasons for which the company does not follow one or more of the recommendations of the Code of Corporate Governance and, if any, alternative rules that are of application in this matter.

Complies Partially complies Explain

4. The company defines and promotes a communication and contact policy with shareholders, institutional investors and proxy advisors that fully complies with the standards to combat market abuse and that gives similar treatment to shareholders in the same position. This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those entrusted with its implementation.

Complies Partially complies Explain

5. The Board of Directors should not submit proposals to the General Meeting to grant powers to issue shares or convertible securities while overriding pre-emptive subscription rights for an amount greater than 20% of capital at the time of granting of these powers. Whenever the Board of Directors approves an issue of shares or convertible securities, with the exception of pre-emptive subscription rights, the company should immediately publish on its website the reports required in company law in connection with overriding pre-emptive rights.

Complies Partially complies Explain

6. Although not expressly required by company law, listed companies that have prepared the reports listed below, either obligatorily or voluntarily, should publish them on their website sufficiently in advance of the Ordinary General Meeting:

a) Report on the auditor's neutrality.

b) Reports on the performance of the Audit Committee and the Appointments and Remuneration Committees.

c) Report by the Audit Committee on related-party transactions.

d) Report on the company's corporate responsibility policy.

Complies Partially complies Explain

7. The company should broadcast its general meetings live on the corporate website.

Complies Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies Partially complies Explain

9. The company should disclose its conditions and procedures for accrediting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website. Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies Partially complies Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Re-issue the attendance card or proxy appointment or remote voting form in a duly modified form so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies Partially complies Explain Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies Partially complies Explain Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independence, granting the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies Partially complies Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is between five and fifteen members.

Complies Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable;
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published upon convening the general meeting that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies Partially complies Explain

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be as low as is practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies Partially complies Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies Explain

17. Independent directors should account for at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, one-third of board places.

Complies Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other remunerated activities they engage in, of any type.
- c) Statement of the director category to which they belong, indicating, in the case of proprietary directors, the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on same.

Complies Partially complies Explain

19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the instances of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others who applied successfully for a proprietary directorship.

Complies Partially complies Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directorships, the number of the latter should be reduced accordingly.

Complies Partially complies Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where there is just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them from allocating sufficient time to their duties as board members, or are in breach of their fiduciary duties or come under one of the cases enumerated in the applicable legislation that disqualify a person from being classified as independent. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership arise from the proportionality criterion set out in recommendation 16.

Complies Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's good name or reputation and, in particular, to inform the board if they are investigated by the police and, and the progress of any subsequent court proceedings.

As soon as a director is indicted or arraigned for any of the offences listed in company law, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not the director should be called on to resign. The Board of Directors should give a reasoned report on this in the annual report on corporate governance.

Complies Partially complies Explain

23. Directors should express clear opposition when they feel a proposal submitted for the board's approval might be detrimental to the company's interests. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that might harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies Partially complies Explain Not applicable

24. Directors who step down before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed in the form of a regulatory disclosure, the reasons should be set out in the annual corporate governance report.

Complies Partially complies Explain Not applicable

25. The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively. The board of directors regulations should establish the maximum number of company boards on which directors can serve.

Complies Partially complies Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies Partially complies Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of unavoidable absence, directors should grant proxy with the appropriate instructions.

Complies Partially complies Explain

28. When directors or the secretary express concerns about a motion or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be entered in the minute book if the person expressing them so requests.

Complies Partially complies Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies Partially complies Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies Partially complies Explain

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so that they can study the matter or gather the material they need beforehand. For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies Partially complies Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies Partially complies Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular assessments of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies Partially complies Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice-chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially related to the company's corporate governance; and coordinate the chairman's succession plan.

Complies Partially complies Explain Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the recommendations of the Good Governance Code that are applicable to the company.

Complies Explain

36. The board in full should conduct an annual assessment, adopting, where necessary, an action plan to correct weaknesses detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairs of board committees.

The evaluation of board committees should start from the reports they send to the board of directors, while that of the board itself should start from the report of the appointments committee. Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee. Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report. The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies Partially complies Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary of the executive committee.

Complies Partially complies Explain Not applicable

In accordance with article 59 of the Articles of Association, the Executive Committee will comprise at most 6 directors. At the end of 2018, the Executive Committee comprised 3 executive directors and 2 independent directors. The Chairman of the Board of Directors is a member and the Chair of the Executive Committee; the Secretary (not a director) of the Executive Committee is an Executive Director and Vice-Secretary of the Board of Directors, with the same faculties as the Secretary of the Board of Directors.

The Appointments Committee has sought to ensure that the composition of the Executive Committee is similar to that of the Board of Directors, with both executive directors and independent directors who, additionally, are not members of any of the other Board sub-committees. Consequently, Banco Sabadell understands that the composition of the Executive Committee in terms of the categories of directors who are represented is similar to that of the Board of Directors itself, in line with the principles of the Code of Good Governance.

Independent directors account for 66.67% of the Board of Directors and 40% of the Executive Committee.

