



## **CaixaBank S.A. Audit and Control Committee Activity Report 2018**

December 2018

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This Activity Report was drawn up by the Audit and Control Committee (hereinafter referred to as the “**Committee**”) on 20 December 2018, as stipulated in the Company By-laws and the Rules of the Board of Directors, and will be submitted for approval by the Board of Directors of CaixaBank, S.A. (hereinafter referred to as “**CaixaBank**” or the “**Company**”) at its meeting of the same date.

During the financial year 2018, the Committee has furthered and consolidated the performance of its functions, acting within the scope of its responsibility at all times, adopting all the necessary resolutions and issuing all the relevant reports in accordance with current legislation or as expressly required from it.

## 1. REGULATION

The Committee was created in September 2007 by resolution of the Board of Directors. Its powers and functioning are described in Article 40 of the Company By-laws and specifically developed in Article 14 of the Rules of the Board of Directors<sup>1</sup>.

This regulation details the Committee’s composition, functioning and powers pursuant to applicable legislation and in accordance with the guidelines and recommendations established in the Code of Good Governance for Listed Companies of the Spanish Securities Market (CNMV), of February 2015 (hereinafter referred to as the “Code of Good Governance”); the Basel Banking Committee’s Corporate Governance Principles for Banks, of July 2015; the EBA Guidelines on Internal Governance (EBA/GL/2017/11) (hereinafter referred to as the “Guidelines on Internal Governance”), approved by the European Banking Authority on 26 September 2017 and implementing Directive 2013/36/EU; and Technical Guide 3/2017 of the Spanish Securities Market Commission regarding Internal Audit Committees at Public Interest Entities (hereinafter referred to as the “Technical Guide”).

On 22 February 2018 the Board of Directors approved the amendment of its Rules, for purposes including incorporating the basic principles and criteria of the Technical Guide to the Committee’s functioning, also in coordination with the recommendations of the Code of Good Governance applicable to the Committee, the following being particularly of note:

- With regard to the Committee’s composition, the assumption that the Company will undertake to comply with the requirements concerning knowledge and experience (the specific knowledge and experience noted in the Technical Guide for the Committee members and, in particular, for its Chairman, with regard to accounting, auditing, financial, internal control and risk management and business aspects, among others), and will endeavour to encourage diversity of its composition.
- Reorganisation of the matters within the Committee’s remit in accordance with the methodology of the Technical Guide, and development of certain powers to adapt them to the premises of the said Technical Guide and to certain Recommendations of the Code of Good Governance, including those concerning overseeing financial reporting; overseeing internal control and internal auditing; overseeing risk management and control; and the relationship with the accounts auditor.
- The schedule for the Committee’s meetings has been developed to incorporate an express reference to the Committee’s annual work plan and the system for the management team’s attendance.
- Development of the roles of the Chairman, as the Committee’s spokesperson at the meetings of the Board of Directors and the General Meeting, and the Secretary of the Board, who will assist the Committee Chairman in planning the meetings and managing the information and take the minutes of the meetings.

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<sup>1</sup> Both these documents are available for consultation on the Company’s website, [www.caixabank.com](http://www.caixabank.com)

In accordance with Article 528 of Legislative Decree 1/2010, of 2 July, approving the revised text of the *Ley de Sociedades de Capital* (hereinafter referred to as the “**Spanish Corporation Law**”), the Board of Directors informed of the amendments made to the Rules of the Board at the General Meeting held on 5 April 2018.

## 2. COMPOSITION

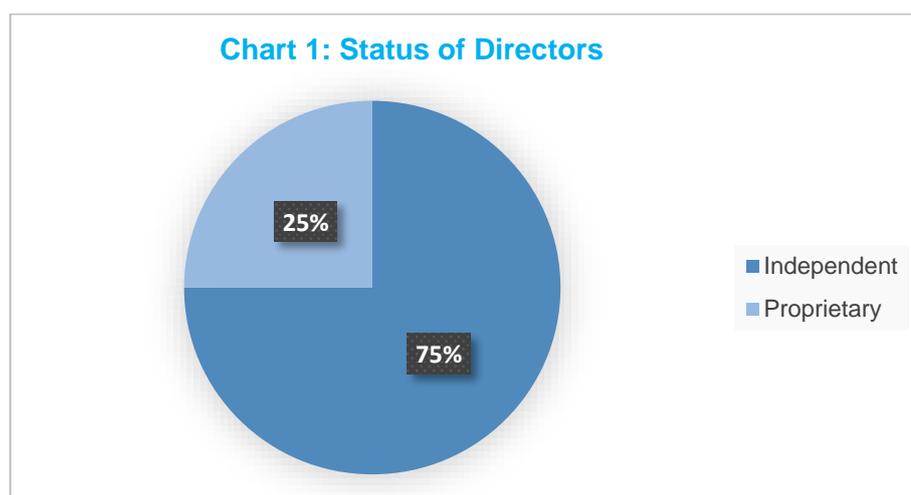
**A diverse Committee, extended during the year to four members; all its members are non-executive Directors and most are independent Directors, including its Chairman, and they have suitable knowledge and experience to perform their duties.**

