



## **REPORT ON ACTIONS OF THE AUDIT AND COMPLIANCE COMMITTEE FOR THE YEAR 2019**

### **I. Introduction**

This report on the functions and activities of the Audit and Compliance Committee of Corporación Financiera Alba, S.A., is prepared following the recommendations on good corporate governance of listed companies and, in particular, those included in the Good Governance Code of Listed Companies, approved by the National Securities Market Commission – Comisión Nacional del Mercado de Valores (“CNMV”) – on 18 February 2015, in line with what was already provided for in the Unified Good Governance Code of Listed Companies, approved by the CNMV on 22 May 2006, as well as the CNMV Technical Guide 3/2017, on Audit Committees of Public Interest Entities.

The Audit Committee was created by the Board of Directors on 29 March 2000, following the recommendations of the so-called “Olivencia Code” (Good Governance Code).

Subsequently, Law 44/2002, of 22 November, on Reform Measures of the Financial System (“Financial Law”), established the mandatory existence of this Committee in listed companies and certain requirements related to its composition, powers and standards of operation.

In compliance with the provisions of said Law, Corporación Financiera Alba, SA modified its Bylaws and its Regulations of Board of Directors, setting the Committee’s powers and the rules of its operation.

As a result of the approval of Law 12/2010, of 30 June, which amended the Audit Law, the Spanish Securities Market Act, extending the powers of the Audit Committees, the Regulations of the Board of Directors were amended to adapt them to the legal provisions in relation to the Audit Committee, but, in addition, this modification was used to introduce into the Regulations of the Board of Directors the recommendations derived from the document of the National Securities Market Commission regarding “Internal control over financial information in listed companies” (June 2010).

Law 31/2014, of 3 December, which amended the Capital Companies Act to improve Corporate Governance, introduced into the Capital Companies Act – Ley de Sociedades de Capital (“LSC”) – Article 529 quaterdecies, relating to the Audit Committee, by including provisions relating to its composition, organisation and functions, which were incorporated to the Regulations of the Board of Directors by means of the amendment agreed on 5 May 2015.



Meanwhile, Law 22/2015, of 20 July, on Account Auditing, modified, by its Final Provision 4, Article 529 quaterdecies of the LSC, relating to Audit Committee, as mentioned, in aspects that mainly affect the composition of this Committee and its functions, and therefore, once it came into effect, the Regulations of the Board of Directors were amended once again, by resolution of 3 May 2016, to reflect these changes and, likewise, the name was changed to the Audit and Compliance Committee (the Board's resolution was reported to the General Shareholders' Meeting held on 8 June 2016, and it was registered in the Mercantile Registry on 15 July 2016).

Finally, following Recommendation number 19 of the Technical Guide of the CNMV 3/2017, on Audit Committees of Public Interest Entities, in 2017 the Board of Directors approved the Regulations of the Audit and Compliance Committee.

## **II. Functions of the Audit and Compliance Committee**

In Article 3 of the Regulations of the Audit and Compliance Committee of Corporación Financiera Alba, SA, as well as in the Regulations of the Board, in its Article 22, following the provisions of the Article 529 quaterdecies of the LSC, the following functions are entrusted to the Audit and Compliance Committee, without prejudice to those others that may be assigned by the Board of Directors:

- a) Inform to the General Shareholders' Meeting as to any issues raised in connection with those matters that lie within the competency of the Committee, and in particular the results of the audit, explaining how this has contributed to the integrity of financial information, and the function that the Committee performed in this process.
- b) Supervise the efficacy of internal control of the Company, internal auditing and risk management systems, and discuss with the accounts auditor any significant weaknesses in the internal control system that might be detected in the development of the audit, all the above without undermining its independence. To this end, and as applicable, they may submit recommendations or proposals to the governing body, and the corresponding period for the follow-up thereof.
- c) Supervise the process of preparation and presentation of the required financial information, and present recommendations for proposals to the governing body in order to safeguard its integrity.
- d) Submit to the Board of Directors proposals for the selection, appointment, re-appointment and replacement of the accounts auditor, taking responsibility for the hiring process, in accordance with the provisions of Article 16 Sections 2, 3 and 5, and Article 17.5 of Regulation (EU) No. 537/2014 of 16 April, and the terms and conditions of their recruitment and to obtain regular information from them on the audit plan and its implementation, while preserving their independence in the performance of their duties.