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Complies Partially complies Explain Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed on the basis of their knowledge and experience in accounting, auditing and risk management. A majority of committee places should be held by independent directors.

Complies Partially complies Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies Partially complies Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.

Complies Partially complies Explain Not applicable

42. The audit committee should have the following functions over and above those assigned to it by law:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information relating to the company and, as appropriate, the group, checking for compliance with legal provisions, accurate demarcation of the consolidation perimeter, and proper application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a regulatory disclosure, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for same.
- d) Ensure that the external auditor holds an annual meeting with the full Board of Directors to report on the work carried out and on the evolution of the accounting situation and the company's risks.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies Partially complies Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior executive.

Complies Partially complies Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so that the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the proposed exchange ratio.

Complies Partially complies Explain Not applicable

45. Risk control and management policy should identify at least:

- a) The types of financial and non-financial risk the company is exposed to (including operational, technology, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.

- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies Partially complies Explain

46. Companies should establish a risk control and management function and assign it to one of the company's internal department or units, reporting directly to the audit committee or another dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the board of directors.

Complies Partially complies Explain

47. Appointees to the nomination and remuneration committee — or the appointments committee and remuneration committee, if separate — should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies Partially complies Explain

48. Large cap companies should have separate nomination and remuneration committees.

Complies Explain Not applicable

49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies Partially complies Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior executive contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advisory services engaged by the committee.
- e) Verify the information on director and senior executives' remuneration contained in corporate documents, including the annual report on director remuneration.

Complies Partially complies Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior executives.

Complies Partially complies Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) Committees should be chaired by an independent director.
- c) The board should appoint the members of such committees on the basis of the directors' knowledge, skills and experience and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies Partially complies Explain Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, such as the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the strategy for communication and relations with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of the other stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess the degree of compliance.
- f) Monitor and evaluate the company's interaction with its stakeholders.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technology, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies Partially complies Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Specific practices in matters relating to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies Partially complies Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies Partially complies Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independence of non-executive directors.

Complies Explain

57. Variable remuneration linked to the company's and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors. The company may consider share-based remuneration for non-executive directors provided that they must retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies Partially complies Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's industry, or circumstances of that kind. In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

59. A major part of variable remuneration components should be deferred for long enough to ensure that predetermined performance criteria have effectively been met.

Complies Partially complies Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies Partially complies Explain Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies Partially complies Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the stock options or other rights on shares, for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies Partially complies Explain Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies Partially complies Explain Not applicable

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies Partially complies Explain Not applicable

H OTHER INFORMATION OF INTEREST

1. If there is any material issue relating to corporate governance at the company or any of the group companies that has not been disclosed in other sections of this report but whose disclosure is necessary to provide a more comprehensive and fully reasoned picture of the institution's governance structure and practices, describe it briefly.

2. This section may be used to provide further information, clarifications or reservations in relation to the preceding sections of this report, which should be significant and not repetitive.

Specifically, indicate if the company is subject to corporate governance legislation of any jurisdiction other than Spain, and, if so, include the obligatory disclosures that differ from those required in this report.

3. The company may also indicate whether it has voluntarily adopted any other codes of ethics or good practices, whether international, industry-wide or otherwise. Identify any such code and the date on which it was adopted. In particular, disclose whether the company has adopted the Code of Good Tax Practices of 20 July 2010.

A.2

The information provided is based on communications sent by shareholders to the CNMV or directly to the bank.

B.6

In accordance with article 38 of the Articles of Association of Banco de Sabadell, S.A., in order to attend and vote at a General Meeting, shareholders must accredit that they possess or hold proxies for one thousand (1,000) shares. Shareholders holding less than that minimum amount of shares may group together to constitute the minimum and grant proxy to any one of them, or to another shareholder that is entitled to attend the General Meeting in accordance with the provisions of the Articles of Association.

C.1.2

Mr. Miquel Roca i Junyent was appointed as Secretary of the Board of Directors (not a director) on 13 April 2000.

C.1.13

The amount of pension rights vested in directors includes the amounts accumulated since 2000 and, therefore, does not refer only to the amount contributed in the year.

C.1.14

In application of the standard, this section includes the 8 members of senior management, plus the Internal Auditor. There were changes in senior management in 2018: Mr. José Nieto de la Cierva was appointed as Deputy General Manager.

The total remuneration of senior management does not include the combined contributions to pension plans, structured through insurance policies, in the year 2018, which amounted to 2,124 thousand euro.

C.1.16

(Continuation of disclosures in section C.1.16)

Removal

Directors must step down when their term ends if they are not re-appointed, or when the General Meeting of Shareholders or the Board of Directors so decides using the powers conferred on them by law or the Articles of Association. The Appointments Committee is empowered to make proposals for the removal of independent directors by the General Meeting of Shareholders, and to advise on proposals to remove directors in other categories. The Board does not currently have any powers in this respect under the law or the Articles of Association. The General Meeting of Shareholders may remove directors at any time, as provided in article 50 of the Articles of Association.

