

**APPENDIX I**

**ANNUAL CORPORATE GOVERNANCE REPORT  
OF LISTED COMPANIES**

**IDENTIFICATION DATA OF THE ISSUER**

<b>END OF THE REFERENCE FINANCIAL YEAR</b>	31/12/2017
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<b>TAX IDENTIFICATION NO.</b>	A-28060903
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<b>COMPANY NAME</b>
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CORPORACION FINANCIERA ALBA, S.A.
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<b>REGISTERED OFFICE</b>
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CASTELLO, 77, 5ª PLANTA, MADRID
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# ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

## A THE STRUCTURE OF THE PROPERTY

A.1 Complete the following table concerning the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
25/05/2011	58,300,000.00	58,300,000	58,300,000

Indicate if there are various classes of shares with different rights associated:

Yes  No

A.2 Detail the direct and indirect owners of significant stakes in your company on the date the financial year was closed, excluding board members:

Name or company name of the shareholder	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
VOTING AGREEMENT, SEE SECTION A.6.	0	0	0.00%
BANCA MARCH, S.A.	11,660.688	26,340.188	65.18%

Name or company name of the indirect owner of the stake	Via: Name or company name of the direct owner of the stake	Number of voting rights
BANCA MARCH, S.A.	VOTING AGREEMENT, SEE SECTION A.6.	26,340.188

Indicate the movements involving the shareholder structure, plus significant events during the financial year:

A.3 Complete the following tables concerning the members of the company's board of directors who have voting rights involving the shares of the company:

Name or company name of the Board Member	Number of direct voting rights	Number of indirect voting rights	% of the total voting rights
JOSE NIETO DE LA CIERVA	1	0	0.00%
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	2,004	0	0.00%
JOSE DOMINGO DE AMPUERO Y OSMA	10,000	0	0.02%
CRISTINA GARMENDIA MENDIZABAL	80	0	0.00%
JUAN MARCH JUAN	1,584,216	588,311	3.73%
CARLOS GONZALEZ FERNANDEZ	0	650	0.00%
JUAN MARCH DELGADO	6,841,424	3,984,863	18.57%
CARLOS MARCH DELGADO	9,841,385	242,930	17.30%
JUAN MARCH DE LA LASTRA	3,394,697	42,378	5.90%
JOSE RAMON DEL CAÑO PALOP	1,961	0	0.00%

Name or company name of the indirect owner of the stake	Via: Name or company name of the direct owner of the stake	Number of voting rights
JUAN MARCH JUAN	PEÑA TAJADA, S.L.	588,311

CARLOS GONZALEZ FERNANDEZ	NOBELIUM DE PONTI, S.L.	650
JUAN MARCH DELGADO	M.B. DE INVERSIONES, S.A.	2,222.933
JUAN MARCH DELGADO	SURISLA, S.A.	456,755
JUAN MARCH DELGADO	FUNDACION JUAN MARCH	376,877
JUAN MARCH DELGADO	FUNDACION INSTITUTO JUAN MARCH DE ESTUDIOS E INVESTIGACIONES	928,298
MR CARLOS MARCH DELGADO	MRS CONCEPCION DE LA LASTRA RAMOS-PAUL	242,930
MR JUAN MARCH DE LA LASTRA	ATACAMPA, S.A.	42,378

% total voting rights held by the board of directors	45.51%
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Complete the following charts on the members of the company's board of directors who have rights to the shares of the company

A.4 Indicate, where applicable, family, commercial, contractual or corporate relations existing between those owning significant stakes, to the extent that these are known by the company, unless they are irrelevant or are part of the ordinary course of business relations:

Related name or company name
JUAN MARCH DELGADO
CARLOS MARCH DELGADO

**Type of relationship:**

Contractual

**Brief description**

Mr Juan, Mr Carlos, Mrs Leonor and Mrs Gloria March Delgado own 100% of Banca March, S.A.. The aforementioned individuals have executed a shareholders' agreement referred to in section A.6

A.5 Indicate, where applicable, commercial, contractual or corporate relations existing between those owning significant stakes, and the company and/or its group, unless they are irrelevant or are part of the ordinary course of business relations:

A.6 Indicate if the company has been informed of shareholders' agreements affecting it, according to the provisions of articles 530 and 531 of the Capital Companies Act. Where applicable, describe these agreements briefly and list the shareholders bound by the agreement:

Yes

No

Parties to the shareholders' agreement
CARLOS MARCH DELGADO
JUAN MARCH DELGADO
GLORIA MARCH DELGADO
LEONOR MARCH DELGADO

**Percentage of the share capital affected: 65.18%**

### Brief description of the agreement

Siblings Mr Juan, Mr Carlos, Mrs Leonor and Mrs Gloria March Delgado own all the shares in Banca March which, furthermore, has a significant stake in Corporación Financiera Alba. On 4-12-2014, the aforementioned individuals signed a Shareholders' Agreement concerning the aforementioned financial institution which also affects Corporación Financiera Alba, given its equity position in this company. This agreement will be valid until 10-03-2025 and replaces the agreement signed on 24-05-2004 and amended on 22-12-2009. Bearing in mind the stakes owned both by Banca March, and its shareholders who signed the Agreement, these parties have exercised and continue to exercise joint and combined control over Corporación Financiera Alba. The aforementioned agreement does not provide limitations on the transferability of Alba shares, but does affect the exercise of voting rights associated with shares in Alba that are owned by the signatories of the agreement.

Indicate if the company is aware of the existence of concerted actions between its shareholders. Where applicable, describe these briefly:

Yes  No

**Percentage of the share capital affected: 65.18%**

### Brief description of the coalition:

Siblings Mr Juan, Mr Carlos, Mrs Leonor and Mrs Gloria March Delgado own all the shares in Banca March which, furthermore, has a significant stake in Corporación Financiera Alba, S.A. On 4-12-2014, the aforementioned siblings signed a Shareholders' Agreement concerning the aforementioned financial institution which also affects Corporación Financiera Alba S.A., given its equity position in this company. This agreement will be valid until 10-03-2025 and replaces the agreement signed on 24-05-2004 and amended on 22-12-2009.

Parties to the concerted action
CARLOS MARCH DELGADO
JUAN MARCH DELGADO
GLORIA MARCH DELGADO
LEONOR MARCH DELGADO

In the event that, during the financial year, there was any amendment or breach of these agreements, contracts or concerted actions, indicate this clearly:

A.7 Indicate if there is any natural or legal person that exercises or could exercise control over the company, according to article 4 of the Securities Market Law. Where applicable, identify this person:

Yes  No

Name or company name
CONCERTED ACTION BANCA MARCH GROUP

Observations
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Corporación Financiera Alba, S.A. is part of the Banca March Group, which owns more than 50% of its share capital. Control of the Group Banca March is exercised by Mr. Juan, Mr. Carlos, Mrs. Carlos Gloria and Mrs. Leonor March Delgado, who jointly control 100% of the company capital stock of Banca March, S.A., without any of them doing so individually. As indicated in Section A.6, between the aforementioned individuals there is a shareholders' agreement, signed on December 4, 2014. As of December 31, 2017, Banca March, S.A. and its shareholders control, jointly, without any of them doing so individually, 65.18% of Corporación Financiera Alba, S.A.

A.8 Complete the following tables concerning the company's treasury stock:

**On the date of closure of the financial year:**

Number of direct shares	Number of indirect shares (*)	% total of share capital
59,898	0	0.10%

**(\*) Via:**

Detail significant fluctuations, according to the provisions of Royal Decree 1362/2007, which occurred during the financial year:

Explain the significant fluctuations

A.9 Detail the conditions and term of the mandate in force of the shareholders' assembly on the board of directors for issuing, buying back or transferring equity.

Buyback of shares in the Company is authorised by the Shareholders' Meeting, up to the maximum permitted by Law, using a sale transaction and subject to the requirements of applicable provisions in this regard.

The authorisation extends to buybacks that, within the limit indicated, are conducted by subsidiaries of Corporación Financiera A ba, S.A., as well as applying the shares bought by virtue of this authorisation and prior authorisations to the execution of the Compensation Plans of Executive Board Members and Directors, which involve the transfer of shares or options on these shares.

The buyback price will be the price listed on the Stock Exchange on the date when the transaction is performed or authorised, where applicable, by the relevant stock exchange authority.

The authorisations in force in 2017 were granted by the General Assemblies of 8 June 2016 (until 30 June 2017) and 19 June 2017 (up to 30 June 2018).

A.9.b Estimated floating capital:

	%
Estimated free float	25.09

A.10 Indicate if there is any restriction on the transferability of securities and/or restriction on voting rights. Specifically, the existence of any kind of restrictions that could hinder the gain of control over the company by the buyback of its shares on the market.

Yes  No

A.11 Indicate if the shareholders' meeting agreed to take neutralisation measures when faced with a takeover bid by virtue of the provisions of Law 6/2007.

Yes  No

Where applicable, explain the measures approved and the terms under which the restrictions may be inapplicable:

A.12 Indicate if the company has issued securities that are not traded on a regulated Community market.

Yes  No

Where applicable, indicate the various share classes and, for each share class, the rights and obligations granted.

## B SHAREHOLDERS' MEETING

B.1 Indicate and, where applicable, detail if there are differences with the minimum requirements provided in the Capital Companies Act (LSC) concerning the quorum for opening the shareholders' meeting.

Yes  No

B.2 Indicate and, where applicable detail if there are differences with the system provided in the Capital Companies Act (LSC) for the adoption of corporate resolutions:

Yes  No

Describe how it differs from the system provided in the LSC.

B.3 Indicate the standards applicable to amendment of the company's by-laws. Specifically, the majorities provided for amendment of the bylaws will be announced as well as, where applicable, the standards provided for protecting members' rights when modifying the by-laws.

The procedure for amending by Company's By-laws is regulated in the Capital Companies Act, which requires approval from the General Shareholders' Meeting, with the majorities provided in article 194 of the aforementioned Law, without establishing, in this regard, any specialisation in these Company By-laws.

Amendment of the Bylaws is expressly included among the powers of the Shareholders' Meeting, which are detailed in the Regulation of the General Shareholders' Meeting, without being subject to majorities other than those stipulated in the Law.

B.4 Indicate the attendance data at the general shareholders' meetings held during the financial year to which reference is made in this report and those of the previous financial year:

Shareholders' meeting data	Attendance data				Total
	% physical presence	% representation	% remote voting		
			Electronic vote	Others	
08/06/2016	43.15%	49.44%	0.00%	0.00%	92.59%
19/06/2017	67.96%	24.73%	0.00%	0.00%	92.69%

B.5 Indicate if there is any restriction, according to the by-laws, that establishes a minimum number of shares needed to attend the shareholders' meeting:

Yes  No

Number of shares needed to attend the shareholders' meeting	25
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B.6 Section repealed.

B.7 Indicate the address and access path for the company's website and information concerning corporate governance, as well as other information concerning the general assemblies that must be made available to shareholders on the Company's website.

Website: [www.corporaciona.ba.es](http://www.corporaciona.ba.es)  
Access path. Main Menu/Shareholders and Investors.

## C MANAGEMENT STRUCTURE OF THE COMPANY

### C.1 Board of Directors

C.1.1 Maximum and minimum number of board members provided in the company bylaws:

<b>Maximum number of board members</b>	15
<b>Minimum number of board members</b>	7

C.1.2 Complete the following table with the board members:

Name or company name of Director	Representative	Category of the Director	Position on the board	Date of First Appointment	Date of Last Appointment	Selection procedure
JOSE NIETO DE LA CIERVA		Proprietary	Director	23/03/2011	10/06/2015	SHAREHOLDERS' RESOLUTION
MARÍA EUGENIA GIRÓN DAVILA		Independent	Director	08/06/2016	08/06/2016	SHAREHOLDERS' RESOLUTION
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN		Executive	Chief Executive Officer	27/09/2006	11/06/2014	SHAREHOLDERS' RESOLUTION
JOSE DOMINGO DE AMPUERO Y OSMA		Independent	Director	29/05/2013	19/06/2017	SHAREHOLDERS' RESOLUTION
ANTONIO MARIA PRADERA JAUREGUI		Independent	Director	10/06/2015	10/06/2015	SHAREHOLDERS' RESOLUTION
CRISTINA GARMENDIA MENDIZABAL		Independent	Director	18/12/2013	19/06/2017	SHAREHOLDERS' RESOLUTION
JUAN MARCH JUAN		Executive	Director	23/03/2011	10/06/2015	SHAREHOLDERS' RESOLUTION
CARLOS GONZALEZ FERNANDEZ		Independent	Director	10/06/2015	10/06/2015	SHAREHOLDERS' RESOLUTION
JUAN MARCH DELGADO		Proprietary	Chairman	08/10/1973	11/06/2014	SHAREHOLDERS' RESOLUTION
RAMON CARNE CASAS		Executive	Director	25/05/2011	10/06/2015	SHAREHOLDERS' RESOLUTION
CARLOS MARCH DELGADO		Proprietary	Chairman	22/06/1988	08/06/2016	SHAREHOLDERS' RESOLUTION
JUAN MARCH DE LA LASTRA		Executive	Vice-Chairman	28/05/2008	08/06/2016	SHAREHOLDERS' RESOLUTION
JOSE RAMON DEL CAÑO PALOP		Executive	Secretary and Director	27/05/2009	19/06/2017	SHAREHOLDERS' RESOLUTION
CLAUDIA PICKHOLZ		Independent	Director	08/06/2016	08/06/2016	SHAREHOLDERS' RESOLUTION
<b>Total number of board members</b>				14		

Indicate the dismissals that have occurred on the board of directors during the period subject to reporting:

C.1.3 Complete the following tables concerning the members of the board of directors and their various categories:

#### **EXECUTIVE BOARD MEMBERS**

Name or company name of the Board Member	Position on the company's organisational chart
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	CHIEF EXECUTIVE OFFICER
JUAN MARCH JUAN	DIRECTOR

RAMON CARNE CASAS	DIRECTOR
JUAN MARCH DE LA LASTRA	VICE-CHAIRMAN
JOSE RAMON DEL CAÑO PALOP	BOARD SECRETARY

<b>Total number of executive board members</b>	5
<b>% of the total board</b>	35.71%

### **EXTERNAL PROPRIETARY BOARD MEMBERS**

<b>Name or company name of the Board Member</b>	<b>Name or company name of the significant shareholder represented or that proposed their appointment</b>
JOSE NIETO DE LA CIERVA	BANCA MARCH, S.A.
JUAN MARCH DELGADO	BANCA MARCH, S.A.
CARLOS MARCH DELGADO	BANCA MARCH, S.A.

<b>Total number of proprietary board members</b>	3
<b>% of the total board</b>	21.43%

### **EXTERNAL INDEPENDENT BOARD MEMBERS**

#### **Name or company name of the Board Member:**

MRS MARÍA EUGENIA GIRÓN DAVILA

#### **Background:**

Advanced Industrial Engineer at ICAI (Instituto Católico de Artes e Industrias [School of Engineering at the Universidad Pontificia Comillas]) and Masters in Business Administration from Harvard Business School.

She began work at the First National Bank of Chicago (Spain), and from there moved to the Solomon R. Guggenheim Foundation and to Estée Lauder Companies, Inc.

From 1992 to 1997, she was the Director of the strategy and international departments at Loewe S.A., that since 1996 has been a part of the LVMH Moët Hennessey Louis Vuitton group.

In 1999, she led the purchase of Carrera y Carrera, S.A. alongside 3i, and was the Managing Director of the company for six years.

In 2012, she became president of Le Chateau SAS, after the acquisition of Silvercloud Investments. She is the Promoter and Executive Director of the Observatorio de Mercado Premium y de Prestigio at the IE Business School and Mastercard.

A Member of the International Board of Oceana, of the Advisory Board of Suarez, of Pedro García and of South Summit, of the Patronatos de la Real Fábrica de Tapices and of IE University, President of the Fundación Diversidad and member of YPO (Young Presidents Organizations), WCD (Women Corporate Director), IWF (International Womens Forum), Go Beyond Early Stage Investments and of Rising Tide, as well as a member of the Management Board of the Instituto de Consejeros y Administradores.

She has also authored various books on the premium sector and is a teacher at IE and other business schools.

#### **Name or company name of the Board Member:**

MR JOSE DOMINGO DE AMPUERO Y OSMA

#### **Background:**

Industrial Engineer (Bilbao ES de Ingenieros) and Master of Business Administration (University of Southern California). He has, among other positions, been a Board Member of San Telmo Ibérica Minera, Vice-President of Naviera Vizcaína, President of S.A. de Alimentación, Vice-President of BBVA Bancomer, President of Bodegas y Bebidas, Vice-President of Banco Bilbao Vizcaya Argentaria, Vice-President of Iberdrola, President of Cementos Lemona, as well as Spokesperson for the Management Board of the Asociación para el Progreso de la Dirección y del Círculo de Empresarios Vascos. He is currently President of Autopista Vasco- Aragonesa S.A., Executive President of Viscofan, S.A., a Board Member at Tubacex, S.A. and member of the Fundación-Consejo España-Estados Unidos.



**Name or company name of the Board Member:**

MR ANTONIO MARIA PRADERA JAUREGUI

**Background:**

Chartered Civil Engineer.

In 1979, he began work as the director of the Banco Bilbao, where he remained until 1985. In 1988, he was appointed the Executive Director of Nerisa, where he remained until 1993.

In 1993, he moved to SEAT as the Director of Strategy.

In 1995, he played an important role in creating the Instituto Sectorial de Promoción y Gestión de Empresas, S.A. (INSSEC), becoming the Managing Director and remaining in the position until 2010. He is currently President of CIE Automotiva, S.A. (since 2002), and President of Global Dominion Access, S.A. and a Board Member of Tubacex, S.A.

**Name or company name of the Board Member:**

MRS CRISTINA GARMENDIA MENDIZABAL

**Background:**

Biologist, specialising in Genetics. PhD in Molecular Biology (Centro de Biología Molecular Severo Ochoa – CSIC-). MBA at the IESE Business School at the University of Navarra. Former Minister of Science and Innovation (2008-2011). In 2001, she participated in founding the biotech group Genetrix. She is also a founding member of Ysios Capital Partners, which manages two funds specialising in Life Sciences & Healthcare. She has been Executive Vice President and Finance Director of the Amasua Group, and President of the Asociación de Empresas Biotecnológicas (ASEBIO), serving on the Management Board of the CEOE. She chairs the listed Spanish-German company SYGNIS. She is on the Board of Directors of Gas Natural, Mediaset España, Logista, Ysios and Pelayo. She is a member of the professional council of ESADE, de la Fundación Mujeres por África and of the social council of the Universidad de Sevilla. President of the COTEC Foundation and owner of the Fundaciones Pelayo y SEPI.

