

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

**ISSUER IDENTIFICATION DATA**

**REPORTING YEAR ENDED**

31/12/2017

**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	703,370,587.625	5,626,964,701	5,626,964

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

Yes

No

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

Name of shareholder	No. of direct voting rights	No. of indirect voting rights	% of total voting rights
BLACKROCK INC.	0	280,898	4.99%
WINTHROP SECURITIES LTD	0	192,209	3.42%

Name of indirect owner of holding	Through: Name of direct owner of holding	No. of voting rights
BLACKROCK INC.	SUBSIDIARIES OF BLACKROCK, INC.	280,898
WINTHROP SECURITIES LTD	FINTECH INVESTMENTS LTD	192,209

Indicate significant changes in the ownership structure in the year:

Name of shareholder	Date of transaction	Description of the transaction
BLACKROCK INC.	08/08/2017	The stake exceeded 5% of capital stock.
BLACKROCK INC.	09/10/2017	The stake fell below 5% of capital stock
BLACKROCK INC.	08/11/2017	The stake exceeded 5% of capital stock.

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	No. of direct voting rights	No. of indirect voting rights	% of total voting rights
Mr. JOSÉ OLIU CREUS	130	6,248	0.11%

Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	124	0	0.00%
Mr. JAIME GUARDIOLA ROMOJARO	750	256	0.02%
Mr. ANTHONY FRANK ELLIOTT BALL	0	0	0.00%
Ms. AURORA CATÁ SALA	10	0	0.00%
Mr. PEDRO FONTANA GARCIA	26	20	0.00%
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	69	0	0.00%
Mr. GEORGE DONALD JOHNSTON	0	0	0.00%
Mr. JOSÉ MANUEL LARA GARCÍA	184	0	0.00%
Mr. DAVID MARTÍNEZ GUZMÁN	16	0	0.00%
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	79	0	0.00%
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	2,114	755	0.05%
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	2,484	0	0.04%
Mr. MANUEL VALLS MORATÓ	0	0	0.00%
Mr. DAVID VEGARA FIGUERAS	88	0	0.00%

Name of indirect owner of holding	Through: Name of direct owner of holding	No. of voting rights
Mr. JOSÉ OLIU CREUS	OTHER SHAREHOLDERS	6,248
Mr. JAIME GUARDIOLA ROMOJARO	OTHER SHAREHOLDERS	256
Mr. PEDRO FONTANA GARCÍA	OTHER SHAREHOLDERS	20
Mr. JOSE RAMON MARTINEZ SUFRATEGUI	OTHER SHAREHOLDERS	755

<b>Total % of voting rights held by the board of directors</b>	0.22%
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Complete the next tables regarding the members of the company's board of directors who hold rights to shares in the company:

Name of director	No. of direct voting rights	No. of indirect voting rights	Equivalent number of shares	% of total voting rights
Mr. JOSÉ OLIU CREUS	1,377	0	1,377,000	0.02%
Mr. JAIME GUARDIOLA ROMOJARO	1,212	0	1,212,000	0.02%
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	657	0	657,000	0.01%

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:

Name of related parties	Relationship type	Brief description

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:

Name of related parties	Relationship type	Brief description

A.6 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
Mr. JOAQUÍN FOLCH-RUSIÑOL CORACHÁN
HEIRS OF MR. JOSÉ MANUEL LARA BOSCH
Mr. ISAK ANDIC ERMAY
Mr. JOSÉ OLIU CREUS
Mr. MIGUEL BÓSSER ROVIRA
Mr. HÉCTOR MARÍA COLONQUES MORENO

% of share capital affected 0.43%

**Brief description of agreement:**

Signed on 7/27/06 in order to establish a system of limitations on the free transfer of their shares in the company. Regulatory disclosure no. 69323 dated 2 August 2006.

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

Yes  No

Parties involved in concerted actions	% of share capital affected	Brief description of agreement

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

A.7 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.8 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
48,233,246	11,635,555	1.064%

**(\*) Through:**

Name of direct owner of holding	No. of direct shares
TSB Bank plc.	11,635,555
<b>Total:</b>	11,635,555

Detail the significant changes in the year, in accordance with Royal Decree 1362/2007:

Describe the main changes
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Banco Sabadell adopted the CNMV's recommendations dated 18 July 2013 on the disclosure of discretionary transactions with own shares.

In accordance with the provisions in Article 40 of Royal Decree 1362/2007, it must notify the CNMV when a transaction or acquisition takes place that, combined with those made since the previous disclosure, result in the total holding exceeding 1% of the issuer's voting rights. See detail in table.

**A.9 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 30 March 2017, under item 6 on the agenda, in the following terms:

"Revoke the delegation granted under resolution twelve adopted at the General Meeting on 31 March 2016 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, where 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, shall 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 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 shall be made in accordance with general stock market rules and regulations."

**A.9 bis Estimated free float:**

	%
Estimated free float	90.30

**A.10 Indicate whether there are any restrictions on the disposal of securities and/or any restriction on voting rights. In particular, disclose the existence of any restrictions that might impair the acquisition of control of the company by purchasing its shares in the market.**

Yes

No

A.11 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.12 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 and, if applicable, explain whether there are differences with respect to the rules provided by the Corporations Law for the adoption of corporate resolutions:

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.

Amendments of the bank's Articles of Association are governed by the Capital Companies Act and the Bank's own Articles of 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 grant entitlement to participate in the company's earnings, reduce or increase the share capital, change the legal form of the Company, merge or de-merge the Company or, generally, 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 shall 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 shall require a majority of two-thirds of the capital in attendance, in person or by proxy.

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

Attendance data					
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%
30/03/2017	0.68%	63.30%	0.00%	0.00%	63.98%

B.5 Indicate whether there are any restrictions in the Articles requiring a minimum number of shares to attend the General Meeting:

Yes  No

Number of shares required to attend the General Meeting	1,000
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B.6 Revoked

B.7 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](http://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](http://www.grupobancosabadell.com)) directly in the section entitled "Shareholder and investor information"

## C STRUCTURE OF THE COMPANY'S ADMINISTRATION

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors envisaged in the Articles:

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	11

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	CHAIR	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	26/03/2013	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	27/07/2017	BOARD RESOLUTION
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS		INDEPENDENT	LEAD INDEPENDENT DIRECTOR	29/03/2007	30/03/2017	GENERAL MEETING DECISION
Mr. JOSÉ MANUEL LARA GARCÍA		EXTERNAL	DIRECTOR	19/03/2015	28/05/2015	GENERAL MEETING DECISION
Mr. GEORGE DONALD JOHNSTON		INDEPENDENT	DIRECTOR	25/05/2017	25/05/2017	BOARD RESOLUTION
Mr. DAVID MARTÍNEZ GUZMÁN		PROPRIETARY	DIRECTOR	27/03/2014	27/03/2014	GENERAL MEETING DECISION
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ		INDEPENDENT	DIRECTOR	26/03/2013	26/03/2013	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

<b>Total number of directors</b>	15
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Indicate any removals from the Board of Directors in the reporting period:



Name of director	Director's category at time of removal	Date of removal
MR. ANTONIO VITOR MARTINS MONTEIRO	Proprietary	20/01/2017
Mr. JOAN LLONCH ANDREU	Independent	25/05/2017
Mr. JOAQUÍN FOLCH-RUSIÑOL CORACHÁN	External	27/07/2017

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

### **EXECUTIVE DIRECTORS**

Name of director	Position in the company's organisation chart
Mr. JOSÉ OLIU CREUS	Chairman
Mr. JAIME GUARDIOLA ROMOJARO	Managing Director
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	Director - General Manager

<b>Total number of executive directors</b>	3
<b>% of total Board</b>	20%

### **PROPRIETARY EXTERNAL DIRECTORS**

Name of director	Name of the significant shareholder whom the director represents or who proposed his/her appointment
Mr. DAVID MARTÍNEZ GUZMÁN	FINTECH INVESTMENTS LTD

<b>Total number of proprietary directors</b>	1
<b>% of total Board</b>	6.67%

### **INDEPENDENT EXTERNAL DIRECTORS**

**Name of director:**

Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR

**Profile:**

**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. Currently a member of the Boards of Directors of ACS, Ence, Energía y Celulosa and Telefónica.

