

# 2018 ANNUAL CORPORATE GOVERNANCE REPORT

## CRITERIA CAIXA, S.A., SOCIEDAD UNIPERSONAL

### ISSUER'S PARTICULARS

FINANCIAL YEAR-END	31/12/2018
Company Tax ID No. (C.I.F.):	A-63379135
Company name:	CRITERIA CAIXA, S.A., SOCIEDAD UNIPERSONAL
Registered office:	PLAZA WEYLER, Nº 3, PALMA

**ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, OTHER THAN SAVINGS BANKS, GOVERNMENT-CONTROLLED COMMERCIAL COMPANIES OR GOVERNMENT CORPORATIONS, THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS**

**A OWNERSHIP STRUCTURE**

A.1 Detail of the most significant shareholders or unitholders from your entity at year-end:

NIF (individual taxpayer identification number) or CIF (legal entity taxpayer identification number)	Name or corporate name of shareholder or unitholder	% of share capital
G-58899998	CAIXA D'ESTALVIS I PENSIONS DE BARCELONA, "LA CAIXA" BANKING FOUNDATION	100

A.2 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the bank, unless they are insignificant or arise from ordinary trading or exchange activities.

NIF (individual taxpayer identification number) or CIF (legal entity taxpayer identification number)	Related-party names or corporate names	Type of relationship	Brief description
	<b>*See Note in Section G</b>		

A.3 Indicate, as applicable, any commercial, contractual or corporate relationships between the significant shareholders or unitholders and the entity, unless they are insignificant or arise from ordinary trading or exchange activities.

NIF (individual taxpayer identification number) or CIF (legal entity taxpayer identification number)	Related-party names or corporate names
G-58899998	CAIXA D'ESTALVIS I PENSIONS DE BARCELONA, "LA CAIXA" BANKING FOUNDATION

Type of relationship: CORPORATE.

Brief description Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" Banking Foundation, is the company's sole shareholder.

A.4 Give details of any restriction (under the bylaws or legislation or of any other kind) on the transfer of securities or voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes ✓

No

Description of the restrictions
<p><b>TRANSFER OF EQUITY INVESTMENTS:</b> The limitations on the transferability of shares are set forth in article 9 of the bylaws. Transfers in favour of (i) other shareholders, (ii) the spouse, the ascendants or descendants of the transferring shareholder, and (iii) companies belonging to the same group of companies as the transferring shareholder are unrestricted. Other than in these cases, a shareholder who intends to transfer his shares in the Company must give written notice to the governing body indicating the number, class and series of the shares that he wishes to transfer, the name, the domicile and the nationality of the person to whom he wishes to transfer them, the price or consideration for each share, and the conditions according to which the transaction shall be carried out. After the length of time, and in accordance with the procedure, set forth in the bylaws, the remaining shareholders shall have the right of first refusal.</p>
<p><b>EXERCISE OF VOTING RIGHTS:</b> There are no restrictions on the voting rights corresponding to the shares of CRITERIA CAIXA, S.A.U.</p>

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COMMERCIAL COMPANIES OR GOVERNMENT CORPORATIONS,  
THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS**

**B GENERAL MEETING OR EQUIVALENT BODY**

- B.1 Indicate the quorum for a general meeting or equivalent body set forth in the bylaws. Describe how it differs from the system of minimum quorums set forth in the Corporate Enterprise Act (LSC) or the applicable regulations.

In accordance with article 16 of the bylaws, the general meeting shall be validly held, at first call, if the shareholders in attendance or represented by proxy hold at least 25% of the subscribed share capital with voting rights. At second call, the meeting shall be validly held regardless of the proportion of share capital in attendance. In order for the General Meeting, whether Ordinary or Extraordinary, to validly agree to issue securities, suppress or limit subscription rights, increase or reduce capital, carry out a transformation, merger, spin-off, global transfer of assets and liabilities, transfer the registered office to a foreign country or make any changes to the Bylaws, shareholders at first call, whether present or proxy, representing at least 50% of subscribed capital with voting rights must be in attendance. On second call the attendance of shareholders holding 25% of the share capital shall suffice. The foregoing is without prejudice to other cases set forth in the law, in particular in special laws that may be applicable to the Company.

The Company currently has a sole shareholder; consequently, the system set forth in the restated text of the Corporate Enterprise Act shall apply.

- B.2 Explain the system for adopting corporate resolutions. Describe how it differs from the system set forth in the LSC or the applicable regulations.

In accordance with article 18 of the bylaws, Board resolutions shall be adopted by a simple majority of the shareholders in attendance or represented by proxy at the general meeting. Resolutions shall be understood to be adopted when they receive more votes in favour than against the share capital present or represented by proxy at the meeting.

The system for adopting Board resolutions set forth in Article 18 of the Bylaws is the same as that set forth in the Corporate Enterprise Act.

The Company is currently a sole shareholder.

- B.3 Briefly indicate what resolutions were adopted at the general meetings or equivalent bodies held during the year referred to in this report and the percentage of votes with which they were adopted.

The resolutions of the Company's sole shareholder in 2018 were:

- January 25, 2018: Distribution of reserves (other reserves) for the sum of EUR 100 million.
- March 15, 2018: (i) Delegation to the Board of Directors of the power to issue fixed-income securities or debt instruments of a similar nature for a total amount of up to €3 billion (3,000,000,000) euros; (ii) Re-election of the Company's external auditor for 2019; (iii) Alteration of Article 26 of the Bylaws regarding the remuneration of the members of the Board of Directors of the Company.
- May 24, 2018: Approval of the individual and consolidated financial statements corresponding to the year ended at 31 December 2017 and the respective management reports. Approval of the directors' performance in 2017. Appropriation of profit for 2017. Approval of the full subscription of the capital increase by offset of receivables at the Andorran company Els Arbres de la Tardor, S.L.U., wholly owned by Criteria Caixa, S.A.U.
- December 13, 2018: Alteration of Article 26 of the Bylaws regarding Directors' remuneration.

B.4 State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders.

There has been no item on the agenda that has not been approved by the sole shareholder of the Company.

B.5 Indicate the address and mode of accessing your entity's webpage with information on corporate governance.

The information on the corporate governance of Criteria Caixa, S.A.U. is available on the Company's corporate webpage ([www.criteriacaixa.com](http://www.criteriacaixa.com)).

B.6 Indicate if meetings have been held of the different syndicates, if applicable, of holders of securities issued by the entity, the purpose of such meetings held during the year referred to in this report, and the main resolutions adopted.

No meetings of bondholders' syndicates were held in 2018.

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**C STRUCTURE OF ADMINISTRATION OF THE ENTITY**

C.1 Board or governing body

C.1.1 Indicate the maximum and minimum number of Directors or members of the Board set out in the bylaws:

Maximum number of Directors or members of the governing body	20
Minimum number of Directors or members of the governing body	8
Number of directors/members of the body set by the general meeting or assembly	17
Comments	There are currently two vacancies on the Board of Directors.

C.1.2 Complete the following table on the members of the Board or governing body and their respective status:

**DIRECTORS/MEMBERS OF THE GOVERNING BODY**

NIF or CIF of the Director	Name or corporate name of the Director/member of the governing body	Representative	Last date of appointment
36456287-E	Isidro Fainé Casas	-	18/12/2013
40260078-G	Alejandro García-Bragado Dalmau	-	26/06/2014
37590507-C	Javier Godó Muntañola	-	26/06/2014
15766311-H	José Antonio Asiáin Ayala	-	18/12/2013
28744747-Z	Marcos Contreras Manrique	-	18/12/2013
X1596112G	Jean-Louis Chaussade	-	18/12/2013
46215647-E	Isabel Estapé Tous	-	18/12/2013
46672425-C	Francisco Javier García Sanz	-	18/12/2013
36469328-E	Eugenio Gay Montalvo	-	16/03/2017
46309503-S	Víctor Grífols Roura	-	26/06/2014
46302019-Y	Josep-Delfí Guàrdia Canela	-	18/12/2013
Y2771477-Z	Heinrich Haasis	-	18/12/2013
42942802-P	Francesc Homs Ferret	-	18/12/2013
36467929-A	Juan José López Burniol	-	26/06/2014
39335259-S	Josep Joan Simón Carreras	-	18/12/2013



C.1.3 List any members of the board or management body who hold positions as directors, representatives of directors or executives at other entities that form part of the entity's group:

NIF or CIF of the Director	Name or corporate name of Director: / member of the management body	Corporate name of the group entity	NIF or CIF of the group's entity	Position
36456287-E	Isidro Fainé Casas	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation	G-58899998	Chairman of the Board of Trustees
		Inmo Criteria Caixa, S.A.U.	A-63346290	First Deputy Chairman
		Caixa Capital Risc, SGEIC, S.A.	A-62794722	Chairman
37590507-C	Javier Godó Muntañola	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa" Banking Foundation	G-58899998	Trustee
42942802-P	Francesc Homs Ferret	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation	G-58899998	Trustee
		Inmo Criteria Caixa, S.A.U.	A-63346290	Second Deputy Chairman

36467929-A	Juan José López Burniol	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation  Inmo Criteria Caixa, S.A.U.  Saba Infraestructuras, SA	G-58899998  A-63346290  A-65550311	Deputy Chairman  Third Deputy Chairman:  Director
36469328-E	Eugenio Gay Montalvo	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation	G-58899998	Trustee
46215647-E	Isabel Estapé Tous	Caixa d'Estalvis i Pensions de Barcelona, "la Caixa", Banking Foundation	G-58899998	Trustee
40260078-G	Alejandro García-Bragado Dalmau	Saba Infraestructuras, SA	A-65550311	Director

C.1.4 Complete the following table on the number of female Directors on the Board of Directors and the committees thereof, as well as the changes therein over the last four years.

