



**Report on the performance of the Audit and Control
Committee in 2020
Banco de Sabadell, S.A.**

January 2021

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Presentation

This Report on the performance of the Audit and Control Committee in 2020 is addressed to the shareholders of Banco de Sabadell, S.A. (Banco Sabadell, the Bank or the Institution) and was adopted by the Audit and Control Committee at a meeting on 26 January 2021 and submitted for approval by the Board of Directors of Banco Sabadell at a meeting on 29 January 2021, in accordance with recommendation 6 of the Good Governance Code of Listed Companies, which requires that listed companies prepare this report and publish it on their website sufficiently in advance of the date of the General Meeting of Shareholders.

The report sets out the activities performed by the Audit and Control Committee in 2020 to discharge the duties assigned to it in its rules of procedure by the Board of Directors of Banco de Sabadell, S.A., within its main areas of responsibility.

Together with the publication of an Annual Report on Corporate Governance and the information available on the group's website, the distribution of this report at the General Meeting of Shareholders underlines once again Banco Sabadell's commitment to providing shareholders and investors with the information they need to keep themselves fully informed of the Bank's corporate governance performance and to ensure that it is transparent in everything that it does.

Regulation

In compliance with the requirements of article 529 quaterdecies of Legislative Royal Decree 1/2010, of 2 July, approving the consolidated text of the Capital Companies Law, Banco Sabadell has an Audit and Control Committee.

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

Composition

At the end of 2020, the Committee was composed exclusively of non-executive directors, all of whom were independent directors.

Ms. María Teresa García-Milà Lloveras stepped down from the Audit and Control Committee on 26 March 2020 as a result of her resignation from the Board of Directors.

On 24 September 2020, the Board of Directors resolved to appoint Ms. Mireya Giné Torrens as a member of the Audit and Control Committee, based on a favourable report by the Appointments Committee.

The members of the Committee have the necessary knowledge, skills and experience in accordance with the composition rules set out in article 60 of Banco Sabadell's Articles of Association, which requires that the Committee consist of at most five directors, none of

whom may be an executive director, at least a majority of whom must be independent directors, and one of whom must have been appointed on the basis of his/her knowledge and experience of accounting, auditing or both; the committee chair must be an independent director.

Accordingly, the composition of the Committee fulfils the requirements for listed companies under Law 31/2014, of 3 December, amending the Capital Companies Law to improve corporate governance, and for entities of public interest under Law 22/2015, of 20 July, on Auditing.

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

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

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

As at 31 December 2020, the members of the Audit and Control Committee were as follows:

Position	Name	Category	Date of appointment (*)
Chairman	Mr. Manuel Valls Morató	Independent	30-03-2017
Member	Mr. Pedro Fontana García	Independent	21-12-2017
Member	Mr. José Ramón Martínez Sufrategui	Independent	24-07-2014
Member	Ms. Mireya Giné Torrens	Independent	24-09-2020
Secretary (non- director)	Mr. Miquel Roca i Junyent	-	-

(*) Date of appointment as a member of the Audit and Control Committee.

The position of non-director Secretary of the Committee is held by the Secretary of the Board of Directors, which facilitates interactions between the Committee and the Board.

Performance

As provided in the Committee's Regulation, it must meet as often as necessary, and at least once every three months. The Committee held twelve meetings in 2020, one of them extraordinary. The health crisis produced by COVID-19 did not modify the work plan or the schedule set at the beginning of the year, and the duration of the meetings was sufficient to discuss the matters on the agenda and to adopt the relevant decisions.

The Audit and Control Committee may request the attendance at its meetings of such executives, even if directors, as it sees fit. It may also seek assistance from external advisors in carrying out its duties. The Committee also maintains regular contacts with the external auditors to keep itself informed of progress in the audit of the accounts. In this respect, the Committee Chairman held preparatory meetings in 2020 with the Bank's executives and with the external auditor on matters within the Audit and Control Committee's remit.

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

The attendance by the Committee members at the meetings in 2020 was as follows:

Name	Attendance (*)
Mr. Manuel Valls Morató	12/12
Mr. Pedro Fontana García	12/12
Mr. José Ramón Martínez Sufrategui	12/12
Ms. M. Teresa Garcia-Milà Lloveras (1)	3/3
Ms. Mireya Giné Torrens (2)	4/4

(*) Number of meetings attended by the director with respect to the number of meetings held in 2020.

(1) She tendered her resignation as a director effective 26 March 2020.

(2) She has been a member of the Committee since 24 September 2020, when the Board of Directors appointed her as member of the Committee.

Due to the restrictions on movement caused by the economic and health crisis generated by COVID-19, all the meetings except those in January and February 2020 were held online.