**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. Fellow of the Royal Television Society. 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). He is currently an independent director of BT Group Plc, senior adviser to Providence Equity Partners LLC, President of Ambassadors Theater Group Ltd and President of Bité Group (investees of Providence Equity Partners LLC), and Chairman of the Advisory Board of Portland Communications Ltd.

**Name of director:**

Ms. AURORA CATÁ SALA

**Profile:**

**BUSINESS/CONSULTING:**

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. Currently partner and director of Seeliger y Conde, S.L., director of 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/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) and Executive Chairman of AREAS (Elior Group) (2012-2017). Currently Deputy General Manager of the Elior Group and independent director at Indukern.

**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. She is currently the Director of the Barcelona Graduate School of Economics, a researcher and Board member of the International Economics Research Centre (CREI), and Vice-Chair of Círculo de Economía.

**Name of director:**

Mr. GEORGE DONALD JOHNSTON

**Profile:**

**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). Currently an independent director of Acerinox and of Merlin Properties, SOCIMI.

**Name of director:**

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ

**Profile:**

**BUSINESS/INSURANCE:**

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. Currently Honorary Chairman of MAPFRE.

**Name of director:**

Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI

**Profile:****BUSINESS:**

An architect specialised in urban development, he holds an Executive MBA from IE Business School. Formerly a director of Banco Guipuzcoano (1990-2010) and owner and Chairman of an extensive group of companies, he is currently Chairman of Centro Fuencarral, S.A., Edificios Cameranos, S.A., Títulos e Inversiones, S.A., Comercial del Campo, S.A. and Inversiete, S.A., among other companies.

**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). Currently an independent director of Renta Corporación Real Estate, S.A.

**Name of director:**

Mr. DAVID VEGARA FIGUERAS

**Profile:****FINANCE/ACADEMIC:**

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, from London School of Economics and Political Science. Formerly Secretary of State for the Economy in the Spanish government (2004-2009) and Deputy Managing Director, Banking, European Stability Mechanism (ESM) (2012-2015). He is currently associate professor in the Department of Economics, Finance and Accounting at ESADE and Vice-Chair of ESADEgeo.

<b>Total number of independent directors</b>	10
<b>% of total number of Board members</b>	66.67%

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 entity 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:**

Mr. JOSÉ MANUEL LARA GARCÍA

**Company, executive or shareholder with which he/she is related:**

NOT APPLICABLE

**Reason:**

The personal and professional circumstances that resulted in the change in his category as a director in 2016 are still in force.

<b>Total number of other external directors</b>	1
<b>% of total number of Board members</b>	6.67%

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

<b>Name of director</b>	<b>Date of change</b>	<b>Previous category</b>	<b>Current category</b>

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

	<b>Number of female directors</b>				<b>% of total directors in each category</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	2	2	2	2	20.00%	28.57%	22.22%	25.00%
<b>Other external</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	2	2	2	2	13.33%	14.29%	13.33%	14.29%

C.1.5 Detail any measures adopted to seek to appoint women so as to achieve a balance of women and men on the Board of Directors.

<b>Detail such measures</b>
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The Board of Directors has adopted active policies to promote gender equality within the entity. Specifically, based on a recommendation by the Appointments Committee, on 25 February 2016 the Board of Directors approved the Banco Sabadell Director Selection Policy, in compliance with Recommendation 14 of the Code of Good Governance for Listed Companies. 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. In particular, directors must meet the standards for professional competency, integrity, suitability and diversity, and particular care must be taken to ensure that there is a sufficient number of female directors. The Policy goal is that the under-represented gender accounts for at least 30% of the Board by 2020.

At 2017 year-end, there were two female directors out of a total of 15; additionally, the Vice-Secretary of the Board is a woman and, since 2016, the Lead Independent Director is 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 director is the Chair of the Appointments Committee and of the Remuneration Committee. As a result, women account for 13.33% of the Company's Board of Directors, and 20.00% of the independent directors; they also chair two of the Board's five sub-committees and are members of four of those committees. Accordingly, female directors account for 20% of the Audit and Control Committee, 25% of the Risk Committee, 50% of the Remuneration Committee and 66.67% of the Appointments Committee.

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:

**Detail such measures**

On 17 February 2016, the Appointments Committee informed the Board of its approval of the Banco Sabadell Director Selection Policy, one of whose goals is to ensure that the procedure for selecting members of the Board of Directors is free from any implicit bias that might hamper the selection of women.

Additionally, in fulfilment of the role assigned to the Appointments Committee by the amendment to the Articles of Association approved by the General Meeting of Shareholders on 28 May 2015 and by the Board Regulation, the Appointments Committee seeks to ensure compliance with the Banco Sabadell Director Selection Policy, so that the procedure for selecting its members favours an appropriate balance in the Board's composition. 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, during the director selection process, the Committee has been supported by an external consulting firm in order to obtain a diversity of profiles for analysis.

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

**Detail reasons**

C.1.6 bis 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 Board members.

**Detail the conclusions.**

In compliance with the Banco Sabadell Director Selection Policy 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 2017, which conformed to the parameters and requirements of both the Policy and the existing regulations governing directorships at credit institutions. This was specifically the case in the appointment of Mr. Anthony Frank Elliott Ball, who has a strong international and business profile, by the Ordinary General Meeting of Shareholders on 30 March 2017. This was also the case in the appointment by the Board of Directors, on 25 May 2017, of Mr. George Donald Johnston, who has knowledge and experience in banking and the international arena, and in the appointment by the Board of Directors, on 27 July 2017, of Mr. Pedro Fontana García, with acknowledged experience in banking and business. Those directors were selected following the procedure described in the Banco Sabadell Director Selection Policy, in a transparent process and after comparing candidates in the market, focusing particularly on gender diversity and giving priority as far as possible to the appointment of female directors, to increasing the Board's international diversity and to bringing in new skills and experience so as to ensure the suitability of the Board as a whole.

C.1.7 Detail how the significant shareholders are represented on the Board.

Although the significant shareholders are not represented directly on the Board, Mr. David Martínez Guzmán is related to the shareholder Fintech Investments Ltd.

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

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

C.1.9 State whether any director has withdrawn from his/her position before the expiration of his/her term of office, whether the director has given reasons to the Board and by what means and, in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the director:

**Name of director:**

Mr. ANTONIO VÍTOR MARTINS MONTEIRO

**Reason for resignation:**

On 27 January 2017, Banco Sabadell released a regulatory disclosure to the effect that Mr. Antonio Vítor Martins Monteiro had presented his resignation by means of a letter to all the directors in which he explained that his decision was based on the change in the ownership relationship between Banco Comercial Português, S.A. and Banco Sabadell.

**Name of director:**

Mr. JOAN LLONCH ANDREU

**Reason for resignation:**

On 25 May 2017, Banco Sabadell issued a regulatory disclosure to the effect that the term as director of Mr. Joan Llonch Andreu had concluded; he had been a member of the Board continuously since 28 November 1996.

**Name of director:**

Mr. JOAQUÍN FOLCH-RUSIÑOL CORACHÁN

**Reason for resignation:**

On 28 July 2017, Banco Sabadell issued a regulatory disclosure to the effect that Mr. Joaquín Folch-Rusiñol Corachán had tendered his resignation in a letter addressed to all the directors. In the letter he explained that the reason for submitting his resignation before the end of the term for which he had been re-elected by the General Meeting of Shareholders on 28 May 2015 was that, after more than seventeen years as a member of the Board of Directors, he wished to devote himself more intensely to his own business project, which was expanding and undergoing a generational change that required his utmost attention.

C.1.10 Indicate any powers delegated to the chief executive officer(s):

**Name of director:**

Mr. JAIME GUARDIOLA ROMOJARO

**Brief description:**

The powers of the managing director are detailed in section H.

