

CONSOLIDATED DIRECTORS 'REPORT FOR 2018

This report has been prepared in line with the recommendations contained in the Guidelines for the preparation of directors 'reports by listed companies (*Guía para la elaboración del informe de gestión de las entidades cotizadas*), published by the Spanish National Securities Market Commission in July 2013.

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GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisational structure

Banco de Sabadell, S.A., with registered office in Alicante, Avenida Óscar Esplá 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The functions of prudential supervision of Banco Sabadell on a consolidated basis were taken on by the European Central Bank (ECB) in November 2014.

The bank is the parent company of a group of entities whose activity it controls directly and indirectly and which comprise, together with the bank, Banco Sabadell Group. Banco Sabadell is comprised of different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business, and it operates mainly in Spain, the United Kingdom, Mexico and Andorra.

The Group is organised into the following business units:

- Banking Business Spain includes the following customer-centric business units:
 - Commercial Banking: this is the largest single business line in the Group; it focuses on offering financial products and services to large and medium-sized enterprises, SMEs, retailers and self-employed, individuals and professional groups, consumer finance and bancassurance.

Sabadell is the reference brand which operates in the majority of the Spanish market. It also operates under the following brands;

 - SabadellHerrero in Asturias and Leon.
 - SabadellGuipuzcoano in Basque Country, Navarre and La Rioja.
 - SabadellGallego in Galicia.
 - SabadellSolbank in the Canary Islands, Balearic Islands, and coastal regions in the South and the Levante region.
 - ActivoBank focuses its activity on customers who operate exclusively over the internet and/or by phone.
- Corporate Banking: this unit offers products and services to large corporations and financial institutions, both national and international. Its activities includes corporate banking, structured finance, and trade finance & IFI.
- Markets and Private Banking: this unit offers savings and investment management services to Banco Sabadell customers, including the analysis of investment options, market trading, active asset management and custody services. It comprises the following businesses, which are managed on an integrated basis: SabadellUrquijo Private Banking, the Investment, Products and Analysis unit, Treasury and Capital Markets, and Securities Trading and Custody.
- Asset Transformation manages the bank's real estate balance sheet with an overall perspective of the entire transformation process, providing services to the real estate portfolio of the Group and of third parties, with a business vocation and added value.
- Banking Business United Kingdom: the TSB franchise includes retail business conducted in the United Kingdom, which includes current and savings accounts, personal loans, credit cards and mortgages.
- Other Geographies: this heading mostly comprises Mexico, foreign branches and representative offices that offer all types of banking and financial services related to Corporate Banking, Private Banking and Commercial (Retail and Business) Banking. This activity is mainly carried out in Mexico through Sabadell Capital Sofom e Institución de Banca Múltiple, in the United States through Banco Sabadell Miami Branch and Sabadell Securities, and in EMEA in Banco Sabadell London, Banco Sabadell France, Banco Sabadell Casablanca and Banco Sabadell Andorra.

Banco Sabadell is the parent company of a group of companies which as at 31 December 2018 numbered a total of 162, of which 136 are considered part of the group and 26 are associates (as at 31 December 2017, they numbered 167, of which 143 were considered Group companies and 24 were associates).

The Board of Directors is the highest decision-making body of the company and its consolidated group, as it is responsible under the law and the Articles of Association for managing and representing the bank. The Board of Directors is essentially set up as an oversight and control instrument, delegating the management of ordinary business to the executive bodies and the management team.

The Board of Directors is governed by clear-cut and transparent governance regulations, specifically the Articles of Association and the Regulations of the Board of Directors in accordance with corporate governance standards.

Its responsibilities include:

- a) approving the company's general strategies;
- b) appointing and, if appropriate, discharging directors in the various subsidiaries;
- c) identifying the company's main risks and implementing and monitoring the appropriate internal control and reporting systems;
- d) setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;
- e) setting policies on the treasury portfolio in accordance with any guidelines laid down at the Annual General Meeting;
- f) approving the Annual Report on Corporate Governance;
- g) authorising transactions between the company and its directors and significant shareholders that may pose a conflict of interest; and
- h) generally deciding on business and financial transactions that are of particular importance for the company.

The composition of the Board of Directors at 31 December 2018 is as follows:

Composition of the Board	
	Position
José Oliu Creus	Chair
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	CEO
Anthony Frank Elliott Ball	Director
Aurora Catá Sala	Director
Pedro Fontana García	Director
María José García Beato	Director - General Secretary
María Teresa García-Milà Lloveras	Director
George Donald Johnston	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
José Luis Negro Rodríguez	Director - General Manager
Manuel Valls Morató	Director
David Vegara Figueras	Director
Miquel Roca i Junyent	Non - voting Secretary

The Board of Directors has implemented a series of clear-cut and transparent rules and regulations on corporate governance, which are in line with Spanish regulations on corporate governance. The majority of the Board members (11 of 15) are non-executive directors, including 10 independent directors.

Banco Sabadell has an internal governance framework which was updated by the Board of Directors in its January 2019 meeting and which sets out, among other aspects, the shareholder structure, the governing bodies, the Group's structure, the composition and operation of corporate governance, the internal control functions, key governance matters, the risk management framework and the Group's policies.

At present, there are five committees in operation, the meetings of which are also attended by members of the General Management.

The Board Committees are:

- The Executive Committee
- The Audit and Control Committee
- The Appointments Committee
- The Remuneration Committee
- The Risks Committee

The composition of these Committees as at 31 December 2018 is shown in the table below:

Composition of Committees

Position	Executive	Audit and Control	Appointments	Remuneration	Risk
Chair	José Oliu Creus	Manuel Valls Morató	Aurora Catá Sala	Aurora Catá Sala	David Vegara Figueras
Member	José Javier Echenique Landiribar	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Maria Teresa Garcia-Milà Lloveras
Member	Jaime Guardiola Romojaro	Maria Teresa Garcia-Milà Lloveras	Pedro Fontana García	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston
Member	José Manuel Martínez Martínez	José Ramón Martínez Sufrategui	Maria Teresa Garcia-Milà Lloveras	George Donald Johnston	Manuel Valls Morató
Member	José Luis Negro Rodríguez	-	-	-	-
Secretary non-member	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings in 2018	35	12	12	12	15

Executive Committee

The Executive Committee has the same duties as the Board of Directors. It is also responsible for coordinating the bank's Executive Division, adopting to this end any resolutions and decisions within the scope of the powers conferred to it by the Board of Directors, and for monitoring the bank's ordinary activity. Any decisions adopted during Committee meetings are reported to the Board of Directors, without prejudice to any other duties assigned to the Executive Committee in the Articles of Association and the Regulations of the Board of Directors.

Audit and Control Committee

The Audit and Control Committee is responsible for functions established by Law, including:

- a) reporting to the General Meeting on all issues raised by shareholders that are within its remit;
- b) monitoring the effectiveness of the Company's internal controls, Internal Audits and risk management systems, including tax risk management systems, and discussing with statutory auditors or auditing firms any significant internal control weaknesses identified in the course of the audit;
- c) overseeing the preparation and presentation of statutory financial information;

d) making recommendations to the Board of Directors, for submission at the Annual General Meeting, on the appointment of external statutory auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the renewal or non-renewal of their engagement; reviewing compliance with the auditing agreement and ensuring that the opinion on the annual accounts and the key findings of the auditor's report are expressed in a clear and precise way;

e) advising on the annual accounts and the quarterly and half-yearly financial statements and any prospectuses required to be filed with the regulatory or supervisory authorities; monitoring regulatory compliance and ensuring that generally accepted accounting principles have been correctly applied, and reporting on any proposed amendments to those principles;

f) establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions or in the audit rules;

g) advising on any issues referred to the Committee by the Board of Directors that are within its remit;

h) any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

Pursuant to its Regulations, the Audit and Control Committee performs functions related to the process of financial reporting and internal control systems, functions related to account auditing, functions related to economic and financial information, functions related to internal audit services and functions related to compliance with regulatory provisions, legal requirements and good governance codes, specifically:

a) overseeing compliance with the law, internal regulations and regulatory provisions concerning Company activities;

b) assessing the sufficiency and compliance of the Regulations of the Annual General Meeting, the Regulations of the Board of Directors, the Company's Code of Conduct and, particularly, the Internal Code of Conduct relating to the Securities Market;

c) reviewing compliance with the company's rules on corporate governance and submitting recommendations for improvement to the Board as it sees fit; and

d) supervising the corporate governance report to be approved by the Board of Directors and included in the annual report.

Appointments Committee

The Appointments Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

a) make recommendations to the Board of Directors on the appointment of independent directors for their appointment by co-optation or for their submission for decision at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

b) submit proposals for the appointment of the remaining directors for their appointment by co-optation or for their submission for decision at the Annual General Meeting, in addition to any proposals for re-electing or discharging these directors;

c) ensure compliance with the qualitative composition of the Board of Directors, in accordance with Article 53 of the Articles of Association;

d) evaluate the suitability, skills, knowledge and experience necessary for members of the Board of Directors;

e) submit proposals for the appointment and discharge of officers and of the Identified Staff;

f) report on the basic terms of the contracts with executive directors and officers;

g) examine and organise succession plans for the Chairman of the Board of Directors and of the bank's chief executive and, as appropriate, make proposals to the Board;

h) establish an objective for gender diversity in the Board of Directors and prepare ideas on how to reach this objective.

Remuneration Committee

The Remuneration Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Remuneration Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

- a) propose to the Board of Directors the remuneration policy of the directors;
- b) propose to the Board of Directors the remuneration policy of the General Managers and those performing Senior Management duties who report directly to the Board, Executive Committee members or CEOs, and the individual remuneration and other contractual terms of the Executive Directors, ensuring their compliance;
- c) regularly review the remuneration policy;
- d) report on the schemes for remuneration in the form of shares and/or options;
- e) regularly review the general principles in matters of remuneration, and the remuneration schemes of all employees, weighing their alignment with these principles;
- f) ensure that remuneration is transparent;
- g) ensure that any potential conflicts of interest do not jeopardise the independence or impartiality of external consultants;
- h) verify the information on remuneration contained in the various corporate documents, including the Directors ' Remuneration Report.

Risks Committee

The Risks Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association, the Board of Directors and the Regulations of the Board of Directors:

- a) oversee the implementation of the Risk Appetite Framework;
- b) determine and make recommendations to the full Board on annual limits of investment in the real estate market, as well as criteria and volumes applicable to all different types of such investments;
- c) report to the full Board on the performance of its functions, in accordance with this Article and any other applicable legal or statutory provisions;
- d) make quarterly reports to the full Board on the levels of risks taken, investments carried out and on their evolution, as well as on any possible repercussions on the Group's income caused by interest rate fluctuations and their adjustment to their VAR approved by the Board;
- e) monitor and detect any ruptures of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect;
- f) report to the Remuneration Committee on whether the employees 'Remuneration Schemes are consistent with the bank's risk, capital and liquidity levels.

1.2. Business model, main objectives achieved and actions implemented

The Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile within the framework of ethical and professional codes and taking into account the interests of the various stakeholders.

The bank's management model is focused on long-term customer retention, through ongoing efforts designed to build customer loyalty by taking initiatives and being proactive in its relationship with customers. The bank has a comprehensive offering of products and services, a qualified work force, an IT platform that supports growth and a constant focus on the pursuit for quality.

Since the onset of the financial crisis, Spain's banking sector has been going through an unprecedented process of consolidation. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from capital markets are some of the factors that have driven Spanish entities to merge and thus gain scale, maximise efficiency and improve their balance sheets.

During the last decade, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to significantly increase the size of its balance sheet. In 2013 Banco Sabadell was able to undertake further corporate actions under economically acceptable terms in a context of banking sector restructuring. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2015, Banco Sabadell is well positioned to grow organically and to benefit from the economic recovery in Spain and a future interest rate hike.

Acquisitions and organic growth in recent years have enabled Banco Sabadell to strengthen its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencian Community and the Balearic Islands) and to increase its market share in other key areas. Based on the most recent information available, Banco Sabadell's market share in Spain stands at 8.0% in loans and 7.0% in deposits (October 2018). Furthermore, Banco Sabadell stands out in products such as trade credit, with a market share of 10.0% (October 2018), business loans with a market share of 11.6% (September 2018), mutual funds with a market share of 6.2% (December 2018), securities trading with a market share of 10.6% (December 2018) and POS turnover with a market share of 16.5% (September 2018).

Banco Sabadell maintains its distinction in terms of quality with respect to the sector, and holds first place in the ranking that measures customer experience (net promoter score) for large enterprises and SMEs.

In terms of international business, Banco Sabadell has always been exemplary. This has not changed in 2018 and Sabadell has continued being present in strategic areas and has helped companies in their international activity, reaching a market share of 15.2% in Swift transfers (in quarterly accumulated terms) (December 2018). Over the past few years, Banco Sabadell has expanded its international footprint, and its main milestones have been: the acquisition of British bank TSB and the entry into the Mexican market, after obtaining a licence to operate in this country as a commercial bank. As a result, as at December 2018, 31% of the Group's loans and credit was generated overseas (23% in the United Kingdom and 8% in the Americas and other geographies).

TSB has focused, on one hand, on its IT migration and integration and, on the other hand, on resolving the incidents which occurred during migration. Going forward, the high market share of Banco Sabadell in the SMEs sector in Spain, together with its international experience, will be a sound value-added tool to support TSB in the provision of efficient and high-quality services for SMEs in the United Kingdom.

In 2018, Banco Sabadell Group went to great lengths to reduce its problematic exposures and its efforts have resulted in two corporate transactions which improve the Group's risk profile. On one hand, there has been a significant divestment from the portfolio of non-performing assets (non-performing assets sold amounted to a gross total of €12.2M), reducing the exposure to these types of assets and achieving an NPA coverage ratio of 52.1%. On the other hand, the Group has sold its real estate servicer, as this is not considered a core business line.

Banco Sabadell carries out its business in an ethical and responsible manner, managing its commitment to society in such a way as to ensure that its activity has a positive impact on people and the environment. All of the people that form part of the organisation apply the principles and policies of corporate social responsibility, whilst also guaranteeing quality and transparency in customer service.

In addition to complying with applicable rules, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee this ethical and responsible behaviour throughout the organisation, and which address all of the Group's activity.

In accordance with the Risk Appetite Framework, the control and monitoring of these matters is carried out through two committees. The Corporate Ethics Committee, which ensures the Group's compliance with all of the codes of conduct of the securities market and with the general code of conduct, the Internal Control Body, in which all of the Group's companies are represented and are liable parties, and which ensures compliance with anti-money laundering and counter-terrorist financing regulations and the control of international sanctions.

The mission of the Compliance Division is to promote and endeavour to reach the highest levels of compliance with the legislation in force and the professional ethics of the Group, minimise the possibility of non-compliance and ensure that any instances of non-compliance are identified, reported and diligently resolved and that the appropriate preventive measures are adopted in the event that these are not already in place. It is also directly responsible for the implementation of a number of processes that are classified as high risk, including anti-money laundering, counter-terrorist financing, the control of international sanctions, the control of market abuse practices, the oversight of compliance with the Internal Code of Conduct and the control of the investor protection regulation (MiFID) and consumer protection regulations.

In addition to the foregoing, in 2016 the Corporate Social Responsibility Committee was set up, chaired by the Secretary General, which is responsible for promoting and coordinating the Group's CSR strategy, policies and projects geared towards Banco Sabadell's commitment to its customers, employees, the environment and society. The bank is a member of a number of international initiatives and has obtained multiple certificates and qualifications.

2 – BUSINESS PERFORMANCE AND RESULTS

2.1. Economic and financial environment

In 2018, political and geopolitical events have once again been in the media spotlight. These events have increasingly affected financial markets throughout the year, in a context in which major central banks have continued with their withdrawal of monetary stimulus measures.

Some key political events include the negotiations regarding the withdrawal of the United Kingdom (UK) from the European Union (EU), the actions taken by the new Italian government in relation to European tax rules, Trump's protectionist policies and electoral results in certain emerging countries.

In the UK, the political environment has been marked by the complexity of Brexit, both in terms of the negotiations with the EU and in terms of domestic politics, as a result of divisions that this aspect has generated in the government and within the main political parties. The main obstacle encountered during negotiations with the EU has been the search for a solution to avoid a hard border in Ireland. T. May's government and the EU reached an agreement for a transition period which is due to run until the end of 2020, although it could be extended to the end of 2022, during which to negotiate the new bilateral relationship. The vote on this deal in the UK Parliament was postponed until January 2019.

In Italy, the elections that took place on 4 March were a blow for traditional parties, leaving a fragmented Parliament. After several months of complex negotiations, which almost triggered an institutional crisis, the Five Star Movement and La Liga reached an agreement to form a coalition. The new government submitted its budget, whose public deficit targets were above those prescribed by Europe. This led the European Commission to reject national budgets for the first time in history. The discipline imposed by financial markets and the negative impact that the political situation has had on economic activity resulted in the Italian government adopting a more conciliatory tone with the European Commission and reducing its deficit target for 2019.

In the United States (US), Trump has adopted an increasingly aggressive tone in relation to foreign policy. The US has applied tariffs to over half of its Chinese imports, and has threatened to increase these tariffs and apply them to all imports. The technology sector has also attracted a lot of attention in terms of the relationship between the two countries. The truce reached in May with EU has successfully prevented the adoption of protectionist measures. In terms of NAFTA, the relevant countries have finally agreed to renegotiate (and rename) the agreement to make it more favourable to the US.

The assertive tone of the US in terms of foreign policy has also resulted in: (i) the declaration of the EU being a "strategic competitor", in sharp contrast to decades of transatlantic cooperation, (ii) the imposition of sanctions on Iran, despite the opposition of other major powers and (iii) tensions with countries such as Turkey and North Korea.

The mid-term elections that took place in the US in November led to the Democrats taking back the House, although the Republicans (Trump's party) retained control in the Senate. The Democrats have shown their intention of using their majority to exert further legal pressure on Trump and limit some of his domestic policies.

In Latin America, the political shift that has taken place in countries such as Mexico and Brazil in the elections that took place this year has been the focus of much attention. In Mexico, the victory of López Obrador in July's presidential and parliamentary elections stoked the uncertainty surrounding the country's economic and institutional environment. The use of illegal public consultations in order to make major economic decisions has negatively affected investor confidence. Meanwhile, in Brazil, the victory of the former military officer Bolsonaro has been interpreted as a clear rejection by the population of the violence and corruption that has been taking place in the country.

In terms of economic activity, global GDP has continued to record relatively high growth rates, supported by factors such as the expansionary nature of the tax policy of countries such as the United States and China, and a monetary policy which is still accommodating in areas such as the Eurozone.

In developed economies, the expansionary trend of activity in the euro area has continued, although the growth rate has been slightly lower than in the previous year, which was exceptionally good. Growth has been hindered by a worse performance of foreign demand, in a context of slightly weaker international trade. Certain one-off factors have also negatively affected activity, including new issuing standards, which have affected the automotive industry. In the United Kingdom, activity has recorded moderate growth, affected by the uncertainty surrounding Brexit. This uncertainty has particularly affected investment and some sectors including real estate. In the United States, the economy has performed well, supported by the expansionary nature of the tax policy, which has particularly benefited private consumption. Against this backdrop, unemployment rates have continued to fall, and remain at historic lows. In Japan, the economy has continued to gradually expand, supported by more lax funding conditions and by government spending.

In emerging economies, China's economic growth, though still fast, has slowed slightly, affected by regulatory tightening implemented by financial authorities. This effect has been made more pronounced by the trade war waged by the United States. However, the country's economic expansion measures have helped to offset these negative effects. In other countries, the main focus has been on the more vulnerable economies, such as Argentina and Turkey, whose financial markets have slumped in a context of tightening international funding conditions. Lastly, in Mexico, the economy has maintained its moderate and relatively stable growth, which has been hindered by uncertainty regarding the NAFTA negotiations and domestic policy.

Regarding inflation, in the euro area, the underlying component, which excludes energy and food, has remained at low levels, with no clear trend in any direction. Inflation in the UK has slowed as the effects of the pound's devaluation following the Brexit referendum have dissipated, and at the end of the year it was close to the target set out in its monetary policy. Underlying inflation in the United States has grown to levels close to the target set by the Federal Reserve. Salaries have also increased and are practically back to normal. In Japan, inflation has been contained.

Crude oil prices reached their highest levels since 2014, influenced by the OPEC's production cuts, bottlenecks in US production and the announcement that the US would be reinstating sanctions on crude oil exports from Iran. Oil prices then dipped as a result of financial tensions, the temporary authorisations granted by the United States to import Iranian crude oil and the increase in production in Saudi Arabia, Russia and the United States.

The Spanish economy has maintained its robust growth rates, exceeding the euro area average once more in 2018, although figures have been slightly lower than in previous years. The economy is still being supported by lower interest rates and the improved financial situation of the private sector. With respect to the labour market, the unemployment rate has continued to fall, and has remained at the historic lows of the end of 2008. The tourism industry has run out of steam, in a context in which tourists are starting to return to other countries in the Mediterranean. This, along with higher oil prices in the year, has resulted in a current account surplus for the sixth consecutive year, although it is slightly lower than in the preceding year. In terms of the real estate market, both housing prices and the volume of sales have continued to record substantial growth. New lending has recorded significant growth rates, in terms of both lending to enterprises and lending to households. As regards the evolution of public accounts, the published data suggest that the deficit will have stood below 3% of GDP. In political aspects, there was a change in government following the vote of no confidence tabled by PSOE.

Financial markets have experienced a period of increasing volatility. Losses have been recorded on practically all risky assets worldwide, although the declines have been more pronounced for assets that benefited the most from the search for yield, such as corporate debt. Financial conditions have therefore become tighter, particularly at the end of the year, and market liquidity difficulties have become more pronounced. As a result, major international organisations have continued to warn of the growing risks in financial markets in terms of financial stability.

Central banks have continued to take further steps in the normalisation of their monetary policies. The ECB, after reducing its rate of monthly asset purchases, ended its asset purchase programme at the end of the year, although it indicated that it would continue to reinvest assets maturing over a longer period of time. The ECB also indicated that its benchmark interest rates will remain unchanged until at least summer 2019. In the United Kingdom, the Bank of England raised its base rate to 0.75% in its August meeting, confirming the process of gradual and limited monetary normalisation that it had announced previously. Meanwhile, the Fed has continued with its gradual interest rate increases, against a backdrop of strong economic activity, inflation levels that are close to the target of its monetary policy and the normalisation of the labour market. The Fed funds rate ended the year at 2.25-2.50%, compared to 1.25-1.50% at the end of 2017. Lastly, the Bank of Japan has kept its benchmark interest rate at -0.10%, whilst at the same time gradually reducing its purchases of public debt. In July it introduced greater flexibility in its public debt purchases, allowing larger deviations from the target yield on 10-year bonds (from 0.00% to 0.20%).

Yields on long-term government bonds have performed differently in the US and in Germany. The yield on US government bonds ended the year above 2017 year-end levels. This evolution is due to factors such as the Fed's interest rate increases, the expansionary nature of the tax policy, the positive activity figures and the strong labour market. Yields were forced downwards in the final quarter of the year, affected by the poor performance of risky assets and the decline in crude oil prices. In the case of German government debt, yields declined from 2017 to very low levels. The political situation in Italy and the situation of financial markets at the end of the year have also been an influencing factor. The spread between the yield on both bonds reached the highest levels ever recorded in the history of the European Monetary Union.

Sovereign risk premiums in Spain and Portugal ended the year at similar levels to the previous year. Credit rating upgrades and the expansionary cycle of both economies have exerted downward pressure on the risk premiums. Conversely, trade tensions and significant political uncertainty in Italy have worked to push them up. In Italy, the political environment led to a sharp upturn in the risk premium, which reached maximum levels last seen in 2013. This has been despite its reduction in the final quarter of the year as a result of the country's greater commitment to fiscal rigour.

In terms of foreign currencies, the dollar appreciated against the euro, after falling at the beginning of the year to levels not seen since 2014. The dollar was supported by widening interest rate spreads, political noise in Italy and uncertainty surrounding Brexit, as well as greater levels of risk aversion in light of trade disputes. The pound sterling did not follow any clear trend in its currency pair with the euro, and has mostly remained in the range of 0.87-0.90. In addition to Brexit, the pound has proven to be sensitive to expectations regarding the Bank of England's base rate, as well as the instability of domestic politics. The yen ended the year at higher levels than at the end of the previous year in its quotation against the dollar. In the final quarter of the year, growing volatility and instability in financial markets have represented a supporting factor of the Japanese currency.

Equity has been negatively affected, not only by tightening global funding conditions, but also by the trade war, particularly in the sectors most exposed to the latter, such as the automotive industry and the technology sector. A number of international companies have lowered their corporate earnings forecasts as a result of these trade tensions. In the euro area, political instability in Italy and a sharp upturn in this country's risk premium have hindered the evolution of the banking sector. The IBEX 35 and the Italian MIB recorded the worst performance, together with the German DAX, which was affected given the size of its automotive industry.

Financial markets in emerging economies have been particularly sensitive to episodes of risk aversion related to Argentina and Turkey. In the case of Turkey, the pronounced devaluation of the Turkish lira and the sharp increase in the corporate risk premium which took place in August even impacted, albeit temporarily, the financial assets of developed countries. In addition to the foregoing, other factors that have hindered emerging markets include: (i) domestic political instability in certain economies, (ii) the shift in approach of central banks in developed economies and (iii) the protectionism promoted by Trump. In this context, the aggregate risk premium for emerging countries has reached its highest levels since early 2016. In the particular case of Mexico, the peso has been subjected to high volatility and downward pressures as a result of political uncertainty. In this context, and with inflation figures above the target set out in its monetary policy, the central bank has continued to raise its official interest rate.