Number of women Directors				
	2018 Number %	2017 Number %	2016 Number %	2015 Number %
Board of Directors	1 6.66%	1 6.66%	1 6.66%	1 5.88%
Executive Committee	N.S.	N.S.	N.S.	N.S.
Audit and Control Committee	1 33.33%	1 33.33%	1 33.33%	1 33.33%
Appointments and Remuneration Committee	1 33.33%	1 33.33%	1 33.33%	1 33.33%

C.1.5 State whether the company has diversity policies in relation to the management and supervisory bodies on such matters as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

Yes ✓

No

Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

On 13 December 2018, the Company's Board of Directors approved the Criteria Group's Diversity and Inclusion Policy, the purpose of which is to establish the guidelines for supporting: (i) a culture of respect for diversity; (ii) equality at work; and (iii) non-discrimination and labour inclusiveness at the Company.

To this end, the Company has adopted measures aimed at guaranteeing diversity and inclusiveness in the labour market, such as: (i) the implementation of policies and practices for selection, recruitment, remuneration, promotion, training, job classification and other working conditions on the basis of merit and ability in relation to job requirements, encouraging all staff to achieve their full potential in accordance with the principles of merit, ability and professional behaviour; (ii) the fostering of an inclusive working environment based on partnership and respect, avoiding any kind of deliberate or unintentional discrimination; (iii) the promotion of a harassment-free working environment, strictly prohibiting the use of sexist or discriminatory terms or references in any type of communication; (iv) respect for the necessary balance between the demands of the personal and working life of the persons comprising the Company; and (v) the implementation of a channel for consultations and complaints, governed by the principles of respect and confidentiality, through which employees of the Company may consult or report, at any time, any conduct contrary to the provisions of the Company's Code of Ethics or the commission of a possible criminal offence.

With regard to the Board of Directors, the Company is committed to ensuring that, through the selection of candidates, a diverse and balanced composition is achieved as a whole, which enriches decision-making and contributes a plurality of points of view to the debate on matters within the scope of its powers and concerns. To this end, the Board of Directors has undertaken a commitment to promote diversity in its composition and, therefore, candidates will be considered on the basis of whether their appointment would lead to a situation where directors have a wide range of skills, knowledge, origins, age and gender. Diversity criteria will be chosen based on the nature and complexity of the businesses carried on by the Group, and the social and environmental context in which it is present. In the candidate selection process, any kind of bias which may involve discrimination on grounds such as sex, origin, age or disability shall be avoided.

In the event that the company does not apply a diversity policy, explain the reasons why.

C.1.6 Complete the following table on the aggregate remuneration of the Directors or members of Board or of the governing body during the year:

Remuneration item	Thousands of euros	
	Individual	Group
Fixed remuneration	3,810	485
Variable remuneration	0	0
Attendance fees	0	0
Other remuneration	0	0
<b>TOTAL:</b>	<b>3,810</b>	<b>485</b>

C.1.7 List any members of senior management who are not Directors or executive members of the governing body and indicate total remuneration paid to them during the year.

NIF (individual taxpayer identification number) or CIF (legal entity taxpayer identification number)	Name or corporate name	Position
36017940D	Marcelino Armenter Vidal	General Manager
46533282G	Jaume Giró Ribas	Member of the Strategy Committee of the Chairman's Office
46109324M	Javier José Paso Luna	Deputy General Manager
35114207S	Óscar Valentín Carpio Garijo	Assistant Deputy General Manager
46119725X	Xavier Moragas Freixa	Assistant Deputy General Manager
15851133Q	Enrique Goñi Beltrán de Garizurieta	Assistant to the Office of the Chairman

Total remuneration received by senior management (thousands of euros)	4,769
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C.1.8 Indicate whether the Bylaws or the Board regulations set a limited term of office for Directors or members of the governing body.

Yes	No ✓
Maximum number of years in office	Four (4) years, although Directors can be re-elected indefinitely for periods of equal duration.

\*See Note in Section G

C.1.9 Indicate whether the consolidated and separate financial statements submitted for authorisation for issue by the Board or governing body are previously certified:

Yes

No ✓

Identify, where applicable, the person(s) who certified the Entity's separate and consolidated financial statements prior to their authorisation for issue by the board or other management body.

Tax ID No.:	Name	Position

C.1.10 Explain the mechanisms, if any, established by the Board of Directors or governing body to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting or equivalent body with a qualified audit report.

The Audit and Control Committee is responsible for ensuring that the financial information is correctly drawn up in addition to other duties which include the following in order to avoid a qualified audit report:

- (i) to serve as a channel of communication between the Board of Directors and the auditors, to evaluate the results of each audit and the responses of the management team to its recommendations and to mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable to the preparation of the financial statements, as well as to examine the circumstances which, as the case may be, motivated the resignation of the auditor;
- (ii) to establish appropriate relationships with auditors in order to receive information, for examination by the Audit and Control Committee, on matters which may jeopardise the independence of said auditors and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations.
- (iii) to supervise compliance with the auditing contract, striving to ensure that the opinion about the Annual Financial Statements and the principal contents of the auditor's report are drafted clearly and precisely.
- (iv) to review the Company's accounts and the periodic financial reporting which the Board must furnish to the markets and its supervisory bodies and, in general, to monitor compliance with legal requisites on this subject matter and the correct application of generally accepted accounting principles, as well as to provide periodic financial information in advance to the Board of Directors and to report on the proposals for modification of accounting principles and criteria suggested by management.

C.1.11 Is the Secretary to the Board or of the governing body a Director?

Yes

No ✓

\* See Note in Section G

C.1.12 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

The Audit and Control Committee is responsible for submitting to the Board of Directors, for submission to the Sole Shareholder, the proposals for selection, appointment, re-election and replacement of the external auditors, in accordance with the regulations applicable to the Company, as well as the contracting conditions thereof, and for regularly gathering from the external auditor information on the auditing plan and its execution as well as preserving its independence in the exercise of its duties.

On an annual basis, the Audit and Control Committee receives from the external auditors a declaration of independence from the entity or entities related to it directly or indirectly, in addition to information on additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities related to the external auditor as stipulated in auditing legislation. In addition, the Audit and Control Committee issues annually, prior to the issuance of the audit report, a report containing an opinion on the independence of the auditor. This report contains, in all cases, the evaluation of the provision of any additional services referred to in this section, individually and collectively considered, other than the legal audit and related to the degree of independence or to the regulatory audit regulations;

To ensure compliance with applicable regulations and the independence of audit engagements, the Audit and Control Committee and the Board of Directors of the Company approved the External Auditor Relations Policy, which establishes, among other matters, the detailed procedure for selecting, engaging and proposing the appointment of auditors, a list of prohibited services and services outside the statutory audit, the obligation of the auditor to issue an additional report for the Audit and Control Committee setting out the points detailed in the Policy, the minimum duration of the audit engagement, and the rules on relations between the auditor and the Audit and Control Committee of the Company. .

C.2 Committees of the Board or governing body

C.2.1 List the committees of the Board or governing body:

Name of the committee	No. of members
Audit and Control Committee	3
Appointments and Remuneration Committee	3

C.2.2 Detail all committees of the Board or governing body and the members of said committees and the proportion of executive, proprietary, independent and other external directors on them (entities not having the legal form of companies do not complete the category of director in the corresponding table and in the section with their legal regime and the manner in which they fulfil the conditions for belonging to the Audit Committee and the Appointments and Remuneration Committee):

#### AUDIT AND CONTROL COMMITTEE

Name	Position	Category
Marcos Contreras Manrique	Chairman	Independent
Isabel Estapé Tous	Committee Member	Independent*
Josep Joan Simón Carreras	Committee Member	Proprietary

\* See Note in Section G

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0%
Number of meetings	7

Explain the functions, including, where appropriate, those additional to those required by law, ascribed to this committee, and describe the procedures and rules for its organisation and operation. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed to it by law, the Bylaws or other corporate resolutions.

As required in the Bylaws, the Board of Directors appointed an Audit and Control Committee with the areas of responsibility and rules of operation set forth in current regulations. The Audit and Control Committee is made up of non-executive Directors, and it has a minimum of three and a maximum of five members, and at least one of its members is independent.

The Board of Directors has appointed the members of the Audit and Control Committee, to which end it shall bear in mind the knowledge, aptitudes, and experience of the Directors and the assignments of the Committee. The Audit and Control Committee appointed a Chairman from amongst its independent members. It also appointed a Secretary and a Deputy Secretary, both of whom need not be members thereof. In the event that such appointments are not made, the Secretary and Deputy Secretary of the Board shall act as Deputy Secretary of the Committee. The members of the Company's management team or personnel shall be required to attend the meeting of the Audit and Control Committee and to provide it with their collaboration and access to the information available to them when the Committee so requests. The Committee may also require the Company's auditors to attend its meetings.

In any event, notwithstanding any other task which may be assigned to it from time to time by the Board of Directors, the Audit and Control Committee shall exercise the following duties:

- a) To report at the Annual General Meeting on matters posed by shareholders in the area of its competence;
- b) To submit to the Board of Directors, for submission to the General Shareholders' Meeting or to the Sole Shareholder, the proposals for selection, appointment, re-election and replacement of the external auditors, in accordance with regulations applicable to the Company, as well as the contracting conditions thereof, and to regularly gather from the Board information on the auditing plan and its execution as well as to preserve its independence in the exercise of its duties;
- c) To supervise the internal auditing services, verifying the adequacy and integrity thereof, to propose the selection, appointment and substitution of the persons responsible for said services, to propose the budget for such services, and to verify that senior management bears in mind the conclusions and recommendations of their reports;
- d) To serve as a channel of communication between the Board of Directors and the auditors, to evaluate the results of each audit and the responses of the management team to its recommendations and to mediate in cases of discrepancies between the former and the latter in relation to the principles and criteria applicable to the preparation of the financial statements, as well as to examine the circumstances which, as the case may be, motivated the resignation of the auditor;
- e) To oversee the process for preparing and submitting required financial information and the effectiveness of the Company's internal control systems, internal audit and risk management system, including tax risks, and to discuss with the auditors of accounts any significant weaknesses in the internal control system identified during the course of the audit;
- f) To establish appropriate relationships with auditors in order to receive information, for examination by the Audit and Control Committee, on matters which may jeopardise the independence of said auditors and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations. In all events, on an annual basis, they shall receive from the external auditors a declaration of independence from the entity or entities related to it directly or indirectly, in addition to information on additional services rendered of any kind and the corresponding fees received from these entities by the external auditor or by the persons or entities related to the external auditor as stipulated in auditing legislation. In addition, the Audit and Control Committee will issue annually, prior to the audit report, a report containing an opinion on the independence of the auditors. This report shall contain, in all cases, the evaluation of the provision of any additional services referred to in this section, individually and collectively considered, other than the legal audit and related to the degree of independence or to the regulatory audit regulations;
- g) To supervise compliance with the auditing contract, striving to ensure that the opinion about the Annual Financial Statements and the principal contents of the auditor's report are drafted clearly and precisely.