At December 2018 the Committee’s composition was as follows:

	Post	Status*	Committee member since**
Alain Minc	Chairman	Independent	20 September 2007
Koro Usarraga Unsain	Committee Member	Independent	27 October 2016
José Serna Masiá	Committee Member	Proprietary	23 March 2017
Eduardo Javier Sanchiz Irazu	Committee Member	Independent	1 February 2018

\* Chart 1  
\*\* Chart 2

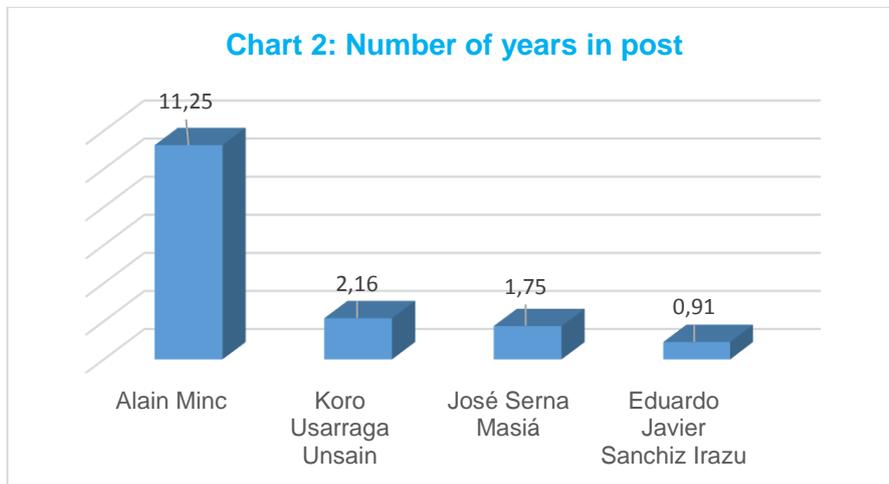
The Committee consists exclusively of non-executive Directors, the majority of its members being independent Directors, and its members as a whole – who are chosen and appointed taking into account their knowledge, aptitude and experience in economics, accounting and/or auditing and risk management – have the relevant technical knowledge in relation to CaixaBank’s business, as established in Article 40.3 of the Company By-laws and Article 14.1 of the Rules of the Board.



In 2018 the following changes were made to the Committee’s composition:

On 1 February 2018, the Board of Directors of CaixaBank, on proposal by the Appointment Committee, agreed to appoint Eduardo Javier Sanchiz Irazu as a new Committee member, thus increasing its number of members by one.

Eduardo Javier Sanchiz Irazu and Koro Usarraga Unsain are also members of the CaixaBank Risk Committee and Alain Minc is a member of the Appointment Committee, thus favouring the liaison between the committees.



The professional résumé of each of the Committee members is available for consultation on the Company's website, [www.caixabank.com](http://www.caixabank.com).

The post of non-member Secretary of the Committee, an advisory post, is held by the Secretary General and of the Board, who is also the Secretary General of CaixaBank, thus facilitating a smooth, efficient and dynamic relationship with the Company's different Departments, which must offer their collaboration or provide the Committee with information. The post of Deputy Secretary, an advisory post, is held by the First Deputy Secretary of the Board of Directors. In 2018, the First Deputy Secretary of the Board of Directors acted as Secretary of the Board.

### 3. THE COMMITTEE'S FUNCTIONING

#### **Approval of an Activity Plan for the financial year 2018; frequent ongoing contact with key staff involved in CaixaBank's governance and management and liaison with the Risk Committee**

As a new feature in the financial year, the Committee established an Activity Plan for 2018, in accordance with the Technical Guide's recommendations, with the aim of ensuring it would achieve its goals and perform its duties as efficiently as possible.

The Plan has also served as a flexible working document, adapted and completed during the year according to the Company's needs, as a result of either regulatory requirements or the supervisor's requests or the circumstances of the business.

The Activity Plan included both an initial proposal for scheduling the work and meetings and the structure, preparation and attendance of the meetings, and also the Committee's main objectives, which will be developed in further detail in section 4, which describes the functions performed by the Committee over the year.

#### **3.1. Preparation**

In order to prepare the Committee's meetings, its members are provided with the documentation for the meeting (draft agenda, presentations, reports, minutes of the previous meetings and any other supporting documentation) sufficiently in advance of each meeting.

Specially designed computer tools are used for this purpose to ensure the confidentiality of the information.