2.2. Key financial and non-financial indicators

The key figures for the Group, including financial and non-financial data of critical importance for the management of the Group, are set out below:

	2018	2017	Change (%) year-on-year
Income statement (million euro)	(A)		
Net interest income	3,675.2	3,802.4	(3.3)
Gross income	5,010.2	5,737.3	(12.7)
Pre-provisions income	1,736.8	2,612.1	(33.5)
Profit attributed to the Group	328.1	801.5	(59.1)
Balance sheet (million euro)	(B)		
Total assets	222,322	221,348	0.4
Gross performing loans	139,366	137,522	1.3
Gross lending loans to customers	146,420	147,325	(0.6)
On-balance sheet funds	161,678	159,095	1.6
<i>Of which: on-balance sheet customer funds</i>	<i>137,343</i>	<i>132,096</i>	<i>4.0</i>
Mutual funds	26,379	27,375	(3.6)
Pension funds and insurance products sold by the Group	14,059	13,951	0.8
Funds under management	205,711	204,420	0.6
Equity	12,117	13,222	(8.4)
Own funds	12,545	13,426	(6.6)
Profitability and efficiency (%)	(C)		
ROA	0.15	0.38	
RORWA	0.41	1.03	
ROE	2.60	6.10	
ROTE	3.18	7.27	
Cost-to-income	58.29	50.15	
Risk management	(D)		
Non-performing loans (thousand euro)	6,554	7,925	
Total non-performing assets (million euro)	8,279	15,318	
NPL ratio (%)	4.22	5.14	
NPL coverage ratio (covering risks classified as Stage 3 and excl. floor clauses)	54.1	45.7	
NPA coverage ratio (%) (excl. floor clauses)	52.1	49.8	
Capital management	(E)		
Risk-weighted assets (RWAs) (million euro)	80,279	77,505	
Phase-in Common Equity Tier 1 (%)	(1) 12.0	13.4	
Phase-in Tier 1 (%)	(2) 13.4	14.3	
Phase-in total capital ratio (%)	(3) 15.5	16.1	
Phase-in leverage ratio (%)	4.87	4.97	
Liquidity management	(F)		
Loan to deposit ratio (%)	101.6	104.3	
Shareholders and shares (as at reporting date)	(G)		
Number of shareholders	235,523	235,130	
Average number of shares (million)	5,565	5,570	
Share price (euro)	1.001	1.656	
Market capitalisation (million euro)	5,568	9,224	
Net attributed earnings per share (EPS) (euro)	0.05	0.14	
Book value per share (euro)	2.25	2.41	
Price/book value	0.45	0.69	
PER (share price / EPS)	20.11	11.85	
Other data			
Branches	2,457	2,473	
Employees	26,181	25,845	

- (A) This section sets out key components of the income statement for the last two years.
 - (B) The purpose of these key figures is to provide a general overview of year-on-year changes in the main items on the Group's consolidated balance sheet, focusing particularly on data related to lending and customer funds.
 - (C) These ratios have been included to give a meaningful indication of profitability and efficiency in the last two years.
 - (D) This section gives some key balances related to risk management within the Group, as well as the most significant ratios related to risk.
 - (E) These ratios have been included to give a meaningful indication of solvency in the last two years.
 - (F) The aim of this section is to give a meaningful indication of liquidity in the last two years.
 - (G) This section provides information related to the share price and other stock market indicators and ratios.
- (1) Core capital / risk-weighted assets (RWA).
 - (2) Tier 1 capital / risk-weighted assets (RWAs).
 - (3) Total capital / risk-weighted assets (RWAs).

2.3. Financial review

Balance sheet and income statement

There have been certain one-off items in 2018 which have affected the results for the year, including: (1) extraordinary costs associated with TSB's IT migration, (2) costs related to TSB post-migration incidents and (3) institutional portfolio sales.

In 2017, the Group reached an agreement to sell 100% of its shares in Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, and it also reached an agreement to sell shares representing 100% of the share capital of the subsidiary Sabadell United Bank, N.A. to the US entity Iberiabank Corporation. 2017 also saw the early call of the mortgage enhancement portfolio (a segmented portfolio of mortgage assets that was assigned to TSB to drive profits), which was returned to Lloyds having served its purpose, as the success of TSB's business model allowed it to terminate the deal one year earlier than agreed. These impacts have been excluded from 2017 figures to calculate changes in the income statement on a like-for-like basis.

Banco Sabadell and its group ended 2018 with net attributed profit of 328.1 million euros (568.0 million euros excluding TSB), due to the impact of the one-offs.

The positive performance of the ordinary business, together with the significant reduction of problematic assets, are the main factors behind Banco Sabadell's business performance in 2018.

Balance sheet

As at the end of 2018, total assets for Banco Sabadell and its group amounted to 222,322 million euros (176,140 million euros excluding TSB), compared with the 2017 year-end figures of 221,348 million euros (173,203 million euros excluding TSB).

Million euro

	2018	2017	Change (%) year-on-year
Cash, cash balances at central banks and other demand deposits	23,494	26,363	(10.9)
Financial assets held for trading	2,045	1,573	30.0
Non-trading financial assets mandatorily at fair value through profit or loss	141	40	257.5
Financial assets designated at fair value through profit or loss	-	-	-
Financial assets at fair value through other comprehensive income	13,247	13,181	0.5
Financial assets at amortised cost	164,416	160,724	2.3
Debt securities	13,132	11,747	11.8
Loans and advances	151,284	148,977	1.5
Investments in joint ventures and associates	575	576	(0.1)
Tangible assets	2,498	3,827	(34.7)
Intangible assets	2,461	2,246	9.6
Other assets	13,445	12,821	4.9
Total assets	222,322	221,348	0.4
Financial liabilities held for trading	1,738	1,431	21.5
Financial liabilities designated at fair value through profit or loss	-	40	(100.0)
Financial liabilities at amortised cost	206,077	204,045	1.0
Deposits	179,878	177,326	1.4
Central banks	28,799	27,848	3.4
Credit institutions	12,000	14,171	(15.3)
Customers	139,079	135,307	2.8
Debt securities issued	22,599	23,788	(5.0)
Other financial liabilities	3,601	2,932	22.8
Provisions	466	318	46.9
Other liabilities	1,924	2,293	(16.1)
Total liabilities	210,205	208,127	1.0
Own funds	12,545	13,426	(6.6)
Accumulated other comprehensive income	(491)	(265)	85.2
Minority interests (non-controlling interests)	64	61	3.9
Equity	12,117	13,222	(8.4)
Total equity and total liabilities	222,322	221,348	0.4
Financial guarantees given	2,041	1,983	2.9
Loan commitments given	22,646	20,906	8.3
Other commitments given	8,233	9,917	(17.0)
Total memorandum accounts	32,920	32,806	0.3

Gross performing loans amounted to 139,366 million euros as at 2018 year-end (105,732 million euros excluding TSB), representing a 1.3% growth year-on-year (3.5% excluding TSB). Mortgage-secured loans formed the largest single component of gross loans and receivables, amounting to 80,872 million euros as at 31 December 2018, representing over 58% of total gross performing loans.

Million euro

			Change (%)	Ex TSB	Ex TSB	Change (%)
	2018	2017	year-on-year	2018	2017	year-on-year
Loans and credit secured with mortgages	80,872	84,267	(4.0)	49,833	52,259	(4.6)
Loans and credit secured with other collateral	2,767	2,315	19.5	2,766	2,315	19.5
Trade credit	6,186	5,802	6.6	6,186	5,802	6.6
Finance leases	2,565	2,316	10.7	2,565	2,316	10.7
On-demand loans and other	46,976	42,822	9.7	44,383	39,427	12.6
Gross performing loans	139,366	137,522	1.3	105,732	102,119	3.5
Non-performing loans (customers)	6,472	7,867	(17.7)	6,024	7,723	(22.0)
Accrual adjustments	(13)	(66)	(79.7)	(83)	(100)	(16.9)
Gross lending to customers excluding repos	145,824	145,323	0.3	111,673	109,742	1.8
Assets acquired under repurchase agreements	596	2,001	(70.2)	596	2,001	(70.2)
Gross lending loans to customers	146,420	147,325	(0.6)	112,269	111,743	0.5
Allowances for loan losses and country risk	(3,433)	(3,727)	(7.9)	(3,211)	(3,646)	(11.9)
Loans and advances to customers	142,987	143,598	(0.4)	109,058	108,097	0.9

The evolution of non-performing assets has shown improvement throughout 2018. Quarter-on-quarter changes in these assets excl. TSB (assets classified as Stage 3 plus foreclosed assets not covered by the Asset Protection Scheme) were as follows:

Million euro

	2018				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Ordinary net inflows	(58)	(243)	(14)	(699)	(261)	(541)	(203)	(339)
Change in real estate assets	23	(244)	(136)	(5,497)	(67)	(51)	(154)	(1,370)
Ordinary net inflows + properties	(35)	(487)	(150)	(6,196)	(328)	(592)	(357)	(1,709)
Write-offs	216	268	187	106	178	61	152	66
QoQ ordinary change in balance of NPLs and foreclosed assets	(251)	(755)	(337)	(6,302)	(506)	(653)	(509)	(1,775)

Net variance that considers the 20% exposure retained as it has not been transferred to the DGF as non-performing

The reduction in loans classified as Stage 3 was reflected in an NPL ratio of 4.22% as at the end of 2018, compared with 5.14% as at the end of 2017, representing a fall of -92 basis points. The NPL coverage ratio (covering risks classified as Stage 3) as at 31 December 2018 was 54.1%, compared with 48.3% one year earlier.

As at 2018 year-end, on-balance sheet customer funds amounted to 137,343 million euros (104,859 million euros excluding TSB), compared with 132,096 million euros as at the end of 2017 (97,686 million euros excluding TSB), representing a 4.0% growth (7.3% excluding TSB).

Total off-balance sheet customer funds amounted to 44,034 million euros, a -2.8% decrease year-on-year. Within this heading, particularly worthy of note was the decline in assets in UCITS, which as at 31 December 2018 stood at 26,379 million euros, a -3.6% decrease compared to 2017 year-end, offset by the growth in insurance products sold, which amounted to 10,465 million euros, representing a 5.0% increase compared to 2017 year-end.

Issued debt securities (borrowing operations and other marketable securities and subordinated liabilities) amounted to 22,599 million euros as at 2018 year-end (20,889 million euros excluding TSB), compared with 23,787 million euros (21,845 million euros excluding TSB) as at 31 December 2017.

Total funds under management as at 31 December 2018 amounted to 205,711 million euros (170,285 million euros excluding TSB), compared with 204,420 million euros as at 31 December 2017 (166,447 million euros excluding TSB), representing an increase during 2018 of 0.6% (2.3% excluding TSB).

Million euro

	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
On-balance sheet customer funds (*)	137,343	132,096	4.0	104,859	97,686	7.3
Customer deposits	139,079	135,307	2.8	105,353	99,277	6.1
Current and savings accounts	107,665	98,020	9.8	77,736	68,039	14.3
Deposits with agreed maturity	28,709	32,425	(11.5)	26,154	27,996	(6.6)
Assets sold under repurchase agreements	2,533	4,750	(46.7)	1,321	3,119	(57.7)
Accrual adjustments and derivatives hedging	172	113	52.3	142	123	15.7
Borrowing operations and other marketable securities	19,568	21,250	(7.9)	18,313	19,764	(7.3)
Subordinated liabilities (**)	3,031	2,537	19.4	2,586	2,081	24.3
On-balance sheet funds	161,678	159,095	1.6	126,251	121,122	4.2
Mutual funds	26,379	27,375	(3.6)	26,379	27,375	(3.6)
Equity investment funds	1,681	1,929	(12.9)	1,681	1,929	(12.9)
Mixed investment funds	6,469	6,490	(0.3)	6,469	6,490	(0.3)
Fixed income investment funds	4,027	4,488	(10.3)	4,027	4,488	(10.3)
Guaranteed investment funds	4,074	3,829	6.4	4,074	3,829	6.4
Real estate investment funds	115	125	(8.3)	115	125	(8.3)
Venture capital investment funds	46	38	21.1	46	38	21.1
Investment firms	1,886	2,192	(13.9)	1,886	2,192	(13.9)
UCITS sold but not managed	8,081	8,283	(2.4)	8,081	8,283	(2.4)
Assets under management	3,595	3,999	(10.1)	3,595	3,999	(10.1)
Pension funds	3,594	3,987	(9.8)	3,594	3,987	(9.8)
Private	2,168	2,476	(12.4)	2,168	2,476	(12.4)
Corporates	1,416	1,498	(5.5)	1,416	1,498	(5.5)
Funded by unions or other associations	11	13	(14.6)	11	13	(14.6)
Insurance products sold	10,465	9,965	5.0	10,465	9,965	5.0
Off-balance sheet funds	44,034	45,325	(2.8)	44,034	45,325	(2.8)
Funds under management	205,711	204,420	0.6	170,285	166,447	2.3

(*) Includes customer deposits (ex-repos) and other liabilities sold by the branch network: mandatory convertible bonds, Banco Sabadell straight bonds, commercial paper and others.

(**) These are subordinated liabilities of debt securities.

Income statement

Million euro

	2018	2017	Change (%) year-on-year	Ex TSB 2018	Ex TSB 2017	Change (%) year-on-year
Interest and similar income	4,861.9	4,839.6	0.5	3,652.7	3,605.9	1.3
Interest and similar charges	(1,186.8)	(1,037.3)	14.4	(977.3)	(837.1)	16.7
Net interest income	3,675.2	3,802.4	(3.3)	2,675.5	2,768.8	(3.4)
Return on capital instruments	8.2	7.3	12.8	8.0	7.1	13.8
Income and expense of entities accounted for using the equity method	56.6	308.7	(81.7)	56.6	308.7	(81.7)
Net fees and commissions	1,335.3	1,223.4	9.1	1,250.1	1,127.8	10.8
Gains or (-) losses on financial assets and liabilities, net	226.7	614.1	(63.1)	209.3	504.5	(58.5)
Exchange differences (net)	(1.3)	8.4	-	(1.6)	8.4	-
Other operating income and expenses	(290.4)	(227.0)	27.9	(230.1)	(211.3)	8.9
Gross income	5,010.2	5,737.3	(12.7)	3,967.7	4,514.0	(12.1)
Staff expenses	(1,590.6)	(1,573.6)	1.1	(1,208.3)	(1,178.9)	2.5
Recurring	(1,529.6)	(1,546.9)	(1.1)	(1,168.1)	(1,163.0)	0.4
Non-recurring	(61.0)	(26.6)	129.2	(40.2)	(15.8)	154.1
Other general administrative expenses	(1,329.8)	(1,149.4)	15.7	(652.6)	(614.8)	6.1
Recurring	(1,099.3)	(1,116.7)	(1.6)	(652.6)	(614.8)	6.1
Non-recurring	(230.5)	(32.7)	-	-	-	-
Depreciation	(353.1)	(402.2)	(12.2)	(264.5)	(329.6)	(19.7)
Pre-provisions income	1,736.8	2,612.1	(33.5)	1,842.3	2,390.8	(22.9)
Provisions for loan losses and other impairments	(916.8)	(1,225.2)	(25.2)	(685.8)	(1,136.4)	(39.7)
Other provisions and impairments	(403.6)	(971.1)	(58.4)	(403.6)	(971.1)	(58.4)
Capital gains on asset sales and other revenue	2.5	432.6	(99.4)	1.2	425.9	(99.7)
Negative goodwill	-	-	-	-	-	-
Profit or loss before tax	418.9	848.3	(50.6)	754.1	709.1	6.3
Corporation tax	(83.6)	(43.1)	94.2	(179.0)	5.8	-
Consolidated profit or loss for the year	335.2	805.2	(58.4)	575.2	714.9	(19.5)
Profit or loss attributed to minority interests	7.1	3.7	92.0	7.1	3.7	92.0
Profit attributed to the Group	328.1	801.5	(59.1)	568.0	711.2	(20.1)
Memorandum item:						
Average total assets	217,168	214,356	1.3	170,502	168,418	1.2
Earnings per share (euro)	0.05	0.14		0.09	0.12	

Net interest income in 2018 totalled 3,675.2 million euros, -3.3% below the net interest income obtained in the preceding year, which included Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros, Sabadell United Bank, N.A. and the mortgage enhancement portfolio. 2018 was also affected by TSB's remediation activities. Excluding TSB, net interest income amounted to 2,675.5 million euros as at 2018 year-end, a -3.4% decrease compared with the previous year. On a like-for-like basis, and excluding TSB's remediation activities, net interest income increased year-on-year by 1.5% (1.1% excluding TSB).

The net interest margin as a percentage of average total assets declined due to the reduction in the customer spread following TSB's remediation activities, the lower returns on the fixed-income portfolio due to asset rotations and an enhanced liquidity position. Consequently, the net interest margin as a percentage of average total assets stood at 1.69% in 2018 (1.77% in 2017).

Thousand euro											
	2018			2017			Change			Effect	
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	28,583,832	23,299	0.08	18,512,411	2,925	0.02	10,071,421	20,374	22.012	(1,638)	-
Lending to customers	135,903,483	4,016,686	2.96	136,937,930	4,102,112	3.00	(1,034,447)	(85,426)	(70.169)	(15,257)	-
Fixed-income portfolio	25,950,163	352,466	1.36	28,809,194	494,316	1.72	(2,859,031)	(141,850)	(98.278)	(43,572)	-
Subtotal	190,437,478	4,392,451	2.31	184,259,535	4,599,353	2.50	6,177,943	(206,902)	(146.435)	(60,467)	-
Equity portfolio	933,848	-	-	1,079,233	-	-	(145,385)	-	-	-	-
Tangible and intangible assets	4,084,833	-	-	4,268,271	-	-	(183,438)	-	-	-	-
Other assets	21,712,189	274,307	1.26	24,749,190	88,612	0.36	(3,037,001)	185,695	-	185,695	-
Total lending	217,168,348	4,666,758	2.15	214,356,229	4,687,965	2.18	2,812,119	(21,207)	(146.435)	125,228	-
Credit institutions	32,033,556	(35,690)	(0.11)	28,553,497	(29,558)	(0.10)	3,480,059	(6,132)	(39.265)	33,133	-
Customer deposits	141,060,307	(309,436)	(0.22)	138,258,332	(266,315)	(0.19)	2,801,975	(43,121)	(52.330)	9,209	-
Capital markets	24,614,108	(323,015)	(1.31)	26,020,323	(386,885)	(1.49)	(1,406,215)	63,870	50.044	13,826	-
Subtotal	197,707,971	(668,141)	(0.34)	192,832,152	(682,758)	(0.35)	4,875,819	14,617	(41.551)	56,168	-
Other liabilities	7,134,507	(323,433)	(4.53)	8,438,119	(202,837)	(2.40)	(1,303,612)	(120,596)	-	(120,596)	-
Own funds	12,325,870	-	-	13,085,958	-	-	(760,088)	-	-	-	-
Total funds	217,168,348	(991,574)	(0.46)	214,356,229	(885,595)	(0.41)	2,812,119	(105,979)	(41.551)	(64,428)	-
Total ATAs	217,168,348	3,675,184	1.69	214,356,229	3,802,370	1.77	2,812,119	(127,186)	(187.986)	60,800	-

Financial income or costs deriving from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions item under liabilities includes negative interest from balances of liability headings of credit institutions, the most significant of which is income from TLTRO II.

Dividends charged and earnings from companies consolidated under the equity method together amounted to 64.7 million euros, compared to 315.9 million euros in 2017, which include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe. These revenues are due mainly to income from the insurance and pension fund business.

Income from net fees and commissions amounted to 1,335.3 million euros (1,250.1 million euros excluding TSB), increasing by 9.1% year-on-year (10.8% excluding TSB). On a like-for-like basis and excluding the impact of TSB's overdraft fee waivers, fees and commissions income grew by 10.1% (11.3% excluding TSB) year-on-year. This growth was the consequence of the good performance of both service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 225.4 million euros (207.7 million euros excluding TSB), including the impairment of SAREB subordinated debt in the second quarter. In 2017, gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 622.5 million euros (512.9 million euros excluding TSB) and included the early call of TSB's Mortgage Enhancement portfolio, as well as sales of fixed-income portfolios.

Other operating income and expenses amounted to -290.4 million euros (-230.1 million euros excluding TSB), compared with -227.0 million euros (-211.3 million euros excluding TSB) in 2017. Particularly worthy of note in this heading are the contributions to the Deposit Guarantee Fund of -106.3 million euros (-98.3 million euros in the previous year), fraud losses in TSB amounting to -55.8 million euros, the contribution to the Single Resolution Fund of -49.7 million euros (-50.6 million euros in the previous year), the capital contributions associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority of -45.0 million euros (-54.7 million euros in the previous year) and the payment of the Tax on Deposits of Credit Institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, or IDEC) of -30.7 million euros (-28.1 million euros in the previous year).

Operating expenses (staff and general) during 2018 amounted to -2,920.4 million euros (-1,860.9 million euros excluding TSB), of which -291.5 million euros are attributable to non-recurrent items (-40.2 million euros excluding TSB). During 2017, operating expenses amounted to -2,723.0 million euros (-1,793.6 million euros excluding TSB), and included -59.3 million euros in non-recurrent items (-15.8 million euros excluding TSB). This year-on-year increase mainly corresponds to the extraordinary migration and post-migration costs in TSB.

The cost-to-income ratio in 2018 stood at 58.29% (46.90% excluding TSB), compared with 50.15% (42.10% excluding TSB) in 2017. This increase is due to the extraordinary costs incurred in TSB in 2018.

As a result of the foregoing, pre-provisions income as at 2018 year-end amounted to 1,736.8 million euros (1,842.3 million euros excluding TSB), compared with 2,612.1 million euros in 2017 (2,390.8 million euros excluding TSB), representing a decline of -33.5% (-22.9% excluding TSB), mainly due to extraordinary gains or (-) losses on financial assets and liabilities, net and the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe in the preceding year, as well as the extraordinary impacts related to TSB's migration and post-migration incurred during 2018.

Total provisions and impairments amounted to -1,320.4 million euros (-1,089.4 million euros excluding TSB), compared with -2,196.4 million euros in 2017 (-2,107.6 million euros excluding TSB). It should be noted that this year includes the provision for customer remedies in TSB and the allowance for institutional portfolio sales.

Gains on asset sales amounted to 2.5 million euros, compared to 432.6 million euros in the preceding year, as they included net gains on the sale of Sabadell United Bank, the sale of Mediterráneo Vida and the sale of 100% of the capital in HI Partners Holdco Value Added, S.A.U. by the subsidiary Hotel Investment Partners, S.L. (HIP).

After deducting corporation tax and minority interests, net profit attributed to the Group amounted to 328.1 million euros as at the end of 2018, representing a -59.1% decrease compared with the previous year due to extraordinary impacts. Excluding TSB, net profit attributed to the Group amounted to 568.0 million euros as at 2018 year-end, a -20.1% decrease compared 2017 year-end.

2.4. Business review

The key financial figures associated with the Group's largest business units are shown hereafter, in line with the segment reporting described in Note 38 to these consolidated annual financial statements.

Banking Business Spain

Net profit as at the end of 2018 amounted to 955 million euros, representing a year-on-year decline of -39%, due to the smaller contribution of gains or (-) losses on financial assets and liabilities, net compared to the previous year. Excluding Mediterráneo Vida in the previous year and the capital gains generated on the sales of Sabadell United Bank and Mediterráneo Vida, the decline is 19.5%.

Net interest income amounted to 2,445 million euros, a -3.3% decrease compared to 2017 year-end. Excluding Mediterráneo Vida, net interest income declined by -2.0%.

Net fees and commissions income amounted to 1,202 million euros, 11.7% higher than in the previous year, driven by the positive performance of service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences amounted to 193 million euros, representing a decline due to lower gains or (-) losses on financial assets and liabilities, net and the SAREB impairment in the year.

Administrative and depreciation expenses amounted to -1,791 million euros, 2.0% higher than in the same period in the previous year, mainly explained by the increase in expenses associated with the transformation and digitalisation of the business and by new regulatory developments.

Provisions and impairments amounted to -543 million euros, significantly less than in the previous year.

	2018	2017	Change (%) year-on-year
Net interest income	2,445	2,528	(3.3)
Profit or loss on entities valued using the equity method and on dividends	62	313	(80.2)
Net fees and commissions	1,202	1,076	11.7
Gains or (-) losses on financial assets and liabilities, net and exchange differences	193	541	(64.4)
Other operating income/expenses	(359)	(332)	8.0
Gross income	3,543	4,126	(14.1)
Administrative and depreciation expenses	(1,791)	(1,756)	2.0
Operating income	1,752	2,370	(26.1)
Provisions and impairments	(543)	(867)	(37.4)
Gains or losses on asset derecognition and others	1	384	(99.7)
Profit or loss before tax	1,211	1,887	(35.8)
Corporation tax	(253)	(321)	(21.1)
Profit or loss after tax	957	1,566	(38.9)
Profit or loss attributed to minority interests	2	-	-
Profit or loss attributed to the Group	955	1,566	(39.0)
ROE (earnings divided by average equity)	10.9%	17.8%	
Cost-to-income (administrative expenses divided by gross income)	44.4%	39.1%	
NPL ratio	5.2%	5.7%	
NPL coverage ratio (covering risks classified as Stage 3)	52.1%	45.6%	

Loans and advances to customers (excluding ATAs) amounted to 96,234 million euros, representing a 3.0% growth year-on-year.

On-balance sheet customer funds increased by 6.2% year-on-year, with a significant growth in sight accounts. Off-balance sheet funds fell by -2.9%, due to the decline in mutual funds and pension plans.

	2018	2017	Change (%) year-on-year
Assets	146,411	142,521	2.7
Customer lending (net) excluding repos	96,234	93,394	3.0
Liabilities	138,029	133,370	3.5
On-balance sheet customer funds	98,296	92,558	6.2
Wholesale Funding Capital Markets	19,833	20,168	(1.7)
Allocated capital	8,382	9,151	(8.4)
Off-balance sheet customer funds	42,976	44,265	(2.9)
Other indicators			
Employees	15,847	15,775	0.5
Branches	1,865	1,880	(0.8)

Within the banking business in Spain, the most significant businesses should be noted, on which information is shown regarding changes in income and key figures.

Commercial Banking

The Group's largest business line is Commercial Banking, which focuses its activity on providing a range of financial products and services for large and medium-sized enterprises, SMEs and retailers, individuals (including private banking, personal banking and mass markets), non-residents and professional groups, with a degree of specialisation that enables tailored services to be offered to customers in line with their requirements, whether via experts throughout its multi-brand branch network or via other channels intended to support the customer relationship and give access to remote banking services.

Net profit as at December 2018 amounted to 866 million euros, representing a -4.0% decrease year-on-year. Excluding the sales of Mediterráneo Vida and Exel Broker, and excluding the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe, the increase would be 34.7%.

Gross income, standing at 3,054 million euros, declined by -5.3% and excluding the effects mentioned above, gross income increased by 3.1%.

Core revenue of 3,166 million euros increased by 0.7%, and by 1.8% on a like-for-like basis (excluding Mediterráneo Vida and Exel Broker).

Net interest income stood at 2,227 million euros, a -3.1% decline compared to 2017 year-end. On a like-for-like basis, this item decreased by -1.7%.

Results on the equity method and dividends in 2017 include the net fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe.

Net fees and commissions stood at 939 million euros, 11.3% higher than in the previous year due to the positive performance of service commissions and asset management fees.

Gains or (-) losses on financial assets and liabilities, net and exchange differences in 2017 include the impacts of the sales of bad debt portfolios.

Administrative and depreciation expenses amounted to 1,473 million euros, and remained in line with the same period in the previous year.

Provisions and impairments amounted to -389 million euros, less than in the previous year due to the extraordinary provisions allocated this year.

The gains and losses on derecognised assets and others heading in 2017 includes the capital gains on the sales of of Mediterráneo Vida and Exel Broker.

	2018	2017	Change (%) year-on-year
Net interest income	2,227	2,299	(3.1)
Profit or loss on entities valued using the equity method and on dividends	44	304	(85.5)
Net fees and commissions	939	844	11.3
Gains or (-) losses on financial assets and liabilities, net and exchange differences	6	(37)	(116.2)
Other operating income/expenses	(162)	(185)	(12.4)
Gross income	3,054	3,225	(5.3)
Administrative and depreciation expenses	(1,473)	(1,468)	0.3
Operating income	1,581	1,757	(10.0)
Provisions and impairments	(389)	(632)	(38.4)
Gains or losses on asset derecognition and others	-	22	-
Profit or loss before tax	1,192	1,147	3.9
Corporation tax	(326)	(245)	33.1
Profit or loss after tax	866	902	(4.0)
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	866	902	(4.0)
ROE (earnings divided by average equity)	17.1%	19.2%	
Cost-to-income (administrative expenses divided by gross income)	47.4%	45.0%	
NPL ratio	5.5%	6.4%	
NPL coverage ratio (covering risks classified as Stage 3)	48.4%	40.5%	

Net lending increased by 6.5%, on-balance sheet funds grew by 5.7% and off-balance sheet funds increased by 1.8%, mainly due to the increase in mutual funds.