**Name or company name of the Board Member:**

MR CARLOS GONZALEZ FERNANDEZ

**Background:**

Degree in Economic and Business Sciences from the University of Bilbao and a Chartered Accountant.

He has spent 35 years of his career with Arthur Anderson, a firm that merged with Deloitte in 2003. He was appointed a member in 1985 and, after occupying various management positions, was elected as the President of Arthur Andersen in 2000, directing the merger with Deloitte in 2003 before being confirmed as President of the new firm, after the merger. He has belonged to the Deloitte's

Global Board and to the European Executive Committee.

He has been on the Management Board of organisations such as Círculo de Empresarios, la Asociación para el Progreso de la Dirección and the Instituto de Estudios Económicos, and has also been a member of Trusts of foundations such as the Príncipe de Asturias, Cotet and Albéniz.

In 2009, he left Deloitte and, since then, has worked on the Advisory Boards or Board of Directors of various companies, for example, the Board of Directors of Novagalicia Banco, also chairing the organisation's Audit Committee.

He is currently a member of the Board of Directors, a President of the Audit and Control Committee and a member of the Appointments and Remuneration Committee of the listed company Sotogrande. He is also an advisor on the Board of Directors of Cosentino, S.A. and a member of the Committee for Accounting Standards of the Board of Governors of the Association of Economists.

**Name or company name of the Board Member:**

MRS CLAUDIA PICKHOLZ

**Background:**

An American citizen, she received a degree in Economics from Rutgers University (New Brunswick, USA), an MBA from Harvard School of Business Administration (Boston, USA) and took the TCL Programme at INSEAD (Fontainebleau, France).

She began work at the Irving Trust Company, as an analyst for Europe and Latin America, then joining McKinsey & Company as a Consultant.

In 1987, she moved to SC Johnson Wax Española, S.A., becoming the Marketing Director.

Then, in 1994, she joined Coca Cola, first in Spain, as the Marketing Director and the Director of Planning and Control. Later, in the United Kingdom, at Coca Cola as the Director of Marketing for European Customers.

She was the Managing Director of McCann-Erickson Madrid, joining Kodak, S.A. in 2003, where she undertook responsibilities as the Marketing and Communications Director and the Strategic Products Director for Europe, Africa and the Middle East.

Most recently, she has been the General Director for Spain and Latin America of Elsevier, S.A. and currently is an independent Director of Quabit Inmobiliaria, S.A. and General Director for the Iberian Peninsula of TCC (The Continuity Company).

<b>Total number of independent board members</b>	6
<b>% total of the board</b>	42.86%

Indicate if any board member, described as being independent, collects any sum or bonus from the company, or from their own group, from a source other than the board member's compensation, or does or has maintained, during the last financial year, a business relationship with the company or with any company in the group, either in their own name or as a significant shareholder, board member or senior executive of an organisation that does or has maintained this business relationship.

No Independent Board Member has collected sums for items other than the Board Member's compensation from the company or its group, nor have they maintained, during the financial year, a business relationship with the company or its group.

Where applicable, an analytic statement by the board on the reasons why it considers that said director can perform his duties as an independent director will be included.

### **OTHER EXTERNAL BOARD MEMBERS**

The other external board members will be identified and the reasons why they cannot be considered as proprietary or independent members as well as their links, either with the company, its directors or its shareholders will be detailed:

Indicate the fluctuations which, where applicable, occurred during the period in the category of each board member:

C.1.4 Complete the following table with information concerning the number of female board members during the last 4 financial years, as well as the capacity of these female board members:

	Number of female board members				% of the total board members of all kinds			
	Financial year 2017	Financial year 2016	Financial year 2015	Financial year 2014	Financial year 2017	Financial year 2016	Financial year 2015	Financial year 2014
<b>Executive</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Proprietary</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Independent</b>	3	3	1	2	50.00%	42.86%	20.00%	33.33%
<b>Other External</b>	0	0	0	0	0.00%	0.00%	0.00%	0.00%
<b>Total:</b>	3	3	1	2	21.43%	20.00%	7.69%	14.28%

C.1.5 Explain the measures that, if applicable, have been adopted to try to include in the board of directors a number of women that allows achieving a balanced presence of women and men.

**Explanation of measures**

In 2015, the Appointments and Remuneration Committee set a target for representation for the least represented gender on the Board of Directors as well as guidelines for reaching this target. In 2016, the Appointments and Remuneration Committee agreed to set, as the target representation for the least represented gender, 30% of all members for 2020.

In 2017, the number of three female Directors on the Board of Directors was maintained.

C.1.6 Explain the measures which, where applicable, the appointments committee agreed on so that the selection procedures do not include implicit biases that hinder the selection of female board members, and the company has deliberately attempted to include, among potential candidates, women who meet the professional background sought:

**Explanation of measures**

The Appointments and Remuneration Committee, in its meeting of October 26, 2015, set the guidelines identified for reaching the target for the presence of Female Board Members on the Board of Directors, which involved:

- Including female candidates in all the Board Member selection processes.
- Including, to the extent possible, a comparable number of candidates of each gender in the selection process.
- When the quality of the candidates is the same, in terms of training and experience, provided the representation target has not been met, the selection of female candidates will be prioritised.

These guidelines were ratified by the Appointments and Remuneration Committee in its meeting of October 24, 2016.

In cases when, where applicable, in spite of the measures adopted, there are few or no female board members, explain the reasons justifying this:

**Explanation of reasons**

C.1.6 b Explain the findings of the appointments committee concerning inspections of compliance with the board member selection policy. Specifically, explain how this policy is advancing the objective that the number of female board members should represent, at least, 30% of the total members of the board of directors, in 2020.

**Explanation of the findings**

The Policy for Selection of Candidates for Board Members of Corporación Financiera Alba was approved by the Board of Directors in its session of October 26, 2015. However, this Policy essentially formalised criteria and practices that were already being followed in the Company for the selection of candidates for Board Members of the Company.

In this regard, the findings of the Appointments and Remuneration Committee concerning the compliance of the Board Member selection process is that the policy has been adequately followed, both in terms of the targets and principles of the selection process and in terms of procedural matters and the qualities that the candidates must have.

Regarding the objective that in 2020 the number of female Directors represent at least 30% of the total number of Board members, it was set at the meeting of the Appointments and Remuneration Committee of October 24, 2016.

### C.1.7 Explain the method of representation on the board of shareholders with significant stakes.

The "Banca March Concerted Action" referred to in sections A.6 and A.7 of this report, which has a stake of 65.18% in the share capital, is represented on the Board of Directors by three Board Members who are proprietary members.

Furthermore, Mr Juan March de la Lastra, who has a 5.90% stake in the share capital and Mr Juan March Juan, who has a 3.73% stake in the share capital, are members of the Board of Directors and both serve as executive and proprietary Board Members.

### C.1.8 Explain, where applicable, the reasons why proprietary board members were appointed at the request of shareholders whose equity stake is below 3% of the capital:

Indicate if formal requests for presence on the board from shareholders whose equity stake is equal or greater than that of others at whose request proprietary board members were appointed were not granted. Where applicable, explain the reasons why these were not granted:

Yes

No

### C.1.9 Indicate if any board member left their position before the end of their mandate, if the board member explained their reasons for leaving and how they explained these reasons to the board and, in the event that they did so in writing to the entire board, explain below the reasons the board member themselves gave, at the very least:

### C.1.10 Indicate, if these exist, the powers delegated to the managing director/s:

#### **Name or company name of the Board Member:**

MR SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN

#### **Brief description**

THE CHIEF EXECUTIVE OFFICER HAS POWERS THAT HAVE BEEN DELEGATED AND THAT INVOLVE THE STAFF OF THE COMPANY, AS WELL AS EXTENSIVE POWERS TO REPRESENT THE COMPANY, FOR PROCUREMENT AND FOR INVESTMENT AND DISINVESTMENT, SUBJECT TO CERTAIN LIMITS.

### C.1.11 Identify, where applicable, the members of the board that assume positions as managers or directors in other companies that are part of the group of the listed company:

Name or company name of the Board Member	Company name of the organisation of the group	Position	Do they have executive-level duties?
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	DEYÁ CAPITAL, S.C.R., S.A.	CHAIRMAN	YES
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	ARTÁ CAPITAL, S.G.E.I.C., S.A.	DIRECTOR	YES
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	ARTA PARTNERS, S.A.	CHAIRMAN	YES
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	DEYA CAPITAL IV, S.C.R., S.A.	CHAIRMAN	YES
JUAN MARCH JUAN	ARTÁ CAPITAL, S.G.E.I.C., S.A.	VICE-CHAIRMAN	YES
RAMON CARNE CASAS	ARTÁ CAPITAL, S.G.E.I.C., S.A.	CHAIRMAN	YES
RAMON CARNE CASAS	ARTÁ PARTNERS, S.A.	DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	DEYÁ CAPITAL, S.C.R., S.A.	SECRETARY AND DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	ARTÁ CAPITAL, S.G.E.I.C., S.A.	SECRETARY AND DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	ARTÁ PARTNERS, S.A.	SECRETARY AND DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	ALBA PATRIMONIO INMOBILIARIO, S.A.U.	DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	DEYA CAPITAL IV, S.C.R., S.A.	SECRETARY AND DIRECTOR	YES
JOSE RAMON DEL CAÑO PALOP	ALBA EUROPE, S.A.R.L.	DIRECTOR	YES
RAMON CARNE CASAS	DEYA CAPITAL II S.C.R., S.A.	DIRECTOR	YES

C.1.12 List, where applicable, the board members in your company that are members of the board of directors of other organisations that are listed on official stock exchanges, other than your group, and of which the company has been informed:

Name or company name of the Board Member	Company name of the organisation of the group	Position
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	ACERINOX. S.A.	DIRECTOR
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	INDRA SISTEMAS, S.A.	DIRECTOR
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	BOLSAS Y MERCADOS ESPAÑOLES, S.A.	DIRECTOR
JOSE DOMINGO DE AMPUERO Y OSMA	TUBACEX, S.A.	DIRECTOR
JOSE DOMINGO DE AMPUERO Y OSMA	VISCOFAN, S.A.	CHAIRMAN
ANTONIO MARIA PRADERA JAUREGUI	TUBACEX, S.A.	DIRECTOR
ANTONIO MARIA PRADERA JAUREGUI	CIE AUTOMOTIVE, S.A.	CHAIRMAN
ANTONIO MARIA PRADERA JAUREGUI	GLOBAL DOMINION ACCESS, S.A.	CHAIRMAN
CRISTINA GARMENDIA MENDIZABAL	GAS NATURAL SDG, S.A.	DIRECTOR
CRISTINA GARMENDIA MENDIZABAL	COMPañIA DE DISTRIBUCION INTEGRAL LOGISTA HOLDINGS, S.A.	DIRECTOR
JUAN MARCH JUAN	BOLSAS Y MERCADOS ESPAÑOLES, S.A.	DIRECTOR
CARLOS GONZALEZ FERNANDEZ	SOTOGRADE, S.A.	DIRECTOR
JUAN MARCH DE LA LASTRA	INDRA SISTEMAS. S.A.	DIRECTOR
JUAN MARCH DE LA LASTRA	VISCOFAN, S.A.	DIRECTOR

Name or company name of the Board Member	Company name of the organisation of the group	Position
CLAUDIA PICKHOLZ	QUABIT INMOBILIARIA, S.A.	DIRECTOR
CRISTINA GARMENDIA MENDIZABAL	MEDIASET COMUNICACIÓN ESPAÑA, S.A.	DIRECTOR

C.1.13 Indicate and, where applicable, explain if the company has established rules on the number of boards on which their board members can serve:

Yes

No

Explanation of the rules
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According to the provisions of Article 41 of the Board of Directors Regulation of Corporación Financiera A ba, Board Members must be adequately dedicated to their duties and, to this end, the maximum number of Boards of other companies on which the Board Members may serve is six, even if the Board Members consider all positions on the boards of a single group of companies or organisations in which one of these companies has a significant stake as a single position.

C.1.14 Section repealed.

C.1.15 Indicate the overall compensation of the board of directors:

Compensation of the board of directors (thousands of euros)	5,521
Amount of rights accumulated by current board members in terms of pensions (thousands of euros)	0
Amount of rights accumulated by former board members in terms of pensions (thousands of euros)	0

C.1.16 Identify the senior management members who are not, in turn, executive directors, and indicate the total compensation accrued by them during the financial year:

Name or company name	Positio
NICOLAS JIMENEZ-UGARTE LUELMO	DIRECTOR
ANDRES ZUNZUNEGUI RUANO	DIRECTOR
IGNACIO MARTINEZ SANTOS	DIRECTOR
JAVIER FERNANDEZ ALONSO	DIRECTOR
CARLOS ORTEGA ARIAS-PAZ	DIRECTOR

Total senior management compensation (in thousands of euros)	2,633
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C.1.17 Indicate, where applicable, the identity of the board members who, in turn, are members of the board of directors of companies who are significant shareholders and/or in the organisations in their group:

Name or company name of the Board Member	Company name of the significant shareholder	Position
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	BANCA MARCH, S.A.	DIRECTOR
JUAN MARCH JUAN	BANCA MARCH, S.A.	DIRECTOR
JUAN MARCH DELGADO	BANCA MARCH, S.A.	DIRECTOR
CARLOS MARCH DELGADO	BANCA MARCH, S.A.	DIRECTOR
JUAN MARCH DE LA LASTRA	BANCA MARCH, S.A.	CHAIRMAN

Detail, where applicable, relevant relations other than those detailed in the previous section of the members of the board of directors connecting them with significant shareholders and/or organisations within their group:

**Name or company name of the associated Board Member:**

MR JUAN MARCH JUAN

**Name or company name of the associated significant shareholder:**

MR JUAN MARCH DELGADO

**Description of the relationship:**

Personal

**Name or company name of the associated Board Member:**

MR JUAN MARCH DE LA LASTRA

**Name or company name of the associated significant shareholder:**

MR CARLOS MARCH DELGADO

**Description of the relationship:**

Personal

C.1.18 Indicate if there was any amendment to the board's regulation during the financial year:

Yes

No

C.1.19 Indicate the selection, appointment, re-election, assessment and dismissal procedures for board members. Detail the competent bodies, the formalities to be followed and the criteria to be used in each of the procedures.

Selection and Appointment:

With regards to the appointment of the Board Members, the Board approved a candidate selection policy, in its session of 26-10-2015, in which reference is made to the selection targets and principles, the selection process, the qualities the candidates must have and the limits on applying as a candidate.

Moreover, art. 16 of the Board Regulation contains the following provisions:

1. The Board Members will be appointed by the Shareholders' Meeting or, on a temporary basis, by the Board.
2. The proposals for Board Member appointments submitted by the Board to the Shareholders' Meeting and the appointment agreements adopted by this body by virtue of the co-optation powers must respect the provisions of the Regulation with regards to the distribution of Board Members among executives and external Board Members and, among these, between proprietary and independent board members. Likewise, the Board will ensure the selection procedures promote diversity in terms of gender, experience and knowledge and that they do not include implicit biases which could imply any discrimination.
3. Once there is a vacancy, the President or any Board Member may propose candidates, whose selection will be deliberated by the Board. Proposals for appointment or re-election of Board Members which are made by the Board to the Shareholders' Meeting, as well as their temporary appointment for co-optation, will be approved by the Board:
  - a) The proposal of the Appointments and Remuneration Committee, in the case of independent Board Members.
  - b) Prior report of the Appointments and Remuneration Committee, in the case of the remaining Board Members.The proposal must be accompanied by an explanatory report from the Board (for the Shareholders' Meeting) and from the Appointments and Remuneration Committee.

Re-election:  
According to art. 17 of the Regulation of the Council, the re-election proposals for Board Members which the Board decides to submit to the Shareholders' Meeting must undergo a formal preparation process, which will include the report from the Appointments and Remuneration Committee and deliberations, by the Board, of the quality of work and dedication to the position during the previous mandate. These deliberations will be conducted in the absence of the Board Member up for re-election.

**Evaluation:**

The evaluation process of the Board and its Committees is conducted annually by preparing a questionnaire which is sent to the Board Members and which addresses matters related both to the powers of these bodies and to their actions. The questionnaires are answered by the Board Members and the answers are used as the foundation for the Board's evaluation, which is prepared by the Appointments and Remuneration Committee and referred to the Board for its approval. Furthermore, based on the recommendations of the Code of Good Governance for Public Companies of the CNMV (Comisión Nacional del Mercado de Valores [National Securities Market Commission]) of 2015, every three years, in addition to completing a questionnaire, the company has the Board assessed by an external consultant, and Board Members are interviewed by the consultant. An external consultant assessed the actions of the Board during 2016.

The areas assessed in 2017 were as follows: Corporate Governance in general; composition and diversity of the Board; powers of the Board; frequency of the meetings, progress and attendance at the meetings; dedication of the Board Members; reporting to the Board Members; actions of the President, of the Managing Director and the Secretary of the Board; performance of the Board Members; Committees on the Board; training of the Board Members; application of the Code of Ethics and Conduct and the Internal Regulation for Conduct on the Securities Market and the Criminal and Fraud Prevention Policy.

**Termination:**

Art. 19 of the Board Regulation contains the following provisions concerning termination of the Board Members:

1. Board Members will leave their position once the period for which they were appointed has passed, or when the Shareholders' Meeting decides.
2. Board Members must leave their position vacant for the Board and formalise, if the Board considers this appropriate, the corresponding resignation, in the following cases:
  - a) When the Board Member reaches 70 years.
  - b) When they are affected by any of the cases of incompatibility or prohibition provided by law.
  - c) When they are affected by circumstances that could prejudice the credibility and reputation of the company.
  - d) When they are seriously admonished by the Audit and Compliance Committee on the grounds that they violated their obligations as Board Members.
  - e) When the reasons for which they were appointed are no longer relevant and, specifically, when an Independent Board Member or a Proprietary Board Member loses their respective status.
3. Once external Board Members, both proprietary and independent, have been elected by the Shareholders' Meeting, the Board will not propose their termination before reaching the statutory period for which they were appointed, except for just cause, deemed as such by the Board itself, and first informing the Appointments and Remuneration Committee.
4. Board Members must inform the Board of the criminal cases in which they are involved as defendants, as well as subsequent procedural events.