Restrictions

The following may not hold office as members of the Board of Directors:

- a) Minors.
- b) Persons disqualified by law, undischarged bankrupts or insolvents, those under convictions involving disqualification from holding public office, and those convicted of serious breaches of the Spanish Corporations Act or Company regulations, or who are prevented from engaging in trade by reason of their office.
- c) Government officials whose duties are related to, or have a bearing on, the business of the Bank.
- d) Those in default with respect to any obligation to the Bank.
- e) Persons in any of the situations of incompatibility or limitation on holding office as provided by law.

C.2.1

In addition to the information detailed in this point, the following persons form part of the Board sub-committees:

- Executive Committee: Ms. María José García Beato, as Secretary (non-member).
- Audit and Control Committee: Mr. Miquel Roca i Junyent, as Secretary (not a director).
- Appointments Committee: Mr. Miquel Roca i Junyent, as Secretary (not a director).
- Remuneration Committee: Ms. María José García Beato, as Secretary (non-member).
- Risk Committee: Ms. María José García Beato, as Secretary (non-member).

D. Related-party and intragroup transactions

During the year, a transaction relating to Inversiones Hemisferio, S.L. began to be treated as a related-party transaction but it was ultimately not classified as such since it was approved after the director related to that company had resigned from the Board.

E.2

(Continuation of disclosures in section E.2):

Additionally, the following committees have been created and have risk control and management functions within the Risk Appetite Framework:

- Technical Risk Committee, which holds meetings on a monthly basis and has the following functions: (i) supporting the Risk Committee in fulfilling its functions: determining, proposing, reviewing and tracking the Risk Appetite Framework; supervising the institution's risk on an overall level; tracking the tolerance thresholds of first-

and second-tier metrics, and adaptation plans; (ii) approving second-tier limits (including liquidity, interest rate and treasury metrics); (iii) approving minor changes in models, criteria and procedures as well as monitoring the use of models and autonomies in approving transactions; (iv) approving policy frameworks and debating asset allocation strategies (public sector, industry level, ...); (v) tracking and managing delinquency; (vi) performing ad hoc analysis of specific portfolio-related issues in order to integrate them into the management approach; and (vii) drafting and proposing policies and criteria for proper risk management.

- Credit Transactions Committee, which holds meetings on a weekly basis and has the following functions: (i) approval of credit transactions, including transactions/limits for countries and banks, and of specific criteria in line with the policies under the established delegation of powers; (ii) establishment of autonomies in accordance with the established delegation of powers, monitoring their use, and referring proposals for changes to the Executive Committee; and (iii) monthly reporting to the Executive Committee of the transactions approved and performed in the previous month.
- Asset and Capital Transactions Committee (COAC), which holds meetings every two weeks and has the following functions: (i) approval of asset management transactions in accordance with the established delegation of powers; (ii) monthly reporting to the Executive Committee of the transactions approved and performed in the previous month.
- Real Estate Development Committee, which has the following functions: (i) setting action criteria and strategy in relation to the Group's real estate portfolio (analysis of trends in real estate exposure and real estate action policies); (ii) taking the decisions that must be adopted by real estate subsidiaries (holding companies and servicer): proposal of investment transactions in real estate developments and land development; and (iii) monitoring the performance of Solvia Real Estate.
- Assets and Liabilities Committee (ALCO): this body defines criteria for the appropriate management of the structural risk assumed in the Group's balance sheet in its commercial activity and of market risk. It supervises interest rate, exchange rate, equity and liquidity risk and suggests commercial, market or hedging alternatives intended to achieve business targets based on the market and balance sheet situation.
- Operational Risk Committee, which meets every two months and defines the strategic guidelines and framework for operational risk management and establishes operational priorities on the basis of the assessment of the risk exposure of the various business and corporate departments. Reputational risk is managed by the Operational Risk Committee.
- Internal Control Body: Oversight and monitoring body which oversees compliance with the law on the prevention of money laundering and terrorist financing and the law to block terrorist financing; it comprises representatives of all the group companies that are bound by the legislation in this area, as well as areas of particular risk for the Bank. The Compliance Department acts as secretary of this Body.
- Corporate Ethics Committee: Oversight and monitoring body which oversees the group's compliance with the code of conduct with regard to the securities market and with the general code of conduct.

There are other committees for specific risk types, notably the Models Committee, the Provisions Committee and the Liquidity Committee.

E.6

(Continuation of disclosures in section E.6):

With regard to credit risk, the bank has implemented advanced measurement models based on internal data, tailored to particular counterparty segments and categories (businesses, retailers, individuals, mortgages and consumer credit, property developers, project finance, structured finance, financial institutions and countries), thus allowing transactions to be differentiated on the basis of risk and assessments to be made of the probability of default or the degree of severity in the event of default actually occurring.

The bank has a tax risk management policy whose objective is to ensure compliance with tax obligations while guaranteeing an appropriate return for our shareholders. The Tax department establishes criteria and advises on the taxation applicable to the departments responsible for the calculating and paying taxes. The departments are responsible for establishing procedures and controls to ensure that taxes are properly calculated and paid, which are subject to review by the Internal Audit department.