- h) To review the Company's accounts and the periodic financial reporting which the Board must furnish to the markets and its supervisory bodies and, in general, to monitor compliance with legal requisites on this subject matter and the correct application of generally accepted accounting principles, as well as to provide periodic financial information in advance to the Board of Directors and to report on the proposals for modification of accounting principles and criteria suggested by management.
- i) To supervise the compliance with regulations with respect to related party transactions and, previously, inform the Board of Directors on such transactions. In particular, to ensure that the information on said transactions be reported to the market, in compliance with the provisions of legislation, and to report on transactions which imply or may imply conflicts of interest;
- j) To supervise the compliance with Internal Rules of Conduct on Matters Related to the Securities Market and, in general, of the rules of corporate governance applicable to it;
- k) To previously report to the Board on the creation or acquisition of stakes in special purpose entities domiciled in countries or territories considered to be tax havens, as well as any other transactions or operations of an analogous nature which, due to their complexity, may be detrimental to the transparency of the Company or of the group to which it belongs;
- l) To consider the suggestions submitted to it by the Chairman of the Board of Directors, Directors, executives and shareholders of the Company, and to establish and supervise a mechanism which allows the employees of the Company or of the group to which it belongs confidentially and, if deemed, appropriate, anonymously, to report irregularities of potential significance, especially financial and accounting ones, which they observe within the Company;
- m) To receive information and, where applicable, issue a report on the disciplinary measures intended to be imposed upon members of the Company's senior management team.
- n) Any others attributed thereto by Law and other regulations applicable to the Company.

For all matters not expressly foreseen for the Audit and Control Committee, the rules of operation set forth in the Bylaws concerning the Board of Directors shall be applied, provided that they are compatible with the nature and duties of the corresponding committee.

As a consequence of the powers attributed, the most important actions of the Audit and Control Committee in 2018 were:

- At the meeting held on 25 January 2018: 1) Review of the corporate risk management project; 2) Review of the proposal for renewal of the external auditor; 3) Modification of the Internal Protocol for Relations with CaixaBank; 4) Modification of the Accounting Policy; 5) Engagement under contract of non-audit services to be provided by the external auditor; and 6) Approval of the 2017 Annual Report on Internal Audit Activities.

- At the meeting held on 12 March 2018: 1) Information on Internal Control over Financial Reporting (ICFR); 2) Internal audit of ICFR; 3) External audit of ICFR; 3) Examination of the separate and consolidated financial statements and management reports; 4) Examination of the Annual Corporate Governance Report; 5) Proposed appropriation of profit for 2017; 6) Engagement under contract of non-audit services to be provided by the external auditor; 7) Evaluation report of the accounts auditing process; 8) Review of the draft audit reports of the separate financial statements and of the Consolidated Group for 2017; 9) Review of the auditor's letter on independence; and 10) approval of the report on the auditor's independence and the report on the assessment of the auditor's work.
- At the meeting held on 22 May 2018: 1) Information on the Internal Control over Financial Reporting System (ICFRS); 2) Close of financial statements for the first quarter of 2018; 3) Status of the limited review of the financial statements; 4) Engagement under contract of non-audit services to be provided by the external auditor; 5) Status of the selection process for the new external auditor; 6) Monitoring of the Company's corporate risks; 7) Examination of the proposal for approval, modification and repeal of corporate policies; 8) Review of internal audit reports since the last meeting; 9) Review of transactions related to CaixaBank and its Group in 2017; and 10) Approval and submission to the Board of Directors of the annual report of the IRCSM monitoring body for 2017.
- At the meeting held on 24 July 2018: 1) Information on the Internal Control over Financial Reporting System (ICFRS); 2) Examination and, where appropriate, submission to the Board of Directors of the condensed interim consolidated financial statements and interim management report for the first half of 2018; 3) Distribution of the first interim dividend for 2018; 4) Status of the limited review of the condensed consolidated half-year financial statements; 5) Update on the auditors' selection process; 6) Proposed modification of corporate policies; and 7) Audit reports since the last Audit and Control Committee.
- At the meeting dated 3 October 2018 held jointly with the Audit Committee of the Fundación Bancaria "la Caixa": 1) Presentation of the proposal of PRICEWATERHOUSECOOPERS AUDITORES S.L.; 2) Presentation by BDO AUDITORES S.L.P.; and 3) Presentation by ERNST&YOUNG S.L.
- At the meeting dated 13 December 2018 held jointly with the Audit Committee of the Fundación Bancaria "la Caixa": Presentation of the technical report for the assessment of candidate audit firms.

- At the meeting held on 13 December 2018: 1) Status of the external auditor selection process; 2) Review of the state of the impairment test; 3) Engagement under contract of non-audit services to be provided by the external auditor; 4) Planning of the external audit; 5) Review of internal audit reports since the last meeting; 6) Approval and submission to the Board of Directors of Audit Plan 2019; 7) Review of the sale of commercial premises owned by the Company to CaixaBank for the purposes of the Internal Relationship Protocol between FBLC, the Company and CaixaBank; and 8) Replacement of the Chairman of the Audit and Control Committee.

Identify the directors who are members of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of Directors with experience	Isabel Estapé Tous
Date of appointment of the Chairman	13/12/2018

#### APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Isabel Estapé Tous	Chairman	Independent*
José Antonio Asiáin Ayala	Committee Member	Independent
Juan José López Burniol	Committee Member	Proprietary

\* See Note in Section G

% of proprietary Directors	33.33%
% of independent Directors	66.67%
% of other external Directors	0%
Number of meetings	4

Explain the functions, including, where appropriate, those additional to those required by law, ascribed to this committee, and describe the procedures and rules for its organisation and operation. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed to it by law, the Bylaws or other corporate resolutions.

As required in the Bylaws, the Board of Directors named an Appointments and Remuneration Committee with the areas of responsibility and to be governed by the rules of operation set forth in current regulations. The Appointments and Remuneration Committee is made up exclusively of non-executive Directors, and it has three members, and at least two of its members are independent. The Appointments and Remuneration Committee appointed a chairman from amongst the independent Directors that belong

to it. It also appointed a Secretary and a Deputy Secretary who are not Directors.

In any event, notwithstanding any other task which may be assigned to it from time to time by the Board of Directors, the Appointments and Remuneration Committee shall exercise the following basic duties:

- a) To evaluate the balance of skills, knowledge and experience on the Board of Directors. For such purposes, it shall define the roles and capabilities required of the candidates to fill each vacancy, and shall evaluate the time and dedication necessary for them to effectively perform their duties.
- b) To establish a target representation of the gender least represented on the Board of Directors and prepare guidelines of how to achieve this objective;
- c) To submit to the Board of Directors the proposals for the nomination of the independent Directors to be appointed by co-option or for submission to the decision of the General Shareholders' Meeting, as well as the proposals for the reappointment or removal of such Directors by the General Shareholders Meeting;
- d) To report on the proposed appointments of the remaining Directors to be appointed by co-option or for submission to the decision of the General Shareholders' Meeting, as well as the proposals for their reappointment or removal by the General Shareholders' Meeting;
- e) To report on proposals for the appointment and removal of senior executives and the basic terms and conditions of their contracts;
- f) To examine and organise the succession of the Chairman of the Board of Directors and the CEO of the Company and, where applicable, make recommendations to the Board of Directors to ensure a smooth and well-planned handover;
- g) To propose to the Board of Directors the remuneration policy for Directors, general managers and those carrying out senior executive duties and reporting directly to the Board, to the Executive Committees, or to Chief Executive Officers, as well as the individual remuneration and other contractual conditions of executive Directors, and to ensure that such policies are observed.

For all matters not expressly foreseen for the Appointments and Remuneration Committee, the rules of operation set forth in the Bylaws with regard to the Board of Directors shall be applied, provided that they are compatible with the nature and duties of the corresponding committee.

As a consequence of the powers attributed, the most important actions of the Appointments and Remuneration Committee in 2018 were:

- At the meeting held on 25 January 2018: Remuneration of Josep Vilarasau Salat.
- At the meeting held on 15 March 2018: 1) Approval and submission to the Board of Directors of the Annual Corporate Governance Report for 2017; 2) Appointment of the Deputy General Manager; 3) Creation of the Strategic Committee of the Chairman's Office;

4) Modification of the composition of the Management Committee;  
5) Remuneration of the Chairman; 6) Remuneration of Mr Vilarasau;  
7) Remuneration of the management team; and 8) Extraordinary remuneration of the Chief Executive Officer.

- At the meeting held on 24 May 2018: Review of the proposal to reorganise and strengthen the governance bodies of Inmo Criteria Caixa, S.A.U.; 2) Approval and submission to the Board of Directors of amendments to certain corporate policies; and 3) Adaptation of the protocol on procedures for selection and suitability assessment for appointments.
- At the meeting held on 26 July 2018: Review of senior management contracts.

\*See Note in Section G

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**ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, OTHER THAN SAVINGS BANKS, GOVERNMENT-CONTROLLED COMMERCIAL COMPANIES OR GOVERNMENT CORPORATIONS, THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS**

**D RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

D.1 Details of the transactions conducted between the entity or entities of its group and the shareholders, cooperativist unit holders, holders of proprietary rights or any other right of the entity of an equivalent nature.