- e) Establish the appropriate relations with the external auditor to receive information on those issues that may pose a threat to their independence, for examination by the Committee, and any others related to the process of carrying out the audit of accounts, and, where appropriate, the authorisation of services other than those prohibited, under the terms set out in Articles 5, Section 4, and 6.2.b) of Regulation (EU) No. 537/2014, of 16 April, and as foreseen in Section 3 of Chapter IV of Title I of Law 22/2015, of 20 July, on the Auditing of Accounts, on the independence regime, as well as those other communications provided for in the account auditing legislation and in the auditing standards. It must in all cases each year receive from the external auditors the declaration of their independence with regard to the organisation or organisations directly or indirectly related to it, in addition to detailed and individual information on additional services of any class that are provided, and the corresponding fees received from said organisations by the external auditor or the persons or entities related to it, in accordance with the provisions of the regulations governing accounts auditing operations.
- f) Issue each year, prior to the issuance of the accounts auditing report, a report stating an opinion as to whether the independence of the accounts auditor or auditing firms has been compromised. This report must in all cases contain the evaluation of the performance of each and every one of the additional services referred to in the above section, taken individually and as a whole, other than the legal audit, and with regard to the regime of independence or the regulations governing accounts auditing operations.
- g) Report to the Board of Directors in advance as to all matters set out in Law, the Corporate Bylaws and the Board Regulation, and in particular with regard to:
  - 1. the financial information that the Company is required periodically to publish,
  - 2. the creation or acquisition of stakes in special-purpose vehicles or any domiciled in countries or territories classified as tax havens and
  - 3. operations with related parties.
- h) Supervise compliance with the rules of corporate governance, the internal codes of conduct and the corporate social responsibility policy.

### **III. Composition**

The Audit and Compliance Committee is an internal body of the Board and, therefore, is composed of Directors of the Company. The members are appointed by the Board of Directors and, in accordance with the provisions of the LSC, following the amendment made by Law 22/2015, of 20 July, all the members of this Committee must be external or non-executive directors, the majority of whom must be independent directors and at least one of whom must be appointed on the basis of his or her knowledge of accounting and/or auditing matters. As a



whole, the members of the Committee must have the relevant technical knowledge in relation to the sector of activity to which the Company belongs.

The Chairman of the Committee must be an independent Director and, in accordance with the provisions of the Law and the Company Bylaws, the Chairman must be replaced every four years and may be re-elected after a period of one year has elapsed since his removal.

The composition of the Audit and Compliance Committee of Corporación Financiera Alba complies with the legal requirements, since it is made up of three Directors, and all of them are independent.

The composition of this Committee as of 31 December 2019 was as follows: Ms Ana María Plaza Arregui, as Chairperson, and Ms Claudia Pickholz, and Ms María Eugenia Girón Dávila, as Board Members. All of its members have the status of Independent Directors, with Ms Plaza having been appointed in 2019, Ms Pickholz in 2016 and Ms Girón in 2018. Mr Carlos González Fernández was also a member of the Audit Committee up until 17 June 2019.

In accordance with the recommendations of the Unified Good Governance Code of Listed Companies, the information on the profile of all the Directors of Corporación Financiera Alba is made available on the Company's website. In accordance with the recommendations of CNMV Technical Guide 3/2017, we would highlight that Ms Plaza has considerable experience in the world of auditing and financial management at companies in a range of sectors, both nationally and internationally, along with extensive knowledge of the field of technology, that Ms Pickholz has held management positions at major multinationals in a range of sectors, in particular with responsibilities in the areas of marketing and strategy, and that Ms Girón has considerable experience in the world of business, strategy design, brand building, international growth and sustainable development.

#### **IV. Functioning and activity**

The internal functioning of the Audit and Compliance Committee is governed by the provisions of Article 47 of the Bylaws and by the provisions of Articles 29 to 34 of the Regulations of the Board and Articles 12 to 18 of the Regulations of the Audit Committee and Compliance, which regulate everything related to its meetings, calls, quorum, adoption of resolutions, minutes, relations with the Board, with the Company's Management, and with the auditor and the internal auditor, and the powers to request information on any aspect of the Company and to seek the advice of external professionals.

During the year 2019, the Audit and Compliance Committee held seven meetings, in which it worked, within the functions mentioned above, in the areas indicated below, and for which it had the necessary information and documentation at its disposal:



- Review of the periodic financial information to be submitted to the National Securities Market Commission.
- External audit of the financial statements and relations with the external auditors.
- Risk identification and internal control system.
- Internal audit.
- Review of non-financial information.
- Compliance with the legal provisions and internal regulations.