	2018	2017	Change (%) year-on-year
Assets	170,249	162,618	4.7
Customer lending (net) excluding repos	81,319	76,346	6.5
Liabilities	165,355	157,994	4.7
On-balance sheet customer funds	86,822	82,172	5.7
Allocated capital	4,894	4,624	5.8
Off-balance sheet customer funds	24,223	23,797	1.8
Other indicators			
Employees	11,336	11,427	-
Branches	1,852	1,868	-

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large corporations and financial institutions, both national and international. Its activities includes corporate banking, structured finance, and trade finance & IFI.

Net profit as at December 2018 amounted to 84 million euros, representing a -32.3% decrease year-on-year. Gross income, which stood at 240 million euros, recorded a decrease of -14%. Core revenue, which stood at 254 million euros, recorded a decrease of -11.2%.

Net interest income, which stood at 145 million euros, declined year-on-year by -15.7%.

Net fees and commissions income amounted to 109 million euros, -4.4% less than in the previous year.

Gains or (-) losses on financial assets and liabilities, net and exchange differences declined, as extraordinary gains/(losses) on sales of loan portfolios were recognised in 2018.

Administrative and depreciation expenses amounted to 41 million euros, increasing by 24.2% compared to the same period in the previous year.

Provisions and impairments amounted to 79 million euros, representing an increase of 14.5%.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	145	172	(15.7)
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	109	114	(4.4)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	(8)	3	(366.7)
Other operating income/expenses	(6)	(10)	(40.0)
Gross income	240	279	(14.0)
Administrative and depreciation expenses	(41)	(33)	24.2
Operating income	199	246	(19.1)
Provisions and impairments	(79)	(69)	14.5
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	120	177	(32.2)
Corporation tax	(36)	(53)	(32.1)
Profit or loss after tax	84	124	(32.3)
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	84	124	(32.3)
ROE (earnings divided by average equity)	10.9%	14.0%	
Cost-to-income (administrative expenses divided by gross income)	17.2%	12.0%	
NPL ratio	4.1%	4.7%	
NPL coverage ratio (covering risks classified as Stage 3)	91.2%	94.0%	

Net lending declined by 7.5%, and on-balance sheet funds increased by 15.7% due to sight accounts and fixed-term deposits, while off-balance sheet funds decreased by 8.7%, mainly due to workplace pension plans.

Million euro

	2018	2017	Change (%) year-on-year
Assets	11,020	11,958	(7.8)
Customer lending (net) excluding repos	6,981	7,548	(7.5)
Liabilities	10,289	11,239	(8.5)
On-balance sheet customer funds	3,306	2,857	15.7
Allocated capital	732	720	1.7
Off-balance sheet customer funds	472	517	(8.7)
Other indicators			
Employees	155	140	-
Branches	2	2	-

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added value with a view to achieving a good rate of return for customers, increasing and diversifying the customer base and ensuring the consistency of investment processes through an in-depth analysis and with good-quality management, while taking the customer relationship model towards a multichannel level.

Net profit as at December 2018 amounted to 98 million euros, representing a 2.1% increase year-on-year. Gross income, standing at 257 million euros, increased by 4.9% and core revenue, standing at 269 million euros, increased by 9.3%.

Net interest income amounted to 74 million euros, and increased year-on-year by 27.6%, due to the good results obtained in Treasury and Capital Markets.

Net fees and commissions income amounted to 195 million euros, 3.7% higher than in the previous year due to higher fees and commissions on mutual funds and securities.

Administrative and depreciation expenses amounted to 113 million euros, increasing by 7.6%.

	2018	2017	Change (%) year-on-year
Net interest income	74	58	27.6
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	195	188	3.7
Gains or (-) losses on financial assets and liabilities, net and exchange differences	4	1	300.0
Other operating income/expenses	(16)	(2)	700.0
Gross income	257	245	4.9
Administrative and depreciation expenses	(113)	(105)	7.6
Operating income	144	140	2.9
Provisions and impairments	(1)	(3)	-
Gains or losses on asset derecognition and others	-	-	-
Profit or loss before tax	143	137	4.4
Corporation tax	(45)	(41)	9.8
Profit or loss after tax	98	96	2.1
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	98	96	2.1
ROE (earnings divided by average equity)	55.6%	31.6%	
Cost-to-income (administrative expenses divided by gross income)	43.5%	42.5%	
NPL ratio	0.1%	0.5%	
NPL coverage ratio (covering risks classified as Stage 3)	435.8%	71.0%	

Net lending increased by 31.4%, concentrated in private banking customers jointly managed by commercial banking and private banking (hereinafter, jointly managed customers), while on-balance sheet customer funds grew by 30.2% and earnings on off-balance sheet funds declined by -5.2%, mainly due to the increase in Investment Funds.

	2018	2017	Change (%) year-on-year
Assets	11,523	8,858	30.1
Customer lending (net) excluding repos	2,859	2,175	31.4
Liabilities	11,347	8,578	32.3
On-balance sheet customer funds	8,293	6,367	30.2
Allocated capital	176	280	(37.1)
Off-balance sheet customer funds	16,324	17,213	(5.2)
Other indicators			
Employees	504	531	-
Branches	10	10	-

Banking Business United Kingdom

Net profit in December 2018 amounted to -240 million euros, mainly due to -460 million euros in migration and post-migration extraordinary costs.

Net interest income amounted to 1,000 million euros, declining by -3.3% year-on-year, impacted by TSB's post-migration remediation activities.

Net fees and commissions income fell by -10.9% year-on-year, mainly due to lower service commissions and remediation activities in TSB post-migration.

Gains or (-) losses on financial assets and liabilities, net includes results of fixed-income sales.

Administrative and depreciation expenses increased by 14.6% year-on-year to -1,148 million euros, including -195 million euros in non-recurrent costs related to migration and post-migration.

Provisions and impairments amounted to -231 million euros and include a provision of -142.1 million euros for the total estimated amount of customer redress, including extraordinary costs of the process for managing complaints associated with the migration.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	1,000	1,034	(3.3)
Profit or loss on entities valued using the equity method and on dividends	-	-	-
Net fees and commissions	85	96	(10.9)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	18	110	(83.8)
Other operating income/expenses	(60)	(16)	283.2
Gross income	1,042	1,223	(14.8)
Administrative and depreciation expenses	(1,148)	(1,002)	14.6
Operating income	(106)	221	(147.8)
Provisions and impairments	(231)	(89)	-
Gains or losses on asset derecognition and others	1	7	-
Profit or loss before tax	(335)	139	(341.5)
Corporation tax	95	(49)	(295.2)
Profit or loss after tax	(240)	90	(366.5)
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	(240)	90	(366.5)
ROE (earnings divided by average equity)	-	5.8%	
Cost-to-income (administrative expenses divided by gross income)	101.6%	79.5%	
NPL ratio	1.3%	0.4%	
NPL coverage ratio (covering risks classified as Stage 3)	50.4%	55.9%	

Loans and advances to customers (excluding ATAs) amounted to 33,929 million euros, declining year-on-year by -4.4%. Considering a constant exchange rate, this item declined by -2.7% compared with the previous year.

On-balance sheet customer funds amounted to 32,484 million euros, declining by -5.6% year-on-year (-4.7% considering a constant exchange rate). In the year, they mainly declined due to the maturity of fixed rate cash ISAs (FRISA) while personal current accounts (PCAs) increased.

Million euro

	2018	2017	Change (%) year-on-year
Assets	46,182	48,145	(4.1)
Customer lending (net) excluding repos	33,929	35,501	(4.4)
Liabilities	44,596	46,597	(4.3)
On-balance sheet customer funds	32,484	34,410	(5.6)
Wholesale Funding Capital Markets	1,688	1,920	(12.1)
Allocated capital	1,586	1,548	-
Off-balance sheet customer funds	-	-	-
Other indicators			
Employees	8,353	8,287	0.8
Branches	550	551	(0.2)

TSB Migration Project

On 23 April 2018, TSB migrated to its new IT platform. Although the customer data transfer went according to plan, and the account management functionality, operating processes and processes to generate information on the new platform all began operating correctly, immediately after the migration some customers experienced problems in accessing digital channels, delays on the telephone helpline and slower transaction processing. The high repercussion of this situation saw an increase in fraud attempts against TSB customers.

Following this, the bank immediately focused on resolving the service issues that were affecting customers and on identifying their causes. Initial analyses indicated that the platform design was robust and that the majority of errors had arisen when deploying the platform in the technology infrastructure. The institution launched a remediation programme, supervised by its Audit Committee. Under the framework of this plan, TSB's Audit Committee has been notified of the pre and post-migration situation in relation to the financial reporting processes and the control framework, concluding that the financial reporting control framework provides guarantees as to its effectiveness both before and after the migration of TSB's platform. The Group's three lines of defence are involved in monitoring the situation of TSB's financial reporting control framework, and the Audit Committee is informed of any relevant aspects.

TSB's Board of Directors also requested an independent investigation to be launched, which is being carried out by Slaughter and May. The investigation is currently ongoing and Slaughter and May will issue their report as soon as possible. UK regulators are also conducting their own investigation.

Furthermore, TSB has undertaken a firm commitment to ensure that each customer affected is adequately compensated. To this end, a team has been set up dedicated specifically to resolving customer complaints, which has involved significant efforts in hiring and relocating staff. TSB intends to compensate all customers who experienced any financial losses, also taking into account situations in which customers were inconvenienced in any way by the events. This process is being carried out with a view to combining the speedy processing of complaints received with the need to ensure that each complaint is analysed and dealt with in line with regulatory requirements.

At present, all major IT issues have been resolved, and the number of incidents has declined significantly to business-as-usual levels in the sector. Customers are therefore starting to see the benefits of the new technology that has been implemented, which provides an integrated platform that can be accessed faster by both employees and customers and which enables products to be acquired more quickly. Mortgage applications can be submitted in half the time compared with the old system, and the platform allows information to be attached in real time. At the end of 2018, TSB began its first post-migration launch of new products in the online channel and the number of calls received from customers in relation to the operation of the mobile app has fallen significantly, as it is now easier to use. Customers can also now open current accounts in TSB branches in half the time compared to before migration.

Other geographies

Net profit as at December 2018 amounted to 91 million euros, representing a 2.3% increase year-on-year. Excluding Sabadell United Bank, net profit increased by 47.9%.

Net interest income stood at 259 million euros, declining by -11.6% year-on-year. Excluding Sabadell United Bank, this item has grown by 26.1%, mainly due to growth in Mexico and foreign branches in EMEA (Paris, London and Casablanca).

Net fees and commissions income during the year declined by -6.6% year-on-year, mainly as Sabadell United Bank is no longer making any contributions. Excluding SUB, net fees and commissions income grew by 3.3%.

Gross income amounted to 328 million euros, declining by -8.4% year-on-year. Excluding Sabadell United Bank, gross income grew by 24.5% due to the positive performance of Mexico, Miami and foreign branches in EMEA.

Administrative and depreciation expenses declined by -4.9% year-on-year. Excluding the sale of Sabadell United Bank, they increased by 21.4%, due to expenses associated with expansion in Mexico.

Provisions and impairments increased in relation to the previous year due to provisions associated with the increased investment in Mexico and Miami, and due to higher levels of provisions, mainly associated with one-offs.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	259	293	(11.6)
Profit or loss on entities valued using the equity method and on dividends	3	3	(17.6)
Net fees and commissions	47	50	(6.6)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	10	9	8.7
Other operating income/expenses	10	3	-
Gross income	328	358	(8.4)
Administrative and depreciation expenses	(195)	(205)	(4.9)
Operating income	133	153	(13.0)
Provisions and impairments	(27)	(24)	9.4
Gains or losses on asset derecognition and others	-	1	-
Profit or loss before tax	107	130	(17.9)
Corporation tax	(11)	(37)	(70.4)
Profit or loss after tax	96	92	3.3
Profit or loss attributed to minority interests	5	4	-
Profit or loss attributed to the Group	91	88	2.3
ROE (earnings divided by average equity)	9.0%	8.8%	
Cost-to-income (administrative expenses divided by gross income)	56.0%	54.5%	
NPL ratio	0.3%	0.9%	
NPL coverage ratio (covering risks classified as Stage 3)	292.9%	113.0%	

Net lending amounted to 10,896 million euros, 23.3% higher than in the preceding year, mainly due to the growth of the business in Mexico and Miami.

On-balance sheet customer funds amounted to 6,328 million euros and increased by 26.0% year-on-year. Off-balance sheet funds amounted to 1,023 million euros and remained in line with the previous year.

Million euro

	2018	2017	Change (%) year-on-year
Assets	17,822	15,298	16.5
Customer lending (net) excluding repos	10,896	8,836	23.3
Real estate exposure (net)	-	23	(100.0)
Liabilities	16,789	14,431	16.3
On-balance sheet customer funds	6,328	5,024	26.0
Allocated capital	1,033	866	19.2
Off-balance sheet customer funds	1,023	1,033	(1.0)
Other indicators			
Employees	908	765	18.7
Branches	42	42	-

Real Estate Asset Transformation

Net profit as at December 2018 amounted to -478 million euros, increasing by 49.4% year-on-year, mainly due to the reduction of provisions and the positive results on real estate sales.

Gains or (-) losses on financial assets and liabilities, net includes sales of real estate companies.

Gross income amounted to 97 million euros, a far higher figure than in the previous year.

Administrative and depreciation expenses declined by -14.1% year-on-year to -140 million euros.

Provisions and impairments amounted to -520 million euros, 57.2% less than in the previous year due to the extraordinary provisions allocated in 2017. In the year, they include -177.1 million euros in provisions for institutional portfolio sales.

Results on sales amounted to 95.6 million euros as at December 2018.

Million euro

	2018	2017	Change (%) year-on-year
Net interest income	(28)	(52)	(45.4)
Profit or loss on entities valued using the equity method and on dividends	-	(1)	(100.0)
Net fees and commissions	1	2	(30.4)
Gains or (-) losses on financial assets and liabilities, net and exchange differences	5	(37)	-
Other operating income/expenses	119	118	0.7
Gross income	97	30	220.9
Administrative and depreciation expenses	(140)	(163)	(14.1)
Operating income	(43)	(133)	(67.5)
Provisions and impairments	(520)	(1,216)	(57.2)
<i>Profit or loss on sales</i>	<i>96</i>	<i>(14)</i>	-
Gains or losses on asset derecognition and others	-	41	(100.0)
Profit or loss before tax	(563)	(1,307)	(56.9)
Corporation tax	85	364	(76.5)
Profit or loss after tax	(478)	(943)	(49.4)
Profit or loss attributed to minority interests	-	-	-
Profit or loss attributed to the Group	(478)	(943)	(49.4)
ROE (earnings divided by average equity)	-	-	-
Cost-to-income (administrative expenses divided by gross income)	-	-	-
NPL ratio	33.5%	32.2%	-
NPL coverage ratio (covering risks classified as Stage 3)	83.4%	49.9%	-

The good management of real estate assets continues, net lending declined by -65.5% year-on-year and net real estate exposures declined by -71.6%, due to the reclassification of institutional portfolios as non-current assets held for sale.

Intra-group funding amounted to 10,281 million euros, -18.6% less than in the previous year.

Million euro

	2018	2017	Change (%) year-on-year
Assets	11,907	15,384	(22.6)
Customer lending (net) excluding repos	1,332	3,865	(65.5)
Real estate exposure (net)	959	3,372	(71.6)
Liabilities	10,791	13,728	(21.4)
On-balance sheet customer funds	235	104	126.8
Intragroup financing	10,315	12,627	(18.3)
Allocated capital	1,116	1,656	(32.6)
Off-balance sheet customer funds	35	27	32.0
Other indicators			
Employees	1,073	1,018	5.4
Branches	-	-	-

3 – LIQUIDITY AND CAPITAL RESOURCES

3.1 Liquidity

The key aspects in the evolution of liquidity during the year at Group level were as follows:

- The institution has continued to generate a liquidity gap in its commercial business, reducing total funding in wholesale markets. The Loan to Deposit (LtD) ratio of the Group at the end of December 2018 stood at 101.6%.
- The institution has made the most of its issuance windows in a market whose evolution in 2018 has been determined by volatility and widening spreads. 2,165 million euros in capital market funding matured in the year. Banco Sabadell carried out public issues under the Fixed-Income Scheme in force amounting to a total of 436 million euros. Specifically, it carried out one issue of eight-year covered bonds in December of 390 million euros, which was fully subscribed by the European Investment Bank (EIB), 6 issues of preferred senior debt maturing between five and seven years and amounting to a total of 23 million euros and two issues of structured bonds, also amounting to 23 million euros. Under the EMTN Programme, on 7 September 2018 Banco Sabadell carried out one 5.5-year issue of preferred senior debt of 750 million euros, and on 12 December it carried out one subordinated Tier 2 issue of 500 million euros, maturing after 10 years, with an early call option in favour of Banco Sabadell in the fifth year.
- Banco Sabadell sold a total of 455 million euros from tranche A of the asset securitisation IM Sabadell PYME 11 to the EIB for the funding of two new lines.
- The positive trend in terms of rating upgrades has continued in 2018. On 19 September 2018 S&P Global Ratings affirmed Banco Sabadell's long-term credit rating of BBB, after raising it to BBB from BBB- on 6 April. In the same vein, both Moody's and DBRS confirmed the long-term rating of Baa2 and BBB (high) respectively, raising the outlook to positive from stable in April and July 2018. Furthermore, with the bank's rating upgrade, the rating of its covered bonds has also improved. Specifically, in April, Moody's upgraded the rating to Aa1 from Aa2 and DBRS raised its rating to AAA from AA in July 2018.
- The institution has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs.
- In terms of the LCR, as of 1 January 2018 the regulatory minimum LCR requirement is 100%. All of the institution's Liquidity Management Units (UGLs, for their acronym in Spanish) have comfortably surpassed this minimum. At Group level, the institution's LCR has consistently been substantially above 100% throughout the year. As at December 2018, the LCR stood at 168% for the Group (excl. TSB) and at 298% in TSB. As regards the Net Stable Funding Ratio (NSFR), which is still pending its final definition, the institution has continued to maintain stable levels above 100%.

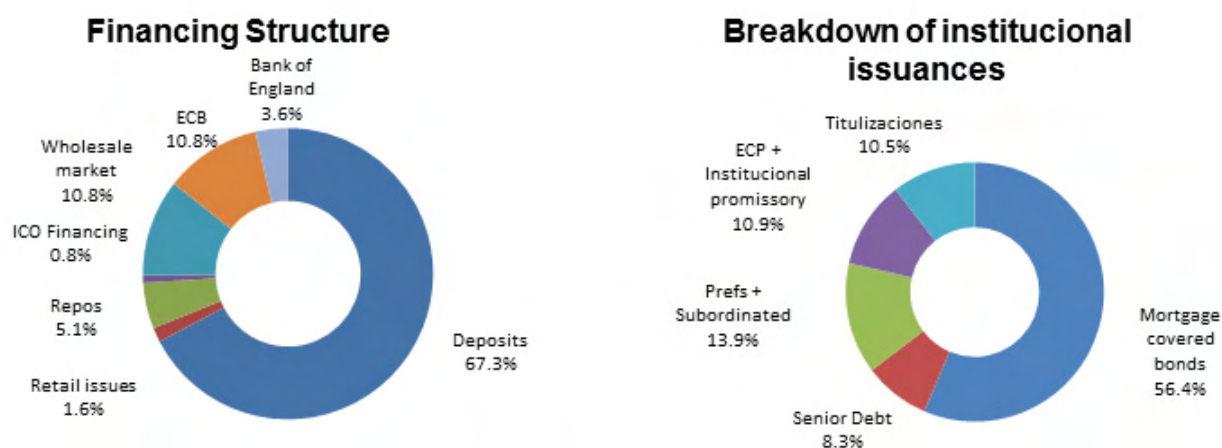
Key figures and basic liquidity ratios as at year-end were as follows:

Million euro

	2018	2017	Ex TSB 2018	Ex TSB 2017
Gross lending to customers excluding repos	145,824	145,323	111,673	109,742
Allowances for loan losses and country risk	(3,433)	(3,727)	(3,211)	(3,646)
Brokered loans	(2,808)	(3,835)	(2,426)	(3,110)
Adjusted net loans	139,583	137,761	106,036	102,986
On-balance sheet customer funds	137,343	132,096	104,859	97,686
Adjusted loan to deposit ratio (%)	101.6	104.3	101.1	105.4

The EUR/GBP exchange rate used for the balance sheet is 0.8945 at 31/12/18 and 0.8872 at 31/12/17.

The main sources of funding as at the end of 2018 are shown below according to the type of instrument and counterparty:



For further information regarding the Group's liquidity management, strategy and evolution, see Note 4 on Risks, under the Liquidity Risk section, in the notes to the annual financial statements.

3.2. Capital resources

Note 5, “*Own funds and capital management*” of the Group’s consolidated report contains a detailed report of its capital management (regulatory framework, detailed data and capital-related activity).

The main figures related to capital management are shown below:

Percentage / million euro	2018	2017
CET1	12.0	13.4
Tier 1	13.4	14.3
Tier 2	2.1	1.7
BIS ratio	15.5	16.1
Capital base	12,434	12,459
Minimum capital requirements	6,422	6,258
Risk weighted assets	80,279	77,505

Note 5 of the annual report explains the main changes compared with the previous year in terms of regulations, the evolution of risk-weighted assets (RWAs) and the main components of own funds.

In recent years, Banco Sabadell has been actively managing its capital, which is a crucial aspect for the institution’s growth. In the past few years, the bank has increased its capital base through issues classed as core tier one capital, as shown in the table below:

Million euro		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and buy-back of preference and subordinated stock)	411	+68 bp of core tier I
February 2012	Preference share swap for ordinary shares	785	+131 bp of core tier I
March 2012	Capital increase	903	+161 bp of core tier I
July 2012	Swap of Banco CAM preferred debt instruments and subordinated debt instruments for shares	1,404	+186 bp of core tier I
September 2013	Accelerated bookbuilding and capital increase with rights	1,383	+178 bp of core tier I
October 2013	Issue of Mandatory Convertible Subordinated Bonds for B. Gallego hybrid swap	122	+17 bp of core tier I
April 2015	Capital increase with pre-emptive subscription rights – TSB	1,607	+181 bp of core tier I

Note: The impact on capital (in basis points) is calculated using figures at each year-end reporting date; these figures have changed significantly due to the increase in the Group’s consolidation scope in recent years.

4 – RISKS

During 2018, Banco Sabadell Group has continued to strengthen its risk management framework by making improvements in line with best practices in the financial sector.

For more details regarding the corporate risk culture, the risk appetite framework and the overall organisation of the risks function, as well as the main financial and non-financial risks, see Note 4 on Financial Risk Management in the consolidated annual financial statements for 2018.

This year’s main milestones in terms of the Group’s risk management have been the improvement of the Group’s risk profile, with highlights including the Group’s reduction of its non-performing assets as a result of its institutional portfolio sales in the second quarter of 2018, the strengthening of the risk management and control environment, as well as the improvement in the monitoring environment and the management of non-performing assets, as explained in greater detail in Note 4 of the annual report.

5 – POST-BALANCE SHEET EVENTS

Since 31 December 2018, there have been no significant events worthy of mention.

6 – EXPECTED FUTURE DEVELOPMENTS

Banco Sabadell adopts strategic plans in which it sets out its objectives for subsequent years in line with the macroeconomic, business and regulatory environment.

Following the success of the Triple strategic plan, which covered the period between 2014 and 2016, Banco Sabadell began 2017 with a one-year strategic plan, as this year represented a year of transition, in which TSB's IT platform was constructed, banking business was strengthened, the pace of NPAs reduction was increased, with a reduction of over 3.4 billion euros, and a number of corporate transactions were successfully closed (Sabadell United Bank, Hotel Investment Partners, etc.), which contributed to strengthening provisions and increasing capital.

In 2018 Banco Sabadell presented its new three-year Strategic Business Plan, which sets the strategic pillars with which to take on the new economic cycle. The aims of this Plan are consistent with the values and objectives that have characterised the institution since its inception. Profitability, sustainability and the creation of value are the objectives based on which this Strategic Business Plan has been formulated. 2018 has also been a particularly important year for Banco Sabadell, as during the year it has achieved two major milestones, allowing it to begin a new chapter in which it will focus on improving profitability by growing the business, improving efficiency and normalising the cost of risk. These two milestones include the sale of foreclosed assets amounting to a gross value of 12 billion euros, along with the sale of 80% of the company managing such assets, Solvia Servicios Inmobiliarios, and the migration of TSB to a new IT platform, which will allow the institution to achieve operational independence and to become a bank with one of the most cutting-edge technological platforms in the United Kingdom, which is fully adapted to the challenges of the digital age. Similarly, during the year, the credit rating agency S&P Global Ratings upgraded the credit rating of Banco Sabadell from BBB- to BBB with a stable outlook.

In 2019, Banco Sabadell will focus on improving its profitability and on continuing to grow and consolidate its position in the main markets in which it operates, improving efficiency whilst simultaneously continuing to reduce its problematic exposures and increase its level of solvency and liquidity. Banco Sabadell will also focus on continuing to develop the technological capabilities required to offer a value proposition, and to promote the attraction of all-round talent in order to undertake the institution's commercial and digital transformation and its adaptation to a changing environment like the one that exists at present. Lastly, Banco Sabadell will continue to create value for all of its stakeholders, by distributing an attractive dividend among its shareholders, whilst offering a wide range of high-quality products and services to its customers and strengthening its human capital, addressing the professional concerns and expectations in terms of the motivation and recognition of its employees. The foregoing will be achieved without losing sight of Banco Sabadell's commitment to society and the environment in all of the regions in which it operates, through the ethical and responsible performance of its business activity.

7 – RESEARCH, DEVELOPMENT AND INNOVATION

In domestic terms:

In Commercial Banking, the primary aspects of the transformation that has taken place in 2018 have been the consolidation of capabilities developed under the direct management model and the progress made in the new retail model, which focuses on management through a multi-channel vision of customers and the use of a single customer portfolio. This model has been coupled with a set of actions intended to simplify and centralise activities carried out by the portfolio manager together with an assessment of the model used for assigning incentives and for management control. During the year, the assisted management capabilities have been deployed to the branch network, providing managers with new tools, improving their usability and complementing the available product offering. The roll-out of the new portfolio (CRM) for direct management began in the final quarter of the year, and the plan is to launch the portfolio in Commercial Banking branches in the first half of 2019.

Activity in relation to digital capabilities has achieved the challenges set out in the digital sales plan, with notable milestones including the 67% growth of online loans, the 27% increase in activations of the Expansión line, the 55% growth in instalment transactions paid for using credit cards and the 3.7% increase in instalment transactions paid for using debit cards. 35 new commercial events have also been launched. Within Sabadell Wallet, the number of connections has increased by 1.4x and downloads are up 55%. The roll-out of the insurance transformation plan has been completed, with a personalised fee for households and merchants, and new products and capital reduction simulations have also been included.