If a Board Member was prosecuted or an order to proceed to a public hearing was issued against this Board Member for any of the crimes indicated in article 213 of the LSC (Ley de Sociedades de Capital [Capital Companies Act]), the Board will assess the case as soon as possible and, in light of the specific circumstances, will decide whether or not the Board Member should remain in their position. All this will be reported in the IAGC (Informe Anual de Gobierno Corporativo [Annual Corporate Governance Report]).

5. When a Board Member leaves their position before the end of their mandate, either due to resignation or any other reason, the Board Member will explain the reasons in a letter sent to all members of the Board. Nonetheless, this termination will be reported as a significant event, and the grounds for the termination will be reported in the IAGC.

**C.1.20 Explain the extent to which the board's annual assessment has prompted significant changes to your internal organisation and to procedures applicable to your activities:**

Description of changes
Based on the self-assessment performed by the Board of Directors, changes to the internal organisation or to the procedures applicable to their activities were not considered necessary, without prejudice to some recommendations which were implemented during the 2017 financial year.

**C.1.20.B Describe the assessment process and the areas assessed by the board of directors, assisted, where applicable, by an external consultant and concerning the diversity of the Board and its powers, its operations and the composition of its committees, the performance of the president of the board of directors and the top executive in the company, and the performance and contribution of each board member.**

The assessment process of the Board and its Committees in 2017 was conducted under the coordination of the President of the Board, with the participation of the Board Members (by answering questions prepared to address this matter), the various Committees (by preparing reports concerning their activities) and the Appointments and Remuneration Committee. The questionnaire sent to the Board Members addresses matters related both to the powers of these bodies and to their actions. The questionnaires were answered by the Board Members and their answers were used for the Board's assessment, which is prepared by the Appointments and Remuneration Committee and referred to the Board for its approval.

**C.1.20.ter Breakdown, where applicable, of business relations which the consultant or any company in its group maintains with the company or any company in its group.**



C.1.21 Indicate cases where board members must resign.

Board Members, according to the provisions of the Board Regulation, must leave their position vacant for the Board and formalise, if the Board considers this appropriate, the corresponding resignation, in the following cases:

- a) When the Board Member reaches 70 years.
- b) When they are affected by any of the cases of incompatibility or prohibition provided by law.
- c) When they are affected by circumstances that could prejudice the credibility and reputation of the company and, specifically, when they are prosecuted for an alleged crime or are undergoing disciplinary proceedings for serious or very serious misconduct brought by the authorities supervising the Securities Market.
- d) When they are seriously admonished by the Audit Committee on the grounds that they violated their obligations as Board Members, and
- e) When the reasons for which they were appointed are no longer relevant and, specifically, when an Independent Board Member or a Proprietary Board Member loses their respective status.

C.1.22 Section repealed.

C.1.23 Are supermajorities, other than the legal supermajorities, required for any kind of decision?

Yes  No

Where applicable, describe the differences.

C.1.24 Explain if there are specific requirements, other than those related to the board members, in order to be appointed president of the board of directors.

Yes  No

C.1.25 Indicate if the president has a casting vote:

Yes  No

**Matters where there is a casting vote**

For all agreements where there is a draw in the votes.

C.1.26 Indicate if the bylaws or the board regulation establish any limit on the age of the board members:

Yes  No

C.1.27 Indicate if the bylaws or the board regulation provide a limited mandate for independent board members, other than that established in regulation:

Yes  No

C.1.28 Indicate if the bylaws or the regulation of the board of directors establish specific standards for proxy voting on the board of directors, the method for proxy voting and, specifically, the maximum number of proxies a board member can have, as well as if

it has established some limitation regarding the categories in which it is possible to delegate, beyond the limitations imposed by the legislation. Where applicable, detail these standards briefly.

Board Members may delegate their representation and voting rights to another Board Member in the event that they are absent at the Board's sessions. These rights must be delegated in a letter sent to the President.

A maximum number of proxies per Board Member has not been established. Non-executive Board

Members may only delegate their representation rights to another non-executive Board Member.

C.1.29 Indicate the number of meetings the Board of Directors held during the financial year. Also indicate, where applicable, occasions when the board met without the president in attendance. Board Members represented with specific instructions will be counted as being in attendance.

<b>Number of meetings of the board</b>	11
<b>Number of meetings of the board without the attendance of the president</b>	0

If the president is an executive director, indicate the number of meetings held with neither the attendance nor representation of any executive director and under the chairmanship of the coordinating board member

<b>Number of meetings</b>	0
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Indicate the number of meetings held during the financial year by the various committees of the board:

<b>Committe</b>	<b>No. of meetings</b>
AUDIT AND COMPLIANCE COMMITTEE	9
APPOINTMENTS AND REMUNERATION COMMITTEE	4
OPERATIONS COMMITTEE	2
INVESTMENT MONITORING COMMITTEE	3

C.1.30 Indicate the number of meetings the Board of Directors held during the financial year with the attendance of all its members. Board Members represented with specific instructions will be counted as being in attendance:

<b>Number of meetings with all board members in attendance</b>	10
<b>% attendance based on total votes during the financial year</b>	99.38%

C.1.31 Indicate if the individual and consolidated annual accounts presented to the board for their approval were first certified:

Yes  No

Identify, where applicable, the person or people that certified the company's individual and consolidated annual accounts for presentation to the board:

<b>Name</b>	<b>Positio</b>
MR SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	CHIEF EXECUTIVE OFFICER
MR IGNACIO MARTINEZ SANTOS	CHIEF FINANCIAL OFFICER

C.1.32 Explain, if there are any, the mechanisms stipulated by the Board of Directors to prevent the individual and consolidated annual accounts it prepared being presented to the shareholders' meeting with reservations in the audit report.

One of the duties of the Audit and Compliance Committee is relations with External Auditors and, as part of this task, it must ensure that the opinion in the audit report concerning the annual accounts does not contain reservations. The audit reports concerning the company's annual accounts have never contained reservations.

C.1.33 Is the secretary of the board a board member?

Yes  No

If the secretary is not a board member, complete the following table:

C.1.34 Section repealed.

C.1.35 Indicate, if there are any, the mechanisms stipulated by the company to protect the independence of external auditors, financial analysts, investment banks and rating agencies.

It is the responsibility of the Audit and Compliance Committee, among other tasks and according to the Law, to ensure the independence of external Auditors and, especially, to receive information concerning matters which could jeopardise their independence.

On the other hand, the Company fully respects, as it respects to it, the prohibitions and incompatibilities stipulated in the Audit Law, after the promulgation of Law 22/2015 of 20 June.

With regards to financial analysts and investment banks, at this time, there is no established procedure aimed at guaranteeing the independence of these bodies, though the company has always acted transparently with them.

With regards to rating agencies, this is not applicable as at this time there is no relationship with any of them.

C.1.36 Indicate if, during the financial year, the Company has changed its external auditor. Where applicable, identify the incoming and outgoing auditor:

Yes  No

In the event that there were disagreements with the outgoing auditor, explain these disagreements:

C.1.37 Indicate if the audit firm performs other tasks for the company and/or its group other than auditing assignments and, if so, declare the sum of the fees received for these tasks and the percentage this represents of the fees invoiced to the company and/or its group:

Yes  No

	Company	Group	Total
Amount of assignments other than auditing (thousands of euros)	4	81	85
Amount of assignments other than auditing/Total amount invoiced by the audit firm (in %)	2.80%	56.60%	59.40%

C.1.38 Indicate if the audit report for the annual accounts for the previous financial year includes reservations or exceptions. Where applicable, indicate the reasons given by the president of the audit committee to explain the content and scope of these reservations or exceptions.

Yes  No

C.1.39 Indicate the number of financial years that the current audit firm has been auditing the annual accounts of the company and/or its group, without interruption,. Also, indicate the percentage that represents the number of years audited by the current audit firm on the total number of years in which the annual accounts have been audited:

	Company	Group
Number of uninterrupted financial years	1	1
No. of financial years audited by the current audit firm/No. of financial years for which the company has been audited (in %)	3.12%	3.12%

C.1.40 Indicate and, where applicable, detail if there is a procedure for board members to receive external advice:

Yes  No

**Describe the procedure**

- External Board Members can agree, based on a majority, on the procurement of legal, accounting and financial advisors, or other experts, which are paid for by the Company.
- The assignment must necessarily concern specific problems of a certain extent and complexity which are part of the performance of the position.
- The President of the Company must be informed of the decision to procure these services and the decision will be implemented by the Managing Director, and may be vetoed by the Board when these services are not considered necessary for the proper performance of the duties entrusted to the Board Members, when their cost is unreasonable given the scope of the problem or when this advice could be duly given by the Company's experts and technicians. A two-thirds majority of Board Members attending the respective meeting is required in order to veto the decision.
- Likewise, the Board Members on the Audit Committee may solicit the advice of external legal, accounting, appraisal, risk assessment or any other experts, provided the President of the Company is first informed and approves these professionals. The President of the Company will not deny this request except on well founded grounds.

C.1.41 Indicate and, where applicable, describe if there is a procedure for board members to receive the information needed to prepare for the meetings of the management bodies with sufficient time:

Yes  No

**Describe the procedure**

It is the responsibility of the President, the Managing Director and the Secretary of the Board to prepare and provide, to the remaining Board Members, all information needed to adopt the agreements proposed on the agenda of each meeting of the Board of Directors. This information must be provided with at least three working days' notice from the date of the respective meeting.

C.1.42 Indicate and, where applicable, describe, if the company has established rules requiring board members to report cases, and, where applicable, resign in cases that could damage the company's credibility and reputation:

Yes  No

**Explain the rules**

Board Members must inform the Board of the criminal cases in which they are involved as defendants, as well as subsequent procedural events.

If a Board Member is prosecuted or an order to proceed to a public hearing was issued against this Board Member for any of the crimes indicated in article 213 of the Capital Companies Act, the Board will assess the case as soon as possible and, in light of the specific circumstances, will decide whether or not the Board Member should remain in their position. All this will be reported, in a logical manner, in the Annual Corporate Governance Report.

C.1.43 Indicate if any member of the board of directors has informed the company that they are being prosecuted or an order to proceed to a public hearing was issued against them for any of the crimes indicated in article 213 of the Capital Companies Act:

Yes  No

Indicate if the board of directors analysed the case. If the answer is yes, explain, in a logical manner, the decision made over whether or not the board member should remain in their position or, where applicable, explain the steps taken by the board of directors up to the date of this report, or the steps it plans to take.

C.1.44 Detail the significant agreements that the company has signed and that are coming into force, whether these have been amended or concluded, in case of a change of control of the company as a result of a takeover bid and its effects.

The company has not adopted any agreement coming into force in case of a change of control of the company as a result of a takeover bid.

C.1.45 List and indicate, in a detailed manner, the agreements between the company and its executive and management employees or employees that have compensation, guarantee or golden parachute clauses, when these executives resign or are dismissed in an improper manner or if the contractual relationship ends as a result of a takeover bid or other transaction.

**Number of recipients: 11**

**Type of recipient:**

Executive directors and Directors

**Description of the Agreement:**

The compensation payable in the event that the relationship with the Directors and Board Members performing executive duties at Corporación Financiera Alba, S.A. ends, at the request of the Company, will not be below the fund established as a pension supplement or the amount of a one-year instalment of all the compensation items, plus one twelfth of this yearly instalment for each year that passed since the date of seniority at the group, whichever is greater.

Indicate whether these contracts have to be communicated and/or approved by the bodies of the company or its group:

	Board of Directors	Shareholders'
<b>Body authorising the clauses</b>	<b>Yes</b>	<b>No</b>

	Yes	No
Is the shareholders' meeting informed of the clauses?	<b>X</b>	

## C.2 Committees of the Board of Directors

C.2.1 Detail all the committees of the board of directors, its members and the proportion of executive directors, proprietary directors, independent directors and other external directors on these committees:

### **AUDIT AND COMPLIANCE COMMITTEE**

Name	Position	Category
CARLOS GONZALEZ FERNANDEZ	PRESIDENT	Independent
JOSE NIETO DE LA CIERVA	MEMBER	Proprietary
CLAUDIA PICKHOLZ	MEMBER	Independent

<b>% of proprietary board members</b>	33.33%
<b>% of independent board members</b>	66.67%
<b>% of other external board members</b>	0.00%

Explain the duties assigned to this committee, describe the procedures and rules for organisation and operation of the committee and summarise its most important actions during the financial year.

According to Recommendation 19 of the Technical Guide of the CNMV 3/2017 concerning Audit Committees for Public Interest Entities, during the Board of Directors of 23 October 2017, a Regulation of the Audit and Compliance Committee was approved.

a) Duties: According to its Regulation, it has the following powers:

- Inform the General Shareholders' Meeting about the issues that arise in relation to those matters that are within its competence and, in particular, about the result of the audit explaining how this has contributed to the integrity of the financial information and the function that the commission has played in that process.
- Supervise the efficiency of the internal control of the company, the internal audit and the risk management systems, discuss significant weaknesses in the internal control system that are detected as part of the audit with the accounts auditor, all without violating their independence. In order to achieve this, they may present recommendations or proposals to the management body, as well as the respective period for its follow-up
- Supervise the process for preparing and presenting the mandatory financial information, and present recommendations or proposals to the management body, intended to safeguard its integrity.
- Refer proposals for selection, appointment, re-election and replacement of the accounts auditor to the Board, taking responsibility for the selection process, the conditions for its procurement and regularly gathering the information concerning the audit plan and its execution from the auditor, in addition to preserving the auditor's independence in the exercise of their duties.
- Establish appropriate relations with the external auditor in order to receive information concerning matters that could threaten its independence, for examination by the Committee, and any other Committee involved in the account audit process, as well as, where applicable, authorisation of the services, other than those prohibited, in the independence system, as well as other communications provided in account auditing legislation and in auditing standards. They must receive annually from the external auditors the declaration of their independence in relation to the entity or entities linked to it directly or indirectly, as well as the detailed and individualized information of the additional services of any kind rendered and the corresponding fees received from these entities by the external auditor or by the persons or entities linked to it in accordance with the provisions of the regulations governing the activity of auditing accounts.
- Issue, on an annual basis and before issuance of the account audit report, a report expressing an opinion over whether or not the independence of the accounts auditor or audit companies was compromised. This report must, under all circumstances, contain an assessment of the provision of each and every one of the additional services referred to in the section above, considered individually and as a whole, other than the legal audit services and with regards to the independence system or standards regulating account auditing activities.
- First inform the Board of all matters provided by Law, the company by-laws and the Board Regulation and especially of:
  - 1st. the financial information that the society must make public periodically,
  - 2nd. the creation or acquisition of participations in special purpose entities or headquartered in countries or territories that are considered tax havens and
  - 3rd. the operations with related parties .
- Supervise compliance with the corporate governance rules, internal codes of conduct and of the corporate social responsibility policy.

b) Composition and organisation: Comprised of a minimum of three and a maximum of five members appointed by the Board of Directors from among its external or non-executive board members. Similarly, a President will be appointed, who will always be an independent Board Member. The majority must be independent Board Members and one of them, at the least, must be appointed, bearing in mind their knowledge of accounting and auditing. As a whole, its members will have relevant technical knowledge concerning the area of activity in which the Company is involved. The Secretary of the Board, who may or may not be a member of the Committee, will act as the Secretary. Substitutes may also be appointed from among the Board Members of the classifications indicated, in case of vacancies, absences or conflicts of interest. The

duration of the position will be for the period remaining up until termination of the mandate as a Board Member, however re-election is possible. Their call for meeting will be communicated with a minimum of five days' notice and will include the agenda for the session. The valid establishment of the Committee requires the majority of its members to be present or represented. Each member may confer their rights of representation to another member. Agreements will be adopted based on a majority of members that are present or represented. In case of a draw, the President will have a casting vote. The Committee will periodically inform the Board of Directors, via its President, of its activities, and will advise and propose those measures they consider fitting to implant as part of their duties.

c) Actions: In 2017, the Committee was comprised of three members and met nine times. The Committee has adopted and informed decisions on matters within its competence according to the above functions aforementioned. A summary of its activities is included in the corresponding report on the actions of the Committee, which is made public with the call for meeting of the company's Shareholders' Meeting.

Identify the board member who is a member of the audit committee that was appointed, bearing in mind their knowledge and experience in accounting, auditing or in both and detail the number of years the President of this committee has been in this position.

<b>Name of the experienced board member</b>	CARLOS GONZALEZ FERNANDEZ
<b>No. of years as president</b>	2

### **APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Positio</b>	<b>Category</b>
CRISTINA GARMENDIA MENDIZABAL	PRESIDENT	Independent
MARÍA EUGENIA GIRÓN DAVILA	MEMBER	Independent
JUAN MARCH DELGADO	MEMBER	Proprietary

<b>% of proprietary board members</b>	33.33%
<b>% of independent board members</b>	66.67%
<b>% of other external board members</b>	0.00%

Explain the duties assigned to this committee, describe the procedures and rules for organisation and operation of the committee and summarise its most important actions during the financial year.

a) Duties:

According to the provisions of the Board Regulation, the main duties of the Appointments and Remuneration Committee are as follows:

- Assessing the skills, knowledge and experience needed on the Board of Directors. To this end, it will define the duties and abilities needed in the candidates who must fill vacant positions and will assess the time and dedication needed so that they can efficiently perform their tasks.
- Establish a representation target for the least represented gender on the board of directors and prepare guidelines on how to reach this target.
- Refer proposals for the appointment of independent Board Members to the Board of Directors, for their appointment by co-optation, or to submit them for a decision by the Shareholders' Meeting, as well as proposals for re-election or dismissal of these board members by the Shareholders' Meeting.
- Announce proposals for the appointment of remaining Board Members for their appointment by co-optation or to submit them for a decision by the Shareholders' Meeting, as well as proposals for re-election or dismissal of these board members by the Shareholders' Meeting.
- Announce proposals for the appointment and dismissal of senior executives and the basic conditions of their contracts.
- Examine and organise the succession of the President of the Board of Directors and the company's top executive and, where applicable, make proposals to the board of directors so that this succession occurs in an orderly and organised fashion.
- Propose, to the Board of Directors, the remuneration policy for the board members and general directors, or individuals performing senior management duties, reporting directly to the Board, Executive Committees or Managing Directors, and individual compensation and other contractual conditions of the executive Board Members, ensuring these are observed.
- Periodically review the remuneration policy applied to Board Members and senior executives, including share-based remuneration systems and their application, in addition to guaranteeing that their individual remuneration is proportional to what is paid to other Board Members and senior executives of the company.
- Announce the appointment and separation proposal for the Secretary of the Board.
- Examine the information provided by the Board Members concerning their other professional obligations, in case these interfere with the level of dedication required.
- Review the ranking of the Board Members on an annual basis.