Additionally, prior to each meeting the Committee Chairman has held at least two preparatory meetings with the persons ultimately responsible for Internal Auditing and Financial Reporting and the Secretary of the Board, and has made all contact with the Directors considered necessary at each time with regard to the issues dealt with at the Committee meetings.

### 3.2. Attendance

The Committee meetings are held as often as summoned by its Chairman, on request by the Chairman of the Board or two members of the Committee itself, and they are held on a quarterly basis at least, with the purpose of reviewing the mandatory financial reporting and the information to be approved by the Board of Directors and included in the mandatory public documentation.

Thus, in accordance with the Activity Plan, the Committee held 17 meetings in 2018, two of which were held jointly with the Risk Committee. Each members' attendance of the meetings in 2018 was as follows:

	<b>No. of meetings</b>
Alain Minc	17/17
José Serna Masiá	17/17
Koro Usarraga Unsain	17/17
Eduardo Javier Sanchiz Irazu	15/15*

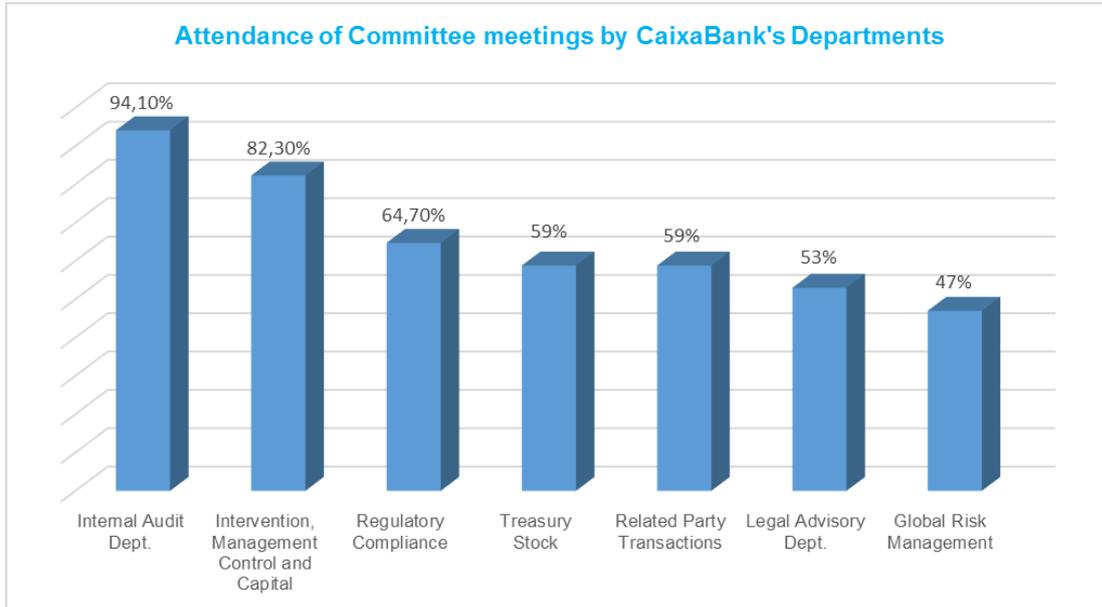
(\*) Member since February 2018

The Committee has maintained constant, ongoing contact with CaixaBank's Management Team.

In this regard, the Committee has established that the Assistant Managing Director of the Internal Audit Department should attend all its meetings in general, as the main bridge with the Company.

Thus, in accordance with the Annual Planning and at the invitation of the Chairman, the meetings were habitually attended by the managers responsible for the matters planned as fixed sections at the meetings, i.e. Intervention, Management Control and Capital for financial and non-financial reporting; Internal Auditing, Regulatory Compliance, Treasury Stock, Related Party Transactions and External Auditing. These Managers limited their attendance of the meetings to the agenda items to which they were invited.

Other members of the Management Team with knowledge of or responsibility for aspects figuring on the agenda have also been regularly invited to the meetings, to aid the Committee in carrying out its duties. Similarly, they have been attended by the Managers of the Legal Advisory and Global Risk Management Departments, whose attendance was also limited to the agenda items to which they were invited.



Managers from the Finance, Resources and Business Control Departments have also occasionally been invited to attend, as have Directors of investee companies, to address certain matters included on the agenda.

The Committee regularly holds joint meetings with the Risk Committee, to facilitate information exchange and the effective oversight of all the risks affecting the Group. Two joint meetings of this type were held in 2018 (19 April 2018 and 12 July 2018).

### 3.3. Conduct of Meetings

The Committee's system determines quoracy of the meetings when the majority of its members are present in person or represented by proxy. Members may delegate their proxy representation to another member. Resolutions are adopted by majority vote of the members attending in person or by proxy, and minutes of the resolutions adopted at each meeting are taken.