The most significant transactions carried out between CriteriaCaixa or its subsidiaries and the Sole Shareholder, Caixa d'Estalvis i Pensions de Barcelona Banking Foundation, "la Caixa", were as follows:

<b>Name or corporate name of significant shareholder</b>	<b>Name or corporate name of the company or its group entity</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
"la Caixa" Banking Foundation	CriteriaCaixa	Corporate	Distribution of reserves	100,000
"la Caixa" Banking Foundation	CriteriaCaixa	Corporate	Distribution of interim dividends	250,000
"la Caixa" Banking Foundation	CriteriaCaixa	Contractual	Loans granted by CriteriaCaixa	46,000
"la Caixa" Banking Foundation	CriteriaCaixa	Corporate	Distribución de complementary dividends of corresponding to the fiscal year 2017	50,000

Note 23 of the consolidated financial statements of CriteriaCaixa gives all the balances, in the aggregate, of the Sole shareholder with companies in the Criteria Group.

D.2 Details of the transactions conducted between the entity or entities of its group and the Directors or members of the governing body or executives of the entity.

All transactions were carried out in the ordinary course of business and on an arm's length basis.

### D.3 Details of intra-group transactions.

The most significant transactions carried out by the Company with other entities belonging to the Criteria Group are as follows:

<b>Corporate name of the group entity</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
Vivienda Asequible Arrendamiento y Servicios, S.L.U.	Loan granted	32,375
Vivienda Asequible Arrendamiento y Servicios, S.L.U.	Loans granted (renewal)	175,000
Inmo Criteria Caixa, S.A.U.	Loan granted (renewal)	65,000
Inmo Criteria Arrendamiento II, S.L.U.	Loan granted (renewal)	45,000
Saba Infraestructuras, S.A.	Loan granted	156,700
Criteria Movilidad, S.L.U.	Capital increase through non-monetary contribution (capital and share premium)	298,837
Els Arbres de la Tardor, S.L.U.	Capital increase through offsetting of receivables	252,425
Inmo Criteria Caixa, S.A.U.	Capital increase through non-monetary contribution (capital and share premium)	367,737
Inmo Criteria Caixa, S.A.U.	Capital increase through non-monetary contribution (capital and share premium)	156,688
Energía Boreal 2018, S.A.	Capital increase through cash and non-monetary contributions (capital and share premium)	1,161,881 (of which Criteria, 835,848)
Mediterranea Beach&Golf Community, S.A.U.	Capital increase through cash contribution (capital and share premium)	25,000



The most significant operations undertaken by the Company and or Criteria Group companies with associate and jointly controlled entities were as follows:

<b>Corporate name of the associate entity</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
CriteriaCaixa	Balances in term and demand deposits in CaixaBank	142,266
Inmo Criteria Caixa, S.A.U.	Balances in term and demand deposits in CaixaBank	41,849
Vivienda Asequible Arrendamiento y Servicios, S.L.U.	Balances in term and demand deposits in CaixaBank	48,068
CriteriaCaixa <i>*See Note in Section G</i>	Interest-rate hedge contracts with CaixaBank (the notional value is indicated)	1,100,000
Vivienda Asequible Arrendamiento y Servicios, S.L.U.	Mortgage loans with CaixaBank	32,357

See Note 23 of the consolidated financial statements of the Criteria Group and Note 17 of the individual financial statements of CriteriaCaixa.

**D.4** [List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the entity or its group and its Directors or members of or governing body or its executives.](#)

The Company keeps its Directors informed of their obligations and, in particular, of their obligation to avoid the conflicts of interest set forth in the Corporate Enterprise Act. Each year, the Secretary of the Board of Directors or, where applicable, the Deputy Secretary to the Board of Directors, sends a form for to each Director to indicate the existence of any conflict of interest, in order for such conflicts to be recorded in the financial statements and, if applicable, to evaluate if, in exceptional cases, an exemption should be granted allowing Directors having requested authorisation to carry out given actions.

Furthermore, the Company as Internal Code of Conduct on matters relating to the Stock Market, which sets forth various obligations, such as that of refraining from carrying out certain transactions during certain periods, communicating and reporting given transactions to the Company, safeguarding and taking action with regard to information that may be considered insider information.

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**E RISK CONTROL AND MANAGEMENT SYSTEMS**

**E.1 Describe the risk management system in place at the entity.**

Risk control is fully integrated in the business and the Criteria Group plays a proactive role in ensuring that it is implemented. The Board of Directors, delegates responsibility for supervising the efficacy of the internal control and risk management systems to the Audit and Control Committee. The Management Committee ensures that controls are duly implemented, takes decisions on how to improve these controls and provides updates to the Governing Bodies.

The Corporate Risk Management Policy (hereinafter, "**CRM**") provides a framework for the establishment of a risk management model in the Criteria Group, including CriteriaCaixa and wholly owned companies under direct management ("**CRM Model**"). The main aspects of the CRM Model are:

- **Control environment / Training and communication:** promote a risk management and control culture, informing all employees of updates made to the CRM policies and procedures and offering regular training.
- **Setting of corporate targets:** based on Criteria Group's mission and vision, these targets are the basis and starting point for risk identification and assessment and control activities.
- **Risk identification and assessment:** detection of risks that could prevent corporate targets from being achieved, and their assessment considering probability of occurrence and impact (economic, reputational and in relation to business continuity).
- **Control activities:** ensure the efficiency of the guidelines set by Management in a control risk framework, associating controls to risks in order to reduce their probability of occurrence and/or impact.
- **Monitoring and reporting:** controlling risk development for each area and/or business, monitoring control assessment and assessing their effectiveness in order to report to the Governing Bodies.
- **Supervision:** ensure the efficiency of the CRM model by verifying the existence of controls to mitigate risks and check they function correctly.

To work correctly, the CRM Model uses a methodological approach based on the three lines of defence model, on which different levels of activity are defined to ensure that risks are managed and monitored efficiently.

**First line of defence:** made up of the areas/businesses at Criteria Group responsible for:

- Identifying, assessing, mitigating and controlling risks, following the approved internal policies and procedures.
- Reporting to the Internal Control Function on the status of the risks for which they are responsible.
- Maintaining effective internal control and consistently implementing risk control procedures.

**Second line of defence:** made up of the Internal Control function, which is responsible for:

- Defining of CRM model.
- Participate actively in the preparation of risk strategies and in key decisions about their management.
- Consistently monitoring the effectiveness and development of the controls and risks, reporting to the Management Committee.
- Monitoring and ensuring the standardisation of the CRM Model, and keeping it updated.
- Implementing the corresponding improvements to the CRM Model.

**Third line of defence:** made up of the Internal Audit function, which is responsible for:

- Supervising the efficiency and sufficiency of the CRM Model.
- Independently assessing the effectiveness of corporate governance, risk management and internal control.
- Verifying and reviewing the implementation of corporate control and risk management procedures by the first and second lines of defence.

E.2 [Identify the bodies in the entity responsible for preparing and implementing the control and risk management system.](#)

**Board of Directors:** through the Audit and Control Committee, supervises the efficacy of internal control and corporate risk management systems, including tax risks. It is the body responsible for approving the CRM Policy.

**Audit and Control Committee:** In addition to the above, this committee is responsible for supervising internal audit services at the Criteria Group. The Audit and Control Committee relies on the Internal Audit function to oversee the effectiveness of the CRM Model.

**Management Committee** This committee is responsible for ensuring that controls are correctly implemented, taking the required decisions in relation to improvements in the control activities implemented and/or required action plans, reporting to the Audit and Control Committee and the Board of Directors.

E.3 [Indicate the main risks which may prevent the savings bank from achieving its targets.](#)

As per the methodology set forth in the international standards of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the CRM model establishes four categories of risks which, should they arise, could hinder the Group achieving its objectives:

- **Strategic:** risks associated with the achievement of corporate targets.
- **Financial:** risks associated with the main financial variables. There are seven subcategories:
  - Liquidity: the risk of insufficient liquid assets to meet contractual maturities of liabilities, regulatory requirements, or business needs.
  - Credit: the risk of potential losses arising from a counterparty not meeting its payment obligations.
  - Impairment of equity portfolio: Possible loss or impairment in the economic profitability of the Group's business activities.
  - Impairment of real estate assets: Possible impairment of real estate assets.
  - Impairment of other assets: Possibility of depreciation on those Criteria Group assets that are neither investments nor assets.
  - Market: Possibility that the value of a financial instrument may vary as a result of changes in price of shares, interest rates or foreign exchange rates.
  - Reliability of Financial Information: Possibility that the integrity, reliability and quality of financial information may be affected.
- **Operational:** risk of loss arising from mistakes or inadequate management of internal processes, people, systems, the use of assets or operating infrastructure.
- **Legal / compliance:** risk relating to compliance with laws, regulation or market standards in the areas where the Criteria Group operates, in addition to compliance with internal policies.

#### E.4 Identify whether the bank has risk tolerance levels.

The CRM Model establishes that the areas / businesses of the Criteria Group that make up the first line of defence identify, assess, control and mitigate risks in an appropriate control environment, as established in the approved internal policy and procedures. The effectiveness and performance of these risks and controls is monitored by the Internal Control function, whilst Internal Audit is responsible for supervising the efficiency of the model as a whole.

Furthermore, CriteriaCaixa has a number of management indicators in place (those that are most representative for risk management at the Company), which make it possible for governing and management bodies to monitor acceptable levels of risk. These indicators are monitored by the Deputy General Manager of the Finance, Resources and Human Resources Division and communicated to the Management Committee weekly, which receives, reviews and reports them to the Audit and Control Committee annually.

## E.5 Identify any risks which have occurred during the year.

Currently, the CRM Model comprises the continuous evaluation of 117 risks, 69 of the holding business and 48 of the real estate business, and its status is reported periodically to the Group's management and governing bodies. In 2018, of these 117 risks, 2 materialised, with no impact on the Criteria Group's results or ability to generate value. As a result, control has been strengthened at the transaction planning stage, which is now operational, and an action plan has been put in place to update procedures for the retention of documents and data.

In 2018, there was no breach of management indicators, all of which remained within compliance levels.