- Check information concerning the remuneration of Board Members and senior executives contained in the various corporate documents, including the annual report concerning Board Member remuneration, and ensure the compensation is transparent and that it is included in the Annual Report of information concerning Board Members' compensation.
- Ensure any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.

#### b) Composition and organisation

The Appointments and Remunerations Committee will be comprised of a minimum of 3 and a maximum of 5 Board Members, all external or non-executive, appointed by the Board of Directors from among its members. At least two of its members will be independent board members. The Board will appoint the President. The Board Secretary will act as the Secretary. The Board may also appoint substitutes from among the Board Member categories indicated, in case of vacancies, absences or conflicts of interest.

The duration of the position will be for the period remaining up until the termination of the mandate as a Board Member, however re-election is possible.

The Committee will meet as many times as it is convened based on an agreement of the Committee or its President and at least once per year.

Valid establishment requires that the majority of its members to be present or represented. Each Committee member may confer their rights of representation to another member.

Agreements will be adopted based on a majority of members that are present or represented. In case of a draw, the President will have a casting vote.

#### c) Actions:

In 2017, the Appointments and Remuneration Committee was comprised of three members and met four times.

The Appointments and Remuneration Committee has made proposals and has issued reports concerning the matters falling under its responsibility, according to the duties reflected above. A summary of its activities is included in the corresponding report on the actions of the Appointments and Remuneration Committee, which is made public with the call to meeting of the company's Shareholders' Meeting.

## OPERATIONS COMMITTEE

Name	Positio	Category
ANTONIO MARIA PRADERA JAUREGUI	PRESIDENT	Independent
CARLOS GONZALEZ FERNANDEZ	MEMBER	Independent
MARÍA EUGENIA GIRÓN DAVILA	MEMBER	Independent
JUAN MARCH DE LA LASTRA	MEMBER	Executive
JUAN MARCH JUAN	MEMBER	Executive
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	MEMBER	Executive

<b>% executive board members</b>	50.00%
<b>% of proprietary board members</b>	0.00%
<b>% of independent board members</b>	50.00%
<b>% of other external board members</b>	0.00%

Explain the duties assigned to this committee, describe the procedures and rules for organisation and operation of the committee and summarise its most important actions during the financial year.

#### a) Duties

The Operations Committee will be given the following duties:

- Reporting on the Company's investment strategy.
- Reporting on the investment or disinvestment decision which fall under the responsibility of the Board of Directors in a plenary session.  
Investments or disinvestments of more than 200 million euros are considered to fall under the responsibility of the Board of Directors in a plenary session.
- Make investment and disinvestment decisions when these exceed the following amounts, and the amount provided in the section above is not reached:



(i) Investment or disinvestments in securities issued by entities which, at all times, form a direct or indirect part of the securities portfolio: 25 million euros.

(i) Investments in securities issued by entities which do not form a direct or indirect part of the securities portfolio: 10 million euros.

(iii) Property investments or disinvestments: 25 million euros.

- Make investment or disinvestment decisions which fall under the responsibility of the Board of Directors, in a plenary session, in emergencies. These decisions must be ratified by the Board of Directors in the first session of the Board held after adoption of the decision.

- Any other duties related with matters falling under its responsibility which are requested by the Board of Directors or its President. b) Composition and organisation

The Operations Committee will be comprised of a minimum of 3 and a maximum of 6 Board Members appointed by the Board of Directors and who have the knowledge, abilities and experience of the Board Members and the tasks of the Committee. And other Board Member who so desires may attend the session's Committee and may have a voice but no vote.

The Board of Directors will appoint the President of the Committee from among its members and the Secretary of the Board of Directors or, failing this, the person appointed by the Committee for each session will act as the non-member Secretary.

The duration of the mandate of the members of this Committee will be of two years, unless the period remaining until termination of the mandate as a Board Member is less than two years, in which case the duration of the mandate will be the same as this period. Board Members may be re-elected to the position.

The Operations Committee will meet as many times as it is convened based on an agreement of the Committee itself or its President, with at least 24 hours' notice. Any person in the Company that the Committee considers appropriate may be summoned and may attend the meetings. The sessions of the Operations Committee will normally take place at the corporate office, but can also be held in any other location determined by the President and indicated in the call to meeting. Meetings may also be held by conference call or video conference, provided the Board Members have the technical resources required and no Board Member opposes this.

Likewise, in order to better perform its duties, the Committee may solicit the advice of external professionals, first informing the President of the Board of Directors and receiving the President's approval.

The valid establishment of the Committee requires the majority of its members to be present or represented at the meeting. Each Committee member may confer their rights of representation to another member. This power of representation must be granted in writing. A fax or email sent to the President of the Committee will be acceptable.

Agreements will be adopted based on a majority of members that are present or represented. In case of a draw, the President will have a casting vote.

The Secretary of the Committee will prepare minutes of each of the sessions held which will be approved in the same session or the session immediately after. A copy of the minutes of the sessions will be sent to all Board Members.

#### c) Additional regulation

Matters not specifically stipulated by other provisions and which concern the operation of the Operations Committee itself may be regulated by the Operations Committee. The provisions of the Regulation of the Board of Directors concerning operation of the Board are also, in addition, applicable.

#### d) Actions

On December 31, 2017, the Operations Committee was comprised of six members and had met on two occasions in 2017.

The Operations Committee announced the company's Investment Policy and adopted or announced investment or disinvestment decisions, within the scope of its powers. A summary of its activities is included in the corresponding report on the actions of the Operations Committee, which is made public at the Shareholders' Meeting.

### **INVESTMENT MONITORING COMMITTEE**

Name	Position	Category
JOSE DOMINGO DE AMPUERO Y OSMA	PRESIDENT	Independent
CRISTINA GARMENDIA MENDIZABAL	MEMBER	Independent
CLAUDIA PICKHOLZ	MEMBER	Independent
JUAN MARCH DE LA LASTRA	MEMBER	Executive
JUAN MARCH JUAN	MEMBER	Executive
SANTOS MARTINEZ-CONDE GUTIERREZ-BARQUIN	MEMBER	Executive

<b>% executive board members</b>	50.00%
<b>% of proprietary board members</b>	0.00%
<b>% of independent board members</b>	50.00%
<b>% of other external board members</b>	0.00%

Explain the duties assigned to this committee, describe the procedures and rules for organisation and operation of the committee and summarise its most important actions during the financial year.

a) Duties

According to the provisions stipulated by the Board of Directors in its incorporation agreement, adopted on March 27, 2017, the Investment Monitoring Committee has the following duties:

- Receiving information concerning changes in the entities in which Corporación Financiera Alba, S.A. has an ownership interest, with a view to monitoring its strategy, compliance with its business plans and budgets and general changes to the entities and their sectors.
- Tracking the investments made in order to check that they comply with the targets and principles of the Investment Policy approved by the Board of Directors.
- Analysis and assessment of significant milestones, both internal and external, affecting the value of the entities in which the company has an ownership interest and their activities, as well as tracking exceptional events or situations which could have a significant impact on the entities and the main decisions made by their management bodies.
- Measures or decisions proposed which are considered fitting for optimising the profitability of the investments. b)

Composition and organisation

The Investment Monitoring Committee will be comprised of a minimum of three and a maximum of six Board Members who have the knowledge, abilities and experience of the Board Members and the tasks of the Committee. The Board will appoint the President of the Committee and the Secretary of the Board of Directors or, failing this, the person appointed by the Committee for each session will act as the non-member Secretary.

The duration of the position will be for the period remaining up until termination of the mandate as a Board Member, however re-election is possible.

The Investment Monitoring Committee will meet as many times as it is convened based on an agreement of the Committee or its President.

Valid establishment of the Committee requires the majority of its members to be present or represented at the meeting. Each Committee member may confer their rights of representation to another member.

Agreements will be adopted based on a majority of members that are present or represented. In case of a draw, the President will have a casting vote.

c) Additional regulation

Matters not specifically stipulated by other provisions and which concern the operation of the Investment Monitoring Committee itself may be regulated by the Investment Monitoring Committee. The provisions of the Regulation of the Board of Directors concerning operation of the Board are also, applicable in addition,

d) Actions

In 2017, the Investment Monitoring Committee was comprised of six members and had met on two occasions since its creation on March 27, 2017.

The Investment Monitoring Committee has reported on matters falling under its responsibility, according to the duties aforementioned above. A summary of its activities is included in the corresponding report on the actions of the Investment Monitoring Committee for 2017, which is made public with the call to meeting of the Shareholders' Meeting.

C.2.2 Complete the following table with information concerning the number of female board members on the committees of the board of directors during the last four financial years:

	Number of female							
	2017 Financial Year		2016 Financial Year		2015 Financial Year		2014 Financial Year	
	Number	%	Number	%	Number	%	Number	%
AUDIT AND COMPLIANCE COMMITTEE	1	33.33%	1	33.33%	1	33.33%	1	33.33%
APPOINTMENTS AND REMUNERATION COMMITTEE	2	66.66%	1	33.33%	1	33.33%	1	33.33%
OPERATIONS COMMITTEE	1	16.66%	2	33.33%	1	20.00%		
INVESTMENT MONITORING COMMITTEE	2	33.33%						

C.2.3 Section repealed.

C.2.4 Section repealed.

C.2.5 Indicate, where applicable, the existence of regulation for the committees of the board, the location where they may be consulted and the amendments made during the financial year. In turn, an indication will be given as to whether any annual report concerning the activities of each committee was voluntarily prepared.

The regulation of the Audit and Compliance Committee is contained in the Regulation of the Board of Directors and in its own Regulation, which was approved by the Board of Directors in its session of October 23, 2017, following Recommendation number 19 of the Technical Guide of the CNMV 3/2017 concerning Audit Committees in Public Interest Entities.

The regulation of the Appointments and Remuneration Committee is included in articles 35 and 36 of the Regulation of the Board of Directors

The regulation of the Operations Committee is contained in the agreement creating and delegating the powers of this Committee.

The regulation of the Investment Monitoring Committee is contained in its founding agreement, adopted in a session of March 27, 2017.

The Regulations of the Board of Directors and the Audit and Compliance Committee are available on the company's website ([www.corporacionalba.es](http://www.corporacionalba.es)) as well as at the company's headquarters.

The agreement creating and delegating the powers of the Operations Committee is registered in the Commercial Register.

The Audit and Compliance, Appointments and Remuneration, Operations and Investment Monitoring Committees prepare a report concerning their activities in the previous financial year.

C.2.6 Section repealed.

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

D.1 Explain, where applicable, the procedure for approving transactions with related parties and intragroup transactions.

### **Procedure for announcing the approval of related-party transactions**

Report of the Audit and Compliance Committee and approval by the Board of Directors

D.2 Detail those transactions that are significant based on their amount or relevance to their purpose and that are made between the company or entities within its group and significant shareholders of the company:

<b>Name or company name of the significant shareholder</b>	<b>Name or company name of the company or entity within its group</b>	<b>Nature of the relationship</b>	<b>Type of transaction</b>	<b>Amount (thousands of euros)</b>
BANCA MARCH, S.A.	CORPORACION FINANCIERA ALBA, S.A.	Corporate	Dividends and other gains distributed	11,661
BANCA MARCH, S.A.	ARTA CAPITAL, S.G.E.I.C., S.A.	Contractual	Other	812

D.3 Detail transactions that are significant based on their amount or relevance to their purpose and that are made between the company or entities within its group and managers or directors of the company:

D.4 Report of the significant transactions made by the company with other entities belonging to the same group, provided these are not removed in the process of preparing consolidated financial statements and are not part of the company's normal course of business with regards to its purpose and conditions.

In any case, any intragroup transaction made with entities established in countries or territories that are considered a tax haven will be reported:

**Company name of the organisation in the group:**

CIMSA

**Amount (thousands of euros):** 34

**Brief description of the transaction:**

Operational Lease Agreement

**Company name of the organisation in the group:**

MARCH ASSET MANAGEMENT, SGIIC, S.A.

**Amount (thousands of euros):** 195

**Brief description of the transaction:**

Operational Lease Agreement

**Company name of the organisation in the group:**

MARCH-JLT, CORREDURIA DE SEGUROS Y REASEGUROS, S.A.

**Amount (thousands of euros):** 1,711

**Brief description of the transaction:**

Provision of Services

**Company name of the organisation in the group:**

MARCH VIDA, S.A. DE SEGUROS Y REASEGUROS

**Amount (thousands of euros):** 500

**Brief description of the transaction:**

Insurance Premiums

**Company name of the organisation in the group:**

MARCH GESTION DE PENSIONES, SGFP, S.A.

**Amount (thousands of euros):** 44

**Brief description of the transaction:**

Operational Lease Agreement

**Company name of the organisation in the group:**

**Amount (thousands of euros):** 300

**Brief description of the transaction:**

Partnership Agreement

**D.5 Indicate the amount of transactions performed with other related parties.**

0 (in thousands of euros).

**D.6 Detail the mechanisms established for detecting, determining and resolving potential conflicts of interest between the company and/or its group, its board members, directors or significant shareholders.**

According to the provisions of the Board Regulation, Board Members cannot directly or indirectly make professional or commercial transactions with the entity or with any of its subsidiary Companies, unless they inform the Board of Directors of these subsidiaries in advance and the Board of Directors, first informing the Audit and Compliance Committee, approves the transaction.

On the other hand, in the event of public requests to delegate voting powers made by the Board of Directors or any of its members, the direction in which the representative will vote must be indicated in the event that no instructions have been given by the shareholder. Furthermore, in case of a public request to delegate voting powers, the Director cannot exercise the voting power for the shares represented concerning matters on the agenda where there is a conflict of interest.

**D.7 Is more than one company in the Group listed on the stock exchange in Spain?**

Yes

No

Identify the subsidiary companies listed on the stock exchange in Spain:

**Subsidiary company listed**

Indicate if they have publicly and accurately identified the respective areas of activity and any business relations between them, as well as those of the listed subsidiary company with other companies in the group;

**Define any business relations between the parent company and the listed subsidiary company, and between the listed subsidiary company and other companies in the group**

Identify the mechanisms provided for resolving any conflicts of interest between the listed subsidiary and other companies in the group:

**Mechanisms for resolving any conflicts of interest**

## **E SYSTEMS FOR CONTROLLING AND MANAGING RISKS**

**E.1 Explain the scope of the company's Risk Management System, including tax risks.**

The ALBA group has defined an Integrated Risk Management System which focuses mainly on:

- Enabling the identification and proactive and efficient assessment of Company risks, as well as monitoring and continually tracking these risks.
- Integrating, coordinating and directing the various efforts which, in terms of risk management, the company is performing.
- Achieving reasonable risk acceptance and reinforcing the responsibility of employees of the Company.
- Ensuring the control systems are aligned with the real risks of the Company.

- Facilitating and streamlining the application of corrective measures.

This Integrated Risk Management System was implemented at a corporate level to mitigate the risks encountered by the group, given the nature and degree of complexity of its transactions and the environment in which it operates. This System unites three key components:

(i) Continued Risk Management process, understood as those activities performed by all individuals in the Company under the supervision of the Audit and Compliance Committee that are focussed on identifying those potential risk events that could affect it, managing the risks identified and ensuring reasonable security in achieving the company's targets.

By way of a summary, the continued risk management process involves performing the following activities:

- Identifying and assessing the risks that could affect the Company.
- Setting the level of risk that is considered acceptable, by defining key risk indicators (KRIs) for each critical risk and establishing tolerance levels for these risks.
- Identifying checks.
- Identifying the processes in which these risks and controls occur.
- Assessing the effectiveness of the checks in mitigating the risks identified.
- Design and implementation of action plans, as a response to the risks.

In this regard, the Alba group has prepared the company's Risk Map, which shows, the company's key risks based on their impact and probability. In order for this map to effectively become a management tool that allows the company to make informed decisions, the map is reviewed and updated periodically to adjust it to the Company's current circumstances. In 2017, the company's Risk Map was updated and the Audit and Compliance Committee as well as the Board of Directors improved this updated Map.

Likewise, the Company has prepared Risk Indexes for the most critical risks, identifying the key risk indicators with their corresponding tolerance levels, the checks associated and, where applicable, the action plans to be implemented. These Indexes allow the Company to periodically assess and monitor its risks and to determine the most appropriate response to these risks.

(ii) An organisational focus, with clearly defined and communicated roles and responsibilities. Full risk management affects all of the staff of the Company, as a result, it is vital to establish an organisational focus on risk management that is suited to the organisational structure and the Company's corporate culture.

Though the Integrated Risk Management System affects and involves all staff of the Company, the main participants, as described in the following section (E.2), are as follows: risk managers, the Risk Control and Management Department, the Audit and Compliance Committee and the Board of Directors

(iii) A tracking model, which identifies and provides the crucial information needed so that all those involved in the risk management process can make informed decisions concerning the risks.

This tracking model is cross-sectional as it allows the System to behave dynamically and, above all, to anticipate risks, rendering risk management and control, within the limits set by the Company, possible.

These components combine to form a model which allows appropriate management of risks and checks to mitigate risks at a corporate level.

## E.2 Identify the bodies in the company responsible for preparing and executing the Risk Management System, including tax risks.

The Alba group's Integrated Risk Management System involves all the Company's staff, though the main parties responsible for the System are as follows:

a) Board of Directors.

The Board of Directors has reserved the right to determine the risk control and management policy, including for tax risks, and to supervise the internal reporting and control systems.

In this regard, the Board of Directors is the main body responsible for the risk management system, since it develops the mechanisms needed so that all the relevant risks involved in the activities and business dealings of the group are adequately identified, managed and controlled within the limits established.

b) The Audit and Compliance Committee.