More information regarding the systems for controlling the risks to which the group is exposed can be found in the Annual Report, available on the corporate website: www.grupobancosabadell.com – Shareholder and Investor Information – Financial Information – Annual Reports.

This annual corporate governance report was approved by the company's Board of Directors on 31 January 2019.

Indicate whether any board members voted against or abstained with respect to the approval of this report.

Yes

No

A.9 See table.

Date of disclosure	Total number of direct shares acquired	Total number of indirect shares acquired	Total % of share capital
29/03/2018	55,579,829	0	0.99
10/07/2018	63,199,756	0	1.12
12/11/2018	69,450,695	0	1.23

BANCO DE SABADELL, S.A.

Auditor's report on "Information regarding the
Internal Control System over Financial Reporting (ICSFR)"
of Banco de Sabadell, S.A. for the 2018 financial year



This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AUDITOR´S REPORT ON “INFORMATION REGARDING THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPORTING (ICSFR)” OF BANCO DE SABADELL, S.A. FOR THE 2018 FINANCIAL YEAR

To the Board of Directors of Banco de Sabadell, S.A.,

In accordance with the request of the Board of Directors of Banco de Sabadell, S.A. and its subsidiaries ("the Group") and our engagement letter dated 14 December 2018, we have applied certain procedures in respect of the attached "Information regarding the Internal Control System over Financial Reporting" ("ICSFR"), included in Annual Corporate Governance Report in section F for listed companies of Group Banco de Sabadell for the 2018 financial year, which includes a summary of the Group's internal control procedures relating to its annual financial information.

The Board of Directors is responsible for adopting the necessary measures to reasonably ensure the implementation, maintenance and supervision of an appropriate internal control system, and for developing improvements to that system and preparing and establishing the content of the accompanying Information regarding the ICSFR.

In this regard, it should be borne in mind that, regardless of the quality of the design and operating efficiency of the internal control system used by the Group in relation to its annual financial information, only a reasonable, but not absolute, degree of assurance may be obtained in relation to the objectives it seeks to achieve, due to the limitations inherent in any internal control system.

In the course of our audit work on the consolidated annual accounts and in accordance with Spanish Auditing Standards, the sole purpose of our evaluation of the Group's internal control system is to enable us to establish the scope, nature and timing of our audit procedures in respect of the Group's annual accounts. Accordingly, our internal control evaluation, performed for the purposes of our audit, is not sufficient in scope to enable us to issue a specific opinion on the effectiveness of such internal control over the regulated annual financial information.

For the purposes of the present report, we have exclusively applied the specific procedures described below, as indicated in the “*Guidelines concerning the auditor's Report on the Information regarding the Internal Control System over Financial Reporting for listed entities*” published by the National Securities Market Commission on its web site, which sets out the work to be performed, the scope of such work and the content of this report. In view of the fact that, in any event, the scope of the work resulting from these procedures is reduced and substantially less than the scope of an audit or review of the internal control system, we do not express an opinion on the effectiveness thereof, its design or operational efficiency, in relation to the Group's annual financial information for the 2018 financial year described in the accompanying Information regarding the ICSFR. Had we applied additional procedures to those determined by the aforementioned Guidelines, or had we performed an audit or review of the internal control system in relation to the regulated annual financial information, other matters could have come to light in respect of which you would have been informed.

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In addition, provided that this special work neither constitutes an account audit it is not even submitted to the Law of Account audit, we do not express an opinion of audit in the terms foreseen in the mentioned regulation.

The procedures applied were as follows:

1. Reading and understanding the information prepared by the Group in relation to the ICSFR – as disclosed in the Directors' Report – and the evaluation of whether such information includes all the information required as per the minimum content set out in Section F regarding the description of the ICSFR, in the model of the Annual Corporate Governance Report, as established in Circular n° 7/2015 of the National Securities Market Commission dated December 22, 2015 and in Circular n° 2/2018 of the National Securities Market Commission dated June 12, 2018.
2. Making enquiries of personnel in charge of preparing the information mentioned in point 1 above in order to: (i) obtain an understanding of the preparation process; (ii) obtain information that enables us to assess whether the terminology used is in line with the framework of reference; (iii) obtain information as to whether the control procedures described have been implemented and are functioning in the Group.
3. Review of supporting documentation explaining the information described in point 1 above and which mainly comprises the information made directly available to the persons responsible for preparing the information on the ICSFR. Such documentation includes reports prepared by the internal audit function, senior management and other internal and external specialists in support of the functions of the audit committee.
4. Comparison of the information described in point 1 above with our knowledge of the Group's ICSFR, obtained by means of the application of the procedures performed within the framework of the audit engagement on the consolidated annual accounts.
5. Reading the minutes of meetings of the board of directors, audit committee and other committees of the Group, for the purposes of evaluating the consistency between the matters dealt with therein in relation to the ICSFR and the information described in point 1 above.
6. Obtaining a representation letter concerning the work performed, duly signed by the persons responsible for the preparation and drafting of the information mentioned in point 1 above.