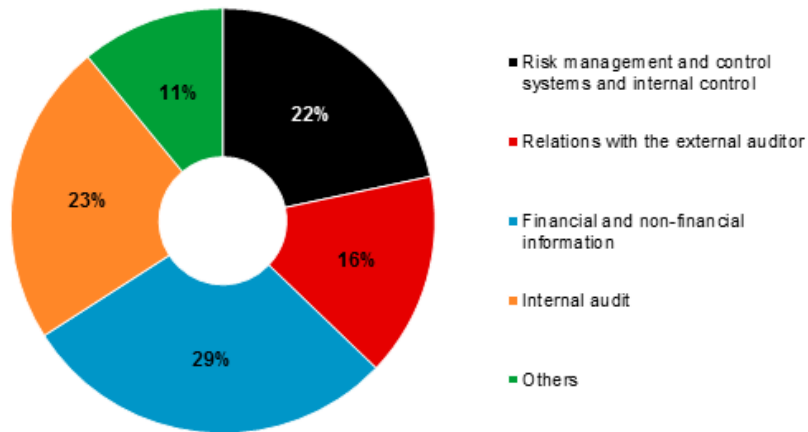
Senior executives of Banco Sabadell executives responsible for the matters dealt with at the respective meetings also attended when invited in order to detail the areas relating to their respective functions, confining their presence to the items on the agenda for which they were invited to attend.

Additionally, the Chairman of the Audit and Control Committee invited the Internal Audit Manager at Banco Sabadell to attend all the meetings.

Representatives of the external audit firm also attended seven meetings to present the progress with the handover from the previous auditor, audit engagement planning, the most salient matters observed in the course of the audits and the audit outcomes.

The estimated average time spent by each of the members of the Committee in preparing for and participating in the meetings held in 2020 was around 10 hours per meeting, and the estimated dedication by the Committee Chairman was approximately double that figure per meeting.

The figure below shows the approximate time devoted to each function at the meetings of the Committee in 2020:



The Secretary of the Committee, who is also the Secretary of the Board of Directors, took detailed minutes of every meeting, which were approved at the end of the meeting itself or at the next meeting. The Board of Directors was informed promptly of the business transacted at those meetings.

Functions of the Committee

The Audit and Control Committee is a sub-committee of the Board of Directors and its functions include those defined in article 60 of the Articles of Association of Banco Sabadell and in Article 13 of the Regulation of the Board of Directors, as well as all the functions set out in the Audit and Control Committee Regulation and those attributed to it by law.

The Committee has the following functions:

1. Reporting to the General Meeting on all issues raised by shareholders that are within its remit.
2. Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system detected in the course of the audit.
3. Overseeing the preparation and presentation of regulated financial information.
4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, and striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.
5. Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting standards, and advising on proposals to amend those standards.
6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.
7. Supervising the internal audit units, reviewing the appointment and removal of the Internal Audit Manager.
8. Being apprised of the company's financial reporting process and internal control systems.
9. Liaising with the external auditors in order to receive information about issues that might jeopardise their independence and any other matters related to the audit process as well as other communications envisaged in the audit legislation and technical audit standards.
10. Advising on any issues referred to the Committee by the Board of Directors that are within its remit.
11. All other functions attributed to it by law and by the Articles of Association and the regulations implementing them.

Activities in 2020

The main issues that arose in relation to the matters within the Committee's remit and the main activities carried out by the Committee in 2020 are described below:

Functions related to oversight of financial and non-financial reporting

The Committee devoted much of its time to overseeing the financial statements and other material non-financial information with the bank's executive management, internal audit unit and the external auditor. It also gained an understanding of the internal control over financial reporting system and evaluated its effectiveness, as detailed below:

Functions related to financial and non-financial reporting

During the year, in accordance with its remit, the Audit and Control Committee supervised and analysed the sufficiency, clarity and integrity of all the financial and related non-financial information that the Bank made public in connection with both the Bank itself and the Group, prior to its presentation to the Board of Directors and its dissemination to the market and the supervisory bodies.

The Committee had all the necessary means for performing the above-mentioned function. In order to perform these reviews, the Committee Chairman held preparatory meetings with the Finance Division and the external auditor. The senior executives responsible for producing the financial and non-financial information attended eleven of the twelve Committee meetings in 2020, and the external auditor was present on seven occasions.

In 2020, the Committee also reviewed and approved the main judgements and estimates and valuation criteria used by the Group to prepare the financial statements, including the impact on the financial statements of the COVID-19 pandemic, which increased the uncertainty in the estimates and also the need to apply professional judgement in assessing the impact of the current macroeconomic situation on these estimates, fundamentally in relation to the determination of impairment losses on assets, both financial and otherwise. It also checked that they conformed to the accounting standards and the criteria established by the competent regulators and supervisors.

The Committee was also informed, among other issues, of the government measures implemented to address the economic and social impact of COVID-19 in the various geographies where the Group operates (mainly government and industry moratoria, the ICO line of guarantees, and customer support measures) and their impact on the Group's main risks.