The meetings of the Audit and Compliance Committee were attended, by invitation, by the external and internal auditors, the Chief Financial Officer and the Company's risk managers, to discuss the items on the agenda that were their responsibility. As for the external auditors of the Company, they have been invited to participate in four meetings. As for the internal auditors, in 2019 they were invited to participate in three sessions of the Audit and Compliance Committee.

In connection with the management of risks that may affect the Company, the Audit and Compliance Committee regularly includes a point in the agenda of its meetings dedicated to this matter, either to conduct the relevant monitoring of risks or to have the person in charge of this area within the Company present this to the Committee. During 2019, all their meetings addressed issues related to the management and monitoring of risks.

At the end of each year, the Audit and Compliance Committee approves its Activities Schedule for the next year, in relation to the areas mentioned above and follows these up accordingly.

#### **a) Review of Periodic Financial Information**

In relation to the periodic financial information, the Audit and Compliance Committee has analysed, prior to its presentation, the quarterly and half-yearly financial information sent to the National Securities Market Commission, and are made public, as well as the complementary information leaflets that are published, in accordance with the requirements established by Royal Decree 1362/2007, of 19 October (modified by Royal Decree 875/2015, of 2 October), and by CNMV Circular 1/2008, of 30 January (modified by Circular 5/2015, of 28 October).

This analysis is carried out by the Company's Chief Financial Officer, who is responsible for the preparation of the information mentioned above, in order to explain to the Commission the accounting process followed to prepare said financial information, and the decisions and criteria adopted.

The Commission gave its approval to this information, after the introduction of certain suggestions raised by it.

A meeting was also held to examine the Financial Statements prior to their preparation by the Board of Directors.



Finally, in accordance with the provisions of recommendation 43 of the CNMV 3/2017 Technical Guide, the Committee ensures that the financial information published on the company's website is up to date and in line with that prepared by the Board of Directors and made public.

#### **b) External Audit of the Financial Statements and Relations with the External auditors**

As regards the External Audit, it is worth mentioning that the Auditors attended the meetings of the Committee at which they examined the financial information corresponding to the close of the 2018 financial year and the Financial Statements for said year. The External Auditors reported at length to the Committee, as they did at the Board meeting in which annual accounts were drawn up, on their auditing work performed, the most important issues raised and the criteria followed. In particular, the Financial Statements were the subject of an unqualified report, without any significant risks being detected in the Company, and the internal control of the Company was considered adequate. The external auditors were assisted in the performance of their duties by the persons responsible within the Company. The planning of the audit work for 2019 was also explained.

External auditors submitted to the Audit and Compliance Committee the limited review of the financial statements in the first half of 2019 and the audit planning for the fiscal year 2019.

In addition, and in accordance with the provisions of Article 529 quaterdecies of the Capital Companies Act, the Audit and Compliance Committee received written confirmation from the auditors of their independence from the related entity or entities and issued a report expressing its opinion on the independence of the auditors.

#### **c) Risk Identification and Internal Control System**

With regard to the risk identification and internal control system, it should be noted that the Finance Department is in charge, within the Company, of the internal control of the same, which has a series of operating rules that establish the internal control criteria. These standards refer, among other matters, to: Accounting and Reporting, Investments and Disinvestments, Short-Term Investments; Management of Real Estate and Accounts Receivable; Accounts Payable and Relations with the CNMV, Cash Management Placements, Granting and Revocation of Powers of Attorney.

The Audit and Compliance Committee has powers in this area and evaluates whether the Company has the adequate organisation, personnel and processes to identify and control its main operational, financial and legal risks, and is authorised to investigate any aspect of the risk identification system and internal control that it considers appropriate.



In this regard, in the Additional Report that the auditor submitted to the Audit and Compliance Committee for the year 2018, it was stated that while undergoing the risk assessments due consideration was given to the internal control with regard to the Company's preparation of their annual accounts and the accounting system, in order to design adequate auditing procedures and not to express an opinion on the effectiveness of the internal control of the Company. However, it was noted that there were no internal control deficiencies assessed as significant or which needed to be reported to the Company.