The meetings are held in two languages, English and Spanish, and the documentation is also provided in both languages.

After approval of the minutes of the previous meetings, the Committee then proceeds to deal with the different agenda items, the person responsible for each matter participating in the debate on each item, answering the Committee members' questions and then leaving the meeting.

There is constant involvement, discussion and debate between the Committee members on all the items dealt with at the Committee meetings, the Directors providing different views of each matter.

### 3.4. Reporting to the Board of Directors

Without prejudice to the Committee informing the Board of Directors via its Chairman of its activity and the work it has carried out, all the Directors are provided with the minutes of the Committee meetings together with their annexed documents, either at the meetings held by the governing

body for such purposes or at the immediately subsequent meeting, if the Chairman should deem this necessary, and the Board of Directors is thus informed as a plenary body.

#### 4. PERFORMANCE OF FUNCTIONS

**In accordance with its Activity Plan, the Committee has set and pursued its goals for 2018, with particular dedication to overseeing application of International Financial Reporting Standards 9 (“IFRS 9”) and the progress of Banco Português de Investimento (hereinafter referred to as “BPI”) with regard to risk management and control, monitoring enforcement of the CaixaBank Group’s internal governance model in accordance with the Guidelines on Internal Governance and formalising the relationship with the external auditor, with approval of the External Auditor Relationship Policy**

In accordance with Article 14.1 of the Rules of the CaixaBank Board of Directors, the Committee has the following basic functions:

- Informing the General Shareholders' Meeting of matters raised that are within the Committee's remit, particularly with regard to audit results.
- Overseeing the process of drawing up and submitting the mandatory financial reporting for the Company and, where the case may be, for the Group.
- Ensuring that the Board of Directors endeavours to submit the Annual Accounts to the General Shareholders' Meeting with no limitations or qualification in the audit report;
- Informing the Board of Directors in advance of the financial reporting and the related non-financial reporting that the Company must publicly disclose.
- Overseeing the effectiveness of the internal control systems.
- Overseeing the effectiveness of the internal auditing.
- Establishing and overseeing a mechanism enabling the Company's employees to notify of any potentially significant irregularities.
- Overseeing the effectiveness of the financial and non-financial risk management systems, in coordination with the Risk Committee.
- Submitting proposals to the Board of Directors concerning the selection, appointment, reappointment and replacement of the accounts auditor.
- Regularly gathering information from the auditor on the Audit Plan and its implementation, in addition to preserving the auditor's independence on performing its functions.
- Serving as a communication channel between the Board of Directors and the auditors.
- Establishing a suitable relationship with the external auditor in order to receive information on any matters that may pose a threat to its independence.
- Issuing an annual report on the auditor's independence, prior to the issue of the Audit Report.
- Ensuring compliance with the audit contract.
- Ensuring that the external auditor holds an annual meeting with the Board of Directors to inform it of the work carried out and the evolution of the Company's situation.
- Making a final assessment of the auditor's work.

There follows a description of the main issues dealt with at the Committee meetings in 2018.

##### 4.1. Financial and non-financial reporting

The Committee has particularly focused on overseeing the process of drawing up and submitting the mandatory financial reporting and the other reporting for the year made available to the market. The persons responsible for financial reporting attended 14 of the 17 meetings held by the Committee in 2018, enabling the Committee to obtain prior knowledge sufficiently in advance on the process of drawing up the interim financial reporting and the individual and consolidated annual accounts.

The Committee acknowledged and approved the principles, valuation criteria, judgements and accounting calculations and practices used by CaixaBank, overseeing their correct adaptation to the accounting standards and to the criteria established by the competent regulators and supervisors, all of this being done with the purpose of ensuring the integrity of the accounting and financial reporting systems, including financial and operational control, and compliance with the applicable legislation.

At the meetings of 22 February, 26 April, 26 July and 25 October 2018, the Committee reported favourably on the respective financial statements at 31 December 2017 and 31 March, 30 June and 30 September 2018, prior to their being drawn up by the Board of Directors.

The Committee oversaw the functioning of the internal controls carried out in order to reasonably assure the reliability of the financial information supplied by CaixaBank to the market. The Manager responsible for Internal Financial Control submitted his quarterly reports on the functioning of the Financial Information Internal Control System (FIICS). It was concluded that the Company has adequate procedures and the necessary controls to create a robust system, which worked efficiently throughout the financial year. The FIICS was also reviewed by both the internal and external auditors.

The Committee was informed of the first application of the IFRS 9 Standard on 1 January 2018 and its final impact on provisioning and capital, the update of the provisioning parameters and the adaptation of certain policies to this Standard, such as the Impairment Policy and the Policy on Classification and Measurement of Financial Instruments, the Committee having reported favourably to the Board on the amendment of both these Policies.