As a result of the procedures applied in relation to the Information regarding the ICSFR, no inconsistencies or incidents have been identified which could affect such information.

This report has been prepared exclusively within the framework of the requirements of article 540 of the revised Spanish Companies Act and Circular n° 5/2013 of the National Securities Market Commission, dated June 12, 2013, as modified by Circular n° 7/2015 of the National Securities Market Commission, dated December 22, 2015 and by Circular n° 2/2018 of the National Securities Market Commission dated June 12, 2018, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Raúl Ara Navarro

31 January, 2019

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the systems for Internal Control over Financial Reporting (ICFR).

F.1 The organisation's control environment

Provide details, highlighting the main characteristics of, at least:

F.1.1. Which bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective ICFR system; (ii) its implementation; and (iii) its supervision.

Article 5 of the Board of Directors Regulation states that the Board of Directors is an instrument of supervision and control whose responsibility is identifying the company's and the consolidated group's main risks and implementing and monitoring suitable internal control and reporting systems, as well as setting policies on the reporting and disclosure of information to shareholders, the markets and the general public.

In addition, as provided in Article 13 of its Regulation, the Board of Directors delegates supervision of internal control systems to the Audit and Control Committee.

The functions of the group's Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation and effective functioning of the risk management and control systems, which include ICFR.

The group's Finance Department contributes to implementing the general framework of the internal control systems that are rolled out across the entire organisation.

Part of that contribution materialises in the responsibility for designing and implementing internal control systems for financial information that ensure the accuracy of the financial information that is generated.

F.1.2. The following elements, if any, with regard to the process in which the financial reporting is formulated:

- Departments and/or mechanisms entrusted with: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures for proper dissemination within the company.

The design and review of the organisational structure is the responsibility of the Global Organisation and Corporate Projects Department which, based on the Banco Sabadell Group Master Plan (which normally runs for three years), analyses and reviews the resources required by each division for compliance. This review is carried out regularly and decides not only the necessary workforce but also the structural organisation of each unit. Once an agreement has been reached, it is submitted to the Management Committee for approval and referral to each of the general divisions.

At the same time, the details of all the departments/units/offices are sent on a monthly basis to the Human Resources Department showing all the modifications that have been made, so as to equip them with the resources considered necessary to perform their duties.

The organisation chart of the Banco Sabadell Group arising from the above process

addresses all the departments, areas and divisions into which the Banco Sabadell Group is divided. This organisation chart is supplemented by a “process map” giving greater details of the functions and responsibilities assigned to each area of the Banco Sabadell Group, including details of the presentation, analysis and review of financial reporting. The Banco Sabadell Group organisation chart and process map are accessible to all personnel on the corporate intranet.

- Code of conduct, approval body, degree of distribution and instruction, principles and values (indicating whether there are specific references to the recognition of transactions and production of financial information), the body entrusted with analysing non-compliance and with proposing corrective actions and sanctions.

The Banco Sabadell Group has a General Code of Conduct, approved by the Board of Directors and available via the corporate intranet, whose fundamental principles include a commitment to transparency, particularly vis-à-vis shareholders, and a commitment to place all the financial and corporate information at their disposal. The purpose is to comply strictly with the Banco Sabadell Group’s obligation to offer reliable financial reporting prepared in accordance with the applicable regulations, presenting a true and fair view of the company. It also includes the responsibilities of its employees and executives to ensure this is so, via both proper discharge of their duties and notification to the governing bodies of any circumstance which might affect this commitment.

There is a Corporate Ethics Committee, whose functions include fostering ethical behaviour throughout the organisation, making proposals and advising both the Board of Directors and the various corporate and business units in connection with decisions that include aspects that may lead to conflicts of values.

Among the tasks carried out by the Corporate Ethics Committee is the analysis of compliance with the Code of Conduct or any other code or self-regulation that exists. In order to perform its functions, it has access to the human and material resources of the Compliance Department. If, as a consequence of exercising its functions, it detects any non-compliance, it must advise the Human Resources Department for the application of corrective actions and sanctions.

- A whistleblowing channel, that allows reporting to the audit committee of any irregularities of a financial or accounting nature, as well as cases of non-compliance with the code of conduct and irregular activities in the organisation, indicating if the matter is of a confidential nature.

The Banco Sabadell Group has, and encourages the use of, a whistle-blower channel to report all types of irregularities, particularly possible breaches of the General Code of Conduct. Any reports received are treated confidentially and, once handled by the Corporate Ethics Committee (comprising a chairperson and six members appointed by the Board of Directors), are referred to the Audit and Control Committee, if appropriate. This channel is managed internally and may be contacted by email at 0901CEC@bancsabadell.com.

- Training programmes and regular updating for staff involved in the preparation and review of financial information, as well as in the evaluation of ICFR, and which cover at least accounting standards, auditing, internal control and risk management.