## E.6 Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

As mentioned above, the CRM Model implemented employs the three lines of defence model, on which different levels of activity are defined to ensure that risks are managed and monitored efficiently.

CriteriaCaixa's Board of Directors periodically monitors the internal control and risk management systems in place at CriteriaCaixa to this end.

In addition, the Audit and Control Committee is responsible for overseeing the process of preparing and presenting financial reporting and the effectiveness of the Company's internal control and risk management systems.

The response and monitoring plans for the main risks to which the Criteria Group is exposed can be consulted below:

### **Strategic risks**

Through the CRM Model, CriteriaCaixa monitors and reports to management and/or governing bodies on the status of strategic risks and associated controls to mitigate them.

### **Financial risks**

- **Liquidity risk**

CriteriaCaixa monitors liquidity risk by consistently monitoring management indicators: debt ratio (net debt over the market value of the assets), liquidity available at certain terms, and the interest coverage ratio.

Practically all the Group's financing matures in the long term. In this regard, the Group continues its efforts to diversify funding sources, and manage the repayment terms of its debt and the cost thereof.

- **Credit risk**

CriteriaCaixa's Investments area monitors the results generated by CriteriaCaixa's holdings, carries out regular impairment tests and analyses the corresponding returns for the Criteria Group.

The Criteria Group has a policy of investing surplus cash in very liquid financial products, offered or deposited in solvent entities, or in entities in which the Group's net position in these is in debit.

- **Impairment risk (of stakes, real estate assets and other assets)**

CriteriaCaixa's Investment Area monitors these stakes on an ongoing case-by-case basis to be able, at any time, to take the most appropriate decisions on the basis of the market performance observed and predicted and of the Group's strategy. Also, the values are subject to ongoing monitoring, in order to assess whether there is any objective evidence of impairment.

Monitoring of the main investees is also performed by analysts responsible exclusively for monitoring changes in economic and financial data and for understanding and issuing alerts in the event of changes in regulations and business and fluctuations in competition in the countries and sectors in which the investees operate.

Further, to ensure that the portfolio of real estate assets is recognised at its fair value in the balance sheet, the Criteria Group uses internal models to determine the adjustments to the main valuation given by full individual appraisals or to appraisals by independent experts carried out on a regular basis. In particular, the internal valuation model factors in, amongst others, the Criteria Group's sales experience for each type of asset or the estimated sales costs to disposal of the asset.

Real estate assets are managed in order to recover the investment made, either by way of leasing (investment properties), property development or a general plan to sell (inventories).

- **Market risk**

*Price risk*

The Company has specialised teams that continuously monitor the listing of investee companies.

*Interest rate risk*

The Group regularly monitors the impact of interest rate fluctuations. In order to mitigate the risk of fluctuations in interest rates on floating rate borrowings, CriteriaCaixa's management evaluates whether or not to arrange swaps depending on current and forecast interest rates.

### *Foreign currency risk*

Management assesses the advisability of arranging hedges in respect of its exchange risks.

The Criteria Group may also be indirectly exposed to foreign currency risk through the foreign currency investments made by investees due, in certain cases, to the major international presence of these companies. These risks are assessed and, if applicable, covered by the investee itself.

- **Risk associated with financial reporting reliability**

The Criteria Group has an appropriate and effective Internal Control over Financial Reporting System; further details can be consulted in heading F of this document.

### **Operational risks**

Through the CRM Model, CriteriaCaixa monitors and reports to management and/or governance bodies on the status of operational risks and associated controls to mitigate them.

### **Legal/compliance risks**

In order to manage compliance risk, the management and governing bodies encourage the dissemination and promotion of the values and principles set out in the Code of Business Conduct and Ethics and other rules of conduct, and their members, as well as other employees, executives and officers must ensure compliance to these as a core criteria guiding their day-to-day activities. CriteriaCaixa also has a whistle-blowing channel on its corporate intranet used to submit enquiries about interpretation and application of the Code of Business Conduct and Ethics, the Code of Information Systems Use, the Crime Prevention Policy and the Internal Control over Financial Reporting (ICFR) Policy, and to report any breaches of the aforesaid internal rules.

Therefore, the areas whose business is exposed to compliance risk implement and manage level one controls to detect potential non-compliance risks and act effectively to mitigate them. They must also ensure that their procedures are at all times consistent with current legislation, regulatory standards and codes of conduct and standards, putting in place mechanisms to prevent issues arising, detect trends and understand new developments as they arise. Cooperation with advisory functions is therefore essential.



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**F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

**F.1. Company's control environment**

Specify at least the following components with a description of their main characteristics:

**F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.**

In their response, entities should note whether the Board of Directors, as laid down in its regulations, is ultimately accountable for the existence and regular updating of a suitable, effective ICFR and whether the audit committee, pursuant to its regulations, is assigned responsibility for its oversight. Likewise, entities should state whether other internal codes assign senior management responsibility for the design and management of ICFR.

The ICFR Policy specifically establishes, in addition to other aspects, the roles, responsibilities and internal control model applicable to ICFR, as described in this section.

In this connection, the Board of Directors at CriteriaCaixa formally assumes responsibility for ensuring the existence of a suitable, effective ICFR and has delegated powers to the Deputy General Manager of the Finance, Resources and Human Resources Division for its design, implementation and monitoring.

It is also the competent body for the approval of the ICFR Policy and any changes to it.

CriteriaCaixa's Bylaws state that the Audit and Control Committee's responsibilities shall include at least the following:

- Overseeing the process for preparing and submitting required financial information and the effectiveness of the Company's internal control systems, internal audit and risk management system, including tax risks, and to discuss with the auditors of accounts any significant weaknesses in the internal control system identified during the course of the audit;

- Reviewing the Company's accounts and periodic financial reporting which the Board must furnish to the markets and their supervisory bodies and, in general, to monitor compliance with legal requisites on this subject matter and the correct application of generally accepted accounting principles.

Consequently, the Audit and Control Committee is responsible for supervising the ICFR activities and to this end, receives support from: (i) the functional area for Internal Control over Financial Reporting (ICFR); (ii) the Internal Audit Area; (iii) external auditors (as they review the pre-defined procedures in terms of the ICFR section of the Annual Corporate Governance Report (ACGR) of CriteriaCaixa each year); and (iv) other experts as deemed appropriate.

The Management Committee is responsible for revising and approving the ICFR Process.

The Policy describes the internal control model, as part of which a methodological and organisational approach has been taken based on the 3 lines of defence applicable to ICFR:

#### **First line of defence: CriteriaCaixa Group Areas/Businesses**

The Areas/Business Units assigned the following responsibilities:

- Undertaking transactions that are reflected in accounts.
- Participating in the process for preparing and/or reviewing financial information.

#### **Second line of defence: Internal control of Financial Reporting**

The ICFR function monitors whether the practices and processes in place at the Company ensure the reliability of the financial information and compliance with applicable regulations.

Accordingly, it has the responsibility to ensure that financial reporting complies with the following principles:

- The transactions, facts and other events presented in the financial information in fact exist and were recorded at the right time (existence and occurrence).
- The information includes all transactions, facts and other events in which the Group is the affected party (completeness).
- The transactions, facts and other events are recorded and valued in accordance with applicable standards (valuation).
- The transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards (presentation, disclosure and comparability).

- The financial information shows, at the corresponding date, the entity's rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards (rights and obligations).

### **Third line of defence: Internal Audit**

This division is responsible for continuously reviewing the design, implementation and operation of ICFR at the CriteriaCaixa Group. creating and issuing reports which help CriteriaCaixa's Audit and Control Committee oversee ICFR.

#### **F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

**The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity, with particular regard to the financial reporting process.**

The bank should report the main characteristics of the procedures for the design, review and updating of the organisational structure, the lines of responsibility and authority and if these have been documented and distributed to all employees involved in preparing financial information at the bank and its group.

CriteriaCaixa's Board of Directors, its Management Committee and Appointments and Remuneration Committee, its Management Committee and through its General Manager, reviews the organisational structure and the lines of responsibility and authority at the entity.

The lines of responsibility and authority for drawing up the entity's financial information are clearly defined. It also has a comprehensive plan which includes, amongst other issues, the allocation of tasks, key dates and the various revisions to be carried out by each of the hierarchical levels. Both the above-mentioned lines of authority and responsibility and planning have been duly documented and all of those people taking part in the financial reporting process have been informed of the same.

The ICFR Function reviews, at least once a year and whenever annual or interim financial statements are issued, all the risks within the ICFR scope and all control activities designed to mitigate these. This process is carried out in conjunction with all the areas involved. However, if, during the course of the year, unidentified circumstances arise that could affect the preparation of financial information, the ICFR function must evaluate the existence of risks in addition to those already identified.

**Code of conduct, approving body, degree of dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

With regard to the code of conduct, the entity should include information on how this is distributed, whether employees must formally adhere to it and what training is given on the code.

CriteriaCaixa has a **Code of Ethics** approved by its Board of Directors, which sets forth the values that are specifically to be preserved and the manner in which the Company is to implement its business activity, establishing enhanced standards of action which all persons, whether managers, executives or employees, who perform professional services for CriteriaCaixa are to abide by. The Code is available to all employees on the Company's intranet. In addition, the initial text and later amendments approved by CriteriaCaixa's Board of Directors are sent to persons subject to the Code of Ethics, including proof of receipt, awareness and commitment to compliance. The same acknowledgement form is signed by new entrants to CriteriaCaixa's staff.

The reinforced conduct standards of CriteriaCaixa are: CriteriaCaixa's enhanced standards of conduct are: regulatory compliance, prevention of conflicts of interest, protection of the Company's property and assets, preservation of the corporate reputation, promotion of competition amongst suppliers, excellence in the professional exercise of entrusted activities, teamwork, integrity through rigour in internal control, prevention of fraudulent practices and prohibition of accepting gifts and presents, compliance with the Internal protocol on relations between on the one hand "La Caixa" Banking Foundation and CriteriaCaixa and its subsidiaries and on the other CaixaBank and its subsidiaries, and, lastly, the preservation of confidentiality. In addition, respect for people, for their dignity and diversity, for cultures and for their contribution to progress, and commitment to social and environmental responsibility are CriteriaCaixa values.