The Audit and Compliance Committee has been entrusted, among other duties, with supervising the effectiveness of the company's internal checks, internal audits and the risk management systems. It assesses whether or not the group has the organisation, staff, policies and processes needed to identify and control its main risks.

c) The Risk Control and Management Department.

The Risk Control and Management Department is under the direct supervision of the Audit and Compliance Committee and has been expressly given the following duties, which are included in its Bylaws and which have been approved by the Board of Directors:

- Ensuring the smooth running of the risk control and management systems and, specifically, that all the important risks affecting the company are identified, managed and appropriately quantified.
- Actively participating in preparing the risk strategy and important decisions concerning its management.
- Ensuring that the risk control and management systems appropriately mitigate risks, as part of the policy identified by the Board of Directors

#### d) Risk Managers.

These managers are responsible for monitoring the risks they have been assigned and for informing the Risk Control and Management Department of any relevant information concerning the risks.

With regards to the risk management processes, it is noteworthy that, in addition to the aforementioned Risk Control and Management Department, Corporación Financiera A ba has Regulatory Compliance processes which are performed by the various operational and support departments, as well as an Internal Audit Service (SAI), which is defined as an advisory and control body in the service of the Audit and Compliance Committee that is independent, within the organisation, as it pertains to its actions, aimed at assessing the various functional areas and activities of the Company, as indicated in the By-laws of the Internal Audit Service.

The analysis and proposal of recommendations for improving the risk management processes, as well as performing independent assessments concerning the effectiveness and efficiency of internal checks are included among the duties entrusted to the Internal Audit Service, which works in partnership with the Risk Control and Management Department in order to avoid duplicating tasks and/or areas without sufficient coverage.

Likewise, and as regards crime prevention, Corporación Financiera A ba, S.A. has an Organisation and Management Model for preventing the commission of crimes, alongside the Crime Prevention Manual and the Risks and Controls Matrices, which were updated in 2017.

### E.3 Indicate the main risks, including tax risks, which could affect the achievement of business targets.

The group is subject to various risks inherent to the different sectors and markets in which it or its associated companies or companies in which it has holdings operate and which could prevent it from achieving its targets and successfully executing its strategies.

As indicated above, the Alba group has a Risk Map, which is a tool that makes it possible to put the risks that could affect corporate targets into context, in addition to identifying and prioritising the most relevant and critical risks, making it possible to make decisions concerning steps to take to mitigate these risks.

The Group has a risk tracking and updating system which makes it possible to identify and incorporate any new risk identified during the financial year in the company's map. Likewise, the system ensures that all key risks are reviewed at least twice per year. As a result of this review and analysis process, in 2017, two new risks were incorporated in the new corporate Risk Map, and two with a more moderate impact were removed.

As a result, in the process of identifying and assessing risks affecting the group, the following risk factors were considered to inherently be the most relevant (in other words, before applying the checks established):

- Failure of the IT systems to adequately protect the critical data and infrastructures when faced with occurrences such as theft, corruption, unauthorised use of passwords, virus, sabotage or physical damage to these systems.
- Existence of macroeconomic and socio-political factors that could affect the Company's ability to maintain or increase profits.
- Failure or errors in planning, executing and/or formalising the specific activities related to investments/disinvestments that could make it possible to take advantage of the potential of these activities.
- Failure in evaluating and executing tax planning strategies that minimise tax obligations and are consistent with overall business targets.
- Failure or inability of management in evaluating (analysis, studies, due diligence) and adequately projecting possible investments/disinvestments affecting the decisions and performance of the Company.
- Failure or incompetence in tracking and periodically assessing the profitability, effectiveness and continuity of the investment criteria defined by the Company.
- Failure in defining and coordinating mechanisms for responding to and compensating for interruptions to the normal course of business and damage to the Company's assets due to natural catastrophes, terrorism or other such occurrences.
- Failure to make advantageous transactions involving property due to analysis/appraisal errors, a lack of organisational streamlining and/or poor communication.
- Failure to comply with the requirements established in applicable regulation of the CNMV, with regards to operations, communications and reporting, which could lead to penalties or damage the Company's reputation.
- Failure or incompetence in tracking and periodically assessing the profitability, effectiveness and conditions for maintaining and managing property, which could lead to losses for the Company.

### E.4 Identify if the entity has a risk tolerance level, including tax risks.

The group's risk assessment and management model categorises risks into four classifications, based on the impact of the risk and the probability of occurrence, as well as the perceived degree of internal control mitigating these risks.

Based on these parameters, the risks are classified as:

- Minor risks: Risks whose inherent criticality is medium-low and whose perceived degree of internal control is medium-high. These risks are managed with a view to rationalising the efforts made to mitigate these risks, without this causing appreciable damage to the perceived degree of internal control.
- Average risks: Risks whose inherent criticality is medium-low and whose perceived degree of internal control is medium-low. These risks are tracked with a view to confirming that they maintain a medium-low level of inherent criticality, otherwise, the corresponding corrective measures will be taken.

- High risks: Risks whose inherent criticality is medium-high and whose perceived degree of internal control is medium-high. For this type of risk, the associated checks are assessed in order to confirm the effectiveness of their design and method, and to confirm that the checks adequately mitigate the risks.
- Critical risks: Risks whose inherent criticality is medium-high and whose perceived degree of internal control is medium-low. These risks are continually monitored by the group's Management and action plans will be established to increase their degree of internal control, where necessary.

The Alba group has identified Key Risk Indicators (KRIs) for all risks categorised as high and critical and has established tolerance levels for each of the risks. The results are periodically assessed and reported in the group's Integrated Risk Management System tracking model (see detailed explanation in section E.6).

## E.5 Indicate which risks, including tax risks, materialised during the financial year.

During the 2017 financial year, the most relevant risks for the ALBA Group did not materialise.

## E.6 Explain the response and supervision plans for the entity's main risks, including fiscal risks.

As stated in the previous sections, the Alba group has appointed a Risk Manager for each risk assessed as being critical or high. The Risk Manager is responsible for monitoring each risk assessed and for informing the Risk Control and Management Department of relevant information concerning such risks, basically:

- Changes in the perception of the risk level
- Effective operation of the checks identified for mitigation of these risks (and, where applicable, the potential effects)
- Values collected using the indicators and comparison with established tolerance levels.
- Status of the actions plans underway (if there is an action plan for this risk) and, where applicable, proposal of new action plans.

The effective operation of this key process of the Integrated Risk Management System is based on the existence of a Tracking Model (as indicated in section E.1) which is a cross-sectional component that allows the System to have dynamic behaviour and, above all, to anticipate risks, allowing for risk management and control within the limits set by the group. Based on this process, risk managers periodically provide relevant information to the Risk Department, which independently performs an informed assessment of the information and prepares the relevant risks report for the Audit and Compliance Committee, which has been entrusted, among other duties, with supervising the effectiveness of the company's internal checks, internal audits and risk management systems.

The Integrated Risk Management System, alongside the policies and the group's management and control systems, have made it possible to identify risks and new threats sufficiently in advance.

During the first six months of 2016, a Regulatory Compliance assignment was formalised and implemented, with a view to coordinating, systematising and monitoring the various actions and efforts in this regard. The Board of Directors approved the compliance model established and its tracking. The corresponding tracking reports were prepared in 2017.

## **F INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS INVOLVED IN THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (SCIIF)**

Describe the mechanisms comprising the risk control and management systems with regards to your entity's process for publishing financial information (SCIIF).

### F.1 The entity's control environment

Report, according to its main characteristics, on the following, at the very least:

F.1.1. Which bodies and/or units are responsible for: (i) the existence and maintenance of an appropriate and effective SCIIF; (ii) its establishment; and (iii) its supervision.

The Internal Financial Information Control System (SCIIF) is part of the group's risk management and control system, whose purpose is to ensure reasonable security over the reliability of the financial information that Corporación Financiera Alba, S.A. (hereinafter, "ALBA" or the "group"), as a listed company, distributes to the stock markets.



The bodies in the group responsible for the existence and maintenance of an appropriate and effective SCIIF, as well as its duties, are as follows:

The Board of Directors, which has ultimate responsibility in this regard, according to the provisions of article 5°.2.2.b) of the Regulation of the Board of Directors.

The Audit and Compliance Committee, for its part, is responsible for supervising the effectiveness of the company's internal checks and audit services, as well as supervising the process of preparing and presenting regulated financial information and the company's internal control systems in this regard. According to Recommendation number 19 of the Technical Guide of the CNMV 3/2017 concerning Audit Committees for Public Interest Entities, the Board of Directors, in its session of 23 October 2017, approved a Regulation of the Audit and Compliance Committee.

According to this Regulation, the Audit and Compliance Committee is responsible for:

- "Periodically reviewing the internal control and risk management systems, so that the main risks are identified, managed and suitably reported."
- "Reviewing the process for preparing the Company's financial information, in order to establish its integrity, technological quality and internal check quality, compliance with regulatory requirements, proper delimitation of the consolidation perimeter, proper application of generally accepted accounting principles and standards, which are duly documented in an Accounts Plan, and compliance with remaining legal requirements concerning this information."
- "Ensure the independence of the department assuming internal audit duties."
- "Review updates to financial information on the Company's website".

The Audit and Compliance Committee is supported by the Internal Audit Service ("SAI"), which is responsible for, among other matters, the preparation and execution of an annual action plan; ensuring compliance with established standards and instructions; assessing the sufficiency and application of internal checks; informing the Audit and Compliance Committee of irregularities detected and tracking accepted recommendations. These responsibilities are formalised in the Bylaws of the Internal Audit Service, which were updated in the session of the Board of Directors of 13 November 2017.

On the other hand, Financial Management is responsible for designing, establishing and operating the SCIIF, as well as identifying and assessing risks and determining the checks to be established.

#### F.1.2. If these exist, especially as regards the process of preparing financial information, the following items:

- Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining lines of responsibility and authority, with proper distribution of tasks and duties; and (iii) ensuring that there are sufficient procedures for proper distribution throughout the entity.

The Board of Directors, as established in its Regulation:

- Is responsible for approving the definition of the structure of the group of companies, as well as the corporate governance policy. Additionally, on the suggestion of the company's top executive, the Board decides to appoint and potentially to dismiss the group's senior executives.
- Likewise, the Board reserves, as part of its duties, the right to approve the company's general Policies and strategies and, in particular, the strategic or business Plan, as well as management targets, the group's investment and financing Policy, determination of the risk control and management Policy, and determination of the company's tax strategy. The Board also reserves the power to supervise and check that Management has met the targets set and is respecting the Company's purpose and corporate interests.

Financial Management is principally responsible for preparing the financial information. This Management department establishes the structure of those responsible for financial information and the status of the internal control system for financial information, in addition to coordinating and supervising its actions.

The Board of Directors, via the corresponding areas and departments, distributes relevant information concerning the Company including, but not limited to, information concerning the summons of the Shareholders' Meeting, its agenda, relevant events, internal corporate governance regulation and the Annual Report, among other information.

The distribution media used ensures unrestricted communication, in time and form, including its possible publication on the website and/or intranet, having approved and published a company communication Policy.

- Code of conduct, approval body, degree of distribution and instruction, principles and values included (indicating if there are specific mentions in the register of operations and preparation of financial information), body responsible for analysing compliance failures and proposing corrective measures and penalties.

The ALBA Group has a Code of Ethics and Conduct, which was approved by the Board of Directors on 14 December 2011, and amended on 25 January 2016, with the inclusion in the Board of Directors' Tracking Committee of the Investments Director, alongside the Chief Financial Officer and the Director of Administration, the Secretary of the Board and the Head of the Legal Consulting service.

This Code of Ethics and Conduct of Corporación Financiera A ba, S.A. and the companies in its group is a formal expression of the values and principles which must govern the conduct of the entities in the ALBA group and the individuals accountable to the group in the performance of its activities and duties, its labour, commercial and professional relations, with a view to achieving a universally accepted corporate ethic.

The Board of Directors is responsible for reviewing and updating the Code of Conduct and for enhanced supervision of effective compliance with the Code of Conduct, in addition to the adoption of measures which may be required to make the Code consistent with other corporate governance regulations and procedures.

The Code of Ethics and Conduct has been sent individually to all persons to whom the Code applies, by sending the Code to its recipients. The Code was accepted in writing and is available on the company's intranet and on the corporate web page.

Training concerning the Code is mainly provided using reminders or digital communications concerning its most relevant aspects. In 2017, a reminder of the main points of the Code was sent to recipients of the Code. Likewise, a copy of the Code is given to new hires for their written adherence.

The group's Code of Conduct establishes the following as values:

- Supporting and respecting internationally recognised human rights.
- Ethical and legal conduct.
- Loyalty to ALBA.
- Fair, courteous and respectful treatment of employees and work colleagues.
- Fair and due consideration of the environment and the interests of other people related to the Company, including customers, providers, authorities, shareholders and the public.
- Professionalism and correction when conducting corporate operations.
- Commitment to the business plan, so that all Persons Affected will endeavour to implement the economic and management policies identified by the Company.
- Prudence when performing activities, assuming risks and in relations with customers and providers.
- Commitment to the United Nations Global Compact.

Likewise, it addresses matters of:

- Conflicts of interest and provides guidelines for reporting such conflicts.
- Improper use or application of goods, business opportunities and confidential information.
- Obligation to internally report possible failures to comply with the Code.
- Relations with Shareholders, Government Bodies and Providers, as well as defence against the Competition.

Furthermore, section 6.14 of the Code expressly stipulates that:

"ALBA considers the veracity of information as a basic principle of its actions, as a result, Affected Persons must truthfully convey information they must report, both internally and externally, and, under no circumstances will they knowingly provide incorrect or inaccurate information which may cause errors or confusion. The transparency of the information is a basic principle which must govern the actions of the Affected Persons.

ALBA's economic and financial information will faithfully reflect its economic, financial and equity circumstances, according to generally accepted accounting principles and international financial information standards that apply. To this end, no Affected Person will conceal or distort the information on ALBA's accounting registers or reports, which will be complete, accurate and true."

For its part, sections 6.17 and 6.19 provide that:

"Financial or other information sent to shareholders will be true and complete and will provide an adequate reflection of the Company's circumstances."

"Correspondence concerning financial information or other matters sent on behalf of ALBA will, under no circumstances, contain misleading or fictitious data or data which has not been thoroughly checked.

The body responsible for ensuring compliance with the Code and proposing corrective measures, where applicable, is the Tracking Committee of the Code of Ethics and Conduct.

- A complaints channel allowing people to inform the audit committee of financial and accounting irregularities, in addition to any failures to comply with the code of conduct and irregular activities in the organisation, stating, where applicable, if this information is confidential.

The Code of Ethics and Conduct includes a "confidential complaints channel" which is effectively operational and which allows people to confidentially report those actions which, in their view, constitute inappropriate conduct or actions in light of this Code or any other regulation applicable, especially information concerning the preparation and publication of financial information.

The description of the operations of the channel includes the identity of the individuals to whom these complaints can be sent (these are the President of the Audit and Compliance Committee or the Secretary of the Board) and the options for sending this complaint (email or ordinary post sent to the address of the managers indicated).

The complaints will be assessed by the Tracking Committee of the Code of Ethics and Conduct, unless the complaints are against one of its members, in which case the President of the Audit and Compliance Committee will examine and handle the complaint.

This Tracking Committee is comprised of the Secretary of the Board, the Chief Financial Officer, the Director of Administration and the Head of the Legal Consulting service, and, after the amendment agreed in 2016, also includes the Investment Director.

In 2017, the Crime Prevention Model was updated in light of regulatory and organisational changes which were made, such as Circular 1/2016 of the Prosecutor General's Office and creation of the Investment Tracking Committee, respectively. The purpose of the Crime Prevention Model is:

- Raising awareness among and training Board Members, Directors and employees of the group concerning the importance of regulatory compliance, especially the prevention of criminal proceedings.
  - Informing employees of the consequences of violating the provisions of the Code of Ethics and Conduct and the Crime Prevention Manual.
  - Expressly recording the clear condemnation of Corporación Financiera Alba, S.A. of any illegal conduct which, in addition to contravening legal provisions, is contrary to the group's values.
- Periodical training and updating programmes for staff involved in preparing and reviewing financial information, as well as the assessment of the SCIIF, covering, at the very least, accounting, audit, internal control and risk management regulation.

Staff involved in preparing and reviewing financial information, as well managing and supervising the SCIIF, receives, based on their various responsibilities, periodical training concerning accounting, auditing, internal control and risk management regulation.

In this manner, Financial Management periodically makes training efforts for staff involved in preparing the Financial Statements and managing the group's SCIIF. These training efforts are mainly focussed on improving knowledge and updating knowledge of International Financial Information Standards, as well as legislation and other regulation concerning Internal Control of Financial Information.

Likewise, the staff of the Internal Audit Service is updated on a continued basis concerning changes to Internal Controls, especially Financial Information and Risk Management.

Additionally, Financial Management and other areas involved in the preparation, review and reporting of financial information have received various publications updating accounting, financial, internal control and tax regulation.

## F.2 Assessment of risks concerning financial information

Report the following, at the very least:

### F.2.1. What are the main characteristics of the risk identification process, including risks associated with errors or fraud, as regards:

- Whether or not the process exists and is documented.

In the 2011 financial year, the group performed an examination process for identifying business risks of all kinds (operational, technological, financial, legal, reputational, environmental etc.) that could affect the achievement of its targets. The result of this was an initial version of the Risk Map for this which was duly documented, examined by the Audit Committee and approved by the Board of Directors.

The Risk Map is periodically reviewed. As a result, in 2015 it was updated and in 2016 it was reviewed.

In 2017, this Risk Map was updated and, once examined by the Audit and Compliance Committee, was submitted for approval by the Board of Directors in its session of October 23, 2017.

Likewise, the ALBA group has a process for identifying and assessing specific risks concerning financial information, both in terms of its consolidated accounts, the entity and business processes. The process is updated annually at the very least.

The process is based on the consolidated financial information and uses this information to categorise accounting headings and notes, as well as identifying those which are the most relevant, according to quantitative (material aspects) and qualitative criteria.

The categorised headings and notes are associated with the group's processes or business areas, in order to classify these processes or business areas in terms of their relevance in generating financial information.