C.1.11 Identify any board members with directorships or management positions 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.	CHAIR	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)	CHAIR	No
Mr. JAIME GUARDIOLA ROMOJARO	SabCapital, S.A. de C.V., SOFOM, E.R.(MEXICO)	CHAIR	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.	CHAIR	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.1.12 Indicate any company directors who are members of the board of directors of other companies listed on Spanish official stock markets, other than group companies, of which the company has been notified:

Name of director	Name of 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
Mr. ANTHONY FRANK ELLIOTT BALL	BT GROUP PLC	DIRECTOR
Ms. AURORA CATÁ SALA	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, S.A.	DIRECTOR
Mr. GEORGE DONALD JOHNSTON	ACERINOX, S.A.	DIRECTOR
Mr. GEORGE DONALD JOHNSTON	MERLIN PROPERTIES, SOCIMI, S.A.	DIRECTOR
Mr. JOSÉ MANUEL LARA GARCÍA	ATRESMEDIA CORPORACIÓN DE MEDIOS DE COMUNICACIÓN, 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

C.1.13 Indicate whether the company has established rules about the number of directorships that board members can hold, and describe any such rules:

Yes  No

**Detail such rules**

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, and the European Banking Authority's guide to fit and proper assessments (May 2017), drawn up on the basis of that Directive, specifically section 4.4. The Banco Sabadell Director Selection Policy, 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.1.14 Revoked

C.1.15 Indicate the overall remuneration for the Board of Directors:

<b>Board of Directors remuneration (thousand euro)</b>	8,762
<b>Amount of accumulated pension rights held by current directors (thousand euro)</b>	36,808
<b>Amount of accumulated pension rights held by former directors (thousand euro)</b>	0

C.1.16 Identify senior management members who are not executive directors and the total remuneration accrued to them in the year:

<b>Name</b>	<b>Position(s)</b>
Ms. MARÍA JOSÉ GARCÍA BEATO	VICE-SECRETARY OF THE BOARD — COMPANY SECRETARY
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
Ms. NURIA LÁZARO RUBIO	DEPUTY GENERAL MANAGER - HEAD OF INTERNAL AUDIT

<b>Total remuneration for senior management (thousand euro)</b>	6,802
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C.1.17 Identify any board members who are also board members or executives of a significant shareholder and/or subsidiaries of its group:

Identify any significant relationships, other than those stated in the preceding section, between board members and significant shareholders and/or subsidiaries in their group:

C.1.18 Indicate whether there were any amendments to the board regulation in the year.

Yes  No

<b>Describe the amendments</b>
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C.1.19 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 Director Selection Policy 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 Director Selection Policy, 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 Director Selection Policy.

#### 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. 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 Company, 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.1.20 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
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Each year, 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) in connection with: governance model, suitable composition of the Board, and effective performance.

The findings of the assessment on 26 January 2017 were positive and it detected no aspects of the Board's internal operations that might impair that outcome.

Nevertheless, the bank drew up an Action Plan consisting of measures aimed at improving Banco Sabadell's corporate governance and the workings of the Board of Directors itself and of its sub-committees.

In compliance with these measures, the annual assessment of the Board of Directors and its sub-committees, as well as the evaluation of the performance of the Chairman, the Managing Director and other positions on the Board of Directors for the year 2017, is taking place during this year, 2018, with the assistance of an independent external consultant, as decided by the Appointments Committee in December in line with recommendation 36 of the Good Governance Code of Listed Companies.

Following the measures contained in the Action Plan, the content of the minutes has been expanded to reflect in greater detail the debates at meetings of the Board of Directors and its sub-committees, and progress continues to be made with improving the documentation provided for the discussion at meetings of both the Board of Directors and its sub-committees. The Director Training Programme, which commenced in 2015, is continuing, as a new cycle in the programme commenced in 2017 with a view to continuing to enhance Banco Sabadell's governance. The objective of the Programme is to place special emphasis on director's training and education requirements in specific areas of the financial institution, providing the members of the Board of Directors with an understanding of the management policies and mechanisms in key aspects of new regulatory requirements, applicable regulatory changes, financial management, risk management and key business aspects.

Particular emphasis has also been placed on important issues that require specific monitoring by the Board of Directors or the appropriate sub-committee, as a function of its powers, and the agenda of the sub-committees now includes monographic discussions of specific issues that their members consider germane, with the participation of experts in the various subjects, where necessary.

In addition, the vacancies that arose in the Board of Directors in 2017 were filled by the appointment of three independent directors, allowing for a partial renewal of the Board composition. Those appointments contributed to maintaining the qualitative composition of the Board of Directors as provided for in article 53 of the Articles of Association, and to the collective fitness of the Board of Directors, as set out in the European Central Bank's guidelines in this connection. As a result of these appointments, the number of directors with an international profile has increased and new competencies and experiences have been brought on board, while maintaining the diversity and appropriate balance among the members, since the decision-making process has been enriched by providing the Board of Directors with considerable capacity to debate and a greater wealth of viewpoints.

#### C.1.20 bis 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 diversity of its composition and powers, the performance and composition of its committees, the performance of the Chairman of the Board of Directors and the chief executive of the company, and the performance and contribution of each director.

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, in January 2017, the Board of Directors assessed its own performance and that of its sub-committees in 2016. The evaluation was organised and coordinated by the Chairman of the Board of Directors, as the person with responsibility for the Board's effective performance, assisted by the Secretary and the Vice-Secretary and with the participation of all directors; the evaluation incorporates the conclusions of the self-assessments performed by the sub-committees. The Appointments Committee also reported favourably on the performance assessment of the Board and of the Chairman and Managing Director.

The regular performance evaluation of the Chairman of the Board of Directors was directed by the Lead Independent Director in accordance with article 529 septies of the Capital Companies Act and with article 55 of the Articles of Association and article 8 of the Board of Directors Regulation; the assessment of the Managing Director's performance was organised and coordinated by the Chairman of the Board.

The performance assessment of the Board and the sub-committees concluded that the composition of the Board and its sub-committees is appropriate and of good quality, there being a balance between the different categories of directors and diversity in the training, skills and experience of the directors, in conformity with the provisions of the law and the bank's internal regulations, and that the committee structure is appropriate. Both the Board and the sub-committees have assumed the duties assigned to them by law and by the Articles of Association, and the latter have also assumed all matters entrusted to them by the Board of Directors for them to review and approve or provide advice to the Board. The frequency and duration of meetings of the Board and the sub-committees, and attendance by directors at meetings of the Board and of the sub-committees of which they are members was satisfactory. An analysis of the notice, agenda, documentation and information provided to the directors for the meetings, in connection with the issues discussed, and the operation and conduct of business at the meetings of the Board and its sub-committees, reveals appropriate performance as issues were debated sufficiently within the Board of Directors and its sub-committees and directors were provided with sufficient documentation and information to discharge their duties. Additionally, the training given to the members of the Board of Directors was considered to be satisfactory since it covered matters of great interest to directors and enabled them to remain up to date with all issues relating to the bank's structure and organisation and the main aspects of its management.

The performance assessment of the Board also analysed the performance of the Chairman, the Vice-Chairman, the Managing Director, the Lead Independent Director, the Secretary and the Vice-Secretary of the Board of Directors, finding that their actions and performance were appropriate.

The assessment for 2017 is being conducted in 2018 with the assistance of an independent external consultant, in accordance with a decision adopted by the Appointments Committee in December 2017.

C.1.20 ter Give a breakdown of any business relations that the consultant or any company in its group has with the company or any group company.

C.1.21 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 infringement.
- c) Where their continuance on the Board may jeopardise the company's interests.

C.1.22 Revoked

C.1.23 Do any decisions require a supermajority, other than the legal majority?

Yes  No

Describe the differences, if any.

C.1.24 Detail whether there are specific requirements, other than those relating to directors, for appointing the Chairman of the Board of Directors.

Yes  No

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.1.25 Indicate if the chairperson has a casting vote:

Yes  No

**Issues on which there is a casting vote**

Under article 56 of the Articles of Association, resolutions of the Board of Directors are adopted by absolute majority of the directors in attendance; the Chairman holds a casting vote.

C.1.26 Indicate if the articles or board regulation establish an age limit for directors:

Yes  No

C.1.27 Indicate if the articles or board regulation establish a term limit for independent directors other than that provided in the regulations:

Yes

No

C.1.28 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 cannot 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.

C.1.29 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:

<b>Number of Board meetings</b>	13
<b>Number of Board meetings held without the chairman</b>	0

If the Chairman is an executive director, indicate the number of meetings held at which no executive director attended or granted proxy and which were chaired by the lead independent director.