Employees have access to a consulting and whistle-blowing channel for cases of noncompliance with the Code of Ethics that is managed internally and regarding which CriteriaCaixa ensures confidentiality of communications, and protects the identity of the person reporting and his/her indemnity.

In addition, CriteriaCaixa has an **Internal Code of Conduct for the Securities Market** which regulates the conduct of Directors, officers, employees and certain third parties who provide services to the Company in such a way that all of them adjust their actions to the rules of conduct that the Securities Market Act, Regulation 596/2014 of the European Parliament and of the Council on Market Abuse and its implementing regulations provide for issuers of securities, thereby promoting transparency in the markets and protecting, at all times, the legitimate interest of investors.

The Code is available to all employees on the Company's intranet. In addition, both the initial text and later amendments approved by CriteriaCaixa's Board of Directors are sent to the Covered Persons (as defined in the Internal Code of Conduct), who must sign the corresponding acknowledgement of receipt and awareness.

CriteriaCaixa also has an **IT Policy** that was approved by its Board of Directors, and which applies to all Directors, executives and employees.

The main objectives of this Policy are to raise awareness on and ensure the proper use and security of the Company's technological media and of the information that they contain and that is managed thereon. In addition, it is permanently available to all employees of CriteriaCaixa through the corporate intranet.

Communications on possible cases of noncompliance with the IT Policy are sent to the Deputy General Manager responsible for Legal and Tax Services and any questions that may arise regarding the interpretation or application thereof are forwarded to the Resources Area.

The Policy contains clear rules for the proper and efficient use of the communications and of the IT tools to ensure the quality, integrity, confidentiality and inviolability of the information, and that the commitments assumed with counterparties, clients, suppliers and employees are abided by.

**'Whistle-blowing' channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

The entity should inform all employees of how to access the whistle-blowing channel (by phone, email, in writing, etc. ) and that all reports are dealt with confidentially prior to being examined by members of the audit committee.

Reports of possible breaches of the Code of Ethics, the Crime Prevention Policy, and of the System for Internal Control over Financial Reporting (ICFR) and of the IT Policy may be submitted through the Confidential Consulting and Whistle-blowing Channel available on the Company's intranet for all employees. Once the report is received, the Deputy General Manager responsible for the Legal and Tax Area, with the exception of reports made by the Deputy General Manager him/herself, which will be forwarded to the Chief Executive Officer, investigates the report, ensuring the confidentiality of the reporting employee's identity. Once the investigation has ended, the Deputy General Manager responsible for the Legal and Tax Area or the Chief Executive Officer will conclude the case, informing the reporting employee of the outcome.

All reports must be individual and confidential. The whistle-blower is only identified to the persons involved in the investigation, and only if it is absolutely necessary to do so and only with the employee's consent.

Internal Audit has access to statistics on the use of the confidential consulting and whistle-blowing channel, without access to the content of reports made.

Reports and possible failures to comply with the Internal Rules of Conduct on Matters related to the Securities Market shall be forwarded to the Monitoring Committee of the Internal Rules of Conduct, made up of three members of CriteriaCaixa designated by the Board of Directors. The Monitoring Committee is responsible for enforcing the rules of conduct of the securities markets and the internal rules of conduct, interpreting the contents thereof, and preparing disciplinary files in the event of noncompliance.

The relevant Monitoring Committees report to the Audit and Control Committee on any complaints that may arise.

**Periodic training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR which address, at least, accounting rules, auditing, internal control and risk management.**

Entities should provide summarised information on the subjects covered in the training and refresher courses as well as other significant quantitative (the number of employees who have received the training, etc.) and qualitative information.

As part of training within the Criteria Group, in 2018, CriteriaCaixa had training programmes for employees, including 955 hours of technical training, primarily in the Finance Area and Investment Area, on top of topics such as investee sector topics and accounts management.

In 2018, 9 CriteriaCaixa employees from the Investment Area, the Finance Area, the Human Resources Area, the Audit Area and the Legal Services and Corporate Secretary's Office attended the training course on ICFRS, in addition to the 58 employees who were called in previous years. Also, for certain Criteria Group employees, basically employees of subsidiaries related to the real estate business, the ICFRS training course was launched in 2018 and was completed and passed by 15 employees, in addition to the 18 employees who trained last year.

In addition, in January 2019, a training session was held on the use of the GRC Suite computer tool, an application that supports the system used to manage ICFRS, for new users of this tool.

In addition, the Office of the Deputy General Manager of Finance, Resources and Human Resources Division of CriteriaCaixa also subscribes to various national and international accounting and financial publications, journals and websites. These are checked regularly to ensure that the entity takes into account any developments when preparing financial information.



**F.2. Risk assessment in financial reporting:** The purpose of these indicators is to inform the market about the degree of development and systematisation in the entity's process for identifying the sources and risks of errors or irregularities in its financial reporting. Associated activities should contemplate both routine or typical transactions as well as less frequent and potentially more complex ones.

**F.2.1. The main characteristics of the risk identification process, including risks of error or fraud.**

With regard to the risk or fraud identification process, entities should provide information on the process established. It is not necessary to list the risks of error or fraud identified.

Report the main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.
- The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.
- A specific process is in place to define the consolidation perimeter, with reference to the possible existence of complex corporate structures, special purpose entities, holding companies. etc.
- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.
- Finally, which of the entity's governing bodies is responsible for overseeing the process.

The ICFR Policy mentioned in section F.1.1. is complemented by CriteriaCaixa's ICFR Process, approved by CriteriaCaixa's Management Committee, which provides a more detailed description of ICFR-related procedures.

The ICFR Process establishes that, at the start of each financial year, the individual responsible for ICFR matters at the Criteria Group must revise the scope of the ICFR Model and plan the activities to be undertaken in the following year, by:

1. Identifying the headings, accounts and disclosures that bear a significant risk and potentially have a material impact on financial information, thereby warranting special attention based on the materiality criteria defined.
2. Linking these headings/accounts to business and support processes.
3. Identifying the companies subject to supervision.

Highlights include:

- CriteriaCaixa's ICFR Function is responsible for supervising the implementation of the ICFR model at CriteriaCaixa subsidiaries, in addition to ensuring the appropriateness of the methodology implemented at each company and the homogenisation of the different ICFR models at the Criteria Group.
- In the event that a subsidiary has its own ICFR model, responsibility for overseeing it lies with the Board of Directors for said subsidiary, subject to supervision by CriteriaCaixa's ICFR Function.

As indicated in the ICFR Process, the Criteria Group has a methodology to identify, revise and update the risks and controls that affect the generation of financial information, including risks of error or fraud.

Responsibility for the process for identifying risks and controlling activities and transactions that may materially affect the financial statements of CriteriaCaixa and the Criteria Group lies with the ICFR function, with support from the Areas responsible for the selected processes subject to review.

This process is performed by drawing up risk matrixes and controls. The components that comprise these matrixes are as follows:

Processes:

- Risks and control activities relating to the aforementioned processes are identified.

Risks:

- Risks identification shall relate exclusively to the risk of material error and fraud in financial information reported to the markets. Risks of error shall be considered those risks that could affect the individual and consolidated financial information of the Criteria Group.
- Furthermore, the impact of other types of risk (operational, financial, technological, and compliance, etc.) shall be taken into account in the identification of risks of material error in the financial information.
- As part of risks identification, possible reports received via the confidential consulting and whistle-blowing channel in terms of the lack of reliability in terms of the financial information shall be considered.

The ICFR Function reviews, at least once a year and whenever annual or interim financial statements are issued, all the risks within the ICFR scope and all control activities designed to mitigate these. This process is carried out in conjunction with all the areas involved. However, if, during the course of the year, unidentified circumstances arise that could affect the preparation of financial information, the ICFR function must evaluate the existence of risks in addition to those already identified. In any case, risks will refer to possible errors (intentional or otherwise) in relation to the financial information objectives: existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations.

The GRC Suite IT tool, designed to ensure the integrity of ICFR, uniformly reflects all the activities involved in a process and associates them with existing risks and controls.

Furthermore, the governing and management bodies receive periodic details on financial information, while the Audit and Control Committee monitors the generation, development and review of the financial information via the Internal Audit function and the opinion of both External Audit and Supervisory Bodies.

**F.3. Control activities:** Investors should be reliably informed of the scope of the specific control activities the entity has implemented to mitigate the risk of errors or irregularities in financial reporting. Hands-on experience has helped identify certain critical areas such as: (i) procedures for confirming estimates and critical judgements; (ii) outsourced functions; and (iii) the systematisation and documentation of closing procedures.

**F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

The Deputy General Manager of Finance, Resources and Human Resources Division is responsible for preparing and reviewing financial information, requesting that the other Business Areas and Criteria Group companies ensure that the financial information submitted is sufficiently detailed.

Financial information is the cornerstone of the control and decision-making process of the Company's senior Governing Bodies and Management.

The preparation and review of all financial information hinge on suitable human and technical resources which enable the Criteria Group to disclose accurate, truthful and understandable information on its transactions in compliance with applicable standards.

In particular, the professional experience of the personnel involved in reviewing and authorising the financial information is of a suitable standard and all are appointed in light of their knowledge and experience in accounting, audit and/or risk management. Likewise, by establishing control mechanisms, the technical measures and IT systems ensure that the financial information is reliable and complete. Also, financial reporting is monitored by the various hierarchical levels of the Office of the Assistant Deputy General of Finance, Resources and Human Resources, and, where applicable, double-checked with other Business Areas of the Criteria Group. Finally, the key financial information disclosed to the market is examined and, if applicable, approved by the senior Governing Bodies of the Criteria Group.

With regard to activities and control procedures directly related to transactions which may have a material impact on the financial statements, the Criteria Group has in place a process whereby it constantly revises all documentation concerning the activities carried out, any risks inherent in reporting the financial information and the controls needed to mitigate critical risks. This ensures that all documentation is complete and up-to-date.