The most important processes or areas are analysed and documented). These documents identify and analyse transaction flows, possible risks of error or fraud in the financial information, associated checks which mitigate these risks and features such as Integrity, Existence & Occurrence, Rights & Obligations, Measurement & Valuation and Presentation.

The process and criteria used to assess these risks are documented in the "Manual of the ALBA group's Internal Financial Information Control System (SCIF)".

- If the process covers all targets associated with financial information (existence and occurrence; integrity; valuation; presentation, breakdown and comparability; and rights and obligations), if it is updated and how frequently.

As discussed above, the significant processes or areas generating financial information are analysed on an annual basis at a minimum, in order to identify possible risks of error or fraud involving the financial information and as regards its objectives of Integrity, Existence & Occurrence, Rights & Obligations, Measurement & Valuation and Presentation.

- The existence of an identification process for the consolidation perimeter, bearing in mind, among other aspects, the possible existence of complex corporate structures, instrumental or special purpose entities.

Financial Management is responsible for analysing the companies that are included and those that are no longer part of this perimeter, as well as any change to the percentage ownership interest in these companies. Both the establishment and acquisition of ownership interests in companies and the sale of these interests or the liquidation of these interests are subject to internal authorisation processes that make it possible to clearly identify incoming items, outgoing items and changes to the consolidation perimeter.

The consolidation perimeter of the Alba group is submitted to the Management Committee and the Audit and Compliance Committee on a six-monthly basis for review.

The main duties of the Audit and Compliance Committee are to review the "process for preparing the Company's financial information, with a view to confirming its integrity, technological quality and for internal control, as well as compliance with regulatory requirements, proper delimitation of the consolidation perimeter, proper application of generally accepted accounting principles and standards, and compliance with remaining legal requirements concerning this information."

- If the process takes other types of risks into account (operational, technological, financial, legal, reputational, environmental etc.), to the extent that these affect the financial statements.

The process for identifying risks of error or fraud in the financial information takes into account the effects of other types of risks (operational, technological, financial, legal, reputational, environmental etc.), to the extent that these affect the financial statements. These risks are assessed and managed by the Company (according to the description in Section E of this Report).

- What governance body in the entity supervises the process.

Financial Management is responsible for the process for identifying and assessing specific risks concerning financial information, both in terms of its consolidated accounts, the entity and business processes. The process is updated annually at the very least. Likewise, the Audit and Compliance Committee is responsible for supervising this process.

### F.3 Control activities

Report, indicating its main characteristics, if it has at least:

**F.3.1. Procedures for reviewing and authorising financial information and the SCIIF description which will be published on the stock markets, indicating those responsible for this information, as well as documents describing the flows of activities and checks (including those associated with the risk of fraud) of the various types of transactions that can have a material effect on the financial statements, including the closing of accounts procedure and specific reviews of opinions, estimates, valuations and relevant forecasts.**

According to the provisions of the Regulation of the Board of Directors:

- Approval of the financial information that must be made public periodically is the responsibility of the Board of Directors (which includes the description of the group's SCIIF).
- Likewise, when the annual accounts are submitted for deliberation by the Board of Directors, they must first be certified with regards to their accuracy and integrity, by the Managing Director and the Chief Financial Officer.

Likewise, according to the provisions of the Regulation of the Audit and Compliance Committee:

- The main duties of the Audit and Compliance Committee are to review the "process for preparing the Company's financial information, with a view to confirming its integrity, technological quality and for internal control, as well as compliance with regulatory requirements, proper delimitation of the consolidation perimeter, proper application of generally accepted accounting principles and standards, and compliance with remaining legal requirements concerning this information."

The information review process takes the following flow:

The ALBA group has a procedure for closing the accounts and performs a specific review of opinions, estimates, valuations and relevant forecasts. The respective departments make estimates, valuations or forecasts of those aspects which they are assigned and the reasonableness of these estimates, valuations or forecasts is assessed by Financial Management and are then presented to the Audit and Compliance Committee and to the Board of Directors, as part of the exposure of the financial statements.

The group publishes financial information on a quarterly basis. This information is prepared by Financial Management which performs, as part of the account closure process, the control activities identified in the process, as well as analysing and reviewing the information prepared. The information prepared is then sent to the Audit and Compliance Committee for its supervision.

The six monthly financial reports and the individual and consolidated annual accounts of ALBA, the Report and the Annual Corporate Governance Report (which includes, by way of additional information, a description of the SCIIF) are reviewed by the Audit and Compliance Committee before being reviewed by the Board of Directors. Likewise, the Audit and Compliance Committee reviews the remaining financial information and any other relevant information before submitting this information to the markets or to the supervisory bodies.

The group has an internal financial information control system based on the COSO model, which provides reasonable certainty with regards to achieving the targets of this system, in other words: effectiveness and efficiency of operations, safeguarding assets, reliability of financial reports and compliance with applicable laws and regulations.

The principles and criteria for defining and managing the SCIIF are documented in the group's SCIIF Manual. The group has documents describing the flows of activities and checks (including those associated with the risk of fraud) of the various kinds of transactions that can have a real impact on the financial statements. These documents include the significant and matrix processes for risks and checks.

According to the SCIIF Manual, Financial Management is responsible for identifying and documenting these significant processes in addition to being responsible for managing the internal SCIIF certification process for evaluating its efficiency.

**F.3.2. Internal control policies and procedures for information systems (among others, concerning security of access, change control, operation of these changes, operational continuity and segregation of duties) which support the relevant processes of the entity with regards to preparing and publishing financial information.**

Among the checks considered for mitigating or managing risks of error in the financial information, there are some related to more relevant IT applications, such as checks of user access permits or those related to the integrity of the transfer of information between applications.

Additionally, the group has guidelines or standards and internal control procedures on the information systems with regards to the acquisition and development of software, the acquisition of systems infrastructure, the installation and testing

of software, change management, service level management, the managing of services provided by third parties, the security of systems and access to these systems, incident management, operations management, the continuity of the operations and the segregation of duties.

These guidelines and procedures are applied to all the information systems, including those that support the relevant financial information generation processes, and on the infrastructure needed for its operation.

This entire internal network of IT infrastructure is controlled by a Department of internal professionals responsible for defining and executing the group's IT strategy, as well as supporting users, operating the system and IT security.

Likewise, the ALBA group has systems security and contingency programmes.

The ALBA group's SCIIF Manual provides that, on an annual basis, the systems manager of the ALBA group certifies the effectiveness of the internal checks established for the IT systems. Likewise, the ALBA Group has systems security and contingency programmes.

The ALBA Group's SCIIF Manual provides that, on an annual basis, the systems manager of the ALBA group certifies the effectiveness of the internal checks established for the IT systems.

### F.3.3. Internal control policies and procedures intended to supervise management of the activities subcontracted to third parties, as well as those assessment, calculation or valuation matters entrusted to independent experts that could have a material impact on the financial statements.

Generally speaking, the ALBA group does not subcontract important duties to third parties that have a direct impact on the financial information, evaluations, calculations or valuations that could have a material impact on the financial statements, with the exception of the valuation of its investments in property and actuarial valuation of pensions.

There are internal checks for selecting the property valuation provider, which include the following supervisory criteria: Type and frequency of the reports; competence and independence of the provider; methodology and validation of the information and database used for the analysis; reasonability of the hypotheses and criteria applied; methodology for reviewing the findings and Reports prepared.

With regards to the actuary valuation of pensions, the existence of the policies used as well as the coherence and consistency of the databases used is checked.

## F.4 Information and communication

Report, indicating its main characteristics, if it has at least:

### F.4.1. A specific service responsible for defining and keeping accounting policies up-to-date (accounting policies area or department), as well as resolving doubts or conflicts associated with their interpretation, maintaining smooth communication with those responsible for operations in the organisation, as well as an updated accounting policies manual that is sent to the departments through which the entity operates.

Financial Management is responsible for defining and keeping accounting policies up-to-date as well as resolving doubts or conflicts associated with their interpretation and maintaining smooth communication with those responsible for operations in the organisation. To this end, accounting changes are periodically identified and communicated to the various Management supervisors. Likewise, in the event that application queries arise, these are referred to and resolved by the Head of Administration and the Chief Financial Officer.

The ALBA group considers that accounting standards are directly applicable, given the low level of complexity of its transactions. Accounting standards are kept up-to-date and are at the disposal of Financial Management staff.

### F.4.2. Mechanisms for capturing and preparing financial information in coherent formats that are applicable to and can be used by all the departments of the entity or group that support the main financial statements and the notes, as well as the information detailed concerning the SCIIF.

The ALBA group has mechanisms for capturing and preparing financial information, with suitable formats and applications, which is used by all the departments. Centralised and uniform IT systems are used for the group. Likewise, there are checks that are needed for the IT systems and a supervisory and review process is performed by Financial Management.

## F.5 Supervision of operation of the system

Report, indicating their main characteristics, at least concerning:

F.5.1. The SCIIF supervisory activities performed by the audit committee as well as if the entity has an internal audit service whose powers include supporting the committee in its task of supervising the internal control system, including the SCIIF. Likewise, the scope of the SCIIF evaluation performed during the financial year will be reported, as well as the procedure used by the individual that performed the evaluation for announcing their results, if the entity has an action plan that details any corrective measures, and if its impact on the financial information has been considered.

The Regulation of the Board of Directors and the Regulation of the Audit and Compliance Committee entrust the following duties to the Audit and Compliance Committee:

- Supervising the efficiency of the internal control of the company, the internal audit and the risk management systems, including tax risks, discussing significant weaknesses in the internal control system that are detected as part of the audit with the accounts auditor.
- Supervising the process for preparing and presenting the mandatory financial information.

The SCIIF supervisory activities performed by the Audit and Compliance Committee essentially include:

- Tracking the process of evaluating the SCIIF by Financial Management.
- Reviewing the “process for preparing the Company’s financial information, with a focus in confirming its integrity, technological quality and for internal control, as well as compliance with regulatory requirements, proper delimitation of the consolidation perimeter, proper application of generally accepted accounting principles and standards, and compliance with remaining legal requirements concerning this information.”
- Reviewing the periodical financial statements that must be submitted by the Company to the markets and its supervisory bodies, prior to approval by the Board, in its plenary session.
- Evaluating and approving the proposals suggested by Management concerning changes to the accounting principles and standards.
- Supervising Management’s decisions of adjustments proposed by the external auditor, as well as familiarising itself with and, where applicable, mediating in disagreements between them.
- Reviewing, with the support of the Internal Audit Service, the design and operation of the internal control system, in order to evaluate its effectiveness and,
- Holding periodical meetings with external auditors, internal auditors and senior management in order to review, analyse and discuss the financial information, the perimeter of companies they cover and the accounting criteria applied, as well as, where applicable, significant internal control weaknesses identified.

Additionally, the Audit and Compliance Committee is responsible for supervising the definition of the Strategic Internal and Annual Audit Plan, as well as its SCIIF development.

Likewise, since 2011, the group has had an Internal Audit Service, whose Bylaws provide that it is its responsibility to ensure that this process happens and that the checks established work effectively. Its role is targeted towards assisting the group in maintaining effective checks, by evaluating the efficiency and effectiveness of the checks and encouraging continued improvement. The Bylaws of the Internal Audit Service were updated in the session of the Board of Directors of November 13, 2017.

According to the group’s SCIIF Manual, the Audit and Compliance Committee has entrusted performing this duty to the Internal Audit Service (SAI). The SCIIF supervision process, via the SAI, includes the following tasks:

- Validating the SCIIF model with regards to the definition of the SCIIF scope or the documents concerning the significant processes (Narrative and Risk and Control Matrixes).
- Reviewing and evaluating the process and the findings concerning the effectiveness resulting from the annual review performed by Financial Management.

- Include, as part of the Internal Audit Strategic Plan and the Internal Audit Annual Plan, where applicable, the SCIIF processes to be reviewed.
- Assess and communicate the results obtained from the SCIIF supervision process and the checks on the processes involving the Area affected and Financial Management.
- Inform the Audit and Compliance Committee of the degree of progress of the supervision, the results obtained and the weaknesses detected, where applicable, when presenting the degree of progress and results of the internal audit works for the financial year.

Finally, the SCIIF Manual for the group establishes criteria for categorising the incidents based on their possible impact on financial information and the probability of occurrence after their detection and the subsequent communication and tracking process.

**F.5.2. If there is a discussion procedure in which the accounts auditor (according to the provisions of the NTA), the internal audit service and other experts can inform senior management and the audit committee or directors of the entity of significant internal control weaknesses identified during the annual account review processes or other processes entrusted to them. Likewise, an announcement will be made as to whether there is an action plan addressing the correction or mitigation of the weaknesses observed.**

Generally speaking, the discussion procedure concerning significant internal control weaknesses identified is based on periodical meetings which the various agents hold.

In this way, the Audit and Compliance Committee holds meetings with the SAI and Financial Management, both for the bi-annual and for the annual closure and, also, with the External Auditor, for the annual closure, in order to discuss any relevant aspect of the process of preparing the resulting financial information.

Specifically, the Regulation of the Board of Directors and the Regulation of the Audit and Compliance Committee provide that the Audit and Compliance Committee must:

- Discuss the significant weaknesses in the internal control system detected when performing the audit with the accounts auditors or audit firms.
- Establish appropriate relations with the accounts auditors or audit firms in order to receive information concerning matters that could threaten their independence, for examination by the Committee, and any other matter related to the process of performing the accounts audit, as well as other announcements provided in accounts auditing legislation and in auditing standards.

For its part, the Bylaws of the Internal Audit Service provide that the Audit and Compliance Committee must maintain free and open communication with the Director of the Internal Audit Service. Specifically, the Director of the Internal Audit Service has direct access to the Audit and Compliance Committee, with whom it will address the following matters, among others:

- The significant events observed when performing the internal audits.
- The degree of compliance with the most relevant recommendations.
- The most significant risks and the level of Internal Control in the group, bearing in mind the results of the audits performed and the evaluation of the Internal Control performed by the Internal Audit Service.
- Coordination with external auditors and the remaining individuals responsible for supervising the Internal Control.

Likewise, Financial Management also holds meetings with the SAI, both for the bi-annual closure and for the annual closure, and with External Auditors for the annual closure, with a view to addressing significant questions concerning the financial information.

## F.6 Other relevant information

In addition to the SCIIF supervision process (entrusted to the Internal Audit Service), according to the ALBA group's SCIIF Manual, in 2017 the corresponding process for the annual evaluation of the effectiveness and validity of the process was performed by Financial Management.

Likewise, the purpose of the Regulatory Compliance service is to provide reasonable security that Alba is complying with key legal and normative requirements, identifying the main legislative and normative obligations of the company, designing a compliance model and a monitoring and tracking model for the Compliance activities. In 2017, the Crime Prevention Model was updated with this in mind.

## F.7 Report of the external auditor



Report on:

F.7.1. If the SCIIF information sent to the markets was submitted for review by the external auditor, in which case the entity should include the corresponding report as an appendix. Otherwise, it should explain its reasons for this.

The SCIIF information sent to the markets was submitted for review by the external auditor, who will issue the corresponding report alongside the report for the company's annual accounts.

## **G** DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree to which the company follows the recommendations of the Code of good governance for listed companies.

In the event that any recommendation is not followed or is followed partially, include a detailed explanation of the reasons why so that shareholders, investors and the market in general have sufficient information for assessing the procedures of the company. General explanations will not be acceptable.

1. The Bylaws of listed companies do not limit the maximum number of votes that a single shareholder can make, nor do they contain restrictions hindering the gain of control of the company by the buyback of its shares on the market.

Compliant

Explain

2. When a parent company and a subsidiary are listed, both publicly define, in a detailed manner:

- a) The respective areas of activity and any business relations between them, as well as those of the listed subsidiary company with other companies in the group;
- b) Mechanisms provided for resolving any conflicts of interest which could arise.

Compliant

Partially compliant

Explain

Not applicable

3. During the sessions of the ordinary shareholders' meeting, in addition to the distribution, in writing, of the annual corporate governance report, the president of the board of directors verbally informs shareholders, with sufficient detail, of the most relevant aspects of the company's corporate governance and, in particular:

- a) Of the changes made since the last ordinary shareholders' meeting.
- b) Of the specific reasons why the company did not follow any of the recommendations of the Code of Corporate Governance and, if these exist, of alternative rules applied in this regard.

Compliant

Partially compliant

Explain

4. The company has established and promotes a policy of communication and contact with shareholders, institutional investors and proxy advisors that fully respects standards against market abuse and gives similar treatment to shareholders in the same position.

And the company makes this policy public on its website, including information concerning the way in which the company has put into practice and identified the spokespersons or individuals responsible for implementing the policy.

Compliant

Partially compliant

Explain

5. The board of directors has not made a proposal to delegate powers to the shareholders' meeting, with a view to issuing shares or convertible bonds without a pre-emptive right, for an amount greater than 20% of the capital at the time of the delegation.

When the board of directors approves any issuance of shares or convertible bonds, without a pre-emptive right, the company immediately publishes the reports (referred to in commercial legislation) concerning the fact that this right was excluded on its webpage.

Compliant

Partially compliant

Explain

6. The listed companies that prepare the reports that are detailed below, either voluntarily or because it is mandatory, publish the reports on their website sufficiently in advance of the ordinary shareholders' meeting, even though their distribution is not mandatory:

- a) Report concerning the auditor's independence.
- b) Reports concerning the operation of the audit and appointments and remuneration committees.
- c) Report of the audit committee concerning related transactions.
- d) Report concerning the corporate social responsibility policy.

Compliant

Partially compliant

Explain

7. The company directly broadcasts the general shareholders' assemblies on its website.

Compliant

Explain

8. The audit committee ensures that the board of directors endeavours to present the accounts to the general shareholders' meeting without limitations or reservations in the audit report and, in exceptional cases where there are reservations, both the president of the audit committee and the auditors clearly explain the content and scope of these limitations or reservations to the shareholders.

Compliant

Partially compliant

Explain

9. The company permanently makes the requirements and procedures it will accept for proving ownership of shares, the right to attend the general shareholders' meeting and the exercise or delegation of voting rights public on its website.

These requirements and procedures encourage attendance and the exercise of shareholders' rights and are applied in a non-discriminatory manner.