Customer data systems have been adapted to the General Data Protection Regulation (GDPR), to enable the continuity of the model for commercial actions which was subject to the regulation. The initiatives envisaged in the Profit Margin Plan ('*Plan de Margen*') have been activated, and progress is being made in the direct debits management model.

In terms of regulatory matters, we have been preparing ourselves for the first commitments of the Payment Services Directive (PSD2), achieving the milestones set for 2018 and preparing ourselves for its roll-out in 2019; we have completed our project to adjust to the new Insurance Distribution Directive (IDD) in order to ensure our business continuity.

Within the area of Financial Markets and Private Banking, particularly in the area of Sabadell Inversor, we have launched an online reporting system, deploying a significant number of reports through BSOonline. The roll-out of Sabadell Móvil is scheduled for the first quarter of 2019.

In Asset Management, we have completed the IT adjustment stage for the funds management firm in Luxembourg, and Sabadell Forex has been rolled out.

In MiFID II, the areas of improvement detected following its launch have been implemented, and all of the regulatory requirements arising from the Securities Market reform have been deployed.

In Treasury, we will end the year with the roll-out of MUREX VaR, which provides with a far simpler, more scalable and multi-entity solution with the integration of TSB's activity, allowing us to prepare for the FRTB. In the opening of the FOREX books, the technological foundation for the sale of the FX products which will be launched in 2019 has been deployed.

In terms of our foreign branches, we have opened a new branch in Lisbon, gradually and continuously deploying the resources required to operate the branch in order of priority. BSOonline Lisboa is scheduled to open in the first quarter of 2019.

In terms of TSB:

2018 has been a year closely linked to the project to migrate TSB to the Proteo4UK platform. We have managed to develop a platform based on state-of-the-art architecture, offering multi-channel features across a shared environment and infrastructure. This functionality has been vital in providing online, mobile and telephone banking services and even in CRM, under a common layer made up of business components, thereby reducing the complexity of creating each new channel.

Proteo4UK is built on an architecture that is clearly aimed at distributed services, and entails a renovation of IT systems, contributing greater scalability, cloud capabilities and making it easier to integrate external systems without coupling. Thus, the platform has an internal and external back-end layer, which adapts easily and quickly to the business needs of each unit involved. Systems such as payments, cards and fraud have benefited from strategic partnerships, contributing added value in a simpler and more direct way.

The various channels, in addition to being fully integrated within internal systems, have benefited from a high level of personalisation. The web channel, which provides TSB with best-in-class digital capabilities and tools, also offers classic online banking options and new and much more automated application processes: any new TSB customer may apply for and acquire products and operate with them in just a few minutes, in a fully remote process. Mobile banking, which has traditionally included the most cutting-edge developments, has been consolidated in TSB as the main operating channel, as it is user-friendly and can be accessed at any time of day. Telephone banking has benefited from the integration with internal systems and can provide customers with a more personalised experience, and it has thus established itself as an alternative channel. It is also integrated with CRM which, based on one of the main market products, facilitates the work of TSB's customer care services by offering a 360° vision of customers. Thanks to all of the developments that have taken place in the various areas, TSB has been able to consolidate its position in the digital world.

8 –ACQUISITION AND DISPOSAL OF TREASURY SHARES

For information on the acquisition and disposal of treasury shares, see Note 23 to the consolidated annual financial statements.

9 –OTHER RELEVANT INFORMATION

a) Shares and share price information

A series of indicators relating to the bank's share price performance are shown in the following table:

	2018	2017	Change (%) year-on-year
Shareholders and buybacks			
Number of shareholders	235,523	235,130	0.2
Average number of shares (million)	5,565	5,570	(0.1)
Average daily buybacks (millions of shares)	27	27	(0.1)
Share price (euro)			
Start date	1.656	1.323	-
Maximum	1.945	1.960	-
Minimum	0.950	1.295	-
End date	1.001	1.656	-
Market capitalisation (million euro)	5,568	9,224	-
Market ratios			
Net attributed earnings per share (EPS) (euro)	0.05	0.14	-
Book value per share (euro)	2.25	2.41	-
Price/book value	0.45	0.69	-
PER (share price / EPS)	20.11	11.85	-

b) Dividend policy

The bank's shareholder remuneration policy, in accordance with the bank's Articles of Association, is submitted to shareholders for approval on a yearly basis at the Annual General Meeting.

In 2017, the bank compensated shareholders with 0.07 euros per share through 100% cash remuneration. This distribution was carried out through an interim dividend of 0.02 euros per share and a supplementary dividend of 0.05 euros per share. This amount represented returns on the quoted share price of 4.2%.

On 25 October 2018, the Board of Directors agreed to distribute an interim dividend of 2018 earnings amounting to a total of 110,953 thousand euros (0.02 euros (gross) per share), paid on 28 December 2018.

Furthermore, the Board of Directors will submit a proposal at the Annual General Meeting on the distribution of a gross dividend of 0.03 euros per share for 2018.

Over the coming years, Banco Sabadell anticipates maintaining cash payments as remuneration to shareholders.

c) Credit ratings management

In 2018 the three agencies that assessed the credit quality of Banco Sabadell were S&P Global Ratings, Moody's and DBRS. The current ratings, and the last dates on which they were affirmed, are as follows:

	Long-term	Short-term	Outlook	Last updated
DBRS	BBB (high)	R-1 (low)	Positive	16/07/2018
S&P Global Rating	BBB	A-2	Stable	19/09/2018
Moody's Investors Service (*)	Baa3 / Baa2	P-3 / P-2	Stable / Stable	19/09/2018

(*) Corresponds to senior debt and deposits, respectively.

On 6 April 2018 S&P Global Ratings raised Banco Sabadell's long-term credit rating to BBB from BBB- and its short-term rating to A-2 from A-3. The outlook is stable. This credit rating upgrade is based on the improvement in Banco Sabadell's credit quality in a context of lower risk in the Spanish banking system, mainly due to its deleveraging, as well as improved investor confidence.

On 19 September 2018, S&P Global Ratings affirmed Banco Sabadell's long-term credit rating of BBB, its short-term rating of A-2 and its stable outlook.

On 19 September 2018, Moody's Investors Service (Moody's) confirmed the Banco Sabadell long-term deposits rating of Baa2 and the senior debt rating of Baa3, as well as the short-term rating of deposits of P-2 and of senior debt of P-3, and it announced the change of outlook to stable from positive.

On 16 July 2018, DBRS Ratings Limited raised the outlook for Banco Sabadell to positive (from stable) and confirmed the long-term rating at BBB (high) and the short-term rating at R-1 (low). The change in trend to positive and the confirmation of the rating reflect the positive perception of the solid capitalisation of Banco Sabadell Group and the ongoing improvement in both asset quality and the profitability of core business in Spain.

Banco Sabadell has been in touch with the three agencies in 2018, and has addressed subjects such as the bank's strategy, TSB's performance, results, capital, liquidity, risks and credit quality, and problematic asset management.

d) Branch network

At the end of 2018, Banco Sabadell was operating 2,457 branches (including 550 TSB branches), representing a net decrease of -16 branches compared with 31 December 2017 (15 fewer branches excluding TSB).

Of the total number of Banco Sabadell Group branches, 1,395 were operating under the Sabadell brand (including 28 business banking and 2 corporate banking branches); 108 were operating as Sabadell Gallego (including 3 business banking branches); 140 under Banco Herrero in Asturias and Leon (including 3 business banking branches); 112 were SabadellGuipuzcoano branches (including 5 business banking branches); 10 were SabadellUrquijo branches; 100 were Solbank branches; and there were 592 international branches, including 7 operated by BancSabadell d'Andorra, 550 by TSB and 15 by Mexico. The distribution of the Group's branches in Spain by autonomous community is as follows:

Autonomous Community	Branches	Autonomous Community	Branches
Andalusia	130	Valencia	325
Aragón	31	Extremadura	6
Asturias	109	Galicia	108
Balearic Islands	56	La Rioja	8
Canary Islands	31	Madrid	183
Cantabria	5	Murcia	126
Castilla-La Mancha	23	Navarre	15
Castilla y Leon	59	Basque Country	92
Catalonia	556	Ceuta and Melilla	2

The Group is present in the following countries:

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
Andorra			•
France	•		
Poland		•	
Portugal	•		
United Kingdom	•		•
Turkey		•	
Americas			
Brazil		•	
Colombia		•	•
United States	•	•	
Mexico			•
Peru		•	
United States		•	
Venezuela		•	
Asia			
China		•	
United Arab Emirates		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

Non-financial disclosures report

Pursuant to that set forth in Law 11/2018 of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has prepared its non-financial disclosures report for 2018, which forms part of this report, pursuant to Article 44 of the Spanish Code of Commerce, and is included herein as a separate document.

Corporate Governance

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared an Annual Report on Corporate Governance for the year 2018, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of this Directors' Report, included herein as a separate document, and which includes a section on the extent to which the bank is following recommendations on corporate governance that currently exist in Spain.

Information on Corporate Governance is available on the Group's corporate website (www.grupobancosabadell.com), and can be accessed directly from the "Corporate Governance and remuneration policy" link on this website's homepage.

Glossary of terms on performance indicators

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other non-audited measures commonly used in the banking sector (Alternative Performance Measures, or “APMs”) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other entities.

Following the ESMA guidelines on APMs (ESMA/2015/1415es of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents below, for each APM, the definition, calculation and reconciliation

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

Performance indicator	Definition and calculation	Reconciliation (in million euro)	
		31/12/2018	31/12/2017
ROA	Consolidated profit/(loss) for the year / average total assets. Considers linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	217,168 335 0.15	214,356 805 0.38
ROE	Profit/(loss) attributable to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	12,643 328 2.60	13,143 801 6.10
RORWA	Profit/(loss) attributable to the Group / risk-weighted assets (RWAs). The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date.	80,279 328 0.41	77,505 801 1.03
ROTE	Profit/(loss) attributed to the Group / average own funds. The numerator uses the linear annualisation of profits obtained to date adjusted by the relative accrual of contributions to deposit guarantee and resolution funds, except at the year-end reporting date. The denominator excludes goodwill.	10,309 328 3.18	11,025 801 7.27
Efficiency ratio	Administrative expenses/gross income. To calculate this ratio, recurring net trading income based on the Group's best estimates, except at year-end reporting date, has been considered, and it has excluded the fee charged by BanSabadell Vida for the reinsurance contract with Swiss Re Europe and the income generated by the early call of TSB's Mortgage Enhancement portfolio. The denominator includes the linear accrual of contributions to deposit guarantee funds and resolution funds, except at the year-end reporting date.	5,010 (2,920) 58.29	5,430 (2,723) 50.15

(*) The linear accrual of the contribution to deposit guarantee and resolution funds has been made based on the Group's best estimates.

(**) Average calculated based on average daily balances.

(**) Average calculated using the last positions at the end of December of the previous year.

Performance indicator	Definition and calculation	Reconciliation (in million euro)	31/12/2018	31/12/2017
Other operating income and operating expenses	Comprised of accounting entries: other operating income and other operating expenses, as well as income from assets and expenses on liabilities under insurance and reinsurance contracts.	Other operating income Other operating expenses Income from assets under insurance or reinsurance contracts Expenses on liabilities under insurance or reinsurance contracts Other operating income and operating expenses	257 (547) - - (290)	338 (546) 67 (86) (227)
Capital gains from the sale of assets and other gains/(losses)	Comprised of the following accounting items: gains or losses on derecognition of non financial assets and gains on the sale of equity interests, net, excluding investment property and equity interests included in the heading of profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.	Gains or (-) losses on derecognition of non-financial assets, net Gains on the sale of equity interests Profit/(loss) on sales of investment property Capital gains from the sale of assets and other gains/(losses)	35 0 (32) 2	401 17 15 433
Total provisions and impairments	Comprised of the following accounting items: Impairment or reversal of impairment of investments in joint ventures and associates, impairment or reversal of impairment on non-financial assets, investment property included in the heading of net gains or losses on derecognition of non-financial assets and profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding equity interests), provisions or reversal of provisions and impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains.	Impairment or reversal of impairment of investments in joint ventures and associates Impairment or reversal of impairment on non-financial assets Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations Gains on the sale of equity interests Profit/(loss) on the sale of investment property Other provisions and impairments Provisions or reversal of provisions Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or gains Provisions for impairment and financial assets Total provisions and impairments	0 (401) (35) (0) 32 (404) (161) (756) (917) (1.320)	(1) (799) (139) (17) (15) (971) (14) (1,211) (1,225) (2,196)

Performance indicator	Definition and calculation	Reconciliation (in million euro)		
		31/12/2018	31/12/2017	
Pre-provisions income	Comprised of accounting entries: gross income plus administrative expenses and depreciation.	Gross income Administrative expenses Staff expenses Other administrative expenses Depreciation Pre-provisions income	5,010 (2,920) (1,591) (1,330) (363) 1,737	5,737 (2,723) (1,574) (1,149) (402) 2,612
Customer spread (*)	Difference between returns and expenses of customer assets and liabilities, i.e. the contribution of transactions exclusively with customers to net interest income. Calculated considering the difference between the average rate charged by the bank on its customer loans and credit and the average rate that the bank pays for its customer deposits. The average rate on customer loans and credit is calculated as the accounting financial income on customer lending as an annualised percentage of the average daily balance of customer loans and credit. The average rate of customer funds is calculated as the accounting financial expenses on customer funds as an annualised percentage of the average daily balance of customer funds.	Customer lending (net) Average balance Profit/ (loss) Interest rate (%) Customer deposits Average balance Profit/(loss) Interest rate (%) Customer spread	135,903 4,017 2.96 141,060 (309) (0.22) 2.74	136,938 4,102 3.00 138,258 (266) (0.19) 2.81
Other assets	Comprised of accounting entries: derivatives- hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Derivatives - hedge accounting Fair value changes of the hedged items in portfolio hedge of interest rate risk Tax assets Other assets Non-current assets and disposal groups classified as held for sale Other assets	302 57 6,859 1,640 4,587 13,445	374 48 6,861 2,976 2,562 12,821
Other liabilities	Comprised of accounting entries: derivatives- hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities, liabilities included in disposal groups classified as held for sale.	Derivatives - hedge accounting Fair value changes of the hedged items in portfolio hedge of interest rate risk Tax liabilities Other liabilities Liabilities included in disposal groups classified as held for sale Other liabilities	634 37 176 995 83 1,924	1,004 (5) 532 741 21 2,293

(*) Average calculated based on average daily balances.

Performance indicator	Definition and calculation	Reconciliation (in million euro)		31/12/2018	31/12/2017
Gross performing loans	Also known as performing loans. Includes gross customer lending excluding repos, other valuation adjustments and non-performing assets (loans classified as Stage 3).	Loans and credit secured with mortgages	Loans and credit secured with other collateral	80,872	84,267
		Trade credit		2,767	2,315
		Finance leases		6,186	5,802
		On-demand loans and other term loans		2,565	2,316
		Gross performing loans		139,366	142,822
					137,522
		Non-performing loans (customers on Stage 3)		6,472	7,867
		Other valuation adjustments		(13)	(66)
		Gross lending excluding repos		145,824	145,323
Gross customer lending	Includes loans and advances to customers excluding impairment allowances.	Assets acquired under repurchase agreements		596	2,001
		Gross customer lending		146,420	147,325
		Impairment allowances		(3,433)	(3,727)
		Net customer loans and advances		142,987	143,598
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others); i.e. financial liabilities at amortised cost excluded financial liabilities without a retail nature.	Financial liabilities at amortised cost		206,077	204,045
		Financial liabilities without a retail nature		68,734	71,949
		Deposits with central banks		28,799	27,848
		Deposits with credit institutions		12,000	14,171
		Institutional issues		24,334	26,999
		Other financial liabilities		3,601	2,932
		On-balance sheet customer funds		137,343	132,096
On-balance sheet funds	Includes accounting sub-headings of customer deposits, debt securities issued (borrowing operations and other marketable securities and subordinated liabilities).	Customer deposits		139,079	135,307
		Demand deposits		107,665	98,020
		Deposits with agreed maturity, including redeemable deposits and hybrid financial liabilities		28,709	32,425
		Assets sold under repurchase agreements		2,533	4,750
		Other valuation adjustments		172	113
		Borrowing operations and other marketable securities		19,568	21,260
		Subordinated liabilities (*)		3,031	2,537
		On-balance sheet funds		161,678	159,095
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold by the Group.	Mutual funds		26,379	27,375
		Asset management		3,595	3,999
		Pension funds		3,594	3,987
		Insurance products sold		10,465	9,965
		Off-balance sheet customer funds		44,034	45,325
Funds under management	The sum of on-balance sheet funds and off-balance sheet customer funds.	Funds under management		205,711	204,420

(*) Subordinated liabilities of debt securities.

Performance indicator	Definition and calculation	Reconciliation (in million euro)		31/12/2018	31/12/2017
Stage 3 risks	The sum of accounting headings of stage 3 assets of loans and advances to customers, not classified as non-current assets held for sale, together with guarantees given classified as stage 3.	Customer loans and advances Guarantees given classified as stage 3 Stage 3 risks		6,472 81 6,554	7,867 58 7,925
NPL coverage ratio (risks classified as stage 3)	Gives the percentage of non-performing loans covered by allowances and provisions. Its calculation gives the ratio of impairment allowances for loans and advances to customers not classified as non-current assets held for sale (including guarantees given)/ total stage 3 risks (including guarantees given classified as stage 3). 2017 excludes allowances relating to floor clauses.	Stage 3 risks Impairment allowances plus provisions of guarantees given NPL coverage ratio		6,554 3,544 54.1%	7,925 3,625 45.7%
Real estate assets coverage ratio	This calculation gives the ratio between impairment allowances for foreclosed real estate assets divided by total foreclosed real estate assets. The amount of foreclosed real estate assets includes properties classified in the portfolio of non-current assets and disposal groups classified as held for sale.	Foreclosed real estate assets Impairment allowances Real estate assets coverage ratio		1,726 767 44.5%	7,393 3,998 54.1%
Non-performing assets (NPA)	The sum of non-performing loans and guarantees given classified as stage 3 and foreclosed real estate assets. 2017 excludes allowances related to floor clauses.	Stage 3 risks Foreclosed real estate assets Non-performing assets Non-performing asset provisions Non-performing assets coverage ratio		6,554 1,726 8,279 4,311 52.1%	7,925 7,393 15,318 7,623 49.8%
NPL ratio	Expresses Stage 3 risks as a percentage of total customer lending not classified as non-current assets held for sale. All of the items included in the calculation correspond to headings or sub-headings of the financial accounting statements. It is calculated as the ratio of Stage 3 risks (including guarantees given)/customer loans not classified as non-current assets held for sale (excl. assets acquired under repurchase agreement) and guarantees given. This table shows the definition of Stage 3 risks.	Stage 3 risks Loans to customers and guarantees given NPL ratio		6,554 155,206 4.2%	7,925 154,050 5.1%

Performance indicator	Definition and calculation	Reconciliation (million euro)	31/12/2018	31/12/2017
Loan to deposit ratio	Net loans and receivables divided by retail funding. Calculated by subtracting assets acquired under repurchase agreements (ATA) and brokerage loans from the numerator. Retail funding or on-balance sheet customer funds, defined in this table, are used as the denominator.	Net loans (excl.ATA and adjusted by brokered loans)	139,583	137,761
		On-balance sheet customer funds	137,343	132,096
		Loan to deposit ratio	101.6%	104.3%
Market capitalisation	Value obtained by multiplying the share price by the number of shares outstanding as at the reporting date.	Average number of shares (million) Share price Market capitalisation (million euro)	5,565 1,001 5,568	5,570 1,656 9,224
Earnings per share (EPS)	This divides profit/(loss) attributed to the Group by the number of shares outstanding as at the reporting date. The numerator uses the linear annualisation of profits obtained to date adjusted by the amount of the Additional Tier 1 coupon (AT1) and relative accrual of contributions to deposit guarantee and resolution funds except at year-end.	Adjusted profit/(loss) attributable to the Group Profit/(loss) attributable to the Group AT1 adjustment accrued Average number of shares (million) Earnings per share (EPS) (euro)	277 328 (51) 5,565 0.05	778 801 (23) 5,570 0.14
Book value per share	Calculated by dividing book value by the number of average shares as at the reporting date. Book value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by the amount of the Additional Tier 1 coupon (AT1) and the relative accrual of contributions to deposit guarantee and resolution funds, except at year-end.	Share price Adjusted own funds Own funds AT1 adjustment accrued Average number of shares (million) Book value per share (euro)	1,001 12,494 12,545 (51) 5,565 2.25	1,656 13,403 13,426 (23) 5,570 2.41
TBV per share	Calculated by dividing tangible value by the number of average shares as at the reporting date. Tangible value refers to the sum of own funds, using the linear annualisation of profit obtained to date adjusted by intangible assets and the amount of the Additional Tier 1 coupon, as well as by the relative accrual of contributions to deposit guarantee and resolution funds, except at year-end.	Intangible assets Adjusted own funds (excluding intangible assets) TBV per share (euro) Price / book value (share price divided by book value) PER (share price / EPS)	2,461 10,033 1.80 0.45 20.11	2,246 11,157 2.00 0.69 11.85
Price / Book value (share price divided by book value)	Calculated by dividing the share price by book value.			
PER (share price / EPS)	Calculated by dividing the share price by earnings per share.			

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NON-FINANCIAL DISCLOSURES REPORT
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ANNEX 1 Corporate standards and institutional commitments

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Banco Sabadell S.A. (hereinafter, Banco Sabadell, the bank or the Group) is a financial institution which primarily carries out its activities in the Spanish market. It has a significant subsidiary in the United Kingdom, TSB, which is a British retail bank, as well as a banking institution in Mexico. The corporate information and subsidiaries forming part of the Group, as well as its business model, are listed in the Directors Report.

The development of the Group's business is geared towards profitable growth that generates value for shareholders through a business diversification strategy based on profitability, efficiency and service quality, with a conservative risk profile within the framework of ethical and professional codes and taking into account the interests of the various stakeholders.

The management model is focused on long-term customer retention, through ongoing activities intended to build customer loyalty based on taking initiatives and being proactive in the relationship with customers. The bank has a comprehensive offering of products and services, a qualified workforce, an IT platform that supports growth and a constant focus on the pursuit for quality.

Banco Sabadell has an internal governance framework, which has been updated by the Board of Directors in its meeting in January 2019. This framework describes, amongst other aspects, the shareholder structure, governance bodies, the Group's structure, the composition and functioning of corporate governance, internal control functions, key governance matters, the risk management framework and Group policies.

Information on the organisation, markets, objectives and strategies, as well as the principal factors and trends which can impact the evolution of the business are described in detail in the Directors' Report for the year.

Banco Sabadell carries out its business in an ethical and responsible manner, managing its commitment to society in such a way as to ensure that its activity has a positive impact on people and the environment. Each and every person in the organisation has a part to play in applying the principles and policies of corporate social responsibility, thus also guaranteeing quality and transparency in customer service.

In addition to complying with applicable regulations, Banco Sabadell has a set of policies, internal rules and standards and codes of conduct that guarantee this ethical and responsible behaviour throughout the organisation, and which address all of the Group's activity.

The bank has the necessary instruments in place to measure the outcome of these policies, the principal risks and the establishment of corrective measures, if necessary. Banco Sabadell has a Corporate Ethics Committee, to which the matters relating to Corporate Social Responsibility are reported, as well as a cross-cutting Corporate Social Responsibility Committee, which covers all matters related to corporate social responsibility throughout the organisation. It is formed of the various units responsible for such matters and coordinates all of the actions taken by the organisation in this regard.

Since 2003, Banco Sabadell has published a report indicating all of the actions, policies and initiatives which, aside from its core mission to be a provider of financial products and services, constitute the responsible performance of its business activities, its commitment to its various stakeholders, to the environment and to society in all of the regions in which it operates.

In 2018, this Non-Financial Disclosures Report, which forms part of the consolidated Directors' Report for 2018 of Banco Sabadell Group, and which is annexed to this consolidated report as a separate document, complies with the general provisions published in Law 11/2018 of 28 December, amending Articles 44 and 49 of the Code of Commerce in relation to non-financial and diversity disclosures, using this Non-Financial Disclosures Report as a framework.

1. INFORMATION REGARDING ENVIRONMENTAL MATTERS

As part of its Corporate Social Responsibility Policy, approved by the Board of Directors in 2003, and specifically, in its Environmental Policy approved by the Board of Directors in 2009, Banco Sabadell defines the framework of its commitment to environmental sustainability and to combat climate change. This framework focuses on minimising the environmental impacts of the processes, facilities and services inherent to the business, managing business-related risks and opportunities appropriately, and fostering the commitment to the environment of the people with whom the bank comes into contact. In this regard, the Bank is a signatory of the Equator Principles, the Carbon Disclosure Project (CDP) and its Water Disclosure programme. Nonetheless, it is worth highlighting that the activities carried out by the bank do not have a major negative impact on the environment.

In terms of environmental training and awareness, the entire workforce has access to an online course, completion of which is compulsory for all employees in certified corporate buildings. Using the internal platform "BS Idea" employees can submit their proposals for the improvement of environmental aspects and of the organisation's actions to combat climate change.

TSB follows an independent environmental management system which is in line with legislation in the United Kingdom. In this regard, the bank is committed to the responsible use of resources and implements measures to improve their environmental impact, such as, for example, a reduced use of vehicles, waste collection and a post service. All of this is reflected in the bank's Directors' Report. It is also worth highlighting that the IT Migration Project carried out in 2018 shall lead to substantial energy consumption savings, and it will also facilitate the measurement and reporting of consumption. Furthermore, in new branch openings all of the computer systems comply with high energy efficiency standards.

1.1 Pollution

Banco Sabadell is a signatory of the Carbon Disclosure Project, thus undertaking a commitment to actively combat climate change. In 2015, a new CO₂ emissions reduction target of 3% was set for the 2015-2020 period in Spain. To do so, each year the bank implements energy efficiency measures in its installations, as well as in its services. These measures become particularly relevant with regards to the contracting of energy with a renewable source guarantee, which has enabled the bank to achieve a 99.85% reduction in scope 2 emissions in comparison to 2014.

With regards to the impact related to business trips and travel, environmental and expenditure rationalisation criteria are applied, favouring the use of transport with the lowest level of CO₂ emissions and for "in itinere" travel, the use of the internal car-pooling platform is encouraged. This information is shown in the table below.

CO ₂ tn	2018	2017	2016	2015	2014
<u>Scope 1</u> / Direct activities: emissions generated by company facilities and vehicles	1,151	763	648	600	552
<u>Scope 2</u> /Indirect activities: emissions due to electricity consumption in Spain	20	22	54	3,321	12,890
<u>Scope 3</u> / Other indirect activities: emissions derived from business trips (plane, train and car)	3,940	3,337	3,477	3,862	3,143
Total CO₂ emissions generated by the Group in Spain	5,111	4,122	4,179	7,783	16,585
Total CO₂ emissions generated per employee	0.3	0.2	0.2	0.5	1.0

1.2 Circular economy and waste prevention and management

In all of the Group's facilities in Spain, paper waste is treated as confidential documentation to be destroyed, and 100% of the waste is recycled by authorised waste managers. The corporate centres and branches are equipped with facilities for the collection of packaging, organic matter and batteries. Together with Ricoh and the HP Planet Partners programme, the collection and reuse of used toner cartridges is carried out, together with the management of electronic waste through authorised waste managers.