In addition to this, the Committee continuously monitored the evolution of the main figures for the profit and loss account and the balance sheet, and the details of the Group's liquidity and solvency situation. In particular, the 2018 Reports on Internal Capital Adequacy Assessment (hereinafter referred to as "ICAAP") and Internal Liquidity Adequacy Assessment (hereinafter referred to as "ILAAP") for the CaixaBank Group were submitted, together with the Prudential Reporting (PR), at the meetings of 19 April and 22 March 2018 respectively, after having reported at previous meetings on their draft status and the conclusions obtained. In this regard, in accordance with the Pillar III Reporting Policy, the selected relevant Pillar III information published on a quarterly basis is also submitted at this Committee meeting, in addition to the Committee's annual verification of the PR report.

The Committee was informed of the main accounting figures, the items of audit evidence and the update at each given time of the situation regarding CaixaBank's divestment from its holding in Repsol, S.A. and the purchase of the Servihabitat holding and the foreclosure portfolio sale transaction with Lone Star.

Finally, it should also be noted that during the year the Committee was kept regularly informed of the monitoring activities within the scope of the Single Supervisory Mechanism, including the annual conclusions of the Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (hereinafter referred to as "ECB") on the main financial institutions it oversees, and the results of the thematic reviews, e.g. the conclusions of the Thematic Review on Profitability, the Assessment Thematic Review IFRS 9 on BPI (this exercise already having been carried out on CaixaBank in 2017) and the on-site inspections by this supervisor. Similarly, it was informed of the relationships with the Single Resolution Mechanism and the conclusions of the Resolution Plan.

Also, the Manager responsible for Internal Financial Control as a second line of defence reviewed the 2018 Budget generation process, the judgements and estimates used in the valuation reports on the relevant investee companies and on the ICAAP, declared that the 2017 PR was drawn up in accordance with the internal control processes and updated the Policy on Disclosure and Verification of Financial Reporting, having reported to the Committee on all these matters.

## 4.2. Risk Management and Control

In accordance with the regulations introduced by Law 10/2014 of 26 June on regulation, supervision and solvency of credit institutions, CaixaBank has a Risk Committee whose function is to propose the risk control and management policies and strategies to the Board and provide counselling on the Company's current and future global risk appetite, including assessment of regulatory compliance risk within its sphere of action and decision-making.

The Committee also oversees the effectiveness of the Company's internal control and risk management system. Thus, with the aim of adequately performing their functions in 2018, the Risk Committee and the Audit and Control Committee consolidated their liaison and coordination in all aspects of risk monitoring.

Two joint meetings between the committees were consequently held in 2018, at which they reviewed the Recovery Plan and the main scenarios for the stress testing conducted by CaixaBank, including the ICAAP, the ILAAP and the EBA Stress Test.

Also, with regard to the CaixaBank Group's internal control framework and progress on the project for the Three Lines of Defence Model, one of the recommendations of the Guidelines on Internal Governance, applicable since 30 June 2018, states that the entities should have suitable policies and measures to ensure the correct functioning of their internal governance.

In compliance with this regulation, the Company therefore approved the Internal Governance Policy and the Internal Control Policy in 2018, following a favourable report by the Committee to the Board of Directors on both Policies.

The Internal Governance Policy describes the most relevant aspects of the structure and principles of the model for CaixaBank's relationship with its Group, its shareholder relations, the organisation of the governing bodies and the Company's organisational structure, together with the basic features of its corporate culture and its internal control framework, based on the Three Lines of Defence Model, particularly focusing on the Company's adequate risk management.

The Internal Control Policy, on the other hand, results from the project on the executive implementation of the Three Lines of Defence Model, establishing the detailed guidelines for CaixaBank's Internal Control Framework, in accordance with the supervisory regulatory framework and sector best practice.

The Committee was informed of and reported favourably on the document containing the Guidelines on Corporatisation of Control Functions, in particular the areas of Internal Auditing, Regulatory Compliance and Global Risk Management (the Risk Management Function). This document addresses the framework that must govern the relationship between CaixaBank and the companies in its Group, determining the scope of the corporate function to be exercised for each of the parent company's internal control areas and the scope within which the internal control functions are performed by the subsidiary company.

The review of the CaixaBank Group's Structural Definition Policy was also submitted to the Committee. The basis of this Policy is an amendment of CaixaBank's Company By-laws, approved at the previous year's General Shareholders' Meeting, and its aim is to incorporate the Group's increased complexity and its international dimension, with presence in different jurisdictions, and to include certain provisions established in the Guidelines on Internal Governance.

The Committee was also informed of the review of the Corporate Governance Policy, which contemplates the instructions established in the Guidelines on Internal Governance, the diversity provisions introduced by Royal Decree-Law 18/2017, amending Article 540.4.c).6 of the Spanish Corporation Law (*Ley de Sociedades de Capital*) and is also coordinated with the Internal Governance Policy and the Group's Structural Definition Policy, which have been previously mentioned.