As regards training and refresher programmes and particularly regarding the financial reporting process, the Banco Sabadell Group's Finance Department has an on-site training plan that basically addresses areas such as the company's internal accounting/finance procedures, analysis of current regulations and drafts of new domestic and international accounting standards, analysis of the domestic and international economic situation, together with training in the use of software to facilitate management and oversight of the financial reporting process.

These training sessions are programmed based on two criteria:

- Sessions scheduled at the start of the year by selecting the areas considered of greatest interest by the Finance Department.

- Sessions scheduled during the current year when an issue arises that is believed to warrant prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

These training sessions are not only for Finance Department personnel but also for other departments (Audit, Risk Control, Asset Transformation, etc.), depending on the content.

The on-site training is taught chiefly by internal professionals of the Banco Sabadell Group and by external experts who are specialists in the subject area.

In addition, the Human Resources Department places at the disposal of Banco Sabadell Group employees a series of financial training courses which they can take online. The most notable courses refer to IAS-IFRS (International Financial Reporting Standards), financial mathematics, Spain's General Accounting Plan and general tax matters.

The Internal Audit Department has a training plan in place for all management professionals which includes a University Specialist Programme in Bank Internal Auditing (PSAI) at a prestigious academic institution. The course covers areas such as accounting principles and financial reporting, the basics of auditing, and financial risk monitoring and management. In the 2018-2019 academic year, ten audit professionals were taking this programme, and 65 members of the Internal Audit Department hold PSAI certificates. Additionally, during 2018, the members of the Internal Audit Department participated in workshops on new regulatory impacts, including new accounting and financial reporting.

F.2 Evaluation of financial reporting risks

Provide information on, at least:

F.2.1. What are the chief characteristics of the process for identifying risk, including error or fraud, in relation to:

- If the process exists and is documented.

The Banco Sabadell Group's process of identifying the risk of error or the probability of fraud in financial reporting is documented in a procedure which sets out the frequency, methods, types of risks and other basic features of the process.

- Whether the process covers all the financial reporting objectives (existence and occurrence; integrity; valuations; presentation, itemisation and comparability; and rights and obligations), and if it is updated and how often.

The process covers all the financial reporting objectives (existence and occurrence; integrity; valuation; presentation, itemisation and comparability; and rights and obligations) and focuses on identifying risks of material error based on transaction complexity, quantitative and qualitative materiality, complexity of the calculations and application of judgements and estimations, updated on an annual basis. If (i) circumstances not previously identified which reveal possible errors in the financial information, or (ii) material changes to the operations of the Banco Sabadell Group arise during the year, the Finance Department evaluates the risks to be added to those already identified.

The process is structured such that, on a half-yearly basis, an analysis is conducted to identify which areas or processes and in which companies and locations material transactions arise.

Once they have been identified, they are reviewed so as to analyse the potential risks of error for these types of transactions in each financial reporting objective.

- The existence of a process for identifying the consolidation scope, taking into account, among others, whether there are complex corporate structures, instrumentality companies or special purpose vehicles.

The process for identifying the scope of consolidation is described in section F.3.1. of this document.

- If the process takes into account the effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.) insofar as they affect the financial statements.

In addition, the process considers the risk of error in certain processes not linked to specific transaction types but which are especially important in view of their impact on drafting the financial reporting, such as the process of reviewing judgements and estimates, significant accounting policies and the closing and consolidation process. In this respect, and with a view to covering the risks of these processes, the Banco Sabadell Group has the control activities described in section F.3.1. of this document. It should also be noted that the risk identification process takes into account the possible effects of other types of risks (operational, technology, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

- What governing body of the institution supervises the process.

The aforementioned process is conducted and documented by the Banco Sabadell Group's Finance Department and is supervised ultimately by the Audit and Control Committee.

F.3 Control activities

State whether the company has at least the following, and describe their characteristics:

F.3.1. Review and authorisation procedures for financial reporting and description of the ICFR, to be published in the securities markets, indicating those responsible, together with documentation describing the flows of activities and controls (including those related to the risk of fraud) of the various types of transactions that may have a significant effect on the financial statements, including the accounting close procedure and specific review of the judgements, estimations, evaluations and major projections.

The procedure for reviewing and authorising the Banco Sabadell Group's financial reporting to the markets commences with a review by the Finance Department. In accordance with the Board of Directors Regulation, the separate and consolidated financial statements and half-yearly financial reports are reviewed by the Audit and Control Committee prior to being authorised by the Board of Directors. In accordance with the provisions of its Regulation, the Audit and Control Committee reads and discusses the information with the heads of the Finance and Internal Audit departments and with the external auditors prior to submission to the Board of Directors.

Once the Audit and Control Committee has vetted the information and either approved it or attached its comments, the CFO, the Chairman and the Managing Director of the Banco Sabadell Group sign the accounts and submit them to the Board of Directors for authorisation.