Specific control mechanisms exist for waste management in branches due to be closed or merged. Surplus computer equipment and furniture in good condition at branches or work centres due to be closed or merged are donated by the bank to NGOs and local non-profit organisations.

1.3. Sustainable use of resources

As regards the bank's own infrastructure, Banco Sabadell has an environmental management system (EMS) that follows the international ISO 14001 standard and six certified corporate buildings in Spain. 16.22% of the Bank's national workforce work in one of these certified buildings. In parallel, the environmental management system is being progressively rolled out in the rest of the work centres.

1.3.1. Energy consumption

In 2018, Banco Sabadell's total energy consumption in Spain amounted to 86,398 MWh.

In 2018, electrical consumption in Spain reached 81,962MWh (compared to 82,824 MWh in the previous year) with 99.96% of energy deriving from renewable sources, mainly through Nexus Renovables, an energy supplier with 100% renewable source guarantee. Using 2014 as a baseline year, a reduction of 99.85% has been achieved in terms of CO₂ emissions in electrical consumption (scope 2).

With the objective of reducing its energy consumption, Banco Sabadell continuously develops measures to improve the eco-efficiency of its facilities and processes:

- The majority of the branch network is equipped with a centralised low energy consumption HVAC and lighting system, and light activation systems for billboard advertising adapted to daylight hours. Additionally, the majority of branches are equipped with Thin Client computers (central branch network infrastructure, whereby applications and software are virtually linked to servers) which consume 90% less energy. Since 2015 the implementation of these computers has also been initiated in corporate buildings.
- Additionally, the corporate buildings are equipped with motion sensitive lighting systems and LED (Light Emitting Diode) lamps. In these corporate buildings and larger offices, HVAC installations are equipped with energy recovery systems.

Total electrical energy consumption	2018	2017	2016
Total energy consumption (MWh)	81,962	82,824	89,809
Electrical energy supplied by Nexus Renovables (100% renewable source guarantee) (% of supply of total electrical energy)	99.94%	99.93%	99.84%

1.3.2. Water consumption

Group water consumption in Spain is limited to sanitary use and for the watering of certain landscaped areas. 100% of the water consumed comes from the supply network. The Group's headquarters are located in urban areas where the water collected and discharged is done so through the urban network.

With regard to eco-efficiency, bathroom facilities and taps are fitted with water-saving mechanisms. In this regard, the Bank's headquarters in Sant Cugat are fitted with a device that collects rainwater and greywater to reuse it as irrigation water. At the same time, the landscaped areas are comprised of native plants with low irrigation requirements.

Paper consumption in Spain in 2018 amounted to 1,047 tonnes. During the previous year, the bank has carried out the following actions to reduce the consumption of paper:

- 24 hour service for customers through remote channels and digital platforms.
- The use of tablets and digital systems in the branch network enables customers' signatures to be captured, and eliminates the use of pre-printed paper.
- All of the Group's printers are configured to print on both sides of paper by default.
- The conventional paper used by the bank is certified by the quality and environmental management system ISO 9001/ISO 14001, and its production is chlorine-free under the criteria of the FSC (Forest Stewardship Council). It is worth highlighting that since July 2018 the exclusive use of recycled DINA4 paper has been extended to the entire branch network.
- Elimination of the automatic printing of a customer copy, unless a customer specifically requests a copy.

Paper consumption:	2018	2017	2016
Volume of paper (DIN4 format) used during the year (tonnes)	1,047	988	1,062
Use of recycled paper in branches and corporate buildings in relation to total paper consumption (white and recycled) in Spain (%)	52%	9%	9%
Use of recycled paper in 13 corporate buildings with a post service in relation to total paper consumption (white and recycled) in Spain (%)	87%	80%	84%

1.4. Climate Change

In 2018 a Climate Change Task Force has been created and it is responsible for preparing the implementation of the TCFD (Task Force on Climate-related Financial Disclosures).

Furthermore, the use of videoconferencing for meetings and one-to-one meetings, teleworking pilots as well as the use of virtual communities for areas such as learning and continuous training is also encouraged.

Teleworking pilot schemes lay the foundations for the future availability of teleworking to a larger section of the workforce. There are multiple objectives and impacts of doing so, ranging from an enhanced work-life balance, to an obvious saving in time, energy and emissions.

The bank has adopted measures to improve the reduction of CO₂ emissions via its commercial offering of products. In terms of renting, the range of sustainable vehicles has been increased (with emissions equal to or less than 120gr CO₂/km), and these currently make up 78% of the current fleet of vehicles, with a permanent offering of ECO vehicles. Additionally, Banco Sabadell has contributed to the sustainable movement of employees by encouraging rentals of 100% electrical vehicles by staff through its offering of 60 vehicles of this type.

In order to provide a solution to traffic restrictions in the centre of large cities such as Madrid, a specific offering of low emission vehicles has been developed to guarantee access to this capital city, which will be extended in January to the rest of large Spanish cities.

With regards to research, the Banco Sabadell Foundation Award for Economic Research has been awarded to Dr Díaz Anadón for her work in the area of climate change, which combines research with the development of public policies, quantifying the role that new energy technologies (solar, wind or nuclear) could play in reducing CO₂ emissions and sector costs.

1.5. Other information regarding environmental matters

Beyond the responsible management of environmental sustainability with regard to the bank's own infrastructures, consumption and emissions, certain business activities with regards to financing and investment also impact the environment, therefore the bank maintains a range of initiatives and commitments in the interest of sustainability.

1.5.1. Environmental risk assessment

Since 2011, Banco Sabadell is a signatory of the Equator Principles, a voluntary international framework of policies, standards and guidelines coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to determine, assess and manage environmental and social risks relating to structured finance projects for the amount of 10 million dollars or more, and corporate loans from 100 million dollars onwards. Under these standards, a social and environmental risk assessment of the possible impacts is carried out, addressing in some cases minimisation, mitigation and adequate offsetting, which is reviewed by an independent expert. Banco Sabadell publishes an annual report on its corporate website which includes detailed information of each one of the projects related to the Equator Principles.

In 2018, Banco Sabadell signed 20 projects which incorporate the Equator Principles, 85% of which relate to renewable energy projects.

Sector	Number of projects	Category	Country	Region	Designated country	Independent review
Renewable energies	10	B	Spain	Europe	YES	YES
	2	B	U.S.	Americas	YES	YES
	1	B	Canada	Americas	YES	YES
	1	B	United Kingdom	Europe	YES	YES
	3	B	Mexico	Americas	NO	YES
Oil and gas	1	B	U.S.	Americas	YES	YES
	1	B	Mexico	Americas	NO	YES
	1	B	Peru	Americas	NO	YES

The entire branch network has access to information to assist them in assessing any environmental risk associated with the sector or activity of the companies analysed. This assessment is also included in the risk management record in which the credit risk of the transactions is assessed, and which influences the decision-making process.

1.5.2. Financing and investment in renewable energies

With regards to the business, Banco Sabadell encourages the development of a more sustainable energy model through direct investment in projects and renewable energy financing.

Thus, Banco Sabadell, through its subsidiary Sinia Renovables, has commenced a new investment round (2016-2019) in which it will allocate 150 million euros in capital to this type of asset. In line with the Bank's internationalisation strategy, which considers investments in Spain, Mexico, the United Kingdom and a number of Latin American countries, the first capital investments in Mexico have been carried out, which is where Sinia is present in 247MW wind farms, of which 99MW are in use and 148MW are under construction for 2019. Sinia has an additional portfolio in Spain, comprised of its presence in 70MW in wind, 3MW in photovoltaic and 22.5MW in a hybrid thermosolar biomass plant. Based on these projects, renewable energy generation in Spain that is attributable to Sinia in 2018 totals 152 GWh, exceeding the electrical consumption of Banco Sabadell's branches and corporate buildings. This renewable energy avoids the annual emission of almost 58 thousand tonnes of CO₂.

Equally, on a national scale, Banco Sabadell contributes to and participates in the Solar Forum (*'Foro Solar'*), in which new developments and leadership in the Spanish photovoltaic industry are discussed.

Another business line related to the environment is the financing of energy-efficient equipment and facilities by means of special-purpose renting and/or leasing products; these are used to finance projects in areas such as public lighting, biomass-fired boilers and cogeneration facilities.

2. INFORMATION REGARDING CORPORATE AND STAFF RELATED MATTERS

Banco Sabadell's Human Resources policy aims to support the transformation of the organisation, and focuses on the people forming part of the day-to-day business and its growth. The key objective is to maximise the value creation of the professionals who form part of Banco Sabadell through the development of their talent, the management of their expectations and making the most of their skills and abilities.

During 2018 the management of Human Resources has been transformed, in order to strengthen its activity and ensure that such activity focuses on the significant challenges in the management of human capital as part of the next strategic plan:

- Greater focus on talent development
- Enhanced alignment between staff policies and business requirements
- Focus on employee satisfaction

Within the scope of TSB, actions related to supporting people and teams, before, during and after migration, particularly stand out. Furthermore, TSB's effort to create an inclusive culture is also noteworthy, in which all TSB employees, independently of their gender, ethnicity, disability, sexual orientation, age or personal circumstances, can fulfil their potential.

2.1. Employment

2.1.1. Banco Sabadell workforce information

Total number and distribution of Group employees by:

Gender	2018	2017
M	11,605	11,467
F	14,576	14,378
Total	26,181	25,845
Country	2018	2017
Algeria	3	3
Brazil	2	2
Colombia	6	6
Cuba	7	7
Arab Emirates	2	3
Spain	16,851	16,765
United States	240	229
France	20	22
India	4	4
Morocco	21	20
Mexico	462	312
Peru	6	5
Poland	3	3
Portugal	12	1
United Kingdom	8,388	8,319
Dominican Republic	4	2
Singapore	2	1
Turkey	3	3
China	6	6
Andorra	139	132
Total	26,181	25,845
Professional classification	2018	2017
Management	674	645
Middle Management	3,889	4,013
Specialists	16,991	16,701
Administrative staff	4,627	4,486
Total	26,181	25,845

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors. 'Middle Management' includes directors not included in the definition of 'Management Staff'.

Age range	2018	2017
Younger than 31	3,255	2,986
Between 31 - 49	15,132	15,461
Older than 49	7,794	7,398
Total	26,181	25,845

Types of contracts held by the workforce in Spain:

	2018	2017
Indefinite	16,681	16,621
Temporary	170	143
Total	16,851	16,764

Type of Contract - Average contracts	2018	2017
Indefinite	16,706	16,622
Temporary	175	157
Total	16,881	16,779

Average Contracts - Gender	2018			2017		
	M	F	Total	M	F	Total
Indefinite	8,221	8,485	16,706	8,203	8,419	16,622
Temporary	82	93	175	84	72	157
Total	8,303	8,578	16,881	8,287	8,492	16,779

Average Contracts - Age range	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Younger than 31	484	83	407	95
Between 31 - 49	10,869	80	11,272	54
Older than 49	5,353	12	4,943	7
Total	16,706	175	16,622	157

Average Contracts - Professional category	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Management	474	-	441	-
Middle Management	3,274	-	3,249	-
Specialists	12,645	147	12,676	147
Administrative staff	313	28	256	10
Total	16,706	175	16,622	157

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors.

'Middle Management' includes directors not included in the definition of 'Management Staff'.

The breakdown of part-time contracts is not provided, given that total part-time contracts in Spain in December 2018 amount to 20 (representing 0.12% of national contracts).

Types of contracts held by TSB workforce:

	2018	2017
Indefinite	8,320	8,231
Temporary	33	56
Total	8,353	8,287

Type of contract - Average contracts	2018	2017
Indefinite	8,198	8,335
Temporary	49	57
Total	8,247	8,392

Average contracts - Gender	M	2018 F	Total	M	2017 F	Total
Indefinite	2,737	5,461	8,198	2,760	5,575	8,335
Temporary	21	28	49	27	30	57
Total	2,758	5,489	8,247	2,787	5,605	8,392

Average Contracts - Age range	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Younger than 31	2,107	19	2,195	28
Between 31 - 49	3,977	28	4,049	26
Older than 49	2,114	2	2,091	4
Total	8,198	49	8,335	57

Average contracts - Professional category	2018		2017	
	Indefinite	Temporary	Indefinite	Temporary
Management	181	-	174	-
Middle Management	297	8	295	5
Specialists	3,574	30	3,656	32
Administrative staff	4,146	11	4,210	21
Total	8,198	49	8,335	57

At TSB, there are currently no employees with part-time contracts.

Number of employee dismissals in Spain by:

Professional category	2018	2017
Management	5	3
Middle Management	25	22
Specialists	136	80
Administrative staff	4	22
Total	170	127

The Management group includes executive directors, senior management, general management, corporate directors and TOP directors.
'Middle Management' includes directors not included in the definition of 'Management Staff'.

Gender	2018	2017
M	102	74
F	68	53
Total	170	127

Age range	2018	2017
Younger than 31	5	4
Between 31 - 49	102	87
Older than 49	63	36
Total	170	127

Number of employee dismissals at TSB by:

Professional category	2018	2017
Management	4	
Middle Management	7	
Specialists	21	
Administrative staff	56	
Total	88	94

This information is not available by category in 2017 due to the change of system

Gender	2018	2017
M	28	40
F	60	54
Total	88	94

Age range	2018	2017
Younger than 31	19	22
Between 31 - 49	35	33
Older than 49	34	39
Total	88	94

Employees with some form of disability in the Group by gender and professional classification:

	2018		2017	
	M	F	M	F
Management	3	-	10	3
Middle Management	13	3	18	12
Specialists	83	69	95	115
Administrative staff	4	13	-	-
Total	103	85	123	130

Group data as at 31/12/2018

'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.

'Middle Management' includes directors not included in the definition of 'Management Staff'.

2.1.2. Recruitment

Banco Sabadell has a staff selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and in relation to their potential career path at the entity. The Group seeks to ensure optimal professional development for its employees by encouraging them to excel and rewarding hard work. This mutual commitment is set out in the Banco Sabadell Group Code of Conduct and the internal mobility and recruitment policy.

Throughout 2018, a number of actions and projects have been initiated to strengthen and improve its procedures for attracting and recruiting talent to take on higher volumes of recruitment, new profiles and geographic dispersion. These are the factors that are making it necessary to redesign and update the procedures, skills, capabilities and technologies used to attract the best candidates and provide them with a professionally rewarding experience.

In terms of external recruitment, digital capacities to attract talented persons have been reinforced through a new employment website (www.sabadellcareers.com) which has already received more than 38,000 visitors in the 5 months since it was launched, with the average visit time exceeding one and a half minutes, and with users visiting the site from Spain (+70%), USA (+13%) and Mexico (+4%). Furthermore, the editorial content and the reinforcement of digital capacities in our LinkedIn profile led to 20,000 new followers in the online community during 2018, ending the year with a total of 78,540 users.

This year the Data&Analytics Programme has been launched, which aims to incorporate professionals who have advanced data knowledge, to explore and analyse the information included in data, extracting maximum value for the purpose of personalising our products and services and to make strategic business decisions. 12 participants have joined through this Talent Incubator, with the bank ensuring the integration, participation and training of employees from this group of professionals, through systematic and continuous monitoring by their tutors and mentors.

These actions have also led to a consolidation of our position as an employer in external reputation indicators. One notable achievement includes the attainment, once again, of a place in the Mercopersonas Top 25 (ranked number 21), a renowned Spanish corporate reputation monitor, which measures how attractive companies are as employers.

The unique nature of the TSB project, TSB's mission and the innovative nature of its employee initiatives have propelled TSB to be included in the Top 25 Best Places to Work in the United Kingdom, a ranking published in the prestigious Sunday Times. Specifically, it was included in the Top 5 in 2018.

2.1.3. Remuneration

Banco Sabadell's remuneration policies are consistent with the risk and business strategy objectives, corporate culture, the protection of shareholders, investors and customers, the Group's long term interests and values, as well as with customer satisfaction and the measures implemented to prevent conflicts of interest without incentivising excessive risk taking.

In this regard, the Banco Sabadell Group Remuneration Policy is based on the following principles:

- Foster medium-long term business sustainability, as well as alignment with Group values. This entails:
 - Aligning remuneration with shareholder interests and with the creation of long-term value.
 - Implementing rigorous risk management, considering measures to prevent conflicts of interest.
 - Aligning the Group's long-term business strategy, objectives, values and interests.
- Ensure the existence of a competitive and fair remuneration system (external competitiveness and internal fairness):
 - With the capacity to attract and retain best talent.
 - Which compensates professional experience and responsibility, independently of the employee's gender.
 - That it is aligned with market standards, ensuring it is flexible to adapt to changes in the environment and in the sector's requirements.
- With regards to the Gender pay Gap, Banco Sabadell, when dealing with the same functions, responsibilities and seniority does not make any type of wage discrimination between genders when recruiting staff nor in its employees' salary reviews.

In spite of this, in Spain, data has been analysed in an objective manner, carrying out a calculation of the total number of men and women, managing the different groups, managers, specialists and administrative staff without establishing any additional criteria, which results in a gap of 11.95%. During 2018 this gap has been reduced by 5.41%. This difference is primarily explained due to the lower seniority of females at the organisation. Additional measures have been specifically developed in addition to the measures mentioned earlier, in order to eliminate this gap:

- Increase in the representation of women in senior management roles.
- 50% of promotions have been allocated to women (26% at management level) through a focus/monitoring in the Performance Evaluation Committees, and unbiased candidate selection achieved through selection panels of 3 people in candidate shortlists.
- Equal salary action for women as well as for men and equal increase in total payroll.
- Strict gender equality in the High Potential Development Scheme planned for 2019, which will provide a pool of future managerial talent.

These measures have resulted in the Bank receiving the Equality in the Workplace Seal of Distinction (“Distintivo de Igualdad en la Empresa”), awarded by the Ministry of the Presidency, Relations with the Cortes and Equality (Ministerio de Presidencia, relaciones con las cortes e Igualdad) of the Spanish Government. The Seal of Distinction recognises companies and other Spanish institutions which stand out in the development of Equality of Opportunities between women and men in the labour environment, through the implementation of equality plans and measures. The granting of this distinction is carried out through annual calls in which any company or entity can participate in, private as well as public, which stand out due to the application and results of equality between men and women in their organisation with regards to: working conditions, organisation models in other areas such as services, products and corporate publicity.

The gender pay gap at TSB is reported by following the methodologies and the calculations established by the Government of the United Kingdom at all times. The most recent study reflected a gender pay gap of 31%, based on the fixed remuneration of all employees as at 5 April 2018, and the variable remuneration of all employees in the previous year.

- Rewarding performance by aligning remuneration with individual results, and the level of risk assumed.
 - Adequate balance between the various components of remuneration.
 - Consideration of risks and current and future results, whilst not incentivising risk taking that surpasses the risk threshold tolerated by the Group.
 - Simple, transparent and clear remuneration scheme. This Policy shall be understandable and easily communicated to all staff.

All of these principles on which the Group Remuneration Policy comply with European Directives and Regulations and other regulations currently in force, particularly Law 10/2014 of 26 June, on the Regulation, Supervision and Solvency of Credit Institutions, Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the Regulation, Supervision and Solvency of Credit Institutions, EBA Guidelines EBA/GL/2015/22 of 27 June 2016, Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and the disclosure of information in virtue of Article 450 of Regulation (EU) 575/2013 (hereinafter, “EBA/GL/2015/22 Guidelines”), EBA Guidelines on internal governance (GL 2017/11) of 26 September 2017, Bank of Spain Circular 2/2016 of 2 February, for Credit Institutions, on Regulation and Solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) no. 575/2013, Delegated Regulation (EU) 604/2014 of the Commission of 4 March 2014, supplementing Directive 2013/36/EU of the European Parliament and of the Council with regards to technical regulatory standards relating to suitable qualitative and quantitative criteria to determine staff categories whose professional activities have a significant impact on the risk profile of an entity and the Senior Managers and Certification Regime (SMR) in the United Kingdom.

Total average remuneration at Banco Sabadell Spain by:

Gender	2018	2017
M	€ 59,561	€ 58,859
F	€ 44,932	€ 44,390
Average	€ 52,098	€ 51,532

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Professional classification	2018	2017
Management	€ 180,930	€ 177,599
Middle Management	€ 68,379	€ 66,228
Specialists	€ 43,948	€ 43,492
Administrative staff	€ 22,544	€ 22,467
Average	€ 52,098	€ 51,532

'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.

'Middle Management' includes directors not included in the definition of 'Management Staff'.

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Age range	2018	2017
Younger than 31	€ 33,402	€ 33,316
Between 31 - 49	€ 48,110	€ 47,418
Older than 49	€ 62,187	€ 62,171
Average	€ 52,098	€ 51,532

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits

Average remuneration of Managers in Spain:

	2018	2017
M	€ 192,770	€ 188,757
F	€ 140,984	€ 139,142
Average	€ 180,930	€ 177,599

'Management Staff' includes executive directors, senior management, general management, corporate directors and TOP directors.

The calculation of average total remuneration includes: Fixed Remuneration, Variable Remuneration (with 100% pay-out), personal and social benefits.

Average remuneration of Directors at Banco Sabadell:

	2018	2017
M	€ 150,493	€ 131,974
F	€ 176,000	€ 148,019
Average	€ 154,137	€ 134,891

* Calculation carried out for Directors who have remained at the entity during the full year. Only remuneration received for functions carried out in the role of director have been reported, excluding the amounts received for managerial functions which are included in the categories shown in the table above.

In 2018 access to flexible remuneration has been extended to 100% of the workforce, as a measure to ensure that each member of staff can optimise their remuneration in accordance with their requirements and personal circumstances.

The bank also offers its employees other types of social benefits, which include the granting of loans with zero interest rates, training scholarships and schooling grants for their children.

Total average remuneration at TSB by:

Gender	2018	2017
M	€ 50,427	€ 56,860
F	€ 31,936	€ 33,855
Average	€ 41,214	€ 41,542

Exchange rate 1GBP=0.885EUR

Age range	2018	2017
Younger than 31	€ 32,877	€ 29,437
Between 31 - 49	€ 39,017	€ 48,846
Older than 49	€ 41,251	€ 41,755
Average	€ 41,214	€ 41,542

Exchange rate 1GBP=0.885EUR

Professional classification	2018	2017
Management	€ 201,968	€ 293,804
Middle Management	€ 99,341	€ 66,228
Specialists	€ 44,046	€ 43,492
Administrative staff	€ 21,827	€ 22,467
Average	€ 41,214	€41,542

Exchange rate 1GBP=0.885EUR

Average remuneration of Managers at TSB:

Average Management remuneration	2018	2017
M	€ 213,495	€ 313,195
F	€ 180,689	€ 250,633
Average	€ 201,968	€ 293,804

Exchange rate 1GBP=0.885EUR

2.2 Work organisation, health and safety

2.2.1 Leadership management

At Banco Sabadell it has always been people who have marked the difference throughout the history of the bank, and they will continue doing so in the future, with the aim of ensuring that Banco Sabadell is the best place in which to develop a professional career. The key element to achieve this is the people management model, which is based on meritocracy and on the development of talent.

This model is based on 3 key pillars: the annual performance evaluation, accompaniment by managers and development actions in accordance with the requirements and potential of each person.

During the year all of the bank's staff undergo a performance evaluation. This evaluation takes into account what they have achieved and how they have achieved it. The evaluation is used to encourage meritocracy, for which reason it is critical to emphasise this in the evaluation. This year, the objectivity of the model has been improved, by including the possibility of comparing previous and functional managers.

Just as important as the performance evaluation in the year is the evaluation of potential in the following year, to make the best decisions in terms of professional development (internal mobility, promotion, development programmes), align aspirations with professional opportunities and design the development agenda.

Potential includes whether the person wants to, and can, assume more cross-cutting functions and/or responsibility and their readiness to take on the next level of responsibility.

For this reason, a specific section has been included to highlight professional goals, and to enable the manager to evaluate these goals. Furthermore, managers have the responsibility of continuously providing feedback, thereby giving the necessary assistance for team-building. Their aptitude as team managers can be assessed through the evaluation.

Based on the foregoing, Banco Sabadell makes tools and specific training programmes available to employees, always under an approach based on joint responsibility of the employee in the development of their career.

In particular, a Programme for Management Development is available for Managers when they reach the role of Top Management or Corporate Director, with the objective of accompanying them during periods of transition within their careers and to prepare them for the changing environment of the business, with a special focus on the challenges of the new leadership role. The programme is presented within a 'learning by doing' model, and aims to create networks in the management group, offering networking and visibility opportunities.

Additionally, Banco Sabadell has continued to develop the model in order to ensure it has the most up-to-date information on current talent, and their potential, to ensure appropriate decision making in terms of people, well as well as effective and efficient management of the development of directors and pre-directors.

This has ensured the continued use of the Personnel Evaluation Committee model by each General Management Committee (17 in total), which addresses the following matters:

- Current (and forecast) evolution of the workforce (profile and costs) and management results (remuneration, performance management - high and low performances-, environment).
- Update of the talent map (directors and pre-directors) and pool of potential talent.
- Appointment of candidates to new management positions, and proposals for employees with high potential.
- Proposals for workforce actions.

2.2.2. Work/Life balance

The bank's workforce has access to a pool of social benefits, agreed by the Group and union representatives in the agreement on measures to improve the balance between family and personal life with working life. All of these benefits have been communicated to the entire workforce, and they are published on the employee intranet, for which reason they are well-known by all employees, who have been requesting and enjoying these benefits for a considerable period of time.

The benefits include: a reduction in working hours (remunerated, not remunerated, for breastfeeding), extended leaves of absence (for maternity leave, to care for family members), special permissions (for studies, personal reasons or international adoption), increase in leave for the birth of a child and flexible working hours.

Furthermore, the Group offers a wide range of measures aimed at improving the work/life balance of its workforce, enabling them to contract services and purchase products via the employee portal, which does not only offer them economic savings, but also allows them to save time, as they receive these products at their workplace and save the time that would be spent on the journey, or having to run the errand outside of their working hours. In addition to these benefits, it is also worth mentioning the services offered to enable staff who work in central services to carry out personal errands.

In 2018, new measures to promote flexibility and an improved work-life balance have also been implemented, which include the possibility of buying additional holidays and the gradual roll-out of teleworking. This last measure has had a very good reception in terms of satisfaction and productivity, and as at the end of 2018, 320 employees were making use of this measure.

Lastly, a new position of work/life balance manager has been included, with the aim of managing and analysing requests and applications by employees relating to work/life balance, proposing creative and personalised solutions outside standard practices, in order to achieve a satisfactory balance between the requirements of the employee and those of the manager.

2.2.3. Health and safety

The Group applies a preventive policy in order to continuously improve the working and health conditions of Group employees.

In accordance with current legislation, the bank has a prevention plan which includes all of the preventative activities carried out in the company, which are published annually in a report that is available on the employee intranet and on the corporate website.