<b>Number of meetings</b>	0
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Indicate the number of meetings held by board sub-committees in the year:

<b>Committee</b>	<b>No. of meetings</b>
Executive Committee	35
Audit and Control Committee	6
Appointments Committee	11
Remuneration Committee	12
Risk Committee	11

C.1.30 Indicate the number of board of directors meetings held in the year which were attended by all members. Proxies granted with specific instructions are not counted as absences:

<b>Number of Board meetings held with all directors in attendance</b>	11
<b>Attendance as a % of the total number of votes during the year</b>	98.88%

C.1.31 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	Positi
Mr. JOSÉ OLIU CREUS	CHAIR
Mr. JAIME GUARDIOLA ROMOJARO	MANAGING DIRECTOR
Mr. TOMÁS VARELA MUIÑA	GENERAL MANAGER—CHIEF FINANCIAL OFFICER

C.1.32 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 a clean 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 2017 were unqualified.

C.1.33 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) / Ms. MARÍA JOSÉ GARCÍA BEATO (VICE-SECRETARY)	

C.1.34 Revoked

C.1.35 Describe any mechanisms established by the company to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

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 2017, the Audit and Control Committee was composed of three independent directors; since 25 May 2017, it also comprises an external director. Additionally, on 21 December 2017 another independent director was appointed, with the result that, at year-end, the committee comprised four independent directors and one external director. That Committee's Regulation, which was current in 2017, 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 contains 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 selection, appointment, reappointment or replacement of the auditor and for the authorisation of non-audit services which the auditor is not prohibited from providing.

Additionally, the Audit and Control Committee issues a report to the Board of Directors on the auditor's independence with respect to:

1. The main non-audit services provided by the external auditors, to ensure that they meet the independence requirements contained in the consolidated text of the Audit Act, enacted by Legislative Royal Decree 1/2011, of 1 July, and in the Audit Technical Standards issued by Spain's Institute of Accounting and Auditing, as well as the applicable provisions of Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April.
2. The materiality of the fees generated in the Group with respect to the external auditors' total fees.
3. Through the confirmation received from the external auditors, the firm's procedures and tools in connection with complying with the independence rule, in order to ensure compliance with the independence requirements set out in the Consolidated Text of the Audit Act, enacted by Legislative Royal Decree 1/2011, of 1 July, and in its secondary legislation, as well as the applicable provisions of Act 22/2015, of 20 July, on Auditing, and Regulation (EU) No 537/2014, of 16 April.

The entity complies with the principles of transparency and non-discrimination set out in the current legislation with respect to other market players. Specifically, the entity: 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 entity includes the persons who become privy to such information in its internal control systems, and expressly notifies such entities of the obligation to fulfil their duty of confidentiality and ensure that it is fulfilled by others.

The entity 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.1.36 State whether the Company changed its external auditor during the year. If so, identify the incoming and outgoing auditor:

Yes  No

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

C.1.37 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	Total
<b>Fees for work other than auditing (thousand euro)</b>	505	327	832
<b>Fees for work other than auditing/Total fees billed by the audit firm (%)</b>	23.94%	8.65%	14.13%

C.1.38 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 explain the content and scope of the qualification or exception.

Yes  No

C.1.39 Indicate the number of consecutive years that the current audit firm has been auditing the financial statements of the company and/or 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:

	Company	Group
<b>Number of consecutive years</b>	35	33
<b>No. of years audited by the current audit firm/No. of years that the company has been audited (%)</b>	94.59%	100.00%

C.1.40 Indicate whether there is a procedure for directors to engage external consultants and, if so, provide details:

Yes  No

**Detail the procedure**

The Board of Directors has powers to engage advisors and request external reports or services. Specifically, Article 21 of the Audit and Control Committee Regulation establishes the right of its members to seek advice from outside professionals in order to discharge their duties as effectively as possible.

C.1.41 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 shall be channelled through the Chairman or the Secretary to the Board, who shall 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.

C.1.42 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 suitability 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.1.43 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.1.44 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.1.45 Identify in overall terms, and indicate, in detail, any agreements between the company and its Directors and senior executives or employees that include indemnities, guarantee 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:** 30

**Type of beneficiary:**

Executive directors (3), senior managers (8) and other members of the identified staff (19).

**Description of agreement:**

Clause providing indemnity in the amount of 2 years' salary (exceptionally: 3) for cases of unfair dismissal and some limited cases of change of control.

State whether such contracts must be reported and/or approved by the decision-making bodies of the company or group:



	<b>Board of Directors</b>	<b>General Meeting</b>
<b>Body that authorises the clauses</b>	<b>Yes</b>	<b>No</b>

	<b>Yes</b>	<b>No</b>
Is the General Meeting informed of the clauses?	X	

## 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 proprietary and independent directors that form them:

#### **Executive Committee**

<b>Name</b>	<b>Position</b>	<b>Category</b>
Mr. JOSÉ OLIU CREUS	CHAIR	EXECUTIVE
Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR	DIRECTOR	INDEPENDENT
Mr. JAIME GUARDIOLA ROMOJARO	DIRECTOR	EXECUTIVE
Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ	DIRECTOR	INDEPENDENT
Mr. JOSÉ LUIS NEGRO RODRÍGUEZ	DIRECTOR	EXECUTIVE

<b>% executive directors</b>	60.00%
<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	40.00%
<b>% other external directors</b>	0.00%

Detail the functions assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its main activities during the year.

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 shall 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 shall act as its Chair. The resolutions of the Committee shall be entered in a minutes book, and the minutes shall be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question.

It shall 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, shall be designated by the Board of Directors, which shall also designate a substitute secretary for cases of illness or absence.

In 2017, the Executive Commission monitored the ordinary activities of the bank, 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 Executive Committee also performed a self-assessment.

Indicate if the executive committee's composition reflects the composition of the board in terms of director categories:

Yes  No

### **Audit and Control Committee**

Name	Position	Category
Mr. MANUEL VALLS MORATÓ	CHAIR	INDEPENDENT
Mr. PEDRO FONTANA GARCÍA	DIRECTOR	INDEPENDENT
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	DIRECTOR	INDEPENDENT
Mr. JOSÉ MANUEL LARA GARCÍA	DIRECTOR	EXTERNAL
Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	DIRECTOR	INDEPENDENT

<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	80.00%
<b>% other external directors</b>	20.00%

Detail the functions assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its main activities during the year.

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 review the report drafted by the Internal Audit Department to verify 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 by persons in the organisation. 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) Informing the General Meeting on the questions raised by shareholders which fall within its scope of authority;
- 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.
- c) Overseeing the drafting and presentation of regulated financial information;
- 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.
- 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.
- 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.
- g) Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.
- 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.

The committee shall 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 shall 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 shall take minutes of every meeting, which shall be approved at the end of the meeting itself

or at the next meeting. The business transacted at Committee meetings shall 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 30 March 2017, Mr. Manuel Valls Morató was appointed as a member and Chairman of the Audit and Control Committee, to replace Ms. María Teresa García-Milà Lloveras, who continued as a member of the committee; on 25 May 2017, Mr. José Manuel Lara García was appointed as a member of the Committee, replacing Mr. Joan Llonch Andreu. On 21 December 2017, Mr. Pedro Fontana García was appointed as a member of the Committee.

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 issues under its brief and issued a report setting out all of its activities in 2017. Among other matters, the Audit and Control Committee reviewed the financial statements for 2016 and the results of the external audit of them, as well as the mid-year accounts in 2017, and it reviewed and approved the report on the independence of the external auditors. The Audit and Control Committee reviewed the quarterly results and the reports on the management of treasury stock, reviewed and reported on the Report on the Internal Assessment of Capital and the Report on the Internal Assessment of Liquidity for the year 2016. The Committee reviewed the group's risk management systems as described in reports prepared by the Risk, Finance and Internal Audit departments, and approved and monitored the Annual Internal Audit Plan. It has also reviewed the Report of the Corporate Ethics Committee and the update of Banco Sabadell's Share Registration Document.

(this description continues in section H)

Identify the member of the audit committee who was appointed on the basis of his/her knowledge and experience in accounting, auditing or both, and state the number of years that the Chairman of this committee has been in office.

<b>Name of director with experience</b>	Mr. MANUEL VALLS MORATÓ
<b>No. of years the chair has held office</b>	1

### **Appointments Committee**

<b>Name</b>	<b>Position</b>	<b>Category</b>
Ms. AURORA CATÁ SALA	CHAIR	INDEPENDENT
Mr. ANTHONY FRANK ELLIOTT BALL	DIRECTOR	INDEPENDENT
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	DIRECTOR	INDEPENDENT

<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	100.00%
<b>% other external directors</b>	0.00%

Detail the functions assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its main activities during the year.