The Committee supervised the procedure for estimating loan loss provisions and the adjustments (overlays) made outside the classification model in order to capture the impacts derived from COVID-19, understanding the underlying macroeconomic assumptions and the recommendations issued by accounting supervisors and regulators in this regard.

Specifically, in connection with the reporting obligations imposed by Law 11/2018 on non-financial disclosures and diversity, the Committee reviewed the Non-Financial Disclosures Report, which is attached as an annex to the Group's consolidated directors' report, and, in particular, the information it contains in connection with responsible business, environmental and social matters, respect for human rights, the fight against bribery and corruption and matters relating to staff, which was subject to independent verification by the firm KPMG Auditores, S.L. The Sustainability Manager attended Committee meetings to describe the content and respond to questions raised by the Committee members.

In accordance with the provisions of article 540 of the Capital Companies Law, the Audit and Control Committee reviewed the content of the 2020 Annual Corporate Governance Report, which forms part of the Group's consolidated directors' report, following the review carried out by the Delegated Committee and prior to the meetings of the other Board Committees involved in the review of same and to its authorisation by the Board of Directors. The Head of Corporate Governance gave the Committee members an explanation of that report's content and the degree of conformity to the recommendations.

Accordingly, at the meetings held on 29 July 2020 and 26 January 2021, and after obtaining the satisfactory conclusions of the work carried out by the Group's external auditors, the Committee reported favourably to the Board of Directors on Banco Sabadell Group's condensed consolidated half-yearly financial statements as at 30 June 2020 and the interim consolidated directors' report, as well as the financial statements and directors' report, both separate and consolidated, for the year ended 31 December 2020, respectively. All of this took place before the Board of Directors authorised those documents and released them to the markets and the supervisory bodies.

It also reviewed the quarterly financial information with the assistance of the CFO before the Board of Directors authorised it and released it to the markets and the supervisory bodies.

In 2020, the Committee supervised the preparation and updating of the Group's various accounting policies, procedures and manuals with the goal of establishing corporate-level principles and control criteria for the process of preparing, reviewing, approving and publishing financial information.

Each quarter, the Committee conducts a detailed assessment of the Pillar III disclosures produced and published by the Bank on the basis of the Pillar III disclosure requirements and the Bank's Disclosure Policy on Financial and Non-Financial Information. Additionally, after understanding the contents of the Pillar III Disclosures for 2019 as well as the factors considered in producing them, the requirements of the supervisory bodies and the regulatory developments they incorporate, as well as the results of the Agreed-Upon Procedures report by PricewaterhouseCoopers Auditores, S.L., the Audit and Control Committee resolved, at a meeting on 24 March 2020, to recommend that the Board of Directors adopt the 2019 Pillar III Disclosures.

At a meeting on 15 September 2020, after evaluating the content of the Group's Pillar III Disclosures for the first half of 2020, the new features they contained, following explanations by the Finance Division, and the results of the review of the report by KPMG Auditores, S.L., the Audit and Control Committee resolved to recommend that the Board adopt the half-yearly Pillar III Disclosures.

The Committee also continuously oversaw in detail the Group's liquidity and capital position. In particular, it reviewed the 2019 Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

At a meeting on 24 March 2020, after evaluating the update to the Banco Sabadell Universal Share Prospectus and understanding its content, including specifically that relating to the impact of the COVID-19 pandemic, the Committee resolved to report favourably to the Board of Directors on the update.

Internal controls over the preparation and presentation of regulated financial information

The Audit and Control Committee supervises the effectiveness of the system for internal control over financial information by receiving reports from those responsible for internal control (first, second and third lines of defence), as well as from the external auditor, in order to be able to conclude as to the level of confidence and reliability of the system and make proposals for any necessary improvements.

In 2020, the Committee reviewed Banco Sabadell Group's Internal Control over Financial Reporting Policy, whose purpose is to reinforce the mechanisms in place at the Bank that enable the Audit and Control Committee, among other governing bodies, to properly discharge its duties with regard to the supervision of internal control over financial reporting. That Policy establishes the principles, critical parameters, governance structure, roles and functions, procedures and key tools relating to the definition, establishment, execution and monitoring of the Group's internal control over financial reporting.

At meetings on 29 July 2020 and 26 January 2021, the senior executives in the Finance Division provided explanations to the Audit and Control Committee about the reports prepared containing the results of the planning process for the first and second half of 2020, in which the risk matrix and the controls in relation to regulatory developments were updated, and the current context derived from the health crisis generated by COVID-19 and other material events for the Group, as well as the results of the reviews of the checks that were performed.