The Committee reported favourably to the Board of Directors on the approval of both these Policies.

#### **4.3. Regulatory Compliance**

The Committee performs a continuous supervisory function for all matters relating to the Company's regulatory compliance.

In 2018, the Committee particularly monitored the "Culture of Conduct and Compliance" strategic project, a cross-cutting initiative undertaken within the framework of CaixaBank's 2015-2018 Strategic Plan.

Similarly, the Committee was informed of the Annual Report on Regulatory Compliance Activities for the financial year 2017 and the Regulatory Compliance Plan for 2018.

It also studied the internal and external reports submitted to it by this function. The internal reports included regular reporting on the application of the Internal Code of Conduct within the scope of the Securities Market and on the Internal Code of Conduct for the EURIBOR/EONIA Contribution Process, while the external reports included the Annual Report on the Money Laundering and Terrorist Financing Prevention System. Also, the Committee made detailed follow-up of the function's negotiation with the different regulators and supervisors.

The Committee was kept regularly informed of the situation regarding the requirements sent by the different regulators and supervisors and the inspection and supervisory actions.

The Committee particularly focuses on issues relating to money laundering and terrorist financing prevention. Thus, during the financial year, it made detailed follow-up of the progress of the initiatives undertaken, which enabled it to be aware of and oversee the update of the Group's money laundering and terrorist financing prevention system. The Committee also receives regular detailed reporting on the Money Laundering Prevention Unit's statistics on alerts, analyses, notification of suspected money laundering transactions and other matters, and on the meetings held with the various supervisors.

It was similarly informed of the actions and action plans being carried out by BPI and BPI Suisse to improve the compliance environment.

Lastly, the Committee received information on the functioning of the Company's mechanisms for confidential notification of any possible irregularities observed at the Company, including those of a financial and accounting nature.

#### 4.4. Internal Auditing

The Internal Audit Function informed the Committee of the monitoring and conclusion of its Strategic Plan for 2015-2018, which provided the underlying principles for its work over this period and has been one of the fundamental pillars of good governance as a Third Line of Defence. The Committee was also informed of the proposal for its new Strategic Plan for the period 2019-2021, currently pending approval.

Due to the continuous improvement of Audit Methodology and in accordance with the principles of Good Corporate Governance, in 2018 the Internal Audit Department drew up an Internal Audit Procedure Manual. In this regard, the Committee was informed of how the Manual complements the regulatory framework for Internal Auditing, which includes three elements: the Internal Audit Charter, the Procedure Manual and the Methodological Operational Guidelines and their content.

Similarly, the Committee was submitted the Internal Audit Function's Annual Internal Audit Plan for 2018, which also reported on the degree of compliance of the 2017 Plan. The Audit Department regularly reported on the Plan's progress and the new tasks incorporated over the year, deriving from the Corporate Risk List and concerned sectoral or individual requirements made by regulators and supervisors and requests by either the Management or the Committee itself.

The Committee was regularly informed of the progress made in implementing the Internal Audit Scaling Project and the strategic vision of this Project for the period 2017-2019.

The Committee also received information on the audits performed and reports drawn up, the action plans defined and the monitoring and degree of implementation of the Internal Audit Department's recommendations, and on the actions carried out with regard to the Group, as a function with a corporate scope providing a systematic approach to the assessment and improvement of the risk management and control processes for all the Group's activities and business. Of note in this regard is the project for the integration of BPI's Internal Audit Department, within the framework of corporatisation of control functions and the Three Lines of Defence Model at BPI.

On 22 February 2018, the Committee received the Declaration of Independence of CaixaBank's Internal Audit Function, drawn up in compliance with the Group's Internal Audit Charter. The Declaration states that the Management and the Audit Department staff had no responsibility for the activities subject to audit, that they had full, free and unlimited access to all the staff and information necessary for performance of their functions and that they were free from any constraints with regard to the target, scope and carrying out of the work and notification of the results.

Finally, the Committee was informed of the degree of achievement of the Internal Audit Function's targets set for the previous year, considering that it satisfactorily complied with and performed this function and approving the targets for 2018.

#### 4.5. Auditor Relationship

The Committee reported favourably to the Board of Directors on approving the External Auditor Relationship Policy, the aim of which is to adapt the appointment process and the Auditor relationship framework to the current account auditing regulations.

The policy provides an exhaustive description of the principles governing the relationship with the external auditor, the assignation of functions and responsibilities and the procedure to be followed, particularly with regard to its selection, appointment, reappointment and replacement and for establishing the terms of contracting, providing suitable information flows and preserving the auditor's independence. The Committee is responsible for these

procedures and ensures compliance with the applicable legislation and, in particular, the equal treatment of the bidding companies.