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;
- 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;

- c) ensuring that the qualitative composition of the Board of Directors complies with the provisions of article 53 of the Articles of Association;
- d) checking that the members of the Board of Directors are suitable and possess the necessary competency, knowledge and experience;
- e) advising on proposals for the appointment and removal of senior executives and of the identified staff;
- 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;
- 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;

It comprises 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 shall meet once per year to provide advice in advance on the Board's performance evaluation.

On 25 May 2017, Ms. María Teresa García-Milà Lloveras was appointed as a member of the Appointments Committee to replace Mr. Joan Llonch Andreu; Mr. Joaquín Folch-Rusiñol Corachán ceased to be a member of the Committee on 27 July 2017 and, on 21 September 2017, Mr. Anthony Frank Elliott Ball was appointed as a member of the Committee.

In performing the functions assigned to it by law, the Articles of Association and the Board of Directors Regulation, the Appointments Committee made proposals to the Board of Directors as to the appointment and re-appointment of directors, assessing their suitability and fitness and issuing the necessary reports; it also made proposals for changes in the composition of the Board sub-committees. It advised the Board of Directors on proposals for the appointment of senior executives and members of the identified staff, and assessed their suitability and fitness for the positions. It also advised on proposals for appointment and removal of senior executives of group companies and of directors of subsidiaries and associated companies. The Committee reviewed and provided a favourable opinion to the Board on the annual corporate governance report for 2016, particularly in connection with the composition of the Board of Directors and director categories. It also performed the annual verification of compliance with the Banco Sabadell Director Selection Policy, performed a self-assessment of its own performance and issued a favourable report on the performance of the Board, its Chairman, the Managing Director, the Lead Independent Director, the Secretary and the Vice-Secretary of the Board of Directors; it approved the report on the functions and activities of the Appointments Committee in 2016 and issued a favourable opinion on the Director Training Programme for 2017. It also reviewed the composition of the identified staff and proposed an update of same to the Board of Directors; it also reviewed the composition of the identified staff at group subsidiaries and issued a favourable opinion to the Board of Directors as to the inclusion of additional members in these groups.

### **Remuneration Committee**

Name	Position	Category
Ms. AURORA CATÀ SALA	CHAIR	INDEPENDENT
Mr. ANTHONY FRANK ELLIOTT BALL	DIRECTOR	INDEPENDENT
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	DIRECTOR	INDEPENDENT
Mr. GEORGE DONALD JOHNSTON	DIRECTOR	INDEPENDENT

<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	100.00%
<b>% other external directors</b>	0.00%

Detail the functions assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its main activities during the year.

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;
- 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

- c) regularly reviewing remuneration policy;
- d) advising on remuneration programmes based on shares and/or options;
- e) periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;
- f) ensuring that remuneration is transparent;
- 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 comprises 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 shall 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.

On 27 July 2017, Mr. Joaquín Folch-Rusiñol Corachán ceased to be a member of the Remuneration Committee.

On 21 September 2017, Mr. Anthony Frank Elliott Ball was appointed as a member of the Remuneration Committee and on 26 October 2017, Mr. George Donald Johnston was also appointed.

In the course of its duties under the law, the Articles of Association and the Board of Directors Regulation, the Remuneration Committee, with the assistance of reports by external consultants, checked that Banco Sabadell's remuneration policy conforms to the regulations applicable to credit institutions, analysed the degree of compliance with the 2016 objectives by executive directors, approved their fixed and variable remuneration, and analysed the degree of attainment of the 2016 objectives by senior management, and approved their fixed and variable remuneration. It also approved the variable remuneration for 2016 and the fixed remuneration for 2017 for the entire identified staff, and approved the wage distribution for the entire workforce for 2017. It also decided on the distribution of objectives for each group in 2017, the objectives for the Banco Sabadell Group for 2017 and the Banco Sabadell Group Compensation and Benefits Policy; it issued a favourable opinion to the Board on asking the General Meeting of Shareholders to approve the cap applicable to variable remuneration for the identified staff. The Committee also analysed the review of fixed remuneration for 2017 and of variable remuneration for 2016 for the workforce in America, which covers Sabadell United Bank, N.A. prior to its sale to Iberiabank Corporation, Banco Sabadell, Miami Branch and the New York office. Additionally, the Committee reviewed TSB's remuneration policy and the remuneration of the external directors of the subsidiaries in Mexico, Banco Sabadell, S.A. IBM and SabCapital, S.A. de C.V., SOFOM, E.R., and analysed the group's remuneration scheme. The Remuneration Committee also performed a self-assessment and approved the report on functions and activities of the Remuneration Committee for 2016.

## **Risk Committee**

Name	Position	Category
Mr. DAVID VEGARA FIGUERAS	CHAIR	INDEPENDENT
Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS	DIRECTOR	INDEPENDENT
Mr. GEORGE DONALD JOHNSTON	DIRECTOR	INDEPENDENT
Mr. MANUEL VALLS MORATÓ	DIRECTOR	INDEPENDENT

<b>% executive directors</b>	0.00%
<b>% proprietary directors</b>	0.00%
<b>% independent directors</b>	100.00%
<b>% other external directors</b>	0.00%

Detail the functions assigned to this committee, describe its procedures and rules of organisation and operation, and summarise its main activities during the year.

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.

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

On 25 May 2017, Mr. Manuel Valls Morató was appointed as a member of the Risk Committee to replace Mr. Joan Llonch Andreu and, on 26 October 2017, Mr. George Donald Johnston was also appointed as a member of this Committee.

During 2017, the Risk Committee analysed and reviewed the Risk Appetite Statement, reporting favourably on the Board of Directors approving the amendment to same; it reviewed and issued a favourable report to the Board of Directors on the proposal regarding the review of the Banco Sabadell Group Risk Policies document; it 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 identified staff with regard to the bank's risk, capital and liquidity and on the proposal for the 2017 objectives, itemised for each of the members of the identified staff; reviewed and issued a favourable report to the Board of Directors recommending approval of the proposal to update the Conflict of Interest Policy for Directors and Senior Managers; it issued a favourable report to the Board of Directors recommending approval of the proposal for policies for management and planning in connection with non-performing assets (NPAs), in line with the recommendations set out in the European Central Bank's Guidance to banks on non-performing loans; issued a favourable report to the Board of Directors on Policies with respect to Leveraged Transactions and the determination of the appetite for transactions of this type; and it reported favourably to the Board of Directors recommending approval of the use in the adjustment model of the group's internal rating, and its subsequent submission to the Single Supervisory Mechanism for use in calculating the regulatory capital using IRB approaches.

The Risk Committee also performed a self-assessment and risk approved the report on functions and activities of the Risk Committee for 2016.

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

	Number of female directors							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0%	0	0.00%	0	0.00%	0	0.00%
Audit and Control Committee	1	20.00%	1	33.33%	1	33.33%	2	50.00%
Appointments Committee	2	66.67%	1	33.33%	1	25.00%	0	0.00%
Remuneration Committee	2	50.00%	2	66.66%	1	25.00%	0	0.00%
Risk Committee	1	25.00%	1	33.33%	1	25.00%	1	25.00%

### C.2.3 Revoked

#### C.2.4 Revoked

C.2.5 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.

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](http://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](http://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. 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](http://www.grupobancosabadell.com)) in the section on "Corporate governance and remuneration policy".

#### C.2.6 Revoked

### **D RELATED-PARTY AND INTERCOMPANY TRANSACTIONS**

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

<b>Procedure for advising on the approval of related-party transactions.</b>
--

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 significant, because of their size or nature, between the company or any group undertakings and significant shareholders of the company:

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

D.4 Detail the significant transactions between the company and other companies in the group, except those that are eliminated in consolidation or 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:

D.5 State the value of transactions carried out with other related parties.

0 (thousand euro)

**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. Before accepting any executive appointment in another company or entity, directors must notify the Appointments Committee.