The 2020 Internal Audit Plan approved by the Board of Directors based on a recommendation by the Audit and Control Committee set out, inter alia, the actions to be taken with respect to the areas or processes considered to have the highest residual risk

following a risk assessment exercise. The actions set out in the plan were performed in 2020; in some cases, the control environment with respect to financial reporting was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The Internal Audit Division also reviews the general controls over reporting systems on an annual basis.

In addition, the Audit and Control Committee received the external auditor's report regarding the information in respect of the ICFR (SCIIF), which did not disclose any issues.

Based on the information received, the Committee was able to supervise Banco Sabadell's system of internal control over financial reporting in accordance with the requirements of the applicable regulations, in order to guarantee that the financial information is prepared properly, with the necessary procedures and controls in place for this purpose.

Functions related to risk management and control systems

In accordance with the regulations on the regulation, supervision and solvency of credit institutions, Banco Sabadell has a Board Risk Committee, of which the Chairman of the Audit and Control Committee is a member, whose function is to supervise the management of all material risks and their alignment with the profile defined by the Bank. This fosters smooth communication between the two committees, providing information about the Company's risk assessment, especially in terms of the impact on the Bank's financial statements.

As defined in its Regulations, the Audit and Control Committee supervises the effectiveness of the company's internal control and ensures that the main direct or indirect risks with control are reasonably identified, measured and controlled.

The Committee carried out a review to verify that banking and accounting best practices were being applied at all levels of the organisation. On the basis of reports from the persons in charge of internal control at the Bank and from the external auditor, the Committee exercised oversight to satisfy itself that suitable steps were being taken at General Manager level and by other senior executive functions to ensure that the Group's main risks were being appropriately identified, measured and controlled.

In the context of the ILAAP and ICAAP for 2019, the Audit and Control Committee monitored the risk governance, management and control systems implemented by the Group.

In addition, in its review of the Pillar III Disclosures for 2019 and the first half of 2020, the Committee assessed the risk management and control objectives contained in the Group's policies.

As indicated throughout this document, the Committee also met with the Bank's senior managers (finance, tax, compliance, internal audit, and sustainability, among others) to be informed of business trends and the associated risks.

Functions related to external audit

During 2020, the Committee, the Finance Division and the Internal Audit Division were in regular contact with the external auditors. During 2020, the external auditors were invited to attend, and did attend, a total of seven meetings of the Committee to report on matters within the scope of their functions, and Banco Sabadell executives were not present while those items of the agenda were being discussed.

Relations with the external auditor

The auditor of Banco Sabadell and its consolidated Group is KPMG Auditores, S.L. (hereinafter, KPMG) following their appointment for the years 2020, 2021 and 2022 by the General Shareholders' Meeting held on 28 March 2019.

For this reason, the handover from the Group's previous auditor, PricewaterhouseCoopers Auditores, S.L. (hereinafter, PwC), was completed in 2020. The Audit and Control Committee ensured that the transition took place as efficiently as possible and with the least impact on the Group.

At a meeting on 28 January 2020, PwC presented its conclusions on the completion of the audit of the separate and consolidated financial statements for the year ended 31 December 2019, delivered a report to the Committee confirming their independence as external auditors, and an additional report addressed to the Bank's Audit and Control Committee.

Additionally, at a meeting on 19 May 2020, the Committee was presented with the results of the Customer Asset Protection Report for 2019 issued by PwC.

The heads of the KPMG external audit team attended six of the twelve meetings, in addition to meeting with the Chairman of the Committee when deemed necessary. The auditors' participation was scheduled in the calendar of activities and annual agenda of meetings of the Banco Sabadell Group Audit and Control Committee.

With regard to oversight of fulfilment of the audit contract, at those meetings the auditors gave detailed reports on the progress of the handover from the previous auditor. They also described their strategy and work plan, including the criteria established for the quantification of materiality defined for both the mid-year and full-year audit of the Bank and its Group. The work plan, its execution and the main conclusions of the work were presented, focusing on the identified audit risks as well as on the impacts that the health crisis created by COVID-19 has had on the audit of both the Bank and its Group.

With regard to the audit resources, the Committee reviewed the composition of the team, comprising specialists with expertise in banking, specialists in IT auditing and specialists in credit risk and foreclosure models.

In line with the expectations set out in the guidelines issued by the Basel Committee in relation to the external audit of banking institutions, the members of the Audit and Control Committee asked the external auditor the appropriate questions in order to understand in detail the work carried out in the audit of the Expected Credit Loss (ECL) estimates, in terms of planning, the team of specialised experts involved in the audit, the determination of the associated audit risk and the audit approach adopted to mitigate it, which is a mixed approach that relies on both controls and substantive tests. After the appropriate explanations had been received, the Committee concluded that the audit strategy for the Group's ECL estimates was appropriate.