It also carries out an initial workplace hazard assessment for each new work centre, and in the event of reforms or modifications. Equally, when a certain period has elapsed since the assessment, individual work stations, as well as common areas, are assessed in all of the installations, as well as aspects such as temperature, lighting etc.

The entire Group workforce and all new employees receive information on the prevention of occupational hazards and complete mandatory training relating to health and safety in the via an online course. The training is carried out through the use of publications, ergonomic guidelines and computer terminals and other equipment, all relating to the risks inherent to the bank's activity.

Absenteeism indicators:

Absenteeism indicators in Spain	2018	2017
Total hours (accidents and non-work related illnesses)	836,153	807,752

Absenteeism indicators at TSB	2018	2017
Total hours (non-work related illnesses)	399,409	433,412

Workplace accidents:

Types of accident in Spain	2018			2017		
	M	F	Total	M	F	Total
Work centre	44	75	119	28	52	80
In itinere	48	86	134	41	74	115
Travel during the work day	14	26	40	9	16	25
Other work centres	1	1	2	2	2	4
TOTAL	107	188	295	80	144	224

*2018 figures are provisional and do not include Solvia.

Work related accidents in Spain	2018	2017
Total hours	22,170	19,590
Frequency index	5.61	3.82
Severity index	0.08	0.07

Figures are for Spain and do not include Solvia. The severity index refers to the severity of absenteeism (work days lost/ existing work days * 100).

TSB, in compliance with the legal framework in the United Kingdom, does not maintain a record of accidents.

Social Security does not define any occupational illnesses in the banking sector.

2.3. Workplace Relations

2.3.1. Communication

Banco Sabadell has multiple channels for dialogue between different hierarchical levels of the organisation, with the aim of facilitating internal communication and involving employees in the bank's projects and activities.

The "BS Idea" platform enables employees to submit improvement proposals relating to all areas of the organisation. This platform constitutes an excellent communication channel in which employees can share their concerns and experiences regarding processes or products. Ideas which receive the most votes, as well as the ideas which contribute the most value to the entity, are analysed by the persons responsible for the processes concerned, as well as by the Decision Committee of the entity, which decides on the implementation of such proposals. The ideas which receive the highest number of votes also receive an economic reward.

Banco Sabadell also has a whistle-blowing channel for employees, through which employees can anonymously submit their queries, complaints and suggestions. The information gathered through this channel is reported to the entity's Corporate Ethics Committee.

At TSB, the launch of a new digital work environment stands out, which includes a new extranet and the use of the collaboration platform 'Yammer', in addition to the enhancement of the TSB Careers website. This work environment shall continue to be developed, as it is one of the key digitalisation initiatives for employees.

2.3.2. Participation

Banco Sabadell respects and guarantees the basic rights of employees in relation to freedom of association and collective bargaining, in accordance with Spanish law. These principles are set out in the human resources policy, specifically, Recursos Humanos 7305 - Normativa Laboral Básica Aplicable (Human Resources 7305 - Basic Applicable Labour Regulations), which refers to the Convenio Colectivo de Banca vigente (current Collective Banking Agreement). These rights are set forth in chapter twelve of this agreement, Union Rights, Articles 58, 59 and 60.

The bank currently has 11 trade union sections, including the State and regional sections. The selection of the workers' representatives is carried out via a vote every 4 years, in accordance with the guidelines set forth by the Spanish Banking Association (AEB, for its acronym in Spanish), together with the major State union sections in the Spanish banking sector. The results of the union elections determine the composition of the different Works Councils, as well as staff delegates who are the interlocutors representing the entity and the agents who participate in collective bargaining. In the absence of specific negotiations, they meet as and when required. The trade union representatives selected are allocated hours from their normal working hours to engage in their trade union activities. The Collective State Banking agreement covers the entire workforce forming part of Banco Sabadell in Spain.

During 2018 multiple actions have been developed as a result of employees responses to the work environment survey carried out in 2017.

100% of employees are covered by agreement in Spain. In the rest of countries, the applicable legislation in each country is applied.

Representation of employees in formal work-company health and safety committees in Spain (same data 2017 and 2018):

- State Health and Safety committees created in companies:
 - Banco de Sabadell S.A.
 - Sabadell Asset Management., S.A.
 - BS Securities Serv., S.L.
 - FONOMED Gest.Tel.Med.S.A.
- Workers prevention delegates (role envisaged in legislation that can be held by a maximum of 8 persons per company or work area)

	Workers Prevention Delegates	On the Committee
Banco de Sabadell S.A.	24	6
Sabadell Asset Management., S.A.	3	3
BS Securities Serv., S.L.	2	2
FONOMED Gest.Tel.Med.S.A.	3	3

At TSB there is a fluid and direct relationship with employee representatives (24 meetings a year, equivalent to 2 meetings a month). There are currently 2 recognised unions (Unite the Union and Accord) and one which is not recognised (TBU) which are chosen in the participatory elections. From 2019 onwards, the elections process shall be managed by TSB. With regards to the unions, the guidelines set forth by ACAS (Advisory, Conciliation and Arbitration Association, a public government body in the United Kingdom) are followed.

2.4. Training

Consolidation of Sabadell Campus

In 2018, the Group has continued to promote the bank's learning model, which was launched in 2016, with the consolidation of Sabadell Campus and its various schools and spaces. This is a project which embodies the pillars of the Banco Sabadell training model based on innovation, personalised training, business alignment and efficiency.

Commercial School

Training activities that focus on increasing the impact of key figures in the creation of business value have been prioritised, particularly for Managers of small and medium-sized enterprises and Business Banking Directors.

MIFID. Trusted advisors

In accordance with the guidelines set forth in MIFID regulations, and specifically, technical guidelines 4/2017 for the evaluation of the knowledge and skills of staff who inform and advise, published by the CNMV, intensive certification activity has been carried out and yielded excellent results, above the established targets. In this regard, 2,157 employees have been certified, 54.4% more than the 1,400 employees expected for 2018. As a result, a total of 4,061 managers were certified as at December 2018.

Creation of the Digital School

More than 3,500 employees already develop their digital potential in the 8 subjects offered by the Digital School (information management, networking, digital expertise, digital vision, digital communication, digital identity, continuous learning and security).

Those employees who complete the “+ Digital” programme, can receive the *Curso Superior de Digitalización en Banca* qualification from EADA (Advanced Digitalisation Course in Banking), based on Blockchain technology, which will be awarded in June next year.

Growth of the in-house tutoring team

One of the main pillars of Banco Sabadell's new training model is the group of in-house tutors. Tutors facilitate the management of knowledge and internal talent and they make it possible for training to be available in all regions where it is required.

In 2018 this group has grown considerably, in terms of both size (470 members) and impact, offering support to critical processes, such as the aforementioned MIFID. These professionals have completed more than 50,000 hours of training, with each tutor dedicating an average of more than 19 hours per employee receiving training, to share their knowledge with the rest of the workforce.

Training in Spain	2018	2017
Employees who have received training (%)	94.1%	88.9%

Total hours of training and average per professional category in Spain	2018	2017		
	Training hours	Average hours	Training hours	Average hours
Management	22,180	52.31	23,864	58.04
Middle Management	150,306	48.11	137,345	41.98
Specialists	469,966	38.83	329,136	29.56
Administrative staff	6,864	34.67	2,386	20.93
Total	649,316	40.97	492,730	32.98

At TSB, the training plan related to the IT migration stands out, as it has included key groups in the migration process with the aim of preparing and aligning all capacities for the launch. This process forms part of wider monitoring, Human Factors, which measures the progress of training as well as other aspects of employees' occupational health during the entire process.

Training at TSB	2018	2017
Employees who have received training (%)	77.71%	99.59%

Total and average hours of training per professional category at TSB	2018		2017	
	Training hours	Average hours	Training hours	Average hours
Management	6,869	38.59	6,429	37.60
Middle Management	13,571	44.49	9,704	32.03
Specialists	258,701	72.36	510,926	140.06
Administrative staff	335,386	78.22	826,363	198.41
Total	614,527	73.63	1,353,422	163.32

2.5 Equality

Banco Sabadell guarantees gender equality and equal opportunities in all areas of its activity affecting the workforce: recruitment, training, promotions and career development, salaries, work/life balance, etc. These principles are set out in the Banco Sabadell Group Equality Plan, Human Resources policy and Code of Conduct.

One of the aims set out in Section E. Work-Life Balance of the Equality Pact signed in 2016 is to establish a flexi-time framework to enable employees to achieve a work/life balance, which is enforced equally between men and women. The key principles of this Pact therefore pursue:

- The execution of a better alignment between people and the company, i.e. between the development of the company's staff and the company's objectives.
- The provision of assistance to the workforce to enable them to achieve a healthy work/life balance.
- An increase in the organisational flexibility of the company, and its adaptation to changes in society, in relation to family, social indicators, habits and behaviour.
- Maternity protection, childcare protection and the protection of dependent people, favouring the full and smooth integration of men and women within the company.

In terms of diversity, Banco Sabadell has a solid track record when it comes to designing and implementing gender equality measures, focusing particularly on fostering female talent as a source of corporate wealth. To this end, it has carried out an in-depth assessment of indicators, broken down by gender, and it has also held workshops with management staff in order to better understand the current situation in terms of female talent within the bank. As a result of its efforts, a specific plan has been defined in order to continue making progress in terms of diversity and equality.

The measures that have been adopted with a view to fostering equal treatment and opportunities between men and women relate to a number of areas of activity: staff selection and recruitment (gender-neutral language in internal job postings, standardised interview scripts, communication of the principle of equality to consultancy firms); training (equal participation between men and women in training activities, respecting the scheduled start and end times for such training, and conducting training activities during working hours whenever possible, creation of the "Equal Opportunities" course); promotions and career development (objective criteria relating to the suitability for the role and meritocracy, improvement and development of skills, promotion of at least 300 women to Level VII and 150 women to Level V); salary (100% of the annual salary paid to women on leave for pregnancy, breast-feeding, maternity and paternity leave, individual targets adjusted to the time worked, maintenance of targets); work/life balance (flexi-time, unpaid leave options, paid and unpaid short-time working, extended leaves of absence, holidays, internal transfers, etc.); gender violence (restructuring of working hours, preference in requests for internal transfers, contract suspensions, etc.); sexual abuse or sexual harassment (action protocol).

Banco Sabadell has had an Equality Plan, signed with the representatives of male and female employees, in place since 2010. The Plan was renewed in 2016 and it was published in the Official State Gazette, no. 191 of 11 August 2017. The main purpose of the Equality Plan is to prevent any type of labour discrimination between women and men at the company, as well as to prevent and penalise discriminatory behaviour due to gender, increasing the use of work/life balance measures, guaranteeing a balance between women and men at all levels, strengthening internal promotion and preventing and penalising sexual harassment and gender-based harassment. To do so, it establishes certain lines of action in different areas with specific objectives and commitments for each one of them: recruitment, training, development, wage, work/life balance, gender violence, sexual or gender-based harassment. The Equality Plan sets forth an action protocol for cases of sexual abuse, sexual harassment and workplace bullying. Through this protocol, when any such conduct is reported, a case file will be opened by an Investigation Committee in order to objectively assess the reported events. The Equality Plan Monitoring Committee meets twice a year to monitor the Plan.

In 2017 Banco Sabadell fulfilled and even went beyond the commitment it made in 2014 when it signed a Cooperation Agreement with the Spanish Ministry of Health, Social Services and Equality that set a target that women should account for 18% of senior management roles by 2018.

Furthermore the bank has a Board Members Recruiting Policy, approved by the Board of Directors in 2016, the aim of which is to establish the criteria which must be taken into account in the selection process of new members of the Board of Directors, as well as the re-appointment of the same.

This Policy promotes compliance with the gender diversity target, under which the gender with the lowest representation must represent at least 30% of the total members of the Board of Directors in 2020.

The Appointments Committee pays special attention to gender diversity in the Board of Directors, and in the assessment of the candidates selected, seeking to ensure the inclusion of women who comply with the requirements of the role sought.

The next steps will be to continue promoting gender diversity in order to strengthen the bank's commitment to this aspect, and to anticipate new regulatory disclosure requirements:

- Establish specific objectives and monitoring processes (incorporated into the Corporate Dashboard)
- Active management of female talent: maintain policies whereby candidates to positions are selected/promoted by a majority vote between three people and carry out forward-looking talent management (50% of women in the High Potential Development Scheme)
- Strengthen work/life balance measures
- Communicate and promote a corporate culture that encourages diversity (role models and awareness-raising sessions aimed at management staff)

Distribution of Group employees by gender

Gender	2018	2017
M	11,605	11,467
F	14,576	14,378
Total	26,181	25,845
%	2018	2017
Women in senior management positions	25.67%	24.34%
Women in line management positions.	33.50%	34.61%
Women in management positions	32.35%	33.19%
% of promotions who are women	49.55%	50.35%

Data calculated for the Group's total workforce

'Senior Management' includes executive directors, senior management, general management, corporate directors and TOP directors.

'Line Management' includes directors not included in the definition of 'Management Positions'.

2.6 Universal accessibility for people with disabilities

The Group fosters all forms of diversity and seeks to ensure the integration of all of its employees in the workplace, through its application of non-discriminatory recruitment and career development processes.

The Group establishes measures for the adjustment of roles where required in cases of functional diversity, which are in line with the occupational health and safety service's procedures relating to sensitive risk groups. The institution also assists employees with paperwork and formalities at municipality, autonomous community and state level that help to improve these employees' well-being beyond a strictly professional sense. Pursuant to the General Law on Persons with Disabilities (*Ley General de Discapacidad*), the bank implements the alternative supported employment measures set out in the aforementioned law by contracting services and supplies from special employment centres and by donating money to organisations that support people with disabilities; in 2018 it donated a total 600,000 euros to three such organisations (ONCE Foundation, Adecco Foundation and Cáritas).

As at December 2018, the Group had 188 employees with some form of disability (253 as at the end of 2017). The decline in the number of disabled employees, both in average terms and as at year-end, is due mainly to the reduction of staff in TSB (-62 employees YoY).

An in-depth study has been conducted of the distribution of the workforce by generation, identifying the variety and complexity of experience, skills, abilities and training in each of the generations in the workforce and formulating proposals for improvement that take into account their main interests, needs, expectations and concerns.

3. INFORMATION REGARDING HUMAN RIGHTS

Banco Sabadell has a Code of Conduct and an Ethics and Human Rights Policy in place, both of which were approved by the Board of Directors in 2003. The bank has also implemented a Code of Conduct for Suppliers, through which it ensures that its own commitment to safeguarding human rights is also applied throughout its supply chain.

Furthermore, the Group is a signatory a number of major national and international agreements relating to Human Rights:

- The United Nations Global Compact, of which it became a signatory in 2005, officially undertaking to commit to the ten principles, including the first and second principles on human rights and labour.
- The Equator Principles, a risk management framework for determining, assessing and managing environmental and social risk, which considers a number of aspects including the responsibility to respect human rights by undertaking due diligence in order to prevent, mitigate and manage adverse impacts.

These commitments aim to eliminate discrimination in respect of employment and occupation, uphold the freedom of association and recognise the right to collective bargaining pursuant to the legislation of the country in which the institution's employees work (ILO Convention No. 87 on freedom of association and the right to organise and ILO Convention No. 98 on the right to organise and collective bargaining). They also aim to foster measures for improving the well-being of staff and helping them to achieve a work/life balance.

The bank also encourages and maintains an environment in which all employees are treated with dignity and respect and where they are treated fairly, without any form of discrimination by reason of gender, race, skin colour, age, social background, religion, nationality, sexual orientation, political opinion, physical or psychological disability or membership of labour unions.

It also prohibits all forms of forced and compulsory labour, servitude and labour under indentured labour contracts. It also does not hire any minors under the legal working age and in no case under the age of 15.

Regarding customers and society in general, the bank offers products and services that contribute to generating a positive impact on people's lives through responsible business practices: risk prevention through assessments of the risk of human rights violations in Project Finance, social housing management and financial inclusion.

In 2017, the bank reiterated its commitment to the Code of Good Banking Practice, in order to limit the effects of over-indebtedness of people and families and thus enable the financial inclusion of debtors at risk of social exclusion.

Regarding procurement management, the bank has procedures in place which guarantee that human rights are respected throughout the end-to-end supplier accreditation, selection and evaluation process, as described in the relevant section of this report.

4. INFORMATION REGARDING THE FIGHT AGAINST CORRUPTION AND BRIBERY

Banco Sabadell views ethics as one of its core corporate values, and it works to actively fight against corrupt practices. Banco Sabadell has been a signatory of the United Nations Global Compact since 2005, and as such it applies its Principles, thereby undertaking the express commitment to fight against all forms of corruption.

In this respect, it has a Code of Conduct and a Conflicts of Interest Policy in place to which all Group employees are subject.

As a financial institution, one of the pillars of Banco Sabadell's activity relates to anti-money laundering and counter-terrorist financing. Both the bank and its subsidiaries have in place due diligence measures, rules and procedures for each type of risk to which they are exposed, and which they apply in both pre-onboarding processes and in the continuous monitoring of onboarded customers. They include the recommendations issued by international bodies and by the Financial Action Task Force (FATF). In each foreign branch and representative office, as well as in each domestic and international subsidiary, a person has been designated to be responsible for these matters, and a procedure has been established for reporting incidents related to corruption and money laundering. A training plan is in place for all Banco Sabadell employees in relation to anti-money laundering and counter-terrorist financing.

The bank also pays particular attention to the supervision of loans and accounts held by political parties by following a rigorous customer onboarding procedure. Similarly, the bank does not make any contributions of any kind to political parties, politically exposed persons or related institutions.

In terms of transparency, all donations to NGOs and foundations are analysed and assessed by the bank's Sponsorship Committee or the Board of Trustees of the Foundation, in accordance with the principles laid down in the bank's Social Action Policy. The accounts of the Banco Sabadell Foundation are also duly audited.

It is also worth noting that Banco Sabadell's Code of Conduct regulates the acceptance of gifts and inducements, expressly setting forth that staff must reject all such items, as well as any contributions from a counterparty or any personal benefit offered by a customer or supplier which may limit or otherwise affect their decision-making capacity.

Lastly, as indicated in the section on Communication, the bank also has a whistle-blowing channel available to employees which they can use to anonymously submit queries, complaints and suggestions. Information received through this channel is reported to the institution's Corporate Ethics Committee.

5. INFORMATION REGARDING SOCIETY

Banco Sabadell enforces this commitment through transparency and accessibility, using specific products and management models which address different social matters. The bank also maintains a permanent dialogue to determine the concerns that it shares with society, based on which it takes part and promotes multiple initiatives relating to financial education, solidarity and other activities and partnerships with a social impact. The bank's commitment to society is channelled through its corporate volunteer scheme, the initiatives pursued by the bank's various divisions and through the Banco Sabadell Foundation.

5.1. Commitment to sustainable development

Banco Sabadell contributes to sustainable development through the following initiatives:

5.1.1 Transparency, simplification and accessibility

The bank has established mechanisms and arrangements to guarantee that all information provided to customers is transparent and that all of the products and services which it offers satisfy their requirements at all times.

In 2018, the online savings and investment platform “Sabadell Inversor” was implemented in the branch network. This platform is used to offer an expanded advisory service to all of the institution’s customers, addressing their specific needs and characteristics, whilst also complying with the legal requirements of the mandatory MiFID II regulation. This platform also centralises other ranges of products and services which complement the savings and investment offering.

Before selling a product or service, the products approval committee verifies that it meets the required transparency standards.

The branch network is also given information about products and services through pre-contractual information sheets, which make it easier for relationship managers to give the necessary explanations to help customers and consumers understand the characteristics of the products which they acquire. At the same time, when advising customers on investments, relationship managers also carry out the necessary tests to ensure that the financial products are in line with their needs and requirements, and assess customers’ knowledge and experience in this regard.

The bank has been a member of the *Asociación para la Autorregulación de la Comunicación Comercial* (the independent advertising self-regulatory organisation in Spain), more commonly known as “Autocontrol”, and through this membership it undertakes the commitment to offer responsible advertising that guarantees the accuracy of the information, acquisition process and operational characteristics of the advertised products.

In 2018, Banco Sabadell has expanded its range of distance banking services, thereby enabling customers to carry out certain transactions without having to visit their local branch. Its new distance banking services include obtaining frequently used bank certificates and digitally signing for certain financial products. A system has also been launched which allows new accounts to be opened via video call or using a mobile app, and a feature has been enabled which allows individual customers who do not require any notarial intervention to apply for loans using distance banking.

Banco Sabadell also offers the option to consult the prices of securities listed on Spain’s electronic market (*mercado continuo*) using Amazon’s voice service, Alexa, and it has expanded its voice services for the bank’s customers with iOS devices, allowing them to check their account balance and send or request money using a voice command.

In order to help customers carry out more banking transactions, a pilot programme has been launched under which branches can assist customers (subject to receiving prior notification) in the evenings.

5.1.2 Sustainable finance

Ethical and charitable investing

Banco Sabadell encourages responsible investing by offering customers a number of savings and investment products which also contribute to humanitarian projects. Products in this area include Fondo de Inversión Sabadell Inversión Ética y Solidaria F.I., (a mutual fund), Sociedad de Inversión Sabadell Urquijo Cooperación, S.I.C.A.V, S.A., (an investment company), Plan de Pensiones BS Ético y Solidario, P.P. and Plan de Pensiones BanSabadell 21 F.P. (pension plans), as well as Fondo de Pensiones G.M. PENSIONES, F.P. (a pension plan for Group employees).

In 2018 the Corporate Ethics Committees of Sabadell Urquijo Cooperación, Sicav, SA and Sabadell Inversión Ética y Solidaria, FI selected 35 humanitarian projects mostly aimed at addressing social exclusion risks, improving the living conditions of people with disabilities and meeting basic food and healthcare needs. Over €390,000 were granted to charitable organisations and projects in 2018.

In the area of investment, both pension funds manager BanSabadell Pensiones EGFP SA and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the Principles for Responsible Investment in the “investment manager” category. These principles include social, environmental and good governance criteria in management policies and practices.

Sustainable bonds

Green, social and sustainable bonds are debt securities which support environmental and/or social improvement projects by meeting certain eligibility criteria.

The funds obtained from issuing these bonds are used to fund green/social projects (renewable energy, energy efficiency, water pollution and management, waste management, healthcare, social inclusion, etc.). They are rated by an external agency that verifies that the bonds identified as sustainable bonds qualify as such and also verifies that the funds obtained from issuing these bonds are used to fund environmental and/or social projects.

Banco Sabadell has taken part in the placement of Iberdrola and Gas Natural green bonds, and has acted as the sole placement agent of 150 million euros of sustainable bonds issued by the Autonomous Community of Madrid in 2018. This role has enabled it to acquire investors interested in purchasing these products.

5.1.3 Social housing management

Banco Sabadell manages social housing through Sogeviso, an institution wholly owned by the bank, in order to responsibly address situations of social exclusion faced by its vulnerable mortgage borrowers.

As at 31 December 2018, Sogeviso managed 10,178 properties under social and affordable rent arrangements specifically aimed at these vulnerable customers. In 53% of these cases the "Social Contract" has been incorporated. The Social Contract is a service under which social workers offer specific assistance and which is based on three pillars: (i) putting these customers in touch with public services, (ii) implementing employment and labour market insertion actions, by managing a service which aims to increase customers' employability through training, coaching and job interview practice, and (iii) cooperating with public and private institutions, particularly those involved in the Third Sector. Comprehensive rent management, together with the Social Contract (which currently provides services to 5,344 families and has been consolidated as an innovative model with which to manage vulnerable customers), has enabled 3,501 families, all of which had members who are Banco Sabadell customers, to overcome their situation of social exclusion. 2018 has also seen the consolidation of the JOBS programme (for employment and labour market insertion), which ended the year with 2,688 participants. 1,483 people have found employment under this programme since it began in 2016. It is important to note that over 33% of these were hired for over 100 days and more than 6% were hired for long-term positions, which will improve their long-term employability.

Also during 2018, in order to limit the effects of over-indebtedness and facilitate the recovery of debts owed by debtors at risk of social exclusion, the bank has reiterated its commitment to the Code of Good Banking Practice, approving 167 mortgage loan restructuring operations.

Since 2013, Banco Sabadell has been a participant of the Social Housing Fund (*Convenio del Fondo Social de la Vivienda*, or FSV), an initiative implemented by the government of Spain to strengthen the protection of mortgage debtors. Sabadell has contributed to this initiative with 400 properties primarily aimed at customers who have had to surrender their properties to settle their debt or who have lost their properties through foreclosure proceedings since January 2008. 90% of the bank's housing stock is covered by social rent agreements currently in effect.

Furthermore, the bank has assigned 92 properties to 46 non-profit institutions and foundations, intended to lend support to disadvantaged social groups.

5.1.4 Financial education

Banco Sabadell continues to promote and take part in a number of financial education initiatives. From the institution's perspective, this type of activity involves not only meeting the different training requirements of consumers and society in general, but also being by the side of consumers and society to help them develop their skills and decision-making abilities.

For children (up to age 13)

The drawing competition “What is money for? (*¿Para qué sirve el dinero?*)”, at <http://paraquesirveeldinero.com/> has been running since 2010 and includes a series of educational activities and educational materials, prepared in cooperation with teachers and educators, to encourage the development of creativity and the understanding of the importance of saving, the value of money and solidarity.

This year, it includes a children’s economic dictionary that is linked to an educational guide, which helps children to become more familiar, word by word, with the uses of money and provides answers to their questions and concerns. Additionally, for each drawing submitted, Banco Sabadell makes a donation to a charitable cause. The drawings that receive the most votes on social media are also awarded a prize. More than 7,300 drawings were submitted in 2018.

For adolescents

Since its creation six years ago, Banco Sabadell has taken part in the annual Catalan Schools Financial Education programme (*Educación Financiera de Escuelas de Cataluña*, or EFEC). The programme is taught in over 350 academic centres, and more than 87,600 students take part. This is equivalent to approximately 30% of students in their final year of compulsory education (4º ESO) in Catalonia.

The bank also participates in the “Your finances, Your future” programme (*Tus Finanzas, Tu Futuro*), in partnership with the Spanish Banking Association (Asociación Española de Banca, or AEB) and the Junior Achievement (JA) Foundation, which is offered at over 100 centres throughout Spain.

Financial education imparted by volunteers		2018	2017	2016
Number of volunteers	EFEC	87	179	164
	JA	32	32	34
Number of beneficiaries	EFEC	17,200	9,082	4,736
	JA	387	430	426

Banco Sabadell is also a signatory of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and Bank of Spain within the framework of the National Plan for Financial Education. This Plan, which was renewed in 2018 and which follows the recommendations of the European Commission and the OECD, is designed to improve public understanding of financial matters by providing citizens with basic knowledge and tools to enable them to manage their finances in a well-informed and responsible way.

For SMEs

For the last six years Banco Sabadell has worked in collaboration with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, and is the sponsor of the “Export to Grow” programme (*“Exportar para crecer”*) designed to help small and medium-sized enterprises to expand into foreign markets. It does this by offering them online tools and specialised information services and by arranging round table discussions throughout the country, in which close to 5,000 companies have already taken part.