In this connection, the documentation of the critical processes and control activities contains the following information:

- Description of control activities.
- Evidence to support the undertaking of said control activities.
- Control status: implemented, non-existent, not formally arranged.
- Purpose of control activities:
  - *Preventive*: mitigate the risk resulting from errors or fraud in financial information.
  - *Detective*: identifies errors and fraud when they occur.
- Whether the control mitigates a risk that may result in fraud or not.
- Importance of the control: Key or standard control.
- Nature of the control: analysis, review and monitoring, policies and procedures, specialist external advice, system controls, exception reports or limits of authority/responsibility.
- Level of control activity automation: manual, semiautomatic and automatic.
- Executor and supervisor of the control: in order to ensure the double-check, the roles of executor and supervisor of the control must be separate, provided that this is possible in the organisational structure.
- Control frequency: annually, half-yearly, quarterly, monthly, weekly, daily, constant, as required.
- Control support system.
- Financial assertions: existence and occurrence, completeness, valuation, rights and obligations, presentation, disclosure and comparability.
- Action plans identified associated with the control activity.

All activities and controls are designed to guarantee that all transactions carried out are correctly recorded, valued, presented and itemised.

The ICFR function analyses the design and level of functionality of control activities.

The ICFR function will assess the effectiveness of control activities through the results of evaluations received via IT tools, meetings to ascertain understanding and verification with process supervisors and/or control activity supervisors, in addition to the information obtained from the Internal Audit Area.

Based on the information provided, ICFR will take a decision on the appropriateness and sufficiency of the controls implemented, proposing the definition of corrective measures, where applicable, for controls that are not deemed appropriate or sufficient.

Furthermore, the ICFR function determines, as applicable, whether the weaknesses detected may be indicative of material errors in financial reporting.

Evaluation activities and related evidence are performed through the GRC Suite software tool.

In relation to the accounting close process, in addition to and as a supplement to the control activities described above, there are review and approval procedures applicable to balances and transactions qualifying as significant and containing a high degree of estimation or judgment, provided that the estimates or judgments used in the hypothetical scenario have a significant impact on financial reporting, and are documented in the Report of Judgments and Estimates submitted to Management and the Audit and Control Committee for review.

The Criteria Group has an upward internal key control certification process to ensure the reliability of financial information disclosed to the markets. The persons responsible for each of the controls identified shall submit certifications guaranteeing their efficient execution during the period in question. The process is carried out annually although there are also ad-hoc attestations where controls of financial reporting are carried out during different periods.

The Assistant Deputy General Manager of Finance, Resources and Human Resources informs the Audit and Control Committee of the outcome of this attestation process. Likewise, the Chairman of the Audit and Control Committee presents a summary of the attestation process to the Board of Directors, for information purposes.

**F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key processes regarding the preparation and publication of financial information.**

The IT systems referred to above are those used to directly prepare the financial information as well as those which are relevant in processing or controlling those transactions reflected in this information.

The policies and procedures referred to are those which establish how the systems and applications operate to: (a) maintain adequate control over access to applications and systems; (b) establish the steps to be followed to ensure that new applications, or existing ones when these are modified, process the transactions adequately and provide reliable information; and (c) establish data recovery mechanisms as well as providing continuity to the processing and recording of transactions should the usual operating systems be interrupted.

CriteriaCaixa's Resources Area manages information systems and has its own set of rules and regulations for using them properly. The IT systems which give support to processes regarding the preparation of Criteria's financial information are subject to internal control policies and procedures which ensure completeness when preparing and publishing financial information, as listed below:

- I. Information Systems Use Policy, which aims to ensure suitable use of CriteriaCaixa's technical and computer resources.
- II. Information Security Policy, which aims to ensure that the technical and organisational measures required to prevent alteration, loss, unavailability and unauthorised processing of or access to Company resources and data are properly applied.
- III. Personal Data Protection Policy, which provides the guidelines that all areas of the Company must follow regarding the protection of personal data. As specified in the EU General Data Protection Regulation, personal data means any information relating to an identified or identifiable natural person.
- IV. Business Continuity Policy, which is intended to specify and establish the business continuity plan for any person or company that works for the Company on a universal basis, establishing the organisation's business continuity guidelines and the commitment of any person or entity related to CriteriaCaixa with respect to business continuity.

The operational management of CriteriaCaixa's information systems is outsourced to companies in the CaixaBank Group, which apply internal control policies and procedures in terms of information systems applicable to CriteriaCaixa.

Specifically, the following policies apply with regard to:

- I. Information Security Management System: An Information Security Management System (ISMS) based on international best practices is in place. This ISMS has obtained, and each year renews, ISO 27001:2013 certification by the British Standards Institution (BSI). This system defines,

amongst other policies, those for accessing IT systems and the internal and external controls which ensure all of the policies defined are correctly applied.

- II. Operating and business continuity: An IT Contingency Plan is in place to deal with serious situations to guarantee IT services are not interrupted. It also has strategies in place to enable it to recover information in the shortest time possible. This IT Contingency Plan has been designed and operates according to ISO 27031:2011. Ernst&Young has certified that the regulatory governance body for Technological Contingency at CaixaBank has been designed, developed and is operating in accordance with this regulation.

The British Standards Institution (BSI) has certified that CaixaBank's Business Continuity Management System is ISO 22301:2012 compliant. These certifications attest:

- CaixaBank management's commitment to business continuity and technological contingency.
- The existence of business continuity and technological contingency management best practices.
- A cyclical process based on continuous improvement.
- That CaixaBank has deployed and operates business continuity and technological contingency management systems which are compliant with international standards.

- III. Information technology (IT) governance: The Information Technology Services (IT) governance model ensures that IT services are aligned with the Entity's business strategy and comply with all regulatory, operational and business requirements. IT governance is an essential part of overall governance and encompasses organisational structures and guidelines to ensure that the IT services support and facilitate the fulfilment of strategic objectives. The governance model has been designed and developed according to ISO 38500:2008 standard, and was certified by Deloitte Advisory, S.L. in July 2014.

CaixaBank's IT services have been designed to meet the business' needs, guaranteeing the following:

- Segregation of duties;
- Change management;
- Incident management;
- IT quality management;
- Risk management; operational, reliability of financial reporting, etc.;
- Identification, definition and monitoring of indicators (scorecard);

- Existence of governance, management and monitoring Committees;
- Internal controls which include annual internal and external audits.

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

With regards to the outsourced activities, the information should refer to those which execute or process transactions reflected in the financial statements, supervising its correct execution or process and other relevant activities regarding ICFR at the bank.

For all appraisals, judgements or calculations carried out by third parties, the bank should indicate if there are procedures in place to check the ability and independence of the third party and other relevant aspects (methods used, main assumptions, etc.).

CriteriaCaixa's activity, with the exception of information system management outsourced to the CaixaBank Group, with the greatest intervention of external suppliers is real estate activity.

Concerning this activity, on the one hand, specific registration duties that give support to processes regarding the preparation of financial information are outsourced, documented and, in large part, semiautomatic in information systems. Furthermore, control and review procedures are in place to supervise the adequate performance of the outsourced activities.

Furthermore, with regard to the measurement of the real estate activities portfolio, the carrying amount of its properties is periodically compared with its recoverable amount. To determine this recoverable amount, the Directors consider primarily the appraisals made by independent third-party experts. To this end, the Criteria Group has a corporate policy that guarantees the professional competence, independence and objectivity of external valuation agencies as provided for in legislation, under which these agencies must comply with neutrality, transparency and technical rigour requirements. These appraisals are carried out by independent appraisal companies registered on the Bank of Spain's Official Register of Appraisal Companies.

**F.4. Information and communication:** The information sought is so investors know whether the entity has deployed procedures and mechanisms to convey the applicable control directives to the staff engaged in drawing up financial information, and are cognisant of the information systems giving support to such processes.



**F.4.1. A specific function in charge of defining and maintaining accounting policies (Accounting Policies Area or Department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.**

Entities should accordingly state what Department or Area is entrusted with this responsibility, what position they hold within the organisation and if this function is exclusive. With regard to the manual of accounting policies, the bank should report on aspects such as: (i) the frequency with which this is updated; (ii) the main characteristics of the process; and (iii) the date of the latest update.

Responsibility for defining the accounting criteria of CriteriaCaixa lies with the Financial Management Area, under the Deputy General Manager of Finance, Resources and Human Resources Division. The objective of the Finance Management Area is to establish the principles that govern the Criteria Group in terms of the recognition, measurement and accounting of its transactions, operations and events for the production and presentation of the Company's individual and consolidated financial information.

Specifically in terms of accounting policies, the Finance Management Area is tasked with solving any accounting matter regarding which questions arise in terms of the interpretation thereof, either because it is a new type of operation or because of any regulatory change. Furthermore, in terms of one-off transactions, the Finance Management Area prepares documentation regarding their analysis and the study of the impact of these transactions on accounts.

Furthermore, it is responsible for monitoring the regulatory implementation of accounts aspects, and is responsible for training and updating the staff affected.

In addition, there is an Accounting and Management Control Policy, a Group Accounting Principles Manual and other more specific accounting procedure manuals applicable to the Group. All these documents are available on CriteriaCaixa's intranet.

**F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

With regard to this recommendation, entities should report the main characteristics of the IT applications used by the units within the bank or group, in order to provide the information used in the financial statements, including those used in the aggregation and consolidation process of the information reported by the various units.

The Criteria Group has internal IT tools which guarantee the completeness and consistency of the processes for capturing and preparing financial information. All of these applications have IT contingency mechanisms which guarantee that the data is held and can be accessed in any circumstances.

To prepare the consolidated information, both CriteriaCaixa and other Criteria Group companies use specialist tools providing mechanisms to capture, analyse and prepare financial information in standard format. The accounts plan, which is incorporated in the consolidation application, has been defined to comply with requirements of the various regulators.

The GRC Suite IT tool ensures the integrity of ICFR and uniformly reflects all the activities involved in a process and associates them with existing risks and controls.