In the meetings prior to authorisation of the condensed consolidated financial statements for the six-month period ended 30 June 2020 and the financial statements, both separate and consolidated, for the year ended 31 December 2020, KPMG reported its conclusions to the Committee, together with all the significant issues of which the Committee must be informed in accordance with the regulations governing auditing.

At the meetings on 29 July 2020 and 26 January 2021, the Committee conducted a detailed analysis of the auditors' report prior to its submission to the Board of Directors, referring to the condensed consolidated half-yearly financial statements and the separate and consolidated financial statements for the year ended 31 December 2020, respectively. To this end, it took cognizance of the criteria applied by KPMG to define the key audit issues and the rationale for their consideration as set out in the auditors' reports, as well as evaluating the adequacy of the work performed by the auditor for each of the key issues set out in the reports.

At a meeting on 26 January 2021, the Committee also reviewed the contents of the ISAE 3000 R limited assurance report on the consolidated non-financial information statement for 2020 and the external auditor's report on the information relating to the 2020 ICFR, which concluded without incident.

At that same meeting, the Committee performed an in-depth review of the Additional Report presented by the auditors to the Audit and Control Committee in relation to the audit for the year ended 31 December 2020.

The external auditors also presented the results of their review of the Pillar III Disclosures for 2019 and the first half of 2020 to the Audit Committee.

Assessment of the external auditor's independence

With regard to the financial terms of the engagement, the Committee assessed the fees for the audit of the Bank and the companies it controls which were paid in 2020, the amounts of which are disclosed in the notes to the financial statements for the year and are shown below:

<i>(thousand euros)</i>	Fees in 2020
Audit fees:	
· Audit of the Bank's individual and consolidated financial statements.	1,793
· Audit of the financial statements of the Group's subsidiaries in Spain.	435
· Audit of the financial statements of the Bank's branches in other countries.	305
· Audit of the financial statements of subsidiaries in other countries.	4,829
Total audit fees:	7,362
Audit-related services:	
· Issuance of a comfort letter in connection with the renewal of the EMTN programme.	65
· Report on agreed-upon procedures in connection with a portfolio of mortgages in the UK.	17
· Assurance report on compliance with the provisions of local Mexican legislation, specifically the provisions of the Social Security Law and the Law of the National Housing Fund Institute (Instituto del Fondo Nacional de Vivienda).	11
· Total fees for audit-related services:	93
Other services	
· Report on review of the Pillar III disclosures for the first half and the full year 2020	175
· Report on review of the Non-Financial Disclosures Report.	18
· Due diligence support services.	21
· Legal services in connection with the review of contracts.	5
· Total fees for other services:	219
Tax services	-
Total fees paid to the auditor	7,674

The fees for non-audit work in absolute terms and as a percentage of the audit fees charged to the Bank and/or its Group are as follows:

	Bank	Banco Sabadell Group	Total
Amount (thousand euros)	214	5	219
Percentage (%)	10.22%	0.09%	2.97%

In connection with compliance with the statutory limits on concentration of auditing business, the Committee reviewed the proportion which the fees paid to the audit firm by the Group represent with respect to the latest available figures for the firm's total annual revenue. The share was less than 0.032% of the total for the KPMG worldwide organisation, and 1.576% of the total for its Spanish audit firm (latest available figures).

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements.

At meetings on 29 July 2020 and 26 January 2021, the Committee received confirmation of KPMG's independence from the Group. As a result, the Committee verified that both the audit engagement team and the audit firm fulfilled the applicable independence requirements. In this regard, it conducted a detailed review of the fees charged to the Bank and the companies it controls. It also took note of the fees charged to other entities which the Group does not control but over which it exercises significant influence. In addition, the Committee was informed of the policies in place and the internal procedures designed by KPMG to provide reasonable assurance that the firm and its personnel maintain independence where required by the applicable regulations.

Regarding the independence requirements set out in the regulations governing auditing and the provisions in this respect in the Banco Sabadell Group Policy to Safeguard Auditor Independence, which was approved by the Audit and Control Committee, proposals to engage services other than auditing from KPMG were submitted for approval by the Group's Audit Committees, which assessed whether such engagements were permissible as well as any threats and necessary safeguards.

In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to Safeguard Auditor Independence, ratified by the Audit and Control Committee on 26 January 2021, the Audit and Control Committee reviewed the main non-audit services provided by KPMG during 2020. All that work fulfilled the independence requirements established in Law 22/2015, of 20 July, on Auditing, and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

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

Assessment of the external auditor's performance

At a meeting on 26 January 2021, the Committee issued a positive evaluation of KPMG's performance as auditors of the 2020 financial statements based on the quality of its audit, its contribution to the integrity of the financial information, and the opinions expressed by the divisions involved in the audit. The evaluation took into account the key issues in the Group's relationship model with the auditor: technical quality of the team of professionals and of their work, fees, audit approach, relationship with supervisors, and internal quality and control.