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 (IRC) with regard to the securities market, approved by the Board of Directors on 26 November 2009, are applicable to the members of the bank's Board of Directors, and to all management staff 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, could 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 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, 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 or 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 subsidiaries that are listed in Spain:

**Listed subsidiary companies**



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

**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 in place to resolve possible conflicts of interest**

## **E RISK CONTROL AND MANAGEMENT SYSTEMS**

**E.1 Describe the scope of the company's Risk 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, by area, business unit or activity, subsidiary and geography at corporate level.

The Banco Sabadell Group includes the 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 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 or acquisition of shares in special-purpose vehicles or entities resident in jurisdictions considered tax havens; 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 entity'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 3 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, reporting directly to the Chairman, 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 its 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.

- 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 the 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 with regard to the supervisory authorities. Additionally, it develops and manages the stress test analysis framework within the Bank's financial planning; (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.

(this description continues in section H)

### E.3 Indicate the main risks, including tax risks, that may affect attainment of the business targets.

1. Credit and concentration risk: Losses due to borrowers' failure to honour their payment obligations or to an impairment of their credit quality. This includes counterparty risk, concentration risk and country risk.

2. Liquidity risk: The possibility of incurring losses 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 price. This risk may be associated with factors of a systemic nature or specific to the entity itself.

3. Market risk: 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, volatility or correlation between them.

4. Structural risks: Including, because of their special features:

- Interest rate risk: the possibility of incurring losses as a result of the impact caused by interest rate fluctuations on the income statement (revenues and expenses) and on an entity's equity structure (current value of assets, liabilities and off-balance sheet positions sensitive to interest rates).
- Exchange rate risk: changes in exchange rates between different currencies and the possibility that these movements may result in losses in the P&L on financial investments and on permanent investments in foreign branches and subsidiaries.
- 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 entity's equity holdings in insurance companies, basically from actuarial risks as well as other risks (market, counterparty, operational, etc.).

5. Operational risk: possibility of loss resulting from inadequate or failed internal processes, people or systems, including reputational, technology, outsourcing and model risk.

6. Business risk: losses arising from adverse events that negatively affect the capacity, strength and recurrence of the income statement or the capacity to meet funding needs due to impairment of assets and solvency.

7. Tax risk: possible breach or uncertainty associated with the interpretation of the tax law in jurisdictions in which the group carries on its ordinary business.

8. Compliance risk: the risk of incurring legal or administrative sanctions, significant monetary losses or an impairment of reputation due to breach of laws, regulations, internal rules, or codes of conduct applicable to the banking industry.

### E.4 Identify whether the organisation has a high level 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 profitability and risk.

The RAS comprises the quantitative metrics and qualitative elements that together define the risk appetite levels of the Bank, 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](http://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.

The Risk Appetite Framework establishes the monitoring systems for major risks. This monitoring, at the highest level, 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 assumption, 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 tracking 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, and it follows the guidelines defined by the Basel Committee in developing the different 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 its proper dissemination within the company.

The design and review of the organisational structure is the responsibility of the Organisation and Services 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 not only is the necessary workforce decided, 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 register of operations 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 officers to ensure this is so, both via 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 material and human 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 if applicable.

- A whistleblower channel, that allows reporting to the auditing 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 whistleblower 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 5 members appointed by the Board of Directors), are referred to the Audit and Control Committee, where 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 the accounting standards, auditing, internal control and risk management.

As regards the 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 national 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 in the event an issue arises which it is considered warrants 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 2017-2018 academic year, nine audit professionals were taking this programme, and 65 members of the Internal Audit Department hold PSAI certificates.

## F.2 Evaluation of financial reporting risks

Provide information on, at least:

F.2.1. What are the chief characteristics of the risk identification process, 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, technological, 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, technological, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

- What governing body of the companies 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 closing 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:

- Lending
- Fixed-income portfolio and issuance
- Equity portfolio
- Customer deposits
- Derivatives

- Foreclosed properties

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 (amongst others, access control, change control, operation of same, operating continuity and segregation of functions) that support the major processes of the entity 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 significant. 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 the 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 2017, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate appraisals, measuring post-employment benefits for employees, and measuring derivatives.

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 Financial Reporting Regulation and Supervision Department (under the Financial Reporting Department) is the sole unit responsible for identifying, defining and communicating 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 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 periodically (at least once per year) and include the standards applicable for the year 2017. 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. The supervision of ICFR performed by the Audit Committee, and whether the entity 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 entity 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 carries out an evaluation of the internal control model, the risks of the financial reporting processes, and the adequacy and effectiveness of the related controls, taking account of regulatory changes and of material changes in the entity's processes, among other aspects. Additionally, the automatic checks carried out on the financial statements were strengthened in 2017 due to completion of a project to transform the process of drawing up the accounts.

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

The Banco Sabadell Group also has an Internal Audit Department which reports to the group's Audit and Control Committee. In accordance with Article 13.6 of the Board of Directors Regulation, it is the responsibility of the Audit and Control Committee to monitor the internal audit services and review the appointment and replacement of its managers.

On 24 January 2017, the group's Audit and Control Committee approved the Overall Audit Plan for 2017, which includes aspects relating to the general criteria to be applied as regards the specific supervision of ICFR. One of the Internal Audit Department's missions is to support the Audit and Control Committee in supervising the correct design and implementation and effective operation of the risk monitoring and management systems, which include ICFR.

The Overall Audit Plan sets out the actions to be implemented with respect to the financial areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions envisaged in the Plan were implemented in 2017 and, in each of them, Internal Audit:

- Identified the controls required to mitigate the risks associated with the activities of the process under review.
- Analysed the effectiveness of the existing controls.
- Verified the performance of these controls and their documentation in the group's ICFR.
- Communicated the conclusions of the review to the audited unit, issuing a report with its opinion, considering the impact on the financial reporting.
- Made any necessary recommendations, including proposals for corrective action.

Additionally, during 2017, Internal Audit performed an overall review of the ICFR every six months in addition to the specific reviews mentioned above, in which it checked the adequacy and effectiveness of the controls considered as vital and also reviewed the general controls over the information systems indicated in section F.3.2.

The reports issued by Internal Audit in relation to the evaluation of the ICFR were submitted to the Audit and Control Committee to enable it to perform its oversight functions. The Committee approved the action plans presented by the Internal Audit Department for remedying any control weaknesses that were identified.

In addition to the aforementioned supervisory activities carried out by the Audit and Control Committee and the Internal Audit Department, in 2017 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, and the proposals to correct them and the status of any actions that have been taken. Every six months, within the ICFR framework, the Audit and Control Committee reviews and approves the action plans presented by the Internal Audit Department in order to correct or mitigate any observed weaknesses.

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 Organizations 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 2017 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 E01/2012, dated 25 January 2012, 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 stock market 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 the capital at the time of the granting of these powers. Whenever the Board of Directors approves an issuance 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 mercantile legislation in connection with overriding pre-emptive rights.**

Complies  Partially complies  Explain

**6. Although not expressly required by company legislation, listed companies that have prepared the reports listed below, either mandatorily 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 operation 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, according 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 nomination 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 nomination 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, a 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 paid activities they engage in, of any nature.**

**c) Statement of the director category to which they belong, in the case of proprietary directors, indicating 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 the same.**

Complies  Partially complies  Explain

**19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging 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 directors, 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 they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, 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 name or reputation, and to tender their resignation, if appropriate, and, in particular, to inform the board if they are investigated by the police and, and the progress of any subsequent court hearing.**

**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 their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could 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 give up their place 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 nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively. The board of directors regulations should lay down 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 evaluations 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 those to do with 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 weakness 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 nomination 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 nomination 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 2017, 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 Vice-Secretary of the Board of Directors is the Secretary of the Executive Committee, 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, the accurate demarcation of the consolidation perimeter, and the correct 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 the 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 officer.

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 different types of financial and non-financial risk the company is exposed to (including operational, technological, 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 in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other 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 frame of the policy drawn up by the board of directors.**

Complies  Partially complies  Explain

**47. Appointees to the nomination and remuneration committee — or the nomination 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 nomination 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 nomination 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 officer contracts.**

**b) Monitor compliance with the remuneration policy set by the company.**

**c) Periodically review the remuneration policy for directors and senior officers, 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 officers in the company.**

**d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

**e) Verify the information on director and senior officers' remuneration contained in corporate documents, including the annual directors' remuneration statement.**

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 officers.**

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, which could be the audit committee, the nomination 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 compliance in their respect.**
- 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, technological, 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) Concrete practices in matters relative 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 the 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 and 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 are any material aspects 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 which are necessary to provide a more comprehensive and fully reasoned picture of the entity's governance structure and practices, describe them 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.