Compliant

Partially compliant

Explain

10. When any legitimate shareholder exercises, prior to the general shareholders' meeting, the right to add to the agenda or to make new agreement proposals, the company:

- a) Immediately distributes these new additional points and new agreement proposals.
- b) Makes the attendance record, vote delegation form or remote voting form public with the amendments needed so that new points on the agenda and

alternative agreement proposals, under the same terms as those proposed by the board of directors, can be voted on.

c) Submits all these points or alternative proposals for voting and applies the same voting rules to these points or proposals as those formulated by the board of directors, including, specifically, assumptions or facts that are deduced concerning the result of the vote.

d) After the general shareholders' meeting, distribute the breakdown of the vote on these additional points or alternative proposals.

Compliant  Partially compliant  Explain  Not applicable

11. In the event that the company has planned to pay attendance fees to the general shareholders' meeting, establish a general policy for these fees and ensure this policy is sustainable beforehand.

Compliant  Partially compliant  Explain  Not applicable

12. The board of directors performs its duties with unity of purpose and independence, treating all shareholders in the same position in the same way and allowing itself to be guided by the interests of the company, which are understood as achieving a profitable and long-term sustainable business which promotes the continuity of the business and maximising the economic value of the company.

In the search for the interests of the company, in addition to respecting laws, regulations and conduct based on good faith, ethics and respect of commonly accepted customs and good practices, endeavour to reconcile the interests of the company itself with, where applicable, the legitimate interests of its employees, providers, customers and other stakeholders that could be affected, as well as the impact of the company's activities on the community as a whole and the environment.

Compliant  Partially compliant  Explain

13. The board of directors is of the right size to operate efficiently and to allow for participation by board members, meaning that it should be comprised of between five and fifteen members.

Compliant  Explain

14. The board of directors has approved a board member selection policy which is:

a) Detailed and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the needs of the board of directors.

c) Encourages diversity of knowledge, experience and gender.

The result of the prior analysis of the needs of the board of directors is detailed in the supporting report of the appointments committee which is published when summoning the general shareholders' meeting to which the ratification, appointment or re-election of each board member is submitted.

The board member selection policy is promoting the target that, in 2020, the number of female board members should represent, at least, 30% of the total members of the board of directors.

The appointments committee will check, on an annual basis, that the board member selection policy has been respected and this will be detailed in the annual corporate governance report.

Compliant  Partially compliant  Explain

15. Proprietary and independent board members constitute a broad majority on the board of directors and the number of executive directors is the minimum required, bearing in mind the complexity of the corporate group and the percentage ownership interest of the executive directors in the company's capital.

Compliant

Partially compliant

Explain

16. The percentage of proprietary board members among the total non-executive board members is no greater than the existing proportion between the capital of the company represented by these board members and the remaining capital.

This criteria may be mitigated:

a) In companies with a high market capitalisation in which the equity stakes which are legally considered as significant are few.

b) When this concerns companies in which there are several shareholders represented on the board of directors and there are no links between them.

Compliant

Explain

17. The number of independent board members represents, at the very least, half of all board members.

However, when the company does not have a high market capitalisation or when, even if it does, it has a shareholder or various shareholders that act jointly and that control more than 30% of the share capital, the number of independent shareholders represents, at least, one third of all board members.

Compliant

Explain

18. The companies keep the following information concerning their board members public on their website, and keep this information up-to-date:

a) Professional background and biography.

b) Other boards of directors to which they belong, regardless of whether or not these companies are listed, as well as other paid activities in which they are involved, regardless of the kind of activity.

c) An indication of the category of board member to which they belong, indicating, in the case of proprietary board members, the shareholder they represent or with whom they have links.

d) Date of their first appointment as a board member in the company, as well as subsequent re-elections.

e) Shares in the company, and options on these shares, that they own.

Compliant

Partially compliant

Explain

19. The annual corporate governance report, after being checked by the appointments committee, explains the reasons why proprietary board members were appointed instead of shareholders whose equity stake is below 3% of the capital; and the reasons why formal requests for presence on the board made by shareholders whose equity stake is equal to or greater than that of others in whose stead proprietary board members were appointed were not accepted are explained.

Compliant

Partially compliant

Explain

Not applicable

20. Proprietary board members resign when the shareholder they represent fully disposes of their equity stake. The corresponding number also resign when this shareholder decreases their equity stake to a level that requires a reduction in the number of their proprietary board members.

Compliant  Partially compliant  Explain  Not applicable

21. The board of directors does not propose the dismissal of any independent board member before the end of the statutory period for which they were appointed, except when there is just cause considered to be acceptable by the board of directors, after informing the appointments committee. Specifically, just cause will be considered with merit when the board member occupies new positions or undertakes new obligations preventing them from dedicating the time needed to performing their role as a board member, failing to perform duties involved in their role or finding themselves in any of the situations causing them to lose their independence, according to the provisions of applicable legislation.

The dismissal of independent board members may also be proposed as a result of takeover bids, mergers or other similar corporate transactions which involve a change to the company's capital structure, when these changes to the structure of the board of directors are brought about by the proportionality criteria indicated in recommendation 16.

Compliant  Explain

22. The companies should establish rules requiring board members to report and, where applicable, resign in cases that could damage the company's credibility and reputation and these rules specifically require them to inform the board of directors of the criminal cases in which they are involved as suspects, as well as subsequent procedural events.

If a board member was prosecuted or an order to proceed to a public hearing was issued against this board member for any of the crimes indicated in corporate legislation, the board of directors will assess the case as soon as possible and, in light of the specific circumstances, will decide whether or not the board member should remain in their position. And all of which the Board of Directors shall report, in a logical manner, in the annual corporate governance report.

Compliant  Partially compliant  Explain

23. All board members should clearly express their opposition when they think that any proposed decision brought before the board of directors could be contrary to the interests of the company. Independent board members and other board members, especially those, who are not affected by the potential conflict of interest should do the same in the case of decisions that could adversely affect shareholders that are not represented on the board of directors.

When the board of directors makes significant or repeated decisions concerning those which the board member expressed serious reservations about, the board member can draw their conclusions and, if they decide to resign, explain their reasons in the letter referred to in the recommendation below.

This recommendation also applies to the secretary of the board of directors, even though the secretary is not a board member.

Compliant  Partially compliant  Explain  Not applicable

24. When a board member leaves their position before the end of their mandate, either due to resignation or any other reason, the board member will explain the reasons in a letter sent to all members of the board of directors. The reason for their departure will be reported in the annual corporate governance report, without prejudice to this departure being reported as a significant event.

Compliant  Partially compliant  Explain  Not applicable

25. The appointments committee will ensure that non-executive board members have sufficient time to properly perform their duties.

The regulation of the board establishes the maximum number of company boards on which its board members may serve.

Compliant  Partially compliant  Explain

26. The board of directors will meet as frequently as necessary to effectively carry out their duties and, at least, eight times per year, based on the programme of dates and matters established at the beginning of the financial year. Each board member may individually propose other points on the agenda which were initially not included.

Compliant  Partially compliant  Explain

27. Instances where the board members are absent should be reduced to an absolute minimum and should be quantified in the annual corporate governance report. When such absences must occur, the board member should grant a power of representation with instructions.

Compliant  Partially compliant  Explain

28. When the board members or the secretary express concern about any proposal or, in the case of board members, concerning the running of the company and these concerns are not resolved in the board of directors, this is recorded in the minutes, at the request of the person who expressed the concerns.

Compliant  Partially compliant  Explain  Not applicable

29. The company should establish suitable options so that the board members may secure the advice needed in order to perform their duties including, if the circumstances so require, external advice paid for by the company.

Compliant  Partially compliant  Explain

30. Regardless of the knowledge required of board members in order to perform their duties, the companies also offer board members knowledge update programmes when circumstances indicate that this is necessary.

Compliant  Explain  Not applicable

31. The agenda for the sessions should clearly indicate those points on which the board of directors must decide or reach an agreement so that the board members may first study or gather the information needed to reach a decision or adopt an agreement.

When, as an exception and in an emergency, the president wishes to submit decisions or agreements which are not on the agenda for the approval of the board of directors, the prior and express consent of the majority of board members present will be required, and this will be duly recorded in the minutes.

Compliant  Partially compliant  Explain

32. The board members will be periodically informed of changes to the shareholding structure and the opinion of significant shareholders, investors and rating agencies of the company and the group.

Compliant  Partially compliant  Explain

33. The president, who is responsible for the smooth running of the board of directors, in addition to performing the duties for which fall under the position's responsibility according to the law and the bylaws, prepares and submits a programme of dates and matters to address the board of directors, as well as organising and coordinating a periodical evaluation of the board, also, where applicable, that of the company's top executive. The president is also responsible for managing the board and ensuring it runs smoothly, ensuring that sufficient discussion time is dedicated to strategic matters, and agrees on and reviews the knowledge update programmes for each board member, when circumstances indicate that these are needed.

Compliant  Partially compliant  Explain

34. When there is a coordinating board member, the bylaws or the regulation of the board of directors, in addition to the powers legally held, grants the following powers: chairing the board of directors in the absence of the president and vice-presidents, if there are any; repeating the concerns of non-executive board members; maintaining contact with investors and shareholders, establishing their point of view in order to form an opinion of their concerns, in particular, with regards to the corporate governance of the company; and coordinating the president's succession plan.

Compliant  Partially compliant  Explain  Not applicable

35. The secretary of the board of directors above all ensures that, in its actions and decisions, the board of directors keeps in mind recommendations concerning good governance in this Code of Good Governance that is applicable to the company.

Compliant  Explain

36. The board of directors, in its plenary session, should assess, once per year, and adopt, where applicable, an action plan to correct the deficiencies detected with regards to:

- a) The quality and efficiency of the running of the board of directors.
- b) The running and composition of its committees.
- c) Diversity in the composition and responsibilities of the board of directors.
- d) The performance of the president of the board of directors and the company's top executive.
- e) The performance and contribution of each board member, paying special attention to those responsible for the various committees of the board.

The report the various committees submit to the board of directors will be used as the basis for evaluating these committees, and in order to evaluate the board of directors, the report submitted by the appointments committee will be used.

Every three years, the board of directors will be assisted by an external consultant for the evaluation. The external consultant will be verified by the appointments committee.

The business relations that the consultant or any company in its group maintains with the company or any company in its group must be shown in detail in the annual corporate governance report.



The process and areas evaluated will be described in the annual corporate governance report.

Compliant  Partially compliant  Explain

37. When there is an executive committee, the ownership structure of the various classifications of board members will be similar to that of the board of directors itself and the secretary of the executive committee will also be the secretary of the board of directors.

Compliant  Partially compliant  Explain  Not applicable

38. The board of directors should always be aware of the matters discussed and the decisions adopted by the executive committee, and all members of the board of directors should receive a copy of the minutes of the sessions of the executive committee.

Compliant  Partially compliant  Explain  Not applicable

39. The members of the audit committee, and especially its president, should be appointed bearing in mind their knowledge and experience with accounting, auditing and risk management, and the majority of these members should be independent board members.

Compliant  Partially compliant  Explain

40. Under the supervision of the audit committee, there is a department that performs internal audits, ensuring the smooth running of the information and internal control systems. This department, for all intents and purposes, reports to the non-executive president of the board or of the audit committee.

Compliant  Partially compliant  Explain

41. The head of the department that performs internal audits presents their annual working plan to the audit committee, directly announces events which occur when implementing the working plan and delivers an activity report at the end of each financial year.

Compliant  Partially compliant  Explain  Not applicable

42. In addition to the duties foreseen by law, the audit committee is also responsible for the following duties:

1. With regards to the IT and internal control systems:

- a) Supervising the process of preparing the financial information concerning the company and ensuring its integrity and, where applicable, that of the group, reviewing compliance with regulatory requirements, proper delimitation of the consolidation perimeter and proper application of accounting criteria.
- b) Ensuring the independence of the department assuming internal audit duties; proposing the selection, appointment, re-election and dismissal of the internal audit service manager; proposing the budget for this service; approving guidelines and working plans, ensuring that the activity is mainly focussed on the risks affecting the company; receiving periodical information concerning its activities; and verifying that senior management keeps in mind the findings and recommendations of its reports.
- c) Establishing and supervising a mechanism to allow employees to confidentially and, if this is possible and is considered appropriate, anonymously, report potentially important irregularities, especially financial and accounting irregularities that are observed within the company.



2. With regards to the external auditor:

- a) In the event that the external auditor resigns, review the reasons for their resignation.
- b) Ensure that the remuneration of the external auditor for their work does not compromise its quality or independence.
- c) Ensure the company informs the CNMV of the change of auditor, as a significant event, and accompany this announcement with a statement concerning any disagreements with the outgoing auditor and, if there were any, the substance of these disagreements.
- d) Ensure that the external auditor holds an annual meeting with the plenary session of the board of directors to inform them of the work performed and changes in the company's accounting and risk position.
- e) Ensure that the company and the external auditor respect current standards concerning the provision of services other than auditing services, limits on the concentration of the auditor's business and, generally, other standards concerning auditors' independence.

Compliant

Partially compliant

Explain

43. The audit committee may summon any employee or director of the company, and even arrange for them to appear without any other director being present.

Compliant

Partially compliant

Explain

44. The audit committee should be informed of structural and corporate operations and changes which the company plans to perform for its analysis and should first inform the board of directors of its economic circumstances and accounting impact and, especially, where applicable, concerning the exchange equation proposed.

Compliant

Partially compliant

Explain

Not applicable

45. The risk control and management policy should, at the very least, identify:

- a) The various types of risk, financial and non-financial (among others, operational, technological, legal, social, environmental, political and reputational risks) faced by the company, including, among the financial or economic risks, contingent liabilities and other off balance sheet risks.
- b) The set level of risk the company considers acceptable.
- c) The measures provided for mitigating the impact of the risks identified, in the event that these risks materialise.
- d) The information and internal control systems that will be used to control and manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

Compliant

Partially compliant

Explain

46. Under the direct supervision of the audit committee or, where applicable, of a specialist committee of the board of directors, there is an internal risk control and management service operated by an internal unit or department of the company, which is expressly given the following duties:

- a) Ensuring the smooth running of the risk control and management systems and, specifically, that all the important risks affecting the company are identified, managed and appropriately quantified.

b) Actively participating in preparing the risk strategy and important decisions concerning its management.

c) Ensuring that the risk control and management systems appropriately mitigate risks, as part of the policy identified by the board of directors.

Compliant

Partially compliant

Explain

47. The members of the appointments and remuneration committee - or the appointments committee and the remunerations committee, if they are separated - are appointed ensuring they have the knowledge, skill and experience needed for the duties they are required to perform and that the majority of these members are independent board members.

Compliant

Partially compliant

Explain

48. Companies with a high market capitalisation have a separate appointments and remunerations committee.

Compliant

Explain

Not applicable

49. The appointments committee consults the president of the board of directors and the company's top executive, especially as regards to matters that concern executive board members.

Any board member can ask the appointments committee to take into consideration, if they are considered suitable in their opinion, potential candidates for covering vacant board member positions.

Compliant

Partially compliant

Explain

50. The remunerations committee should perform its duties independently and, in addition to the duties assigned by law, should perform the following duties:

a) Proposing the basic conditions of senior executives' contracts to the board of directors.

b) Checking that the compensation policy established by the company is observed.

c) Periodically review the remuneration policy applied to board members and senior executives, including share-based remuneration systems and their application, in addition to guaranteeing that their individual remuneration is proportional to what is paid to other board members and senior executives of the company.

d) Ensure any conflicts of interest do not jeopardise the independence of the external advice provided to the committee.

e) Check information concerning the remuneration of board members and senior executives contained in the various corporate documents, including the annual report concerning board Member remuneration.

Compliant

Partially compliant

Explain

51. The remunerations committee consults the president and the company's top executive, especially as it regards matters that concern executive board members and senior executives.

Compliant

Partially compliant

Explain

52. Rules concerning the composition and operation of the supervisory and control committees are included in the regulation of the board of directors and are consistent with those applicable to legally mandatory committees, according to the recommendations above, including:

- a) They should be comprised exclusively of non-executive directors, with a majority of independent board members.
- b) Their presidents should be independent board members.
- c) The board of directors should appoint the members of these committees, bearing in mind the knowledge, skills and experience of the board members and the tasks of each committee, deliberate on its proposals and reports; and account, in the first plenary session of the board of directors after its meetings, for its activity and for the work performed.
- d) The committees can secure external advice, when they consider this necessary in order to perform their duties.
- e) Minutes will be prepared of its meetings which will be put at the disposal of all board members.

Compliant  Partially compliant  Explain  Not applicable

53. Supervision of compliance with corporate governance rules, internal codes of conduct and the corporate social responsibility policy is under the responsibility of one or is distributed among various committees of the board of directors. These may include the audit committee, the appointments committee, the corporate social responsibility committee, if there is one, or a specialist committee which the board of directors, exercising its self-organisation powers, decides to create with this end in mind, and to which the following duties will, at a minimum, be given:

- a) Supervising compliance with internal codes of conduct and the company's corporate governance rules.
- b) Supervising the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluating the suitability of the company's corporate governance system, with a view to achieving its mission of promoting the interests of the company and keeping in mind, where applicable, the legitimate interests of remaining stakeholders.
- d) Reviewing the company's corporate social responsibility policy, ensuring it is focussed on value creation.
- e) Tracking the corporate social responsibility policy and practices, and changes in the degree of compliance.
- f) Supervising and evaluating relations processes with various stakeholders.
- g) Evaluating all matters concerning the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinating the non-financial information reporting process and the diversity reporting process, according to applicable regulation and reference international standards.

Compliant  Partially compliant  Explain

54. The corporate social responsibility policy includes the principles or commitments that the company voluntarily assumes in its relationship with the various stakeholders, and identifies, at the very least:

- a) The objectives of the corporate social responsibility policy and the development of supporting mechanisms.
- b) The corporate strategy for sustainability, the environment and social matters.

- c) Specific practices for matters related to: shareholders, employees, providers, social matters, the environment, diversity, fiscal responsibility, respect of human rights and prevention of illegal conduct.
- d) The methods or systems for tracking results of the application of the specific practices indicated in the previous section, associated risks and their management.
- e) The supervisory mechanisms for non-financial risks, ethics and corporate conduct.
- f) Communication, participation and dialogue channels with stakeholders.
- g) Responsible communication practices that avoid manipulation of information and protect integrity and honour.