In this first year of KPMG as auditors of Banco Sabadell Group, the transition, the scope and capacity to adapt to the Company, and their independence were also particularly important.

The Committee also reviewed KPMG's fee proposal for 2021.

Functions related to the internal audit

As part of its duties, the Committee maintained a close relationship with the Internal Audit Division. This is evident in the fact that the Internal Audit Manager attended all the Audit and Control Committee meetings in 2020 with a view to presenting the main results of the work that had been carried out, as well as that to be carried in the following year. When he considered it necessary, prior to Audit and Control Committee meetings, the Committee Chairman met with the Internal Audit Manager to review and obtain a greater understanding of the matters to be dealt with in the Committee meetings.

At a meeting on 28 January 2020, the Committee assessed in detail the plan proposed by the Audit Manager for 2020, based on an update of the Group's strategic objectives established in the 2018-2020 Master Plan, on the business risks arising from the current economic context and the systems for their analysis, measurement and control adopted by the Group, together with the requirements of the supervisor and regulatory requirements. Following this assessment, it decided to report favourably to the Board of Directors on the Internal Audit Activity Plan for 2020, which was approved definitively by the Board on 30 January 2020.

At that same meeting, the Audit and Control Committee reviewed and reported favourably to the Board of Directors on the budget for 2020, exercising oversight to ensure that the function is equipped with the necessary material and human resources to discharge its duties.

The Committee was informed each quarter by the Internal Audit Manager of the oversight of the audits and reports produced in relation to the main risks established in the Internal Audit Activity Plan 2020, as well as the monitoring and degree of implementation of the recommendations identified as a result of the reports issued.

As a result of the economic and health crisis created by COVID-19, the Internal Audit Manager presented, at a meeting on 27 April 2020, the modifications that were considered necessary to the Internal Audit Activity Plan in order to respond to the risk assessment proposed by the Internal Audit Division in view of the emerging situation. After a detailed assessment of the proposed modifications to the plan, the Committee decided at that meeting to approve the proposed update of the Internal Audit Plan, as well as the measures to make the implementation of audit recommendations more flexible as a result of COVID-19.

Likewise, on a quarterly basis, the Committee was informed about the contents of the main audits carried out in the quarter as a result of the internal audit response to the impact of COVID-19.

The fulfilment of the Audit Plan in 2020 resulted in the production of 336 auditors' reports. The main results were evaluated by the Committee, along with Management's responses to the recommendations in these auditors' reports.

The Committee was also informed of the main milestones of the Transformation Plan for Banco Sabadell's Internal Audit Division, as set out in the Internal Audit Strategic Plan 2018-2020.

Assessment of the internal audit function

At a meeting on 26 January 2021, the Internal Audit Division presented the Committee with its Annual Report on Activities 2020, with details of all the activities and reports in the year and an inventory of the recommendations and action plans contained in the various reports, as well as the outcome of the Internal Audit Quality Assurance and Improvement Programme, including the implementation of the action plans derived from the external evaluations of the function carried out in 2018.

Following the review of the report on its activities, the Committee approved the fulfilment of the Internal Audit Division's objectives and projects during the year.

On the basis of all of the above, the Committee was able to assess the suitability and effectiveness of the internal audit function, as well as the performance of the person responsible for it, which were evaluated at the meeting on 26 January 2021 and communicated to the Remuneration Committee and to the Board of Directors for the purpose of determining their variable remuneration.

The Committee also exercised oversight in 2020 to ensure that the internal audit function was independent and objective in discharging its duties, that it had the appropriate resources and access to information to be able to fulfil its functions, and that it was ready to act in accordance with the professional standards applicable to internal auditing. Due to regular monitoring of the audit activity, the Committee was able to conclude that the internal audit activity is well positioned and dimensioned to meet the group's needs in this connection.

In accordance with the International Standards for the Professional Practice of Internal Auditing, in 2020 the Committee received information on the Internal Audit Quality Assurance and Improvement Programme with the internal assessments performed on the internal audit function in order to ensure that the function's goals, policies and procedures adhere to those international standards.

Approval of the internal audit annual plan for 2021

Also, at a meeting on 26 January 2021, the Audit and Control Committee reviewed and reported favourably to the Board of Directors on the internal audit plan as well as the budget for 2021, exercising oversight to ensure that the function is equipped with material and human resources to discharge its duties.

In line with the factors related to the current situation and to its planning model, the Internal Audit Division established four focus points on which its audit plan 2021 concentrates. The focus points are detailed below:

- Credit risk and control of delinquency: given the macroeconomic context generated by the COVID-19 crisis, the effectiveness of credit risk management practices will be reviewed.
- Transformation, resilience and efficiency: the effectiveness of the control environment with respect to outsourcing processes and technological transformation, cybersecurity and customer digitalisation, and task automation, among others, will be assessed.
- Regulation: the appropriate implementation of the new regulatory developments with an impact on the Bank's main areas will be reviewed.
- Sustainability, the progress made by the Bank in the implementation of sustainability policies and in the integration of these factors into risk management and the appropriate reporting will be reviewed.