The Audit and Control Committee reviews the quarterly financial disclosures (income statement and trend of the main balance sheet items) before they are submitted to the Board of Directors.

With regard to the activities and controls directly relating to transactions that may have a

significant impact on the financial statements, the Banco Sabadell Group has descriptions of the controls in place to mitigate the risk of material error (intentional or otherwise) in the information reported to the markets. For the critical areas of the Banco Sabadell Group, special emphasis is placed on developing solid descriptions of the flows of activities and controls, which cover, among others:

- Loans and advances
- Fixed-income portfolio and issuance
- Equity securities
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what form the control activity should take, its purpose (risk to be mitigated), the party responsible for executing it and the frequency. The descriptions cover controls on the proper accounting, measurement, presentation and disclosure of these areas.

The Banco Sabadell Group also has procedures for mitigating the risk of error in processes not related to specific transactions. In particular, there are procedures defined for the accounting close which include the consolidation process and specific review procedures for material judgements and estimates, which are escalated to senior management when appropriate.

With regard to the consolidation process within the accounting close, procedures have been implemented to ensure proper identification of the consolidation scope. In particular, for example, the Banco Sabadell Group conducts a monthly analysis of the consolidation scope, requesting the necessary information from all the subsidiaries; the analysis covers all types of corporate structures.

The review of judgements and estimates is carried out at different levels by members of the Finance Department. In addition, in its financial statements the Banco Sabadell Group describes the most important areas in which judgements and estimates are made, together with the key assumptions made in this connection. It also has procedures for reviewing accounting estimates. The main estimates relate to impairment losses on certain financial assets, actuarial calculations of pension liabilities and obligations, the useful life of tangible and intangible assets, measurement of goodwill, and the fair value of unlisted financial assets and of real estate.

F.3.2. Internal control policies and procedures on security, the information systems (among others, access control, change control, operation, operational continuity and segregation of functions) that support the institution's major processes with regard to the formulation and publication of financial reporting.

The Banco Sabadell Group uses information systems to maintain an adequate record and control of its operations and is, consequently, highly dependent on them working properly.

As part of the process to identify risks of error in financial reporting, the Banco Sabadell Group identifies which systems and applications are important in each of the areas or processes considered to be material. The identified systems and applications include those used directly in preparing the financial information and those that are important for ensuring that the controls to mitigate the risk of errors are effective.

The design and implementation of the applications define a methodological framework that establishes various points of control to ensure that the solution complies with user requirements and meets the required standards of reliability, efficiency and maintainability.

Any change regarding infrastructures or applications is handled via the change management service, which defines the change approval flow, which may be escalated to the Change Committee, with definition of the impact and the possibility of roll-back.

The Banco Sabadell Group Information Security and Operational Continuity Department has

policies aimed at covering access security by segregating functions and defining virtual roles and resources, and the continuity of operations by creating BRS centres, and performing periodic operating tests.

F.3.3. Internal control policies and procedures for managing outsourced activities, and measurement, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The Banco Sabadell Group regularly examines whether activities carried out by third parties are material to the financial reporting process or might indirectly affect its reliability. To date, the Banco Sabadell Group has not outsourced processes with a material impact on financial reporting. However, the Banco Sabadell Group regularly uses reports from independent experts for measuring transactions that may materially affect the financial statements.

In 2018, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate valuations, measuring post-employment benefits for employees, and reviewing goodwill.

The units of the Banco Sabadell Group responsible for these operations exercise oversight on the work of the external experts to check their competence, skills, accreditation and independence together with the validity of the data and methods used and the reasonableness of the assumptions, applied as described in section F.3.1.

F.4 Information and reporting

State whether the company has at least the following, and describe their characteristics:

F.4.1. A specific function responsible for defining the accounting policies and keeping them up to date (accounting policies department or area) and for resolving doubts or conflicts arising from their interpretation, maintaining regular communication with the persons responsible for operations within the organisation, together with an updated accounting policies manual distributed to all the bank's operating units.

The Accounting Regulation and Financial Reporting Department (under the Financial Reporting Department) is the unit responsible for identifying and defining the accounting policies that affect the Banco Sabadell Group and for responding to queries concerning accounting from the subsidiaries and business units.

The Financial Reporting Department is responsible for informing Senior Management of the Banco Sabadell Group regarding new accounting standards, the results of their implementation and their impact on the financial statements of the Banco Sabadell Group.

The functions of the Technical Committee on Accounting and Financial and Non-Financial Disclosures include identifying transactions that, in accordance with established procedures, must be cross-checked by an independent accounting expert, identifying and review accounting issues to be referred to the Audit and Control Committee for approval, approving accounting procedures, and overseeing and checking the conclusions provided by the work groups that analyse one-off transactions, as well as any accounting treatment that has a material impact and involves a significant judgement and estimate component.

The Banco Sabadell Group has guides on accounting procedure that conform to the needs, requirements and dimension of the Banco Sabadell Group; they set out and explain the rules for preparing financial reporting and describe how to apply the rules to the bank's specific operations. These documents not only explicitly refer to the standards applied to each type of transaction but also elaborate upon and interpret them so as to adapt exactly to each transaction type.