The year 2018 saw the conclusion of the transition from the previous auditor, Deloitte S.L. (hereinafter referred to as “Deloitte”) to PricewaterhouseCoopers Auditores, S.L. (hereinafter referred to as “PwC”), appointed by the General Shareholders' Meeting as the new auditor for CaixaBank and its consolidated Group for the financial years 2018, 2019 and 2020.

The Committee ensured that the transition to the new auditor was smooth and agile and had the least possible impact on the Company.

Thus, at the meeting of 22 February 2018, the outgoing auditor Deloitte submitted its final conclusions on the previous year's individual and consolidated accounts, indicating that it expected to issue a favourable opinion in its report, and it also submitted its Declaration of Independence and information on the additional services provided and the corresponding fees received in 2017. Similarly, it submitted the supplementary reports (individual and consolidated) for the Committee for the financial year 2018, as envisaged in Auditing Act 22/2015 (hereinafter referred to as the “Auditing Act”), suitably concluding its work as accounts auditor.

The relationship with CaixaBank's external auditor, PwC, was constant and problem-free throughout the financial year 2018.

The external auditor PwC thus submitted an annual plan to the Committee regarding the auditing work it carried out, including a proposal for communication with the Committee, providing a very detailed account of the meetings held with the Management, its attendance of the various Committee meetings and a report to the Committee on its progress and development, in order to provide the Committee with first-hand information on the evolution of its work.

In accordance with the schedule planned, the responsible persons from the team of the external auditor PwC attended 7 of the 17 meetings held, in addition to holding meetings with the Committee Chairman when deemed necessary. Also, at least once a year, the Committee members hold a meeting with the external auditors that is not attended by any of the Company Directors, with the aim of finding out how the auditors perceive the working approach of their different contact persons at CaixaBank and the Company's evolution, and to assess whether the relationship has been satisfactory.

At the meetings held prior to drawing up the mandatory financial reporting, PwC notified the Committee of its preliminary conclusions, together with all significant aspects of which the Committee must be informed, in accordance with the regulatory guidelines for account auditing work.

#### **4.5.1. Auditor Independence**

With regard to the previous auditing firm, Deloitte, the Committee received its Declaration of Independence corresponding to the previous year, in which it stated that i) it had complied with all the independence requirements established in the Auditing Act and in Regulation (EU) no. 537/2014, ii) it had availed itself of internal procedures and a quality control system for independence, together with internal auditor rotation practices for the audit partner and its staff, and iii) the fees billed to the Group during the financial year were within the legal limits, among other aspects.

As to the Company's current auditor, PwC, in 2018 the Committee established a satisfactory relationship with the firm and the auditing team for purposes of receiving information on any matters that could pose a risk to the latter's independence, where the case may be.

Similarly, during the year, the Committee analysed and, where the case may be, authorised, the auditors' provision of non-audit services, after having taken into consideration aspects

including the nature of the services, the legally applicable quantitative limits and those voluntarily established by the Committee, and the existence, where the case may be, of any threats to its independence and the safeguarding measures adopted.

Thus, at its meeting of 22 February 2018, prior to the issue of the audit report on the annual accounts for the financial year 2017, the Committee approved the Report on the Auditors' Independence, in which it expressed its favourable opinion on their independence.

#### **4.5.2. Evaluation of the Auditor's Work**

At its meeting of 22 February 2018, the Committee positively valued the work done by Deloitte as the accounts auditor for the financial year 2017, with regard to the quality of the auditing and its contribution to the integrity of the financial report.

In this evaluation, among other aspects the Committee took into account the frequency and quality of its notifications, its independence, its knowledge of the business, the regulatory framework applicable to CaixaBank and the new developments in accounting regulations, the public results of the quality controls and Deloitte's 2017 Transparency Report.

#### **4.6. Related Party Transactions**

One of the Committee's functions is to oversee compliance with the regulations on related party transactions and to inform the Board of Directors of all such transactions before they are carried out.

In 2018, the Committee reported on the asset transactions carried out with the Company by the members of the Board of Directors or related parties and also those conducted with the Company by Senior Managers or related parties. These were ordinary transactions in all cases, conducted under the standard conditions for all the customers and not significant.

#### **4.7. Regulator Communications**

With regard to the European audit regulations, transposed into Spanish legislation via the Audit Act, the Spanish Securities Market Commission (CNMV) and the Committee of European Auditing Oversight Bodies (CEAOB) contacted some European public interest entities, including the financial institutions, asking them to provide a variety of information on the functioning of their Committees. Their aim is firstly to understand how the Audit Committees are functioning after enforcement of the aforementioned regulation, for purposes of conducting a statistical study, and secondly to carry out their supervisory activity.