[Functions relating to compliance with the regulatory and legal requirements and corporate governance codes](#)

The Committee examined half-yearly reports from the Group's Corporate Ethics Committee on action taken to ensure compliance with Banco Sabadell Group's Internal Code of Conduct in relation to the securities market, the Group's General Code of Conduct, initiatives undertaken in the area of corporate social responsibility and other key aspects.

By reviewing these reports, the Committee also received information on the performance of the whistleblower channel, including the number of notifications received, their origin and types, the results of the investigations and the proposals for action.

During 2020, the Committee also received information about messages sent to Group undertakings by national and international supervisors, including the European Central Bank, the Bank of Spain and the Spanish National Securities Market Commission, and it monitored the conclusions of the reports issued by the supervisory authorities and the implementation of the action plan to respond to their requirements.

In pursuit of good governance of the Bank's business, at a meeting on 26 January 2021 the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Delegated Committee on the corporate governance structure and practices at Banco Sabadell in 2020.

The Audit and Control Committee also reviewed the content of the 2020 Annual Corporate Governance Report following the review by the Delegated Committee and prior to the meetings of the other Board Committees involved in the review of same and its authorisation by the Board of Directors.

Own shares

At eleven of the twelve meetings, the members of the Committee reviewed reports on the evolution of treasury stock presented by the treasury stock manager, who explained the situation in detail and described how it complies with the recommendations issued by the National Securities Market Commission in this respect.

Functions relating to the analysis of corporate transactions

The Audit and Control Committee also assessed the implications of material corporate transactions performed in 2020. Among others, the Committee reviewed the long-term strategic agreement signed with Amundi Asset Management for the distribution of Amundi products through the Banco Sabadell branch network in Spain; the agreement signed with BNP Paribas Securities Services S.C.A., Branch in Spain for the sale of Banco Sabadell's institutional depository business; the completion, after obtaining the pertinent authorisations, of the sale of Solvia Desarrollos Inmobiliarios, S.L.U.; as well as the sale of financial instruments as part of the plan to safeguard the Group's capital position in the framework of a series of actions carried out to improve future profitability and the quality of the Group's balance sheet.

Functions relating to the analysis of related-party transactions

In the performance of its functions, the Committee has not become aware of any transactions with related parties during 2020 whose terms and conditions would require them to be authorised by the governing bodies under current regulations, because these transactions were carried out within market parameters and were not material with respect to the Bank or its Group.

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

Functions related to tax policy and strategy and legal risk

During 2020, the Committee oversaw and monitored the Group's tax affairs, on a half-yearly basis, and received information from the Tax Division on compliance with the overarching principles established in the tax strategy in relation to its actions in tax matters (principles of efficiency, prudence, transparency and minimisation of tax risk).

To this end, the Committee was informed of the main actions carried out during the year in the area of Corporate Tax Governance, the implementation of horizontal projects related to tax matters, such as the Group's adaptation to changes in tax regulations (new taxes and reporting obligations), the situation and follow-up actions in relation to the main tax procedures, as well as the tax treatment of corporate transactions carried out within the Group.

In relation to compliance with the principle of tax transparency, the Committee was informed of the tax-related contents of the various documents published on the corporate website, which are accessible to all stakeholders.

At a specific meeting with the Tax Advisory Manager, separate from the the half-yearly meetings, the Committee also reviewed and was informed of the voluntary submission to the Spanish State Tax Administration Agency (AEAT) of the Annual Tax Transparency Report for 2019, in line with the policy of cooperation with that agency.

Accordingly, the Tax Advisory Manager attended three meetings of the Committee in 2020.

Additionally, the main issues relating to legal risk arising from regulatory changes or ongoing litigation were reviewed regularly to analyse any potential impact on the Group's financial statements.

Annual evaluation of the performance of the Audit and Control Committee

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

In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, whose scope was expanded by section 7 of Technical Guide 1/2019 on Nomination and Remuneration Committees of listed companies, every three years the Board of Directors performs the assessment with the support of an external consultant whose independence is verified by the Appointments Committee.

The Appointments Committee decided that the performance assessment of the Board of Directors and its Committees for 2019 should be conducted by an independent external consultant, Deloitte Legal, S.L.P. before expiration of the three-year minimum period set out in the Good Governance Code, since the previous assessment in which the Board was assisted by an external consultant took place in 2017. The support of an external consultant makes it possible to perform the assessment and draw up the resulting action plan from an impartial, independent standpoint based on knowledge of numerous organisations of different types.