These documents are updated regularly, and at least once per year. Significant modifications are notified to the dependent companies to which they are applicable.

F.4.2. Mechanisms using standard forms for gathering and preparing financial information, for application and use by all units in the bank or group, to support the main financial statements and notes as well as detailed disclosures on ICFR.

The chief IT systems and applications used in generating financial reporting by the Banco Sabadell Group are centralised and interconnected. There are procedures and controls that ensure proper development and maintenance of those systems, as well as their proper performance, continuity and security.

During the consolidation and preparation of the financial reporting, inputs such as the financial statements issued by the Group subsidiaries are used in the established formats, together with the rest of the financial information required both for accounting harmonisation and for meeting the disclosure requirements.

The Banco Sabadell Group has a number of software applications for consolidation, including a series of controls to ensure the reliability and proper processing of the information received from subsidiaries, notably checks to ensure consolidation entries were posted correctly, an analysis of variations in all balance sheet and income statement items, variations in the results obtained with respect to proper insertion of group undertakings' financial statements, the monthly and annual budget, and specific Bank of Spain checks on the financial statements, in which the balance sheet and profit and loss account items are cross-checked.

F.5 Supervision of system operation

Report on at least the following, giving details of their main features:

F.5.1. Supervision of ICFR by the Audit Committee, and whether the institution has an internal audit function with the duty of supporting the committee in supervising the internal control system, including ICFR. Also provide information on the scope of the evaluation of ICFR carried out during the year and the procedure by which the person assigned to perform the assessment reports the results, whether the institution has an action plan setting out corrective measures and whether its impact on financial reporting has been considered.

At each financial close, the Financial 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.

In accordance with the Board of Directors Regulation, the Audit and Control Committee is the body empowered with overseeing Internal Audit. Additionally, the Audit and Control Committee's functions include approving the Internal Audit plan, assessing the outcome of each audit, and prioritising and tracking corrective measures.

The Bank's Internal Audit Department reports directly to the Audit and Control Committee, which grants it hierarchical and functional independence from the rest of the institution's departments and positions the function at an appropriate level of the organisation.

On the basis of its policy, which was approved by the Board of Directors, the functions of the Internal Audit Department include supporting the Audit and Control Committee in supervising the proper design and implementation, and the effective functioning of the risk management and control systems.

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, 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. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

In addition to the aforementioned supervisory activities carried out by the ICFR Department, the Audit and Control Committee and the Internal Audit Department, in 2018 the external auditor reviewed the information relating to the ICFR, with no adverse findings.

F.5.2. Is there a discussion procedure through which the auditor (in accordance with the provisions of the Audit Technical Standards), the internal audit function and other experts can report to senior management and to the audit committee or company directors on any significant internal control weaknesses identified during the review of the financial statements, or any other entrusted to them? Also report on whether there is an action plan to remedy or mitigate identified weaknesses.

The Audit and Control Committee meets at least once every three months (prior to the publication of the regulated disclosures) in order to obtain and analyse the necessary information to fulfil the functions entrusted to it by the Board of Directors.

These meetings carry out an in-depth review of the annual and half-yearly accounts and the interim financial statements of the company together with the rest of the information made available to the market. To carry out this process, the Audit and Control Committee first receives all the documentation and meets with the Director - General Manager, the Internal Audit Department and the external auditor (in the case of the annual and half-yearly accounts) in order to ensure proper application of the current accounting standards and the reliability of the financial reporting. In addition, this discussion process assesses any ICFR weaknesses that were identified, the proposals to correct them and the status of any actions that have been taken.

The group's auditor has direct access to the group's senior management and holds regular meetings to obtain the necessary information and to report on control weaknesses detected during the audit. With regard to the latter, each year the external auditor submits a report to the Audit and Control Committee detailing any internal control weaknesses that were detected or certifying that there were none. This report incorporates comments by group management and any action plans implemented to remedy internal control weaknesses.

F.6 Other material information

The Banco Sabadell Finance Department has implemented a software application that includes and formalises all the ICFR controls, while at the same time ensuring ongoing identification of new risks to be considered and updates to mitigating controls in each accounting close. This application enables the controls to be validated on time and properly with the aim of guaranteeing the reliability of the financial reporting. The software features are designed to take account of the recommendations in the CNMV's guide entitled "Internal Control over Financial Reporting in Listed Companies," based on the principles and good practices contained in the COSO report (Committee of Sponsoring Organisations of the Treadway Commission).

F.7 External auditor report

Report on:

F.7.1. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, give the reasons for the absence of this review.

The Banco Sabadell Group submitted the ICFR information supplied to the markets for 2018 to the external auditor for review. The report by the external auditor (PricewaterhouseCoopers), once it is available, will be attached as an annex to this annual report on corporate governance.

The scope of the auditor's review is determined by Circular E14/2013, dated 19 July 2013, of the Instituto de Censores Jurados de Cuentas de España.