As part of its commitment to supporting and advising corporate customers, Banco Sabadell has launched the second edition of the Sabadell International Business Programme, a training programme organised together with the University of Barcelona (UB) which can be completed either in person or digitally by following the live streaming of training sessions held in cities including Barcelona, Madrid, Valencia, Bilbao, Vigo and Seville.

In terms of the digitalisation of companies and the assistance given to them, the bank has launched a new programme and created a new role within the branch network: the *Director de Digitalización de Empresas* (Companies Digitalisation Director), who combines the duties of a professional consultant equipped with a good understanding of the unique characteristics of each customer together with the provision of personalised advice in relation to streamlining and transforming each business in areas such as e-commerce, data mining, digital marketing and cybersecurity.

Another initiative designed to support and assist companies is Sabadell Link, an audiovisual channel which, among other features, facilitates contact with key management staff at the representative offices in Europe, Asia, Africa and America. The exporter kit, which is available on the International Business website, is a set of tools for engaging in foreign trade activities with the maximum guarantees, and it is therefore another frequently used resource when it comes to firms’ internationalisation processes.

Under BStartup, Banco Sabadell’s entrepreneurship programme, the bank has organised around 40 informative chats for entrepreneurs about start-up funding. The topics addressed included both public and private funding options.

For families/society

In 2018 Banco Sabadell launched a new live debating programme, 'Futuros', under which it held debates on the Facebook Live platform regarding the day-to-day concerns of families as well as aspects that affect their household finances.

These debates, led by influential people from the worlds of culture, engineering, education and sport, make it clear that there are as many possibilities for the future as there are people in the world, and Banco Sabadell explains its role as a guide to support and assist families and offer them solutions at key moments in their lives.

This initiative offers families and society a chance to become involved by contributing to the debate and sharing a variety of opinions on matters such as: 'Are we meant to live together?' and 'How should your children study?'.

5.1.5 Corporate Volunteer Scheme

Banco Sabadell encourages employees to engage in community and volunteer work by providing them with the necessary means and resources.

Through Sabadell Life, a consolidated internal portal in place since 2016 and which has over 11,000 users, more than 500 charitable initiatives and corporate volunteer activities have been proposed by the bank and its employees and registered on the portal. The more community-minded employees either donated directly or exchanged their prizes for donations, using gamification, to one of the charitable causes sponsored by Sabadell Life through the Actitud Solidaria platform: school meals grants ('*Becas Comedor*') provided by Educo (this campaign was selected through a majority vote by employees in a survey) and educational supplies for children at risk of social exclusion under Ayuda en Acción, among others. The institution has also sent aid to those in need following natural disasters, such as the 2018 tsunami in Indonesia.

In addition to the financial education programmes mentioned above, some of the most popular volunteer initiatives included:

- Programmes to leverage the knowledge and experience of current and former employees to favour disadvantaged sectors and people at risk of social exclusion:
 - The Exit Foundation's "Coach" project, which mentors young people in vulnerable situations to help them find work. In 2018, 36 employees volunteered for a total of 1260 hours mentoring teenagers aged between 16 and 18 to help them improve their employability in the cities of Madrid, Barcelona, Valencia, Granada, Alicante and Palma.
 - Transpirinenca Social Solidària (TSS) is a social and educational project in which the Banco Sabadell Foundation is a collaborating partner and which aims to promote social inclusion. 300 young people and 200 volunteers from a number of companies, including Banco Sabadell, take part in a hike over the Pyrenees to support social inclusion, walking 800km in different stages over 42 days.
 - The second edition of BValue, a programme provided by the Banco Sabadell Foundation and the Ship2B Foundation which is designed to help non-profit organisations develop professionalisation and sustainability models. Under the programme, 20 employees act as mentors for various social entities, assisting and advising them.
- Contributions and participation in fundraising campaigns:
 - Trailwalker hike, in which over 40 teams took part with more than 100 volunteers, raising €65,000 for Intermon Oxfam in support of a world without poverty.
 - Inspiring Games, an online competition between companies in which the points earned by over 400 employees who took part in a number of different sports and activities led to the company being named the healthiest company of 2018. The bank donated the 1000 euro award to the 5p- Syndrome Foundation. 5p-Syndrome is a rare condition that affects 1 in 50,000 children.
 - Over 230 employees gave blood in Barcelona, Valencia and Madrid.
 - Collaboration with the 'Reyes Magos' Christmas campaign organised by the Magone Foundation. Over 470 Christmas presents were donated in response to letters to the Three Wise Men written by boys and girls at risk of social exclusion in regions such as Alicante, Barcelona, Bilbao, Madrid, Malaga, Oviedo, Galicia, Zaragoza and Valencia.

- Other activities included charitable gift-giving on Saint George's Day (an event known as *Diada de Sant Jordi Solidario*) and the Charity Christmas Market in the Sant Cugat corporate centre, working together with various third sector organisations, including Obra Social San Juan de Dios, Proactiva Open Arms, Espigoladors, Sonrisas de Bombay and Mua Solidaris, among others.
- Projects aimed at labour integration and improving employability:
 - Partnership with Cáritas in the "Feina amb Cor" programme, aimed at people who are unemployed, have family burdens and/or are over 40 and receive no financial income. Banco Sabadell is the only financial institution associated with the project, and it offers such persons an opportunity to work in its branches, carrying out administrative duties and working with Customer Services on a temporary basis, particularly during the holidays.

Of the 25 people who have taken part in the Feina amb Cor programme since 2015, 5 continue to work in branches in the province of Barcelona, 6 have worked more than the 3000 hours established as the maximum hours in the programme and 5 have found stable employment, which is the primary aim of the programme.

It is also worth mentioning TSB's extensive charitable work carried out in 2018 as part of the TSB Local Pride initiative, which pursues two objectives:

- Donate time, money and expertise, through the TSB Local Charity Partner programme, in which every branch supports a local cause that matters to their community. Also, help local sports clubs across the UK use the power of sport to make a positive difference to young people and their communities through its partnership with Sported, one of the leading Sport for Development charities in the UK.
- Share the stories of the unsung heroes helping people in their local communities.

5.1.6 Social action and sponsorship

Banco Sabadell's social action policy is based on the Group's commitment to social development and the creation of value. The bank carries out most of its activities in this area through the Banco Sabadell Foundation, the Sponsorship Committee and the work carried out with the joint cooperation of all of its divisions. In 2018, the Banco Sabadell Foundation received 5 million euros from the bank to carry out its activities.

Awards and recognition

The activities of the Banco Sabadell Foundation are organised around talent, science, culture and social entrepreneurship. Some of the key initiatives undertaken by the Foundation include the Award for Biomedical Research, the Award for Science and Engineering, which was created in 2017 in partnership with the Barcelona Institute of Science and Technology (BIST), and the Award for Economic Research, all of which aim to recognise and support the achievements of Spanish researchers in these fields. Another testament to the Banco Sabadell Foundation's commitment to science is its Scientific Research Grants, which it has been awarding for the past 24 years to pre-doctoral students, and its involvement in the Boards of Trustees of institutions such as the Pasqual Maragall Foundation.

In terms of supporting young talent, the Sabadell Foundation has also cooperated with Celera this year, a programme that identifies young people in Spain with a wide range of profiles and who have outstanding talent in research, entrepreneurship and engineering. The programme gives the selected candidates the tools that they need to fully tap into their potential.

Social innovation projects for social entities

In 2018, the Ship2B Foundation, together with the Banco Sabadell Foundation, launched the second edition of the BValue programme, which aims to help professionalise, transform and improve the value proposition of non-profit organisations in all areas of activity. 10 finalist proposals are selected after the first stage, which then receive support to launch a crowdfunding campaign through which their proposals are shared and validated. The projects are then presented during a Demo Day, during which the Banco Sabadell Foundation grants a number of financial support packages.

In 2017 a total of 40 social entities were selected to take part in the first edition of B-Value. 100 mentors specialising in different sectors took part in the programme. Thirty of them were Banco Sabadell employees who also participated in 4 face-to-face workshops held in Barcelona and Madrid.

Young talent programme

Since 2016, the Banco Sabadell Foundation and the Ship2B Foundation have worked together to detect and reward innovative projects which help to improve the coaching and employability of young people. With the B-Challenge programme, 20 groups of young people submit their projects to a selection, training and support process, at the end of which the 4 projects considered to have the most potential for success are selected.

The crowdfunding campaign #YoCreoTalento is used to support the talent of the 4 winning projects of the B-Challenge programme. These are social projects which propose innovative solutions using self-sustainable business models.

Community-minded attitude

In 2018, through the IT platform provided by Worldcoo, a start-up partly owned by the bank thanks to the BStartup10 programme, Sabadell has been able to effectively respond to a number of emergency appeals, including the appeal to raise funds following the tsunami in Indonesia, with over 300 donations being made in less than 24 hours in order to help over 700 people in need, by providing medicine, specialised care, hygiene facilities, as well as clean water and food.

5.2 Consumers, outsourcing and suppliers

5.2.1 Consumers

Banco Sabadell has a Customer Care Service which deals with complaints and claims.

In 2018, 44,713 complaints and claims were received, 32,849 of which were accepted for processing. The number of cases handled, however, was 35,445, due to the resolution of issues pending from the previous year. By type, 5.9% were complaints and 94.1% were claims.

The Group has a Customer Ombudsman, who is responsible for resolving the claims brought forward by the customers and users of the bank, both in the first and second instances, and for settling issues that are passed on to him by the Customer Care Service.

TSB's Customer Relations division received a total of 200,000 complaints and claims in 2018 (provisional data pending TSB's official year-end figures).

5.2.2 Outsourcing and suppliers

The challenges of competitiveness require the adoption of cooperative behaviour between Banco Sabadell and its suppliers and for suppliers to be viewed as strategic partners. Based on this principle, the bank established a series of protocols and standards in order to extend its commitment to socially responsible practices to the supply chain. The protocols and mechanisms indicated above cover the end-to-end relationship with the bank's suppliers, from the supplier accreditation and evaluation process until the procurement process.

Banco Sabadell also requires its suppliers to adhere to the Group's environmental policy, thereby integrating environmental and social responsibility into its supply chain. The basic contracts with suppliers include clauses on respecting human rights and the ten principles of the United Nations Global Compact. Where required due to the activity involved, contracts also include environmental clauses.

Supplier accreditation

The Procurement Division has a portal in which suppliers, prior to registering, must accept the Code of Conduct for Suppliers, which includes:

- The United Nations Universal Declaration of Human Rights.
- International Labour Organisation agreements.
- United Nations Convention on the Rights of the Child.
- The principles of the United Nations Global Compact, of which the bank became a signatory in February 2005.

The documentation requested in the supplier accreditation form includes the ISO Certifications (such as ISO 9001, ISO 14001 and other quality certificates), documents related to governance matters and the published information on the company's CSR. Details of the characteristics of the products made available to the bank by the supplier (recycled, ecological and reusable products) may also be requested.

Before the accreditation process, suppliers are required to accept the general contractual terms and conditions and the code of conduct, which gives details about the bank's environmental policies.

In order to proceed with the accreditation process, suppliers must provide their legal documentation, financial information, quality certificates, proof that they are up to date with their social security payments and tax obligations, as well as their CSR policy.

After reviewing the documentation submitted through the monitoring tool, Banco de Sabadell proceeds with the supplier accreditation process.

Thereafter, when the documents provided by the supplier near the end of their validity period, the bank sends that supplier a reminder to update them. Once the updated documents have been submitted, they are reviewed and the accreditation status is updated.

Supplier evaluations

The Group's major suppliers (i.e. those with a turnover of more than 250,000 euros) and those classed as critical (i.e. those engaging in areas in which there are limited market players) are assessed on an annual basis on environmental and quality matters, as well as labour criteria and the status of their Social Security payments.

Banco Sabadell regularly checks that the documentation submitted by suppliers is fully up to date in order to guarantee compliance with accreditation criteria, and establishes mechanisms for sending periodic alerts.

Unit managers are given discretions in certain services unrelated to the Procurement Division, as these services do not represent a risk and involve financial service firms and consultancies. All of these exceptions are included in a transparent manner in the organisation's Procurement Manual.

International network

Supplier recruitment in the international network is decentralised, hiring only local suppliers and affecting only products for the sole use by the relevant branch or office in its daily activities.

5.3 Tax Information

Banco Sabadell Group is firmly committed to promoting responsible taxation, maintaining a cooperative relationship with the Tax Authority and fostering transparency in communications relating to tax information sent to the various stakeholders.

These commitments are embedded in the Group's Tax Strategy, published on its corporate website, which lists and describes the Group's principles of action in matters relating to taxation. These principles include the principle of efficiency, prudence, transparency and the mitigation of tax risk. The Group applies these principles in order to ensure that its overall tax contributions are in accordance with the law and the relevant international guidelines and principles established by the OECD.

Consolidated profit after tax in each country as well as the taxes and public subsidies received, all of which correspond to Training activities, are shown below.

Data in thousand euro

Country	Consolidated profit earned		Corporation tax paid	
	2018	2017	2018	2017
SPAIN	385,948	603,649	23,139	53,899
UNITED STATES	110,355	71,439	15,546	6,881
FRANCE	13,864	5,573	1,779	1,779
MEXICO	12,584	12,447	5,452	5,275
ANDORRA	8,307	8,005	357	1,072
CUBA	1,644	1,532	-	-
MOROCCO	1,256	1,965	896	1,484
LUXEMBOURG	86	74	-	76
BAHAMAS	-40	-90	-	-
PORTUGAL	-1,787	-	-	-
UNITED KINGDOM	-196,987	100,584	11,211	32,519
Total	335,230	805,178	58,380	102,985

Subsidies received in Spain in 2018 (Training): 2 million euros.

ANNEX 1. CORPORATE STANDARDS AND INSTITUTIONAL COMMITMENTS

Beyond the actions and initiatives summarised in this Non-Financial Disclosures Report, Banco Sabadell has a series of codes, policies and standards in place which determine its commitment to the Group's corporate purpose, and it is also a signatory of various national and international agreements which also enshrine this commitment. The policies and commitments listed below are those corresponding to the institution's non-financial areas.

Non-Financial Principles and Policies

- Code of conduct: this applies to all persons who directly form part of the Group, whether through a professional association or through their membership of its governing bodies.
- Internal Code of Conduct relating to the securities market.
- Code of Conduct for Suppliers.
- Corporate Social Responsibility Policy.
- Banco Sabadell Group policy on restrictions on financing and investment in activities associated with the arms industry.
- Ethics and Human Rights Policy.
- Shareholders and Investors Policy.
- Customers Policy.
- Human Resources Policy.
- Environmental Policy.
- Suppliers Policy.
- Social Action Policy.
- Banco Sabadell Group Remuneration Policy.
- Banco Sabadell Equality Plan.
- Guidance for the use of social media.
- Membership of AUTOCONTROL (the independent advertising self-regulatory organisation in Spain).
- Signatory of the Code of Banking Practice.
- Tax Strategy and Good Taxation Practices:
 - Tax Strategy.
 - Tax Liability and Good Taxation Practices.

Pacts, Agreements and Commitments

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti- corruption.
- Signatory of the Equator Principles, which incorporate social and environmental criteria in the funding of large-scale projects and corporate loans.
- Integration of CSR into corporate practices following the ISO 26000 guidelines.
- Signatory of the United Nations Principles for Responsible Investment in the “investment manager” category.
- Renewal of its membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Inclusion in sustainable indices FTSE4Good and FTSE4Good IBEX
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- ISO 9001 certification in effect for 100% of the Group’s processes and activities in Spain.
- ISO 14001 certification for the six corporate buildings.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change and its Water Disclosure programme.
- Awarded the Workplace Seal of Distinction (“*Distintivo de Igualdad en la Empresa*”) by the Ministry of the Presidency, Relations with the Cortes and Equality (Ministerio de Presidencia, relaciones con las cortes e Igualdad).

ANNEX 2. TABLE OF CONTENTS LAW 11/2018

Reference: Directors' Report (DR)

AREA	Content	Response / section	GRI Standards	GRI Description
BUSINESS MODEL	Brief description of the Group's business model, which shall include: 1.) its business environment, 2.) its organisation, 3.) its geographical presence, 4.) its targets, objectives and strategies, 5.) key factors and trends that could affect its future performance.	DR 1.1. Organisational structure	102-1	Company Name
		DR 1.1. Organisational structure	102-2	Activities, brands, products and services
		DR 1.1. Organisational structure	102-3	Location of headquarters
		DR 1.1. Organisational structure; DR 1.2 Business model, main objectives achieved and actions implemented; DR 9.c Credit ratings management	102-4	Location of operations
		DR 6. Expected future developments	102-6	Markets served
		DR 6. Expected future developments	102-7	Size of the organisation
		DR 1.1. Organisational structure	102-6	Markets served
POLICIES	A <u>description of the policies</u> applied by the Group in relation to such matters, which shall include: 1.) due diligence procedures applied for the identification, assessment, prevention and mitigation of risks and significant impacts 2.) verification and control procedures, including the measures that have been adopted.	2. Information regarding corporate and staff-related matters (introduction); 3. Information regarding human rights; Annex 1 - Principles and Policies	103	Management approach disclosures for <u>each area</u> , it will be necessary to highlight what internal policies are in place
RESULTS OF KPI POLICIES	The <u>results of these policies, which must include the relevant non-financial key performance indicators</u> to enable: 1.) monitoring and assessment of progress made, and 2.) the comparability between companies and sectors, in accordance with national, European and international frameworks of reference used for each subject matter.	5.1.3 Social housing management; 2.1. Employment; 2.2.3. Health and safety; 2.4 Training; 1.5.1. Environmental risk assessment; 1.1. Pollution; 1.3. Sustainable use of resources; 5. Information regarding society	103	Management approach disclosures <u>for each area</u>

AREA	Content	Response / section	GRI Standards	GRI Description
SHORT TERM, MEDIUM TERM AND LONG TERM RISKS	<p>The <u>main risks</u> related to these matters linked to the Group's activities, including, where relevant and proportionate, their business relationships, products and services which could have negative effects on these areas, as well as</p> <ul style="list-style-type: none"> * the way in which the Group <u>manages</u> these risks, * explaining the <u>procedures used to detect and assess such risks</u> in accordance with national, European and international frameworks of reference applicable to each subject matter. * <u>Information</u> must be included <u>on any impacts detected</u>, providing a breakdown of such impacts, particularly in relation to the main short term, medium term and long term risks. 	1.5.1 Environmental risk assessment; DR 4. Risks	102-15	Key impacts, risks and opportunities
NON-FINANCIAL KEY PERFORMANCE INDICATORS	Relevant indicators in relation to the existing corporate diversity and which meet comparability, materiality, significance and reliability criteria.	5.1.3. Social housing management; 5.1.2 Sustainable finance (Ethical and charitable investing); 1.5.2 Financing and investment in renewal energies; 5.1.4 Financial education; 1.4. Climate change	FS1,FS2	Financial services sector supplements: (FS1) Policies with specific environmental and social components applied to business lines; (FS2) Procedures for assessing and controlling social and environmental risks in business lines (FS2)

AREA	Content	Response / section	GRI Standards	GRI Description
ENVIRONMENTAL MATTERS	GENERAL ENVIRONMENT			
	1.) Detailed information about the <u>current and foreseeable effects of the company's activities on the environment</u> and, where applicable, on health and safety, environmental assessment or certification procedures; 2.) <u>Resources dedicated to environmental risk prevention</u> ; 3.) Application of the <u>precautionary principle</u> , the amount of provisions and guarantees for environmental risks.	1. Information regarding environmental matters (Introduction)	103	Management approach disclosures <u>for each area</u>
		1. Information regarding environmental matters (Introduction)	102-11	Precautionary principle or approach
CUESTIONES MEDIO-AMBIENTALES	POLLUTION			
	1.) <u>Measures to prevent, reduce or be mindful of carbon emissions</u> that severely affect the environment; 2.) Taking into account any form of atmospheric pollution caused by a specific activity, <u>including noise and light pollution</u> .	1.1. Pollution	103	Management approach disclosures – Emissions
	CIRCULAR ECONOMY AND WASTE PREVENTION AND MANAGEMENT			
	Waste: Measures on the prevention, recycling, reuse and other forms of recovery and removal of waste;	1.2. Circular economy and waste prevention and management	103	Management approach disclosures – Effluents and waste
	Actions to combat food waste.	At the headquarters, which include a restaurant, the bank has a protocol in place designed to reduce food waste	103	Management approach disclosures – Effluents and waste
	SUSTAINABLE USE OF RESOURCES			
	Water consumption and water supply in accordance with local restrictions;	1.3.2 Water consumption	303-1	Water withdrawal by source
		1.3.2 Water consumption	303-2	Water sources significantly affected by water withdrawal
		1.3.2 Water consumption	303-3	Recycled and reused water
	Consumption of raw materials and <u>measures adopted to make their use more efficient</u> ;	1.3.3 Paper consumption	103	Management approach disclosures – Materials
		1.3.3 Paper consumption	301-1	Materials used by weight or volume
		1.3.3 Paper consumption	301-2	Recycled consumables
	Direct and indirect <u>energy consumption, measures taken to improve energy efficiency and the use of renewable energy</u> .	1.3.1. Energy consumption	103	Management approach disclosures – Energy
		1.3.1. Energy consumption	302-1	Energy consumption within the organisation
		1.3.1. Energy consumption	302-4	Reduction of energy consumption

AREA	Content	Response / section	GRI Standards	GRI Description
ENVIRONMENTAL MATTERS	CLIMATE CHANGE			
	Key aspects of greenhouse gas emissions generated as a result of the company's activity, including the use of the goods it produces and the services it provides;	1.1. Pollution	103	Management approach disclosures – Emissions
		1.1. Pollution	305-1	Direct GHG emissions (scope 1)
		1.1. Pollution	305-2	Energy indirect GHG emissions (scope 2)
		1.1. Pollution	305-3	Other indirect GHG emissions (scope 3)
		1.1. Pollution	305-4	GHG emissions intensity
		1.1. Pollution	305-5	Reduction of GHG emissions
	The measures adopted to <u>adapt the consequences of climate change</u> ;	1.4. Climate change	103	Management approach disclosures – Emissions
	The voluntary reduction targets established for the medium and long term to reduce greenhouse gas emissions and the measures implemented for such purposes.	1.4. Climate change	103	Management approach disclosures – Emissions
	PROTECTION OF BIODIVERSITY			
	<u>Measures taken to preserve or restore biodiversity</u> ;	Banco Sabadell's activity does not have any significant impacts on biodiversity or on protected areas.	103	Management approach – Biodiversity
	Impacts caused by activities or operations in protected areas.	Not applicable. Banco Sabadell's activity does not have any significant impacts on biodiversity or on protected areas.	304-2	Significant impacts of activities, products and services on biodiversity

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	EMPLOYMENT			
	Total number and breakdown of employees by gender, age, country and professional classification;	2.1.1. Banco Sabadell workforce information	103	Management approach disclosures – Employment
		2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
		2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Total number and breakdown of types of employment contract;	2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
	Annual average of indefinite contracts, temporary contracts and contracts for part-time work by gender, age and professional category;	2.1.1. Banco Sabadell workforce information	102-8	Information on employees and other workers
		2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Number and breakdown of dismissals by gender, age and professional classification;	2.1.1. Banco Sabadell workforce information	401-1	New employee hires and employee turnover
	Average remuneration and its evolution , broken down by gender, age and professional classification or its equivalent;	2.1.3. Remuneration	405-2	Ratio of basic salary and remuneration between men and women
	Gender pay gap , remuneration for equal positions or average remuneration within the company;	2.1.3. Remuneration	103	Employment + Diversity and equal opportunity
		2.1.3. Remuneration	405-2	Ratio of basic salary and remuneration between men and women
	Average remuneration of directors and management staff , including variable pay, subsistence allowances, severance pay, payments into long-term retirement plans or any other amounts received, broken down by gender;	2.1.3. Remuneration	102-35	Governance; Remuneration policies

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	Implementation of policies safeguarding employees' right to disconnect .	No specific policies on safeguarding employees' right to disconnect are defined at corporate level.	103	Management approach disclosures – Employment
	Employees with <u>disabilities</u> .	2.1.1. Banco Sabadell workforce information	405-1	Diversity of governance bodies and employees
	Organisation of working hours	2.2. Work organisation, health and safety	103	Management approach disclosures – Employment
	Number of hours of employee <u>absence</u>	2.2.3. Health and safety	403-2	Types of accident and incidence rates of accidents, occupational illnesses, days not worked, absenteeism and number of deaths per workplace accident and occupational illnesses
	Measures aimed at facilitating the achievement of a work/life balance and <u>encouraging the equal enjoyment of such measures by both parents</u> .	2.2.2 Work/life balance	103	Management approach disclosures – Employment
	HEALTH AND SAFETY			
	Health and safety conditions in the workplace;	2.2.3. Health and safety	103	Management approach disclosures – Health and Safety management in the workplace
	Workplace accidents , in particular their frequency and severity;	2.2.3. Health and safety	403-2	Types of accident and incidence rates of accidents, occupational illnesses, days not worked, absenteeism and number of deaths per workplace accident and occupational illnesses
	Occupational illnesses ; <u>broken down by gender</u> .	2.2.3. Health and safety	403-3	Workers with a high incidence rate or at high risk of illnesses related to their activity
	SOCIAL MATTERS			
	Organisation of <u>social dialogue</u> , including procedures for informing and consulting with staff and for negotiating with them;	2.3. Workplace relations	103	Management approach disclosures – Relationships between workers and the company
	Percentage of employees covered by a collective bargaining agreement , by <u>country</u> ;	2.3. Workplace relations	102-41	Collective bargaining agreements
	Status of collective bargaining agreements, particularly in relation to occupational health and safety.	2.3. Workplace relations	403-1	Representation of workers in formal committees between employees and employers on health and safety

AREA	Content	Response / section	GRI Standards	GRI Description
CORPORATE AND STAFF-RELATED MATTERS	TRAINING			
	Policies implemented in relation to training;	2.4. Training	103	Management approach disclosures – Training and education
	Total hours of training, broken down by professional category.	2.4. Training	404-1	Average hours of training per year per employee
	Universal accessibility for people with disabilities	2.6. Universal accessibility for people with disabilities	103	Management approach
	EQUALITY			
	Measures adopted to promote equal treatment and opportunities between men and women;	2.5. Equality	103	Management approach disclosures – Diversity and equal opportunity + Non-discrimination
	Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality between men and women), <u>measures adopted to promote employment, protocols against sexual abuse and sexual harassment, integration and universal accessibility for people with disabilities;</u>	2.5. Equality		
	Policy against all forms of discrimination and, where applicable, gender diversity management.	2.5. Equality		