Additionally, the Committee has monitored legal proceedings and rulings potentially affecting its activity and also any legal contingencies that have occurred.

#### **4.8. Other Issues**

The context, aims and lines of work of the Information Governance and Data Quality Policy and the implications of the Policy were submitted to the Committee, in relation to different regulations with an impact on information and data quality<sup>2</sup>, internal governance of the quality and promptness of the reporting and the relationships with the regulators and supervisors. The Committee also received information on the progress of the Project and the Communication Plan and the reporting established for the governing bodies, the senior management and the regulator.

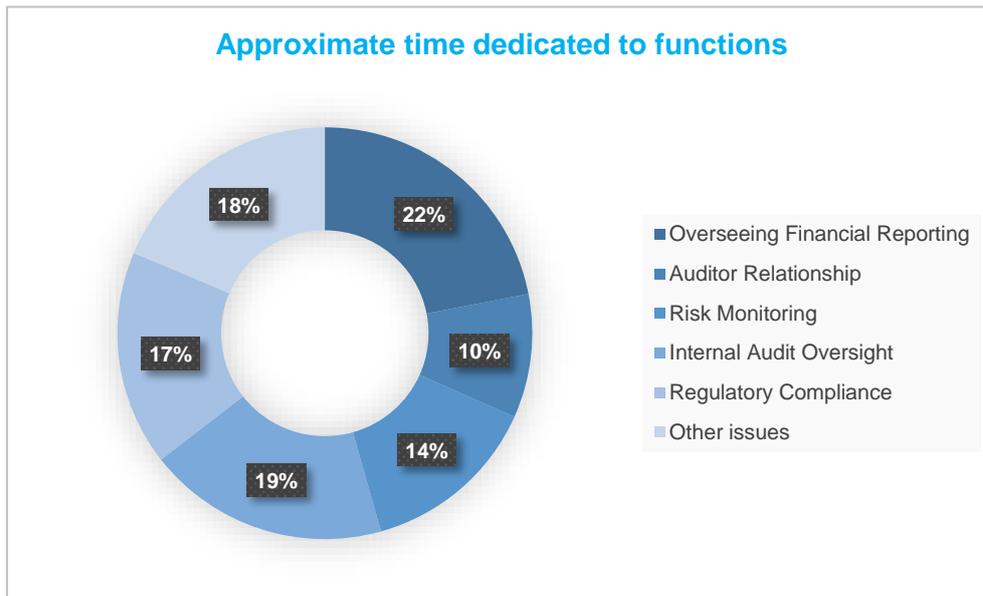
The Committee received information on the reviews of the processes for drawing up the Annual Corporate Governance Report and the Annual Remuneration Report for the Directors of Listed

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<sup>2</sup> The Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting; ICAAP, IFRS 9.

Corporations, and the ECB's Recommendations on the Dividend Policy and the Variable Remuneration Policy.

The Committee was also informed in detail of VidaCaixa's Investment Policy and it reported favourably to the Board of Directors on approving the Internal Relations Protocol between Fundación Bancaria "la Caixa", Criteria Caixa, S.A. and CaixaBank, having received expert third-party counselling for this purpose.



## 5. MAIN PROGRESS IN EXTERNAL ASSESSMENT FOR 2017

Taking as a reference the goals and targets defined by the Committee in its Activity Plan and the general recommendations and ratings in the Report on the Effectiveness and Performance of the Board of Directors and its Committees drawn up by the external consultant Russell Reynolds Associates in the previous year, the following progress has been made:

- Fluid communication and reporting channels have been established with the new external auditor.
- Liaison with the Risk Committee has been consolidated in all aspects concerned with risk monitoring and a working model has been launched with the Appointment Committee, encouraging liaison and coordination in corporate governance-related aspects.
- The Committee's composition has been reviewed and its number of its members increased by one.
- The information flows for improving the preparatory work done by the Board and the Committees have been optimised.

## **6. ANNUAL ASSESSMENT OF THE COMMITTEE'S FUNCTIONING**

### **Favourable report on the quality and efficiency of the Committee's functioning, drawn up in 2018**

In this regard, the Committee has exercised the responsibilities and functions entrusted to it during the year, maintaining a smooth dialogue in both its internal deliberations and with its habitual contact persons and receiving expert counselling when necessary.

The Committee has also held a suitable number of meetings, it has been provided with sufficient, accurate documentation on the various matters it has discussed and these matters have been correctly presented, all of which has reinforced the quality of the debates between its members and its sound decision-making.

It has therefore been concluded that the Committee has achieved the goals and targets set for it for the year and the quality and efficiency of its functioning are considered positive, as is the effective performance of the functions assigned to it by the Company By-laws and the Rules of the Board of Directors.

Barcelona, 20 December 2018

**The Audit and Control Committee of CaixaBank, S.A.**