**F.5. Monitoring of system functionality:** The itemised information provided should show how the entity monitors ICFR, in order to prevent or remedy deficiencies in its design or operation, as well as to correct any incidences or weaknesses detected. The points to be covered concern ICFR monitoring by the audit committee and should reflect actions taken to this end during the financial year.

**F.5.1. The monitoring activities undertaken by the Audit Committee and whether the bank has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the bank has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The ICFR monitoring activities refer to those undertaken by the audit committee. The bank's response should include information on whether these activities include (i) approval of the audit plans; (ii) ascertaining who shall carry these out; (iii) assessing the adequacy of the work carried out; (iv) reviewing and evaluating the results and their effect on financial information; and (v) prioritising and monitoring the corrective actions.

The internal audit function should state its position in the organisational chart, who it reports to, the main activities carried out and other relevant aspects (resources available, exclusivity in carrying out the function, etc.).

The statements on the scope of the ICFR assessment should reveal to what extent the various components of the financial information published have been supervised in the year (for example, whether the process for identifying and assessing risks in financial reporting has been assessed; whether the practices of the control environment and information system controls have been assessed; whether the efficiency of the design and the effective working of the system has been reviewed, etc.).

Notwithstanding the risk management and control functions of the Board of Directors, the Audit and Control Committee is entrusted with overseeing the process for preparing and submitting regular financial account information and the effectiveness of the Company's internal control environment, internal audit and risk management system and to discuss with auditors of accounts any significant weaknesses in the internal control system identified during the course of the audit.

The duties of the Audit and Control Committee include those related to overseeing the process for preparing and submitting regular financial information as described in heading F.1.1.

In addition, the Audit and Control Committee carries out, inter alia, the following activities:

- Review and, where appropriate, submission to the Board of Directors for approval of the Annual Internal Audit Plan, ensuring that its scope is sufficient to provide adequate coverage for the main risks to which CriteriaCaixa and its wholly owned subsidiaries are exposed<sup>1</sup>.
- Assessment of the conclusions of the internal and external audits carried out and the possible impact on financial reporting, where applicable.
- Monitoring of corrective action, prioritising each one.

CriteriaCaixa has an Internal Audit unit whose mission is to ensure the proper management and supervision of the internal control and risk management system of CriteriaCaixa and its wholly owned subsidiaries. This division, under the Management team of the Audit and Internal Control Area functionally reports to the Audit and Control Committee and answers, administratively, to the Chief Executive Management. It carries out its activities according to the principles of independence, objectivity and confidentiality, as set forth in its Regulatory Standard of the Internal Audit Function, approved by the Board of Directors after review by the Audit and Control Committee.

Its mission is, first, to add value and improve the effectiveness of the internal control system in the various Areas of CriteriaCaixa and its wholly owned subsidiaries, contributing to the achievement of its objectives, and, secondly, to provide a systematic and disciplined approach in evaluating and improving the risk management and control processes established in CriteriaCaixa and its wholly owned subsidiaries.

Internal Audit is responsible for:

- Carrying out its professional duties in accordance with generally accepted internal auditing norms and procedures.
- Annual planning of Internal Audit activities, focusing on the key risks identified within CriteriaCaixa and its fully owned subsidiaries.
- Submit the annual planning to the Audit and Control Committee for review and, where appropriate, submission to the Board of Directors for approval.

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<sup>1</sup> For clarification purposes: Saba Infraestructuras S.A., 99.50% owned by Criteria, and its company group, have their own Internal Audit Department and periodically report to Criteria's Internal Audit Department with any updates on the main risks faced by the company, the annual audit plan and the conclusions of the audit engagements.

- Attending to the requirements of the regulatory or oversight bodies, and replying to the ad hoc requests submitted by the Governing Bodies and/or Management.
- Monitoring the implementation of the recommendations formulated in the Internal Audit reports.

In carrying out its work, Internal Audit:

- Identifies objectives and analyses the effectiveness of established controls.
- Verifies proper compliance with established controls.
- Identifies opportunities to improve said controls.
- Reports its conclusions to the Area audited, from which it receives a reply on its conclusion.
- Issues a report containing the opinion and, where applicable, recommendations on the audited process.

Specifically, Internal Audit issues an overall report each year that includes an evaluation of the functioning of the ICFR during the year, which, together with the review of the existing controls and audits of other processes, this report makes it possible to draw a conclusion on the status of the ICFR at the Criteria Group level.

The annual ICFR assessment at 31 December 2018 has focussed on the following activities:

- Revising the application of the framework defined in the document “Internal Control over Financial Reporting in Listed Companies” published by the CNMV which sets out the best practices for internal control over financial reporting.
- Verification of the application of the ICFR Policy and Process in order to ensure that ICFR at the Criteria Group level is adequate and effective.
- Verification of the operation of the GRC Suite tool, the purpose of which is to monitor the operation of the ICFR through control and evaluation activities aimed at employees in the Areas involved in the preparation of financial reporting.
- Assessing the hierarchical attestation of the key controls identified process.
- Evaluating the descriptive documentation of the relevant processes, risks and controls in drafting financial information

The Audit and Control Committee and senior management will be informed of the results of the ICFR evaluation. These reports contain recommendations, their criticality, the timeframe for resolving them and an action plan detailing corrective measures, their urgency to mitigate risks in financial information.

**F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the entity’s senior management and its audit committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The entity should report whether the audit committee has established a formal procedure whereby any significant internal control weaknesses can be reported to the bodies in question, as well as whether this procedure includes an assessment and corrective measures of the impact on its financial information.

CriteriaCaixa maintains fluid communication with the accounts auditor, who communicates with the members of the Audit and Control Committee. Management is kept permanently informed of the conclusions reached during the review of the financial statements. The audit team attend meetings of the Audit and Control Committee, at which they report on the audit plan, the state of progress in the review of annual and interim financial reporting, and their conclusions prior to the authorisation for issue of the accounts, including, if applicable, any internal control weaknesses.

In addition, and within its areas of activity, Internal Audit's reviews conclude with the issue of a report evaluating the relevant risks and the effectiveness of internal control of the processes and the transactions analysed. It also evaluates the possible control weaknesses and shortcomings and formulates recommendations to correct them. The Internal Audit reports are forwarded to Management, and the Audit and Control Committee is informed of the main conclusions from all of the reports. In addition, the Audit and Control Committee at all of its ordinary meetings also issues a report on the activities carried out by the Internal Audit Area, with specific information on all significant weaknesses identified during the reviews.

Internal Audit continuously monitors compliance with all recommendations issued. This monitoring information, as well as the relevant incidents identified in the Internal Audit reviews, are reported to the Audit and Control Committee and senior management.

- F.6. Other relevant information:** The entity should list here any additional information it deems necessary to better interpret its ICFR mechanisms, providing these have not been detailed previous responses.

N/A

- F.7. External auditor's report**

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

If section F of the ACGR regarding the description of the main characteristics of internal control over financial reporting has been reviewed by the external auditor, pursuant to the professional guidelines established for corporations, this report shall be published in its entirety as an appendix to the ACGR. If this is not the case, the ACGR shall contain an explanation as to the reasons why the ICFR information has not been reviewed by the auditor.

Alternatively, if the auditor has carried out a more extensive review of the international generally-accepted auditing standards, using as reference a generally-accepted internal control framework, which offer a certain degree of security on the design and/or working and/or efficiency of ICFR (along the lines of the SOX compliance report in the United States), this report shall also be published as an appendix to the ACGR.

In accordance with the recommendation concerning the Auditor's Report included in the guidelines on the information relating to Internal Control over Financial Reporting in Listed Companies published by the National Securities Market Commission on its website, the accounts auditor of CriteriaCaixa has reviewed the information on internal control over financial reporting system. The final report concludes that, as a result of the procedures applied regarding information on ICFR, there are no relevant inconsistencies or incidents.

This report is attached as an Appendix to the Annual Corporate Governance Report.

# 2018 ANNUAL CORPORATE GOVERNANCE REPORT

## CRITERIA CAIXA, S.A., SOCIEDAD UNIPERSONAL

### ISSUER'S PARTICULARS

FINANCIAL YEAR-END	31/12/2018
Company Tax ID No. (C.I.F.):	A-63379135
Company name:	CRITERIA CAIXA, S.A., SOCIEDAD UNIPERSONAL
Registered office:	PLAZA WEYLER, Nº 3, PALMA

**ANNUAL CORPORATE GOVERNANCE REPORT OF OTHER ENTITIES, OTHER  
THAN SAVINGS BANKS, GOVERNMENT-CONTROLLED  
COMMERCIAL COMPANIES OR GOVERNMENT CORPORATIONS,  
THAT ISSUE SECURITIES TRADED ON OFFICIAL MARKETS**

**G OTHER INFORMATION OF INTEREST**

- A.2: CriteriaCaixa is wholly owned by Fundación Bancaria "la Caixa", so it is not necessary to complete this section.
- C.1.8 The term of office of the Directors is 4 years, and they may be re-elected indefinitely for periods of equal duration.
- C.1.11 The position of Secretary of the Board of Directors has been vacant since 18 October 2016. The Deputy Secretary of the Board of Directors is not a Director.
- C.2.2: At its meeting of 13 March 2019, the Appointments and Remuneration Committee acknowledged that, in view of the appointment of Ms Isabel Estapé Tous as Trustee of Fundación Bancaria "la Caixa", she is no longer an independent Director of the Company, and must be reclassified as a proprietary Director. This will be formalised during the current financial year. Such reclassification will also imply the modification of the composition of the Board of Directors' Commissions in order to comply with the regulations in force.

There is no executive or delegate committee. Nor is there a strategic and investments committee or any other committee other than the Audit and Control Committee and the Appointments and Remuneration Committee.

- D.3. Interest rate hedges for notional value of EUR 1,100,000,000 were entered into in 2015.
- It should be noted that all information provided on CaixaBank referred to in section F.3.2 of this document has been produced based on the information provided by said entity.

This annual corporate governance report was adopted by the bank's Board of Directors at its meeting held on 14 March 2019.

Indicate whether any Directors or members of the governing body voted against or abstained from voting on the approval of this Report.

This annual corporate governance report was approved unanimously.