AREA	Content	Response / section	GRI Standards	GRI Description
HUMAN RIGHTS	Application of <u>due diligence procedures</u> in relation to human rights;	3. Information regarding human rights	103	Management approach disclosures – Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour
		3. Information regarding human rights	102-16	Values, principles, standards and codes of conduct
		3. Information regarding human rights	102-17	Mechanisms for advice and concerns about ethics
	Prevention of risks of human rights violations and, where applicable, <u>measures to mitigate, manage and redress any such violations</u> ;	3. Information regarding human rights	103	Management approach disclosures – Human rights screening + Freedom of association and collective bargaining + Child labour + Forced or compulsory labour
	Reported human rights violations;	No human rights violations were reported in 2018	406-1	Cases of discrimination and corrective actions taken
	Advocacy of and compliance with the provisions of <u>fundamental conventions of the International Labour Organisation</u> related to safeguarding the freedom of association and the right to collective bargaining;	3. Information regarding human rights	407-1	Transactions and suppliers whose freedom of association and right to collective bargaining could be at risk
	The <u>elimination of</u> workplace discrimination and job <u>discrimination</u> ;	3. Information regarding human rights	103	Management approach disclosures – Non-discrimination
	The <u>elimination of forced or compulsory labour</u> ;	3. Information regarding human rights	409-1	Activities and suppliers at significant risk of forced or compulsory labour
	<u>Effective abolition of child labour</u> .	3. Information regarding human rights	408-1	Activities and suppliers at significant risk of child labour

AREA	Content	Response / section	GRI Standards	GRI Description
CORRUPTION AND BRIBERY	<u>Measures</u> adopted to <u>prevent</u> corruption and bribery;	4. Information regarding the fight against corruption and bribery	103	Management approach – Anti-corruption
		4. Information regarding the fight against corruption and bribery	102-16	Values, principles, standards and codes of conduct
		4. Information regarding the fight against corruption and bribery	102-17	Mechanisms for advice and concerns about ethics
		4. Information regarding the fight against corruption and bribery	205-2	Communication and training about anti-corruption policies and procedures
	<u>Measures to combat</u> money laundering;	4. Information regarding the fight against corruption and bribery	205-2	Communication and training about anti-corruption policies and procedures
	<u>Contributions</u> to foundations and non-profit organisations.	5.1.6. Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes

AREA	Content	Response / section	GRI Standards	GRI Description
SOCIETY	The company's commitments to sustainable development			
	The impact of the company's activities on <u>local employment and development</u> ;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	103	Management approach disclosures – Local communities + Indirect economic impacts
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-1	Infrastructure investments and services supported
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-2	Significant indirect economic impacts
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	The impact of the company's activities on <u>local communities and in the area</u> ;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	203-1	Infrastructure investments and services supported
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	The <u>relationships</u> with key members of local communities and the different forms of dialogue with the same;	5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	102-43	Approaches to encourage the involvement of stakeholders
		5.1.3 Social housing management; 5.1.4. Financial education; 5.1.6 Social action and sponsorship	413-1	Activities involving the local community, impact assessments and development schemes
	<u>Association and sponsorship</u> activities.	5.1.6. Social action and sponsorship	102-12	External initiatives
		5.1.6. Social action and sponsorship	102-13	Membership of associations

AREA	Content	Response / section	GRI Standards	GRI Description
SOCIETY	OUTSOURCING AND SUPPLIERS			
	* Inclusion in the procurement policy of social, gender equality and environmental matters; * Consideration in relationships with suppliers and subcontractors of their social and environmental responsibilities;	5.2.2. Outsourcing and suppliers	102-9	Supply chain
		5.2.2. Outsourcing and suppliers	103	Environmental assessment of suppliers + Evaluation of suppliers' social matters
		5.2.2. Outsourcing and suppliers	308-1	Environmental assessment of suppliers
		5.2.2. Outsourcing and suppliers	414-1	Evaluation of suppliers' social matters
	Supervision and audit systems and their results.	5.2.2. Outsourcing and suppliers	103	Management approach disclosures – procurement practices
	Consumers			
	Consumer health and safety measures;	5.1.1 Transparency, simplification and accessibility; 5.1.4 Financial education	103	Management approach disclosures – Customer health and safety + Marketing and labelling + Client privacy
	Whistle-blowing systems, complaints received and their resolution.	5.2.1. Consumers	103	Management approach disclosures – Customer health and safety + Marketing and labelling + Client privacy
	Tax information			
	Country-by-country earnings obtained	5.3. Tax information	103	Management approach disclosures – Economic performance + Quantitative data on taxes and earnings
	Corporation tax paid	5.3. Tax information	103	Management approach disclosures – Economic performance + Quantitative data on taxes and earnings
	Public subsidies received	5.3. Tax information	201-4	Financial assistance received from government

GLOSSARY

The glossary includes a definition of the indicators included in the Non-Financial Disclosures Report and which have no equivalent GRI standard.

Social housing management

- Properties used as social housing: number of properties available for rent as social housing as at year-end for customers at risk of being in vulnerable circumstances, based on the bank's internal criteria and obtained through foreclosure orders, payment in kind (*datio in solutum*) or occupied by illegal occupants who have entered into a rental agreement.
- Social contracts entered into over total properties available for social housing: number of social contracts entered into as a percentage of the total number of properties available for social housing as at year-end.
- Mortgage debt restructuring operations: total mortgage debt restructuring (change in repayment terms on an existing mortgage) operations carried out during the year.
- Payment in kind (*datio in solutum*): total number of payments in kind (where debtors surrender a property to the bank in repayment of their mortgage debt) carried out during the year.
- Indicators of contributions made to the Social Housing Fund (*Fondo Social de la Vivienda*, or FSV) under the framework of the latter's Agreement, as a result of Royal Decree-Law 27/2012 of 15 November on urgent measures to strengthen the protection of mortgage debtors; or Number of properties: total properties made available to the FSV by the bank.
- Occupancy rate: number of rental agreement entered into as a percentage of the total properties made available to the FSV by the bank.
- Social contracts (JoBS programme) from the start of the programme in October 2016: number of participants in the employment and labour market insertion programme (JoBS) under the framework of the bank's social contracts (rental agreements for social housing which include clauses on employment and labour market insertion programmes in which the signatory commits to take part), from the start of the programme in October 2016 and for the rental agreements in effect as at year-end.
- Employment contracts: total employment contracts (employment contracts signed under the framework of the employment and labour market insertion programmes indicated in social contracts) entered into as a result of the insertion programme (in cumulative terms since the start of the programme in October 2016 and for the rental agreements in effect as at year-end).
- Employment and labour insertion agreements signed: number of agreements in effect as at year-end signed with companies from different sectors under the framework of the JoBS employment and labour insertion programme.

ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES

ISSUER IDENTIFICATION DATA

REPORTING YEAR ENDED

31/12/2018

TAX ID NUMBER:

A-08000143

CORPORATE NAME

BANCO DE SABADELL, S.A.

DOMICILE

AVENIDA ÓSCAR ESPLÁ, 37 - ALICANTE

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A OWNERSHIP STRUCTURE

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

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

Comments

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

Yes

☐

No

☒

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

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

Comments

Detail the indirect holding:

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

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

Indicate significant changes in the ownership structure in the year:

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

Main changes

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

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

Total % of voting rights held by the board of directors	3.36%
----------------------------------------------------------------	--------------

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

Detail the indirect holding:

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

Comments

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

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

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

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

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

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

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

Yes ☐ No ☒

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

Comments

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

Yes ☐

No ☒

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

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

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

Yes ☐

No ☒

Comments

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

At year-end:

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

Comments

(*)

Through:

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

Comments

Describe the main changes in the year:

Describe the main changes

See detail in table.

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

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

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

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

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

A.11 Estimated free float:

	%
Estimated free float	86.83

Comments

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

Yes ☒ No ☐

Description of the restrictions

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

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

B GENERAL MEETING

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

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

Amendments of the Bank's Articles of Association are governed by the Capital Companies Act and the Bank's own Articles of

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

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

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

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

Article 43.

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

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

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

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

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

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

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

Yes ☐ No ☒

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

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

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

Yes ☒

No ☐

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

Comments

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

Yes ☐

No ☒

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

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

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

C THE COMPANY'S GOVERNANCE STRUCTURE

C.1 Board of Directors

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

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

Comments

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

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

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

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

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

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

EXECUTIVE DIRECTORS

Name of director:

Mr. JOSÉ OLIU CREUS

Position in the company's organisation chart

CHAIRMAN

Profile:

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

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

Name of director:

Mr. JAIME GUARDIOLA ROMOJARO

Position in the company's organisation chart

MANAGING DIRECTOR

Profile:

BANKING / RETAIL & CORPORATE BANKING / FINANCE

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

Name of director:

Mr. JOSÉ LUIS NEGRO RODRÍGUEZ

Position in the company's organisation chart

Director - General Manager

Profile:

BANKING / FINANCE / RISKS

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

Name of director:

Ms. MARÍA JOSÉ GARCÍA BEATO

Position in the company's organisation chart

DIRECTOR and COMPANY SECRETARY

Profile:

BANKING / LAW / REGULATORY

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

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

Comments

PROPRIETARY EXTERNAL DIRECTORS**Name of director:**

Mr. DAVID MARTÍNEZ GUZMÁN

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

FINTECH EUROPE S.À.R.L.

Profile:

BUSINESS / FINANCE / INTERNATIONAL

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

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

Comments

INDEPENDENT EXTERNAL DIRECTORS**Name of director:**

Mr. JOSÉ JAVIER ECHENIQUE LANDIRIBAR

Profile:

BANKING / RETAIL & CORPORATE BANKING / BUSINESS

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

Name of director:

Mr. ANTHONY FRANK ELLIOTT BALL

Profile:

BUSINESS/INTERNATIONAL:

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

Name of director:

Ms. AURORA CATÁ SALA

Profile:

BUSINESS / CONSULTING / FINANCE / HUMAN RESOURCES

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

Name of director:

Mr. PEDRO FONTANA GARCIA

Profile:

BANKING / RETAIL / BUSINESS

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

Name of director:

Ms. MARIA TERESA GARCIA-MILÀ LLOVERAS

Profile:

ACADEMIC/AUDITING/FINANCE

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

Name of director:

Mr. GEORGE DONALD JOHNSTON

Profile:

BANKING / CORPORATE BANKING / INTERNATIONAL

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

Name of director:

Mr. JOSÉ MANUEL MARTÍNEZ MARTÍNEZ

Profile:

BUSINESS / RETAIL BANKING / INSURANCE / FINANCE / INTERNATIONAL

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

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

Name of director:

Mr. JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI

Profile:

BANKING / BUSINESS

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

Name of director:

Mr. MANUEL VALLS MORATÓ

Profile:

AUDITOR

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

Name of director:

Mr. DAVID VEGARA FIGUERAS

Profile:**FINANCIAL / RISKS / ACADEMIC / REGULATORY**

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

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

Comments

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

None.

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

OTHER EXTERNAL DIRECTORS

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

Name of director:

-

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

-

Reason:

-

Profile:

-

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

Comments

--

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

Name of director	Date of change	Previous category	Current category

Comments

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

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

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

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

Yes ☒

No ☐

Partial policies ☐

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

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

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

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

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

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

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

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

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

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

Detail such measures

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

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

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

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

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

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

Detail the reasons

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

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

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

Name of shareholder	Justification
-	-

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

Yes ☐

No ☒

Name of shareholder	Explanation
-	-

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

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

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

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

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

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

Comments

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

Yes ☒

No ☐

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

Banco Sabadell is bound by article 26 of Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions. which establishes the maximum number of directorships that directors of credit institutions may hold, in transposition of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, specifically article 91, which establishes the following maximum combination of positions: i) one non-executive position with two non-executive positions, ii) four non-executive positions. Executive and non-executive positions in the same group or in companies in which the institution holds a significant stake count as one position. Also applicable are the European Central Bank's Guide to fit and proper assessments, updated in May 2018, and the Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12) dated 12 March 2018, which came into force on 30 June 2018. The Banco Sabadell Policy for the Selection of Candidates for Directorship, which was approved by the Board of Directors on 25 February 2016, refers to the applicable legislation with regard to the criteria and requirements that directors must fulfil.

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

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

Comments

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

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

Total remuneration for senior management (thousand euro)	6,326
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Comments

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

Yes

☐

No

☒

Describe the amendments

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

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

Selection

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

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

Suitability assessment

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

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

Appointment

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

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

Re-appointment

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

(This description continues in section H)

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

Description of changes

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

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

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

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

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

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

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

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

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

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

<p>Description of the assessment process and the areas that were assessed</p>

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

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

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

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

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

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

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

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

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

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

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

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

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

Yes ☐ No ☒

Describe the differences, if any.

Description of differences

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

Yes ☒ No ☐

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

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

Yes ☐ No ☒

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

Yes ☐

No ☒

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

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

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

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

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

Comments

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

Number of meetings	2
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Comments

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

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

Number of Risk Committee meetings	15
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Comments

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

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

Comments

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

Yes ☒

No ☐

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

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

Comments

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

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

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

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

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

C.1.29 Is the board secretary a director?

Yes ☐

No ☒

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

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

Comments

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

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

(...)

4. Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.

(...)

6. Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules."

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

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

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

Additionally, based on information received from the auditors, the Committee vetted the procedures and tools used by the firm to ensure compliance with the auditor independence requirements. Written confirmation of the firm's independence with respect to the Banco Sabadell Group was received on 24 July 2018 and 28 January 2019. Based on the results of these checks, the Committee issued a report to the Board of Directors giving a favourable opinion on compliance with the auditor independence requirement before the auditor's report on the accounts was issued, and it issued its annual report on that independence.

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

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

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

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

Yes ☐

No ☒

Outgoing auditor	Incoming auditor

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

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

Yes ☐

No ☒

Explanation of the disagreement

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

Yes ☒

No ☐

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

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

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

Yes ☐

No ☒

Description of the reasons

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

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

Comments

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

Yes ☒

No ☐

Detail the procedure

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

Additionally, article 21 provides that:

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

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

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

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

Yes ☒

No ☐

Describe the rules

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

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

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

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

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

Yes ☐

No ☒

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

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

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

Number of beneficiaries	45
Type of beneficiary	Description of agreement

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

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

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

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

Comments

C.2. Board of Directors sub-committees

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

Executive Committee

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

% executive directors	60.00%
% proprietary directors	0.00%

% independent directors	40.00%
% other external directors	0.00%

Comments

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

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

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

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

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

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

Audit and Control Committee

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

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%
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Comments

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

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

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

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

- a) Reporting to the General Meeting on all issues raised by shareholders that are within its remit.
 - When notice is given of a General Meeting of Shareholders, the Committee makes the report on its activities during the year available to shareholders so as to inform them of the issues and actions under its area of competence.
 -
- b) Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system that were detected in the course of the audit.
 - During the year, the Committee reviewed the Group's risk management and control systems using reports prepared by the Risk, Finance and Internal Audit Departments.

In compliance with the requirements as to disclosure to the markets in the framework of the provisions of Part Eight: "Disclosure by Institutions" of Regulation (EU) 575/2013 of the European Parliament and the Council, of 26 June 2013, (hereinafter, the Capital Requirements Regulation - CRR), the Committee reviewed the contents of the "Pillar III disclosures" and analysed the information in connection with the group's computable equity and capital and the degree to which it conformed to the criteria defined in the CRR and the risk management and control objectives set out in group policies. The Committee also carried out a detailed review of all financial data to be relied on as a basis for characterising the group's risk profile as conservative in the various categories of risk for which disclosure was required.

The Committee also reviewed the Internal Capital Adequacy Assessment Process (ICAAP) for 2017 in connection with risk governance, management and control systems, and concluded that they conformed to the institution's risk profile and reached a favourable conclusion as to the Banco Sabadell Group's consolidated capital, which assures coverage of the regulatory requirements. It also reviewed Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the contents of the report, the Commission was able to conclude that the Banco Sabadell Group has a liquidity position that enables it to meet payment commitments at a reasonable cost, either under normal conditions or in a situation of stress, that the group has a stable and balanced funding structure, in line with the risk appetite and the defined risk management strategy, and that a robust governance framework is in place for managing and controlling liquidity and funding risk.

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

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

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

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

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. During 2018, the Commission received information about the execution of the planned actions; in some cases, it reviewed the control environment and, in particular, evaluated the proper identification of risks in processes, and the sufficiency, design, implementation and effective functioning of existing controls.

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

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

Additionally, on 30 January 2018, the Audit and Control Committee resolved to begin planning an orderly process for selecting the auditor for the years 2020-2022. During 2018, the committee ensured that the selection process was conducted in accordance with the criteria established in Regulation (EU) 537/2014, of 16 April, on specific requirements regarding statutory audit of public-interest entities. On the basis of the reasoned recommendation of the Audit and Control Committee, which contained two alternatives and in which it indicated its preference for the firm KPMG, the Board of Directors resolved on 20 December to propose this appointment to the General Meeting of Shareholders.

The Committee remained in contact with the external auditor constantly to ensure that it was kept informed of any significant accounting or financial reporting issues arising in the course of the auditor's work. The Committee also reviewed in depth the contents of the audit report, as well as the Additional Report presented by the auditors to the Audit and Control Committee in connection with the audit of the year ended 31 December 2018, required to comply to the provisions of article 36 of Act 22/2015, of 20 July 2015, on Auditing and with article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities.

- e) Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.
- In the course of the year, the Committee paid particular attention to reviewing the financial statements and the quarterly and half-yearly trading and financial reports as well as other information disclosed to the market, including the Share Registration Document, before they were released for publication. In order to carry out these reviews, the Finance Department and the External Auditor participated in meetings of the Committee to present matters relating to the financial disclosures.
- f) Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.
- In order to comply with the requirements for the engagement of non-audit services from audit firms and their networks, as established in the Banco Sabadell Group Policy to safeguard auditor independence, approved

by the Audit and Control Committee on 19 April 2016, the Audit and Control Committee reviewed the main non-audit services provided by PricewaterhouseCoopers during 2018. The objective of these reviews was to ensure that all that work fulfilled the independence requirements established in Act 22/2015, of 20 July, on Auditing and in Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

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

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

g) Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.

- In the course of its duties as assigned by the law, the Articles of Association and the Board of Directors Regulation and its own terms of reference, the Audit and Control Committee reviewed all the reports under its remit, including the annual assessment of its performance, as well as a report on the issues it dealt with and the activities it performed in discharging its duties.

h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

- In pursuit of good governance of the Bank's business, the Committee decided to recommend that the Board of Directors give its approval to a report submitted by the Executive Committee on the corporate governance structure and practices at Banco Sabadell, S.A. in the year.

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

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

In connection with related party transactions as referred to in recommendation 6 of the Good Governance Code of Listed Companies approved by the Board of the National Securities Market Commission (CNMV) on 18 February 2015, the Committee verified that the related-party transactions performed during the year fulfilled the terms and conditions established in current legislation such as not to require authorisation from the governing bodies or had obtained such authorisation based on a recommendation by the Committee, after it had checked that the consideration and other proposed conditions were in line with market parameters. The Committee also reviewed the information on related-party transactions that was disclosed in the financial statements.

Additionally, in conformity with the recommendations contained in a document published by the CNMV on 18 July 2013 entitled "Recommendations by the Comisión Nacional del Mercado de Valores for securities issuers and financial intermediaries acting on their behalf in discretionary transactions with own shares", the Audit and Control Committee received regular briefings from the Director-General Manager and the head of treasury share management on trading in the Bank's own shares and on compliance with the regulator's recommendations.

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

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

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

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

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

Comments

Appointments Committee

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

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

Comments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Remuneration Committee

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

% proprietary directors	0.00%
% independent directors	100.00%

% other external directors	0.00%
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Comments

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

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

- a) Proposing, to the Board of Directors, the director remuneration policy;
 - The Remuneration Committee issued a favourable report to the Board of Directors on the proposal to the Ordinary General Meeting of Shareholders to approve the Banco Sabadell Director Remuneration Policy for the years 2018, 2019 and 2020, which was approved by the General Meeting of Shareholders on 19 April 2018.
- b) Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Executive Committees or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with.
 - To perform this function, it cross-checked the compensation benchmark for the executive directors and senior management and internal audit with reports from external consultants; it issued a favourable report to the Board of Directors in connection with the degree of fulfilment of the 2017 objectives for executive directors, senior management and internal audit, as well as their fixed and variable remuneration for 2018.
- c) Regularly reviewing remuneration policy;
 - In 2018, the Remuneration Committee analysed an independent report by an external consultant evaluating remuneration policy and practices; and it reviewed the remuneration policies of Banco Sabadell and reported favourably on this matter to the Board of Directors.
- d) Advising on remuneration programmes based on shares and/or options;
 - The Commission analysed in detail the proposal for the long-term supplementary incentive programme for 2018-2021 based on the appreciation by the shares of Banco Sabadell, for executive directors, senior management and other executives who are part of the Group's list of material risk takers, and issued a favourable report to the Board of Directors on the proposal to be submitted to the Ordinary General Meeting of Shareholders on 19 April 2018, which approved it.
- e) Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;
 - It examined the independent report by an external consultant evaluating remuneration policy and practices, which analysed whether the remuneration policy and remuneration practices of Banco Sabadell complied with the requirements and recommendations of the supervisory bodies; it analysed the degree of compliance with the Group's objectives for the year 2017, and recommended that the Board of Directors approve the Group's objectives for 2018; it approved the percentages of compliance with the 2017 objectives by the Group's material risk takers, the salary review for 2018 for the material risk takers, the amount of variable remuneration for 2017 and the 2018 variable remuneration target for the Group's material risk takers; it analysed the proposed amendment to the Articles of Association in relation to the remuneration to which directors are entitled for performing their duties, the goal being to adapt the wording to current legislation and to best practices in the area of corporate governance, and it resolved to issue a favourable report to the Board of Directors on the proposed amendments to the Articles; it reviewed the report produced each year by the Human Resources Department in order to provide the Remuneration Committee with the essential information to enable it to perform the functions entrusted to it in relation to reviewing the general principles of Banco Sabadell's remuneration policy and oversight of the remuneration of the bank's executive directors, senior management and other material risk takers; it reported favourably to the Board of Directors

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

f) Ensuring that remuneration is transparent;

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

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

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

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

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

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

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

Risk Committee

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

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

Comments

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

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

a) Supervising implementation of the Risk Appetite Framework;

b) Determining and proposing, to the full Board, the annual limits on investment in the real estate market and the

criteria and amounts applicable to the various types of investment;

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

d) Reporting each quarter to the full Board about the levels of risk assumed, investments made and their performance, and the potential repercussions on Group revenues of variations in interest rates, and the degree to which they conform to the VAR levels approved by the Board of Directors;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Comments

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

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

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

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

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

D RELATED-PARTY AND INTERCOMPANY TRANSACTIONS

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

Procedure for advising on the approval of related-party transactions.

The Audit and Control Committee vets any related-party transaction before it is approved by the Board of Directors.

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

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

Comments

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

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

Comments

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

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

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

Comments

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

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

Comments

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

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

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

Article 27 of the Board of Directors Regulation states that directors must inform the company of any company shares which they own directly or through companies in which they hold a significant stake. It is also necessary to disclose any shares held, directly or indirectly, by their close relatives. Directors must also inform the company of all positions that they hold and activities that they perform in other companies or entities and, generally, of any fact or situation that may be material in connection with their performance as directors of the company.

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

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

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

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

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

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

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

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

information it requires to perform its supervisory function.

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

Yes ☐

No ☒

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

-

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

Yes ☐

No ☐

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

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

Mechanisms to resolve conflicts of interest

E RISK CONTROL AND MANAGEMENT SYSTEMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(This description continues in section H)

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

Credit and concentration risk

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

- **Concentration risk**

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

- **Counterparty risk**

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

- **Country risk**

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

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

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

Liquidity risk

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

Market risk

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

Structural risks: Including, because of their special features:

- **Interest rate risk**

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

- **Exchange rate risk**

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

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

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

- **Insurance risk**

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

Operational risk

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

- Reputational risk

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

- Conduct risk

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

- Technology risk

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

- Model risk

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

- Outsourcing risk

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

Business risk

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

Tax risk

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

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

Compliance risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(This description continues in section H)

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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

F.1 The organisation's control environment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

These training sessions are programmed based on two criteria:

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

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

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

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

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

F.2 Evaluation of financial reporting risks

Provide information on, at least:

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

- If the process exists and is documented.

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

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

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

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

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

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

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

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

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

- What governing body of the institution supervises the process.

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

F.3 Control activities

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

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

judgements, estimations, evaluations and major projections.

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

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

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

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

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

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

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

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

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

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

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

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

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

required standards of reliability, efficiency and maintainability.

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

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

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

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

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

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

F.4 Information and reporting

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

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

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

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

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

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

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

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

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

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

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

F.5 Supervision of system operation

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

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

At each financial close, the Financial Department assesses the internal control model, considering its frequency, the risks in the financial reporting processes, and the adequacy and effectiveness of the controls that mitigate them, and it produces and custodies evidence that each specific control was performed. The Finance Department also continuously evaluates aspects that may lead to changes in the internal control model, including regulatory changes, the introduction of new products and amendments to Banco Sabadell's processes, identifying the risks associated with them and designing controls to mitigate them; it also reviews the criticality of the controls and the changes in the materiality of processes with an accounting impact.

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

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

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

The Overall Audit Plan that the Audit and Control Committee approved at a meeting on 30 January 2018 set out, inter alia, the actions to be implemented with respect to the areas or processes considered to have the highest residual risk on the basis of a risk assessment exercise. The actions set out in the plan were performed in 2018; in some cases, the control environment was reviewed and, in particular, the proper identification of risks in processes was assessed, along with the sufficiency, design, implementation and effective functioning of existing controls. The general controls on reporting systems indicated in section F.3.2 are reviewed every year.

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

information relating to the ICFR, with no adverse findings.

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

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

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

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

F.6 Other material information

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

F.7 External auditor report

Report on:

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

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

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

G DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

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

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

Complies ☒ Explain ☐

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

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

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

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

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

a) Any changes since the last General Meeting.

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

a) Report on the auditor's neutrality.

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

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

- a) Immediately circulate the supplementary items and new proposals.
- b) Re-issue the attendance card or proxy appointment or remote voting form in a duly modified form so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Explain ☐

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

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

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

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

This criterion can be relaxed:

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

Complies ☒ Explain ☐

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

Complies ☒ Explain ☐

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

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Explain ☐

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

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

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☐ Partially complies ☐ Explain ☐ Not applicable ☒

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Explain ☐

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

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☐ Partially complies ☒ Explain ☐ Not applicable ☐

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

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

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

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

1. With respect to internal control and reporting systems:

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

2. With regard to the external auditor:

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

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

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Complies ☒ Partially complies ☐ Explain ☐

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

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the board of directors.

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Explain ☐ Not applicable ☐

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

a) Propose to the board the standard conditions for senior executive contracts.

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

c) Periodically review the remuneration policy for directors and senior executives, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior executives in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advisory services engaged by the committee.

e) Verify the information on director and senior executives' remuneration contained in corporate documents, including the annual report on director remuneration.

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

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

Complies ☒ Partially complies ☐ Explain ☐

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

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

f) Channels for stakeholder communication, participation and dialogue.

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

Complies ☒ Explain ☐

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

Complies ☒ Partially complies ☐ Explain ☐

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

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

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

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

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

Complies ☒ Partially complies ☐ Explain ☐ Not applicable ☐

H OTHER INFORMATION OF INTEREST

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

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

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

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

A.2

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

B.6

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

C.1.2

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

C.1.13

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

C.1.14

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

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

C.1.16

(Continuation of disclosures in section C.1.16)

Removal

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

Restrictions

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

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

C.2.1

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

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

D. Related-party and intragroup transactions

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

E.2

(Continuation of disclosures in section E.2):

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

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

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

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

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

E.6

(Continuation of disclosures in section E.6):

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

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

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

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

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

Yes ☐

No ☒