### **A.2**

The information provided is based on communications sent by shareholders to the CNMV or directly to the bank. The percentage of total rights corresponds to the entity's current share capital, which was increased on 2 November 2017, shares being listed on 23 November 2017.

### **A.8**

See table attached.

### **B.5**

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 Secretary of the Board of Directors (not a director) at the Board meeting on 13 April 2000, and Ms. María José García Beato, the bank's General Secretary, was appointed Vice-Secretary of the Board of Directors (not a director) at the Board meeting held on 1 June 2012.

### **C.1.5, C.1.6 and C.1.6.bis**

In addition to the information on gender diversity set out in sections C.1.5, C.1.6 and C.1.6.bis, and in accordance with the new wording of sub-section 6 of article 540.4 c) of the Capital Companies Act, as amended by Royal Decree-Law 18/2017, of November 24, whereby the Annual Corporate Governance Report must contain a description of the diversity policy applied in relation to the Board of Directors, Banco Sabadell applies its diversity policy through the Banco Sabadell Director Selection Policy approved by the Board of Directors on 25 February 2016, which aims to ensure an appropriate balance in the composition of the Board of Directors as a whole such as to enrich decision-making and provide a plurality of viewpoints in debates on matters within its competence.

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.

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 bank's main activities and risks. Diversity in the Board of Directors is achieved through a variety of professional profiles, experiences, origins and 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 entity. 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, disability and gender. These policies are published on the Company's corporate website ([www.grupobancosabadell.com](http://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, whether 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.

Below are some specific data related to diversity in issues such as training, and professional experience and age. Gender diversity was dealt with specifically in sections C.1.5, C.1.6 and C.1.6.bis.

The diversity of training and professional experience in the Board of Directors is reflected in the directors' range of specialities and professional experience, as detailed for the independent directors in section C.1.3. As a whole, and taking into account that the most of the directors' professional experience falls under more than one profile, the Board has the following profiles in terms of specialisation or experience: six directors have a background in banking and finance, eight have a business background, three have an academic background, two have international experience, one is a consultant, two are auditors and one has a background in insurance. Regarding the diversity applied to this issue during the year 2017, the three director appointments made during the year contributed to maintaining and strengthening the diversity and collective suitability of the Board of Directors, since the appointees contributed an international, business, banking and financial profile to cover the existing needs within the Board of Directors, by matching the profiles of the outgoing directors and coming at a time in which the Banco Sabadell Group is expanding internationally.

The average age of Board members is 62.5. In relation to the issue of diversity applied to age, particularly in order to maintain the diversity of the Board of Directors as a whole, the Appointments Committee seeks to ensure that the composition of the Board of Directors includes an appropriate balance between directors having sufficient prior professional experience to enable them to function as directors of a credit institution, and the possibility of their holding office for long enough to make a meaningful contribution to sustainable value creation.

## **C.1.10**

All Board powers have been delegated to the Managing Director, Mr. Jaime Guardiola Romojaro, except for those that cannot legally be delegated.

The powers delegated to him include the following:

1. To enter into any contracts and binding agreements generally and carry out any acts or enter into any contracts for the administration, disposal, and defence of assets and rights of any description including properties and rights in rem. These powers shall therefore include, without limitation, the following: to purchase and sell, even for deferred payment, encumber, mortgage and generally dispose of property and rights of any kind; to constitute, accept and extinguish rights in rem, including any purchase options and defeasance clauses required to be recorded in the Property Registry and other similar rights or claims; to set up, alter or terminate companies of any description and hold any position or office in same, and attend, speak and vote at general and other meetings thereof.

2. To draw, accept, take or acquire, negotiate, discount, endorse, collect and guarantee bills of exchange, promissory notes, receipts, invoices, cheques and endorsable commercial paper of all kinds, whether made out to a named person or to bearer; to enter protests on non-acceptance or non-payment and sign any documents required for any of the aforesaid purposes.

3. To pay and receive money of any amount under any heading and cash payment orders by central, regional, provincial or municipal governments.

4. To open ordinary cash or securities current accounts and current accounts guaranteed by securities and by personal credit, with any bank, credit or savings institution, including in particular the Bank of Spain or any branch thereof; to stand surety for any account or accounts opened by third parties and extend, renew, clear, settle or close the same, and sign any policies, invoices or other documents required to carry out such operations; to issue drafts against any of the aforesaid accounts whether such accounts have been opened under the authority of this power or are currently held or opened in the future by the grantor hereof or by any other person on its behalf, and sign cheques, notes, drafts or any other documents accepted for this purpose; to collect from any such banks or the Bank of Spain or any branch thereof books of cheques, notes or drafts in order to issue drafts drawn on any or all the aforesaid accounts; and to confirm acceptance of any balance thereof. To make contracts assigning maximum limits for future loans secured by personal guarantee and rediscounting agreements with the Bank of Spain.

5. To give and receive money on loan and credit facilities of any description with or without collateral or other security. To accept, vary, postpone and extinguish any mortgage, lien, pledge with transfer of possession or otherwise, antichresis, aval, bond or any other personal guarantees from third parties as security for loans, credit facilities and any other transactions with or by the Bank, and for this purpose to sign certificates of delivery or other public or private documents as necessary.

6. To withdraw deposits of cash, securities or jewellery and sign receipts or other documents in respect thereof, withdraw any assets pledged as security for loans or credit or on loans for goods and to sign any documents required; to withdraw any assets transferred to the Grantor in any lending transaction it may carry out and sign receipts in respect thereof; to request the transfer, at the risk and expense of the Grantor, of any assets deposited and any loans and credit and associated collateral, from any premises of the Bank of



Spain to any other premises of the Bank of Spain or from any bank to any other.

7. To buy, sell or transfer any transferable securities including shares in the Bank of Spain or any other Bank.

8. To receive, open and respond to postal, telegraphic, or telephone communications addressed to the Bank, including registered letters, and take possession of and give receipts for any assets declared to be for the Bank.

9. To receive interest or dividends on securities deposited with any banks as previously mentioned and the value of any securities that are redeemed, and sign payment orders or drafts as necessary; to collect any amounts to be paid into current accounts by order of the grantor for the benefit of any other person, when such payments are cancelled.

10. To apply to the Bank of Spain and other Banks for the hire of safe deposit boxes with the same authority as the Grantor to open the same as and when he sees fit, and for this purpose to sign such documents as the representation of the Bank may require of him.

11. To approve the opening of current accounts, savings accounts, deposit and term accounts, certificates of deposit and deposits of securities and accounts of any other nature; to hire and open safe deposit boxes and sign any documents necessary for the same to be fully operational.

12. To act on behalf of the Bank when any debtor of the Bank is in an arrangement with creditors or engaged in insolvency or bankruptcy proceedings and to attend meetings and appoint Trustees and Administrators, accept or reject proposals by the debtor and continue until the conclusion of proceedings, accept mortgages, pledges, antichresis or any other security, reach settlements on the exercise of claims and remedies, accept the decisions of arbitrators in arbitration in law or in equity.

13. To represent the Bank and to appear, whether in person or through court agents or such other authorised representatives as he shall appoint by power of attorney or otherwise, before any authority, court, hearing, jury, tribunal, office, delegation, commission, committee, union, ministry, employment tribunal, national fund or institution, department or authority of central, regional, provincial or municipal government and any other official body; to institute, commence, pursue, abandon or reach settlements in any proceedings, litigation, suit, judicial process, application or appeal of any kind and approve pleadings drafted on behalf of Banco de Sabadell, S.A. when required and reply to interrogatories on the Bank's behalf, and represent the Bank in all matters and generally carry out all acts of administration, management and commerce.

14. To represent the Bank at meetings of shareholders, members or associates, in the companies or associations in which the Bank is a shareholder, member or associate, with the full right to speak, vote and object, without any limitation whatsoever.