The outcome of the assessment made it possible to draw up an Action Plan for 2020 that would enable the Board of Directors and the Audit and Control Committee to identify possible areas for development and progress in the design of, and compliance with, a corporate governance system on the basis of the identified milestones.

Main progress in 2020 with the Action Plan

During the year, the Audit and Control Committee scheduled and held regular meetings to properly cover all the matters under its remit, and it addressed the Action Plan for 2020 in its plan of activities for the year:

Specifically, work continued in order to improve the advance period with which documentation is made available to the Audit and Control Committee for review prior to meetings. In this regard, information was provided further in advance in connection with the process of preparing the group's financial and non-financial information for publication, such as the condensed consolidated half-yearly financial statements and the annual financial statements, both separate and consolidated, as well as the Pillar III Disclosures, enabling the Committee to supervise the integrity and reliability of the Group's public information sufficiently in advance.

In addition, a training plan with specific content was drawn up to cover the needs of the members of the Audit and Control Committee in the performance of their duties, as detailed in the Training section.

2020 Assessment

Taking into account the last external assessment described above, the self-assessment of the Committee in 2020 was carried out internally as part of the assessment of the Board of Directors. The self-assessment evidenced the improvements achieved during the year in the areas envisaged in the Action Plan, despite the difficulties posed by the health and economic crisis generated by COVID-19, and new challenges were set for 2021 in order to continue developing and making progress in the functions entrusted to the Committee.

International coordination

In relation to communication with other Audit Committees of Public Interest Entities relevant to the Group, in 2020 the Audit and Control Committee monitored and received information on the activities carried out by TSB's Audit Committee in relation to supervision of the effectiveness of the general internal control framework and its integration into its risk map, TSB's response and the main impacts of the economic and health crisis generated by COVID-19, monitoring of work carried out and the effectiveness of TSB's internal audit and external auditor, among others, with the aim of ensuring that the actions of TSB's Audit Committee are in line with the Group's expectations.

The Chairman of the Committee held a meeting with the Chairman of the TSB Audit Committee prior to the production of the consolidated financial statements for 2020 to discuss key areas for the subsidiary in the 2020 accounting close. That meeting enabled the Chairman to assess the adequacy of the pertinent judgements and estimates made in the subsidiary's financial statements, to evaluate the work performed by the external auditor, review the main aspects of the audit plan and the key audit issues defined and see how they are reflected in the auditors' report, as well as the favourable opinion of the Audit Committee with respect to the performance of TSB's internal audit and how it adequately addresses the main challenges.

Training

Banco Sabadell sees director training as a key factor that ensures optimal performance in the discharge of their duties. Consequently, in 2020 the members of the Committee fulfilled the Director Training Programme; there were sessions on open banking and the digital transformation of retail banking, the sustainability action plan, data and artificial intelligence, and application to the bank of the regulations on granting and monitoring credit.

A specific training session was held for the members of the Committee which covered the new regulatory developments in finance and auditing. The content of that session included the areas of special attention in the review by ESMA (European Securities Markets Authority) of the financial statements of listed companies for 2020, details of the new features introduced by the guidance for audit committees issued by the Basel Committee, in order to help the Audit Committees of financial institutions in their role of supervising external auditors, specifically the supplementary note that deals with the audit of estimates of expected credit losses under IFRS 9. New developments in international audit standards were discussed, specifically those introduced by the adoption of ISA 540 (revised) on Auditing Accounting Estimates, the new features introduced in the supplementary report to the audit report addressed to the Bank of Spain, as well as the main implications of the adoption of the ESEF (European Single Electronic Format) Regulation.

Priorities for 2021

The Committee identified the following priorities for 2021:

- Continue to pay special attention to the impact that the economic crisis generated by COVID-19 is having on the macroeconomic environment and on the Group, in particular, and how it affects the main judgments and estimates in connection with the preparation of financial information.
- Continue to foster ongoing collaboration between the three lines of defence and the Board Risk Committee to strengthen oversight of both risk management and control and the internal control framework established by the Bank.
- Continue with a specific training plan for the members of the Committee in the areas of finance, auditing and digital transformation.
- Monitor the new strategic plan, assess the risks and opportunities arising from it and how they are factored into the action plans of the three lines of defence during 2021.

Conclusions

All the activities described in this report ensured that the Audit and Control Committee was able fully to discharge the duties assigned to it in its Rules of Procedure by the Board of Directors of Banco de Sabadell, within its main areas of responsibility.

On 26 January 2021, the members of the Audit and Control Committee signed this report on the performance of the Committee in 2020, which was approved by the Board of Directors on 29 January 2021 and will be published on the corporate website prior to the date of the General Meeting of Shareholders.

The English version is a Translation of the original in Spanish and is provided for information purposes only. In case of discrepancy, the original version in Spanish shall prevail.