Compliant  Partially compliant  Explain

55. The company should announce, in a separate document or in the management report, matters related to corporate social responsibility, using, for this purpose, any of the internationally accepted methodologies.

Compliant  Partially compliant  Explain

56. The board members' compensation should be whatever is needed to attract and retain board members with the background desired and to compensate the dedication, qualification and responsibility the position demands, but should not be so high as to compromise the independence of non-executive board members.

Compliant  Explain

57. Variable remuneration that is linked to the output of the company and personal performance should be confined to executive board members, as well as remuneration by awarding shares, options or rights to shares or instruments referenced to the value of the share or long term savings schemes such as pension plans, retirement schemes or other social welfare schemes.

The awarding of shares may be considered as remuneration for non-executive board members when it is conditional upon them keeping these shares until they leave their position as board members. The above will not apply to shares which the board member needs to sell, where applicable, to meet costs related to their acquisition.

Compliant  Partially compliant  Explain

58. In case of variable remuneration, the compensation policies include the limits and technical reservations needed to ensure that this compensation is still based on the professional output of its beneficiaries and is not solely based on general changes in the markets or the company's sector of activity or other similar circumstances.

And, specifically, the variable components of the compensation:

- a) Should be linked to output criteria that are predetermined and measurable and these criteria should take the risk assumed in order to achieve a result into consideration.
- b) Should promote the sustainability of the company and include non-financial criteria which are suitable for creating long term value, such as compliance with the company's internal rules and procedures and its policies for risk control and management.
- c) Should be configured on the basis of an equilibrium between achieving short, medium and long term targets, making it possible to compensate the output achieved as a result of continued performance during a period of time that is sufficient for assessing the contribution to sustainable value creation, to the extent that

the measures used to quantify this output are not solely concentrated on one-time, occasional or extraordinary events.

Compliant  Partially compliant  Explain  Not applicable

59. Payment of an appreciable part of the variable components of the compensation should be deferred for a minimum period of time that is sufficient to confirm that the previously established output conditions have been met.

Compliant  Partially compliant  Explain  Not applicable

60. The remuneration related to the company's earnings takes into account any reservations included in the external auditor's report and that these earnings should be reduced accordingly.

Compliant  Partially compliant  Explain  Not applicable

61. A significant percentage of the variable remuneration of executive board members should be linked to the awarding of shares or financial instruments referenced to the value of the shares.

Compliant  Partially compliant  Explain  Not applicable

62. Once the shares or options or rights to shares corresponding to the compensation schemes have been awarded, board members may not transfer ownership to a number of shares that is equivalent to twice their fixed annual compensation, nor may they exercise the options or rights until a period of at least three years has passed since they were awarded.

The above will not apply to shares which the board member needs to sell, where applicable, to meet costs related to their acquisition.

Compliant  Partially compliant  Explain  Not applicable

63. The contractual agreements should include a clause allowing the company to claim reimbursement of the variable components of the remuneration when the payment has not been adjusted to the output conditions or when the payment has been made based on data whose inaccuracy was subsequently demonstrated.

Compliant  Partially compliant  Explain  Not applicable

64. Payments for termination of the contract should not exceed a set amount equivalent to two years of total annual remuneration and the payments should not be made until the company has demonstrated that the board member has met the previously established output criteria.

Compliant  Partially compliant  Explain  Not applicable

## **H OTHER INFORMATION OF INTEREST**

1. If there is any important matter concerning corporate governance in the company or in the entities in the group that has not been included in the other sections of this report but that needs to be included in order to secure more comprehensive and reasoned information concerning the structure and governance practices in the entity or the group, describe these briefly.

2. In this section, you may also include any other information, clarification or detail concerning the sections above of the report, to the extent that these are relevant and not repetitive.

Specifically, an indication will be given as to whether the company is subject to legislation other than Spanish legislation in terms of corporate governance and, if so, include the information that you are obliged to provide, other than the information included in this report.

3. The company may also indicate if it has voluntarily adhered to other codes of ethical principles or good practices, whether these are international, industry specific or otherwise. Where applicable, the code in question will be identified, as well as the adherence date.

#### SECTION A.2. FIRST SECTION

- Banca March, S.A.

Siblings Mr Juan, Mr Carlos, Mrs Leonor and Mrs Gloria March Delgado own all the shares in Banca March which, furthermore, has a significant stake in Corporación Financiera Alba. The aforementioned individuals signed a Shareholders' Agreement on 4-12-2014, concerning the aforementioned financial institution which also affects Corporación Financiera Alba, given its equity position in this company. This agreement will be valid until 10-03-2025 and replaces the agreement signed on 24-05-2004 and amended on 22-12-2009. This Agreement is referred to in Section A.6. The ownership interest mentioned held by Banca March, S.A. includes Mr Juan and Mr Carlos March Delgado, and is detailed in Section A.3.

#### SECTION A.4.

Siblings Mr Juan, Mr Carlos, Mrs Leonor and Mrs Gloria March Delgado own all the shares in Banca March which, furthermore, has a significant stake in Corporación Financiera Alba. The aforementioned individuals signed a Shareholders' Agreement on 4-12-2014, concerning the aforementioned financial institution which also affects Corporación Financiera Alba, given its equity position in this company. This agreement will be valid until 10-03-2025 and replaces the agreement signed on 24-05-2004 and amended on 22-12-2009. This Agreement is referred to in Section A.6. The ownership interest mentioned held by Banca March, S.A. includes Mr Juan and Mr Carlos March Delgado, and is detailed in Section A.3.

#### SECTION A.10.

The Company Bylaws require, in order to attend the Shareholders' Meeting, that the individual in question own 25 shares.

#### SECTION C.1.2.

Mr Regino Moranchel Fernández ended his mandate as a Board Member in the 2017 financial year and his mandate was not renewed.

#### SECTION C.1.3.

Mr Juan March de la Lastra, Mr Juan March Juan and Mr Santos Martínez-Conde Gutiérrez-Barquín are considered as Executive Board Members however, they are also Proprietary Board Members representing Banca March, S.A., on whose Board they also serve.

Recommendation 17 that the number of independent Board Members should represent at least half of the board members is not applied, since, bearing in mind that the "concerted action" referred to in sections A.4 and A.6 of this report has an equity stake of 65.18% of the share capital, as well as due to the company's market capitalisation, according to this same Recommendation, the number of independent Board Members in Corporación Financiera Alba, S.A. represents at least one third of the Board Members.

#### SECTIONS C.1.5 AND C.1.6.

In the Policy for Selection of Candidates for Board Members approved by the Board of Directors in its session of 26 October 2015, among the objectives and principles of candidate selection, it is stipulated that individuals must be selected whose appointment encourages diversity of knowledge, experience and gender within the Board. Likewise, it is stipulated that, as part of candidate selection, efforts will be made to achieve a proper equilibrium on the Board as a whole which improves decision-making and contributes a variety of perspectives to debating the matters under its responsibility.

The Appointments and Remunerations Committee, in its session of 26 October 2015, approved the requirements that candidates for the various classifications of Board Members of Corporación Financiera Alba, S.A. must meet:

1. Executive Board Members will be selected bearing in mind their knowledge of the activities of the company, their professional background and experience, which will be suited to performing executive duties in the company.
2. In order to elect proprietary board members, who are appointed on the proposal of the significant shareholder, gender diversity must be respected, avoiding gender discrimination and candidates must also have a suitable professional background and experience for the company.

3. In the case of independent Board Members, the professional background and experience of the candidate must be taken into account, ensuring that it is different from the other Board members. It is expressly stipulated that gender and nationality or habitual residence are kept in mind if this is relevant for offering the Board a different point of view.

The Appointments and Remunerations Committee, in 2017, duly tracked the selection Policy for candidates to the Board.

#### SECTION C.1.15.

According to the Remunerations Policy of the Board of Directors, of which an amendment was approved by the Shareholders' Meeting held on June 19, 2017, the remuneration collected by all Board Members, regardless of the type of Board Member, is 65,000 euros per year each. The additional remuneration collected by Co-Presidents is 78,000 euros per year each. The additional remuneration for Board Members who belong to the Audit and Compliance Committee and the Operations Committee is 15,000 euros per year, and for those belonging to the Appointments and Remuneration Committee, to the Operations Committee or to any new committee that is created, is 10,000 euros per year.

There are no "rights accumulated by Board Members in terms of pensions". However, in the Annual Report on Board Member Compensation (Section D.1.a.-iii- Long term savings schemes) the figure of the mathematical provisions which apply on the reference date of the report is included as "accumulated funds".

#### SECTION C.1.26.

As a general rule for all Board Members, when they reach 70 years, they must make their position available to the Board, and the Board may ask them to formalise their resignation.

#### SECTION C.1.30

The majority of Board Members have attended the majority of meetings of the Board of Directors during the 2017 financial year, reaching a total percentage of 99.38% (160 attendances out of 161 possible attendances), without prejudice to a justified absence, since the Board Member had a conflict of interest with the matter to be addressed. Specifically, of the Board Members on the Board of Directors, eight Board Members attended all the meetings, four missed only one meeting, and only two did not attend two meetings. In each case, those absent delegated representation to another Board Member, with instructions. On the other hand, it is also worth mentioning that no meeting was held with this body in the absence of the President or the Managing Director.

#### SECTION C.1.36

The General Shareholders' Meeting of 2016, bearing in mind the provisions of Law 22/2015 concerning Account Auditing, and the amendments introduced in article 264.1 of the Capital Companies Act, agreed to appoint a new auditor for the 2017, 2018 and 2019 financial years. As a result, in the 2017 financial year, the company had a new external auditor.

#### SECTION C.1.45

The contracts that must be approved by the company's bodies are those of the executive Board Members. In the Remunerations Policy of the Board of Directors, of which an amendment was approved by the Shareholders' Meeting held on June 19, 2017, there is still a section concerning the basic conditions of the contracts of these Board Members, including a section concerning compensation for early cancellation or termination of the contractual relationship between the company and the Board Member

However, according to the provisions of article 249.b.h) and 529 n.3.e) and g) of the Capital Companies Act, as well as articles 5.2.1.h) and 36.e) and g) of the Regulation of the Board of Directors of Corporación Financiera Alba, S.A., it is the responsibility of the Board of Directors, after informing the Appointments and Remunerations Committee, to appoint and dismiss Directors who reported directly to the Board or any of its members, as well as establishing the basic condition of their contracts and the compensation policy applicable to these Directors. The Board of Directors of Corporación Financiera Alba, S.A., in its session of October 26, 2015, approved the basic conditions and the Compensation Policy for Directors of the company, which was amended in the Board's session of March 27, 2017.

#### SECTION C.2.1

In 2017, faced with the departure of a member of the Board, who was also on the Audit and Compliance Committee, the substitution system agreed by the Board of Directors in its meeting of March 27, 2017 was used, as a result, Mr Carlos González Fernández participated in this Committee and in its meeting of June 2017.

#### SECTION D.2.

Transactions related to Banca March, S.A. All transactions related to Banca March, S.A. constitute the company's ordinary traffic and are performed under normal market conditions.

#### SECTION G, Recommendation 10

In 2017, there was no situation in which this recommendation was applied.

#### SECTION G, Recommendation 14

Since 2016, the Appointments and Remunerations Committee has already set, by way of a representation target for the least well-represented gender on the Board, that this gender should reach 30% of total members by 2020.

SECTION G, Recommendation 17

Bearing in mind that the “concerted action” referred to in sections A.4 and A.6 of this report has an equity stake of 65.18% of the share capital, as well as due to the company’s market capitalisation, the number of independent Board Members must represent at least one third of the total Board Members, which did in fact happen in Corporación Financiera Alba, S.A. in 2017.

SECTION G, Recommendation 20

In 2017, there was no situation in which this recommendation was applied.

SECTION G, Recommendation 23

Article 15.5 of the Board Regulation specifically provides that “Board Members must clearly express their opposition when they think that any proposed decision brought before the Board of Directors could be contrary to the interests of the company. Independent board members and other board members, especially, who are not affected by the potential conflict of interest should do the same in the case of decisions that could prejudice shareholders that are not represented on the Board.”

In 2017, there was no situation in which this standard was applied.

SECTION G, Recommendation 28

Article 15.6 of the Board Regulation specifically provides that “When Board Members or the Secretary express concerns regarding any proposal or, in the case of Board Members, concerning the running of the company and these concerns are not resolved in the Board of Directors, this is recorded in the minutes, at the request of the person who expressed the concerns.

In 2017, there was no situation in which this standard was applied.

SECTION G, Recommendation 31

In 2017, there was no situation in which this recommendation was applied.

SECTION G, Recommendation 34

According to the provisions of article 529 f.2 of the Capital Companies Act, the appointment of a Coordinating Board Member is only provided for cases in which the President of the Board of Directors is also an executive Board Member, which is not the case with Corporación Financiera Alba, S.A.

However, since this is considered as a good Corporate Governance practice and in order to facilitate its actions, the Board of Directors of Corporación Financiera Alba, S.A., in its session of 25 January 2016, appointed, with the abstention of the executive Board Members, one Coordinating Board Member from the independent Board Members.

SECTION G, Recommendation 36

It is noteworthy that the internal assessment process of the Board of Directors was implemented under the coordination of the President of the Board of Directors and with the participation of the Board Members (by answering questionnaires prepared for this purpose) of the various Committees (by preparing reports concerning its activities in the financial year) and with the intervention of the Appointments and Remunerations Committee.

The areas assessed were as follows: Corporate Governance in general; composition and diversity of the Board; powers of the Board; frequency of the meetings, progress and attendance at the meetings; dedication of the Board Members; reporting to the Board Members; actions of the President, of the Managing Director and the Secretary of the Board; performance of the Board Members; Committees on the Board; training of the Board Members; application of the Code of Ethics and Conduct and the Internal Regulation for Conduct on the Securities Market and the Criminal and Fraud Prevention Policy.

The Board assessment report includes some findings concerning the smooth running of the Board.

SECTION H.1.3.

The Company has adhered to the United Nations Global Compact since December 22, 2015.

This annual corporate governance report was approved by the company’s Board of Directors, in its session of 20/03/2018.

Indicate if there were board members who voted against or who abstained when voting on the approval of this Report.

Yes

No





KPMG Auditores, S.L.  
Paseo de la Castellana, 259C  
28046 Madrid

## **Auditor's Report on the "Information concerning Internal Control over Financial Reporting (ICOFR)" of Corporación Financiera Alba, S.A. for 2017.**

*(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)*

To the Directors of  
Corporación Financiera Alba, S.A.

As requested by the Board of Directors of Corporación Financiera Alba, S.A. (the "Company") and in accordance with our proposal letter dated 2 November 2017, we have applied certain procedures to the "information concerning ICOFR" included in section F of the Corporación Financiera Alba, S.A. Annual Corporate Governance Report for 2017, which summarises the Company's internal control procedures for annual financial reporting.

The Board of Directors is responsible for adopting appropriate measures to reasonably ensure the implementation, maintenance and oversight of an adequate system of internal control, the development of improvements to that system and the preparation and definition of the content of the information concerning ICOFR attached hereto.

In this respect, it should be borne in mind that, irrespective of the quality of the design and operation of the internal control system adopted by the Company in relation to annual financial reporting, the system may only provide reasonable, but not absolute, assurance in relation to the objectives pursued, due to the limitations inherent in any internal control system.

In the course of our audit work on the annual accounts and in accordance with the Technical Auditing Standards, our evaluation of the Company's internal control was solely aimed at enabling us to establish the scope, nature and timing of the audit procedures on the Company's annual accounts. Consequently, the scope of our evaluation of internal control, performed for the purposes of the audit of accounts, was not sufficient to enable us to issue a specific opinion on the effectiveness of this internal control over regulated annual financial reporting.

For the purposes of issuing this report, we have applied only the specific procedures described below and set out in the Guidelines for preparing the auditor's report on the information concerning internal control over financial reporting of listed companies published on the website of the Spanish National Securities Market Commission, which defines the work to be performed, the minimum scope of the work and the content of this report. As the scope of the work resulting from these procedures is in any event limited and substantially less than that of an audit or review of the internal control system, we do not express an opinion on its effectiveness or design or operational efficiency, with respect to the Company's annual financial reporting for 2017 described in the attached information concerning ICOFR. Consequently, had other procedures been applied in addition to those established in the aforementioned Guidelines, or had an audit or review been performed of the internal control system in relation to regulated annual financial reporting, other events or matters could have been identified, which would have been reported to you.

As this special work did not constitute an audit of accounts and is not subject to the legislation regulating the audit of accounts in Spain, we do not express an audit opinion under the terms provided for in the above-mentioned legislation.

The procedures applied were as follows:

1. Reading and understanding of the information prepared by the Company concerning ICOFR – disclosures included in the directors' report – and evaluation of whether it covers all the information required, taking into account the minimum content described in section F on the description of ICOFR, for the ACGR in accordance with Spanish National Securities Market Commission Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel responsible for preparing the information detailed in point 1 above in order to: (i) gain an understanding of the preparation process; (ii) obtain information that allows us to assess whether the terminology used conforms to the definitions contained in the reference framework; (iii) obtain information on whether the control procedures described are in place and operational in the Company.
3. Review of explanatory documentation supporting the information detailed in point 1 above, and which will mainly include that made directly available to those responsible for preparing the descriptive information on ICOFR. This documentation includes reports prepared by internal audit, senior management and other internal or external specialists supporting the audit committee.
4. Comparison of the information detailed in point 1 above with the understanding of the Company's ICOFR gained as a result of the procedures performed within the framework of the audit work on the annual accounts.
5. Reading of the minutes of the meetings of the board of directors, audit committee and other committees of the Company for the purposes of assessing the consistency of the matters discussed at these meetings in relation to ICOFR with the information detailed in point 1 above.
6. Procurement of a representation letter concerning the work performed, duly signed by those responsible for preparing and drawing up the information detailed in point 1 above.



As a result of the procedures applied to the information concerning ICOFR, no inconsistencies or incidents have come to light that could affect it.

This report has been prepared exclusively within the context of the requirements laid down in article 540 of the Revised Spanish Companies Act and Spanish National Securities Market Commission (CNMV) Circular 7/2015 of 22 December 2015 for the purposes of the description of ICOFR in annual corporate governance reports.

KPMG Auditores, S.L.

*(Signed on the original in Spanish)*

Borja Guinea López

11 April 2018