15. To give or furnish bonds, pledges and guarantees of any kind and assume liability either jointly or jointly and severally with the principal debtor, waive the benefits of order, discussion and division or other benefits and without limit as to type or amount to any natural or legal person or any bank or savings institution including, in particular, the Bank of Spain and any other official credit institution or any company, firm, organisation, office, entity or official body whether of central, institutional, regional, provincial or local government; and in particular before the aforementioned public bodies and authorities and local tax offices so as to be answerable to the Treasury for the monies in respect of which the guarantee was given and to issue guarantees, including non-dispossessionary pledges, to the Ministry of Finance's Central Cashier's Office, and revoke any such bonds or guarantees and discharge the same in any manner deemed expedient.

16. Direct and respond to claims and receive notifications and to give warnings and ask notaries to notarise all types of minutes.

17. To engage and dismiss employees and make any determinations as to promotion, responsibilities, emoluments, bonuses and compensation; to initiate, pursue and conduct employment-related proceedings until cancelled or brought to a conclusion.

18. To sub-delegate, without any limitation whatsoever, any or all of the powers granted hereunder to such person or persons as he may see fit, and specify powers and methods of operation, and revoke any such sub-delegations.

### **C.1.15**

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.1.16**

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 2017: General Manager Mr. Fernando Pérez-Hickman Muñoz stepped down, and Deputy General Managers Mr. Rafael José García Nauffal and Mr. Manuel Tresánchez Montaner were appointed.

The total remuneration of senior management does not include the combined contributions to pension plans, structured through insurance policies, in the year 2017, which amounted to 2,013.60 thousand euro.

### **C.1.19**

(continuation of text shown in section C.1.19)

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

(continuation of text shown in section C.2.1 of the Audit and Control Committee)

The Committee analysed the content and the main impacts of Technical Guide 3/2017 on Audit Committees at Public-Interest Entities, published by the CNMV in June 2017, and established an action plan to adapt the Committee's operation to same. The Audit and Control Committee also performed a self-assessment.

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.
- Audit and Control Committee: Mr. Miquel Roca i Junyent, as Secretary.
- Appointments Committee: Mr. Miquel Roca i Junyent, as Secretary.
- Remuneration Committee: Ms. María José García Beato, as Secretary.
- Risk Committee: Ms. María José García Beato, as Secretary.

### E.2

(continuation of text shown in section E.2):

- 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 document structure (consistency between them 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 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.

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 undertaking'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 operations 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 text shown 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 financing, 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](http://www.grupobancosabadell.com) – Shareholder and Investor Information – Financial Information – Annual Reports.

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

Yes

No

Name of director who did not vote in favour of approving this report	Reasons (vote against, abstention, absence)	Explain reasons

A.8 Attached table

<b>Date of announcement</b>	<b>Total direct shares acquired</b>	<b>Total indirect shares acquired</b>	<b>Total % of share capital</b>
07/03/2017	45.337.904	0	0,81
13/06//2017	52.470.792	0	0,93
05/10/2017	53.494.213	0	0,95
22/11/2017	61.454.996	0	1,09

**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 2017 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 2017 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 18 December 2017, 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 2017 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 2017 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, as this special engagement is not an audit of financial statements and is not subject to Law 22/2015, of 20 July, on Auditing, we do not express an audit opinion under the terms of the aforementioned legislation.

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.
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, for the purposes of describing the ICSFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by  
Raúl Ara Navarro

1st February, 2018

# 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 its proper dissemination within the company.

The design and review of the organisational structure is the responsibility of the Organisation and Services 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 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 covers 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 register of operations 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 strictly comply 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 officers to ensure this is so, both via 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.

The tasks carried out by the Corporate Ethics Committee include the analysis of compliance with the Code of Conduct and any other code or self-regulation that exists. In order to perform its functions, it has access to the material and human 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, if applicable.

- A whistleblowing channel, that allows reporting to the auditing 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 whistleblowing channel to report all types of irregularities, particularly possible breaches of the General Code of Conduct. The notifications received are treated confidentially and, once handled by the Corporate Ethics Committee (comprising a chairperson and 5 members appointed by the Board of Directors), are referred to the Audit and Control Committee, where 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, covering at least the accounting standards, auditing, internal control and risk management.

As regards the 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 national 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 in the event an issue arises which it is considered warrants prompt distribution (drafts of new accounting standards, changes in the economic situation, etc.).

These training sessions are aimed not only at Finance Department personnel but also at 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 series of financial training courses at the disposal of Banco Sabadell Group employees 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 2017-2018 academic year, nine audit professionals were taking this programme, and 65 members of the Internal Audit Department hold PSAI certificates.

## F.2 Evaluation of financial reporting risks

Provide information on, at least:

### F.2.1. What are the chief characteristics of the risk identification process, 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; completeness; valuation; 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; completeness; 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 an analysis is conducted every six months 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, technological, 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, technological, financial, legal, reputational, environmental, etc.), insofar as these may affect the financial statements.

- What governing body of the companies 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 ICFR, to be disclosed to the securities markets, indicating those

responsible, and risk documentation describing the flows of activities and controls (including those related to fraud risk) for the various types of transactions that may have a significant effect on material judgements, estimates, valuations and 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:

- Lending
- Fixed-income portfolio and issuance
- Equity portfolio
- Customer deposits
- Derivatives
- Foreclosed properties

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 sets out 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 (amongst others, access control, change control, operation of same, operating continuity and segregation of functions) that support the major processes of the entity 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 significant. 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 defines a methodological framework that establishes the different 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 a 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 2017, the activities outsourced to third parties (appraisals and calculations by independent experts) were connected with real estate appraisals, measuring post-employment benefits for employees, and measuring derivatives.

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 Financial Reporting Regulation and Supervision Department (under the Financial Reporting Department) is the sole unit responsible for identifying, defining and communicating 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 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 periodically (at least once per year) and include the standards applicable for the year 2017. 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 the 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 the 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. The supervision of ICFR performed by the Audit Committee, and whether the entity 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 head of assessment reports the results, whether the entity 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 carries out an evaluation of the internal control model, the risks of the financial reporting processes, and the adequacy and effectiveness of the related controls, taking account of regulatory changes and of material changes in the entity's processes, among other aspects. Additionally, the automatic checks carried out on the financial statements were strengthened in 2017 due to completion of a project to transform the process of drawing up the accounts.

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

The Banco Sabadell Group also has an Internal Audit Department which reports to the group's Audit and Control Committee. In accordance with Article 13.6 of the Board of Directors Regulation, it is the responsibility of the Audit and Control Committee to monitor the internal audit services and review the appointment and replacement of its managers.

On 24 January 2017, the group's Audit and Control Committee approved the Overall Audit Plan for 2017, which includes aspects relating to the general criteria to be applied as regards the specific supervision of ICFR. One of the Internal Audit Department's missions is to support the Audit and Control Committee in supervising the proper design, implementation and effective operation of the risk monitoring and management systems, which include ICFR.

The Overall Audit Plan sets out the actions to be implemented with respect to the financial areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions envisaged in the Plan were implemented in 2017 and, in each of them, Internal Audit:

- Identified the controls required to mitigate the risks associated with the activities of the process under review.
- Analysed the effectiveness of the existing controls.
- Verified the performance of these controls and their documentation in the group's ICFR.
- Communicated the conclusions of the review to the audited unit, issuing a report with its opinion, considering the impact on the financial reporting.
- Made any necessary recommendations, including proposals for corrective action.

Additionally, during 2017, Internal Audit performed an overall review of the ICFR every six months in addition to the specific reviews mentioned above, in which it checked the adequacy and effectiveness of the controls considered as vital and also reviewed the general controls over the information systems indicated in section F.3.2.

The reports issued by Internal Audit in relation to the evaluation of the ICFR were submitted to the Audit and Control Committee to enable it to perform its oversight functions. The Committee approved the action plans presented by the Internal Audit Department for remedying any control weaknesses that were identified.

In addition to the aforementioned supervisory activities carried out by the Audit and Control Committee and the Internal Audit Department, in 2017 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, proposals to correct them, and the status of any actions that have been taken. Every six months, within the ICFR framework, the Audit and Control Committee reviews and approves the action plans presented by the Internal Audit Department in order to correct or mitigate any observed weaknesses.

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 Organizations 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 2017 to the external auditor for review. Once it is issued, the report by the external auditor (PricewaterhouseCoopers) will be attached as an annex to this annual report on corporate governance.

The scope of the auditor's review is determined by Circular E01/2012, dated 25 January 2012, of the Instituto de Censores Jurados de Cuentas de España.