Likewise, in 2015, following the recommendations of the Code of Good Governance of Listed Companies, the Board of Directors, at the proposal of the Audit Committee, resolved to establish a Risk Control and Management Unit as an advisory and control body at the service of the Audit Committee, independent of the business, and aimed at ensuring the establishment of adequate control and efficient and prudent risk management. The Risk Control and Management Function Statute was approved by the Board of Directors on 26 October 2015 and, in addition, a Risk Management Methodology and Monitoring Model have been adopted.

The Company has in this regard defined an Integrated Risk Management System with the following key functions: allow the identification and proactive and efficient evaluation of risks at the Company level, and the constant monitoring and follow-up thereof; integrate, coordinate and direct the various efforts being made by the Company in the field of risk management; allow responsible risk acceptance to be obtained, and underpin the responsibility of Company employees; ensure that the control systems are aligned with the real risks facing the Company; facilitate and streamline the application of corrective measures.

This Integrated Risk Management System has been implemented to mitigate the risks to which the Group is exposed, given the nature and degree of complexity of its operations and the environment in which it operates, and it consists of three key elements:

- The continuous process of risk management, understood as those activities carried out by all the people of the Company focused on identifying potential risk events that may affect them, managing the risks identified, and providing reasonable assurance on the achievement of the Company's objectives. In this regard, the Company's Risk Map has also been reviewed in order to confirm that it continues to represent the company's risk profile.
- An organisational approach with clearly defined roles and responsibilities, to ensure that although integrated risk affects and involves all staff of the Company, the main participants are: the risk supervisors, the Risk Management and Control Unit, the Audit and Compliance Committee and the Board of Directors.



- A monitoring model, which defines and provides the necessary and timely information so that all participants in the risk management process can make informed decisions regarding the same.

The Audit and Compliance Committee, as part of this Integrated Risk Management System, is responsible for supervising the effectiveness of the Company's internal control, internal audit and risk management systems, assessing whether the Group has adequate organisation, personnel, policies and processes to identify and control its main risks and, in particular, operational, financial, non-financial and legal risks.

In relation to risk management processes, in addition to the Risk Control and Management Unit mentioned above, Corporación Financiera Alba has compliance processes, which are mentioned below, as well as the Internal Audit Service, to which reference has already been made.

In 2019, two Business Risk Monitoring Reports were prepared and presented (corresponding to the second half of 2018 and the full year and the first half of 2019, respectively), in accordance with the approved Risk Management Methodology and Monitoring Model. These Reports examine the aggregate risk situation and the individual analysis of the risks (the ten most critical risks, according to the Risk Map, reviewed in October 2017). To assist in their preparation, meetings are held with those responsible for the risks, the defined controls and indicators are checked, and the assessment being monitored is reviewed and analysed. The conclusion drawn from the Reports is that the controls have been effective (although some did not apply during the stated periods), and those indicators requiring some attention gave rise to the relevant explanations or clarifications being obtained, with special action plans being proposed to increase the level of safety in certain fields.

Mention should lastly be made within this area of the review and analysis conducted together with the various risk owners as to the risk assessment (impact and probability), so as to ascertain if this remained valid during the year in question, essentially on the basis of the types of risk, the assessment scale, the inherent risks of the group (with regard to control activities), residual risks (after the controls) and a comparison with the inherent and residual risks noted in 2017. Following this analysis, the conclusion reached was that it should be convenient to update the critical risks (inherent and residual) in order to align them with the current situation of the Company, with the new Risk Map being approved.

#### **d) Internal Audit**

In 2011, and following the recommendations of the CNMV document "Internal Control Over Financial Information in Listed Companies" (June 2010), the Audit Committee proposed, and the Board of Directors agreed, to establish an Internal Audit service as an instrument for the better development of the functions entrusted to the Board of Directors and the Audit Committee, in relation to the control and management of risks and the monitoring of the internal information



and control systems. The person in charge of this service was also appointed and it was decided that an audit firm would support the performance of the Internal Audit functions. In May 2019 the Audit and Compliance Committee resolved to issue a favourable report as to the internal audit function being entrusted to the firm Deloitte Advisory, S.L., to be coordinated with the Company by the General Secretary, answering to this Committee, said approach being approved by the Board of Directors. This contributes to the independence of internal audits.

In relation to the internal audit, it is worth mentioning that it has a Statute approved by the Board (the last one, by agreement of 27 February 2017), which has drawn up a Risk Map of the Company, (at the inherent and residual level and as regards the degree of effectiveness of internal control) - which has already been reviewed four times, most recently in 2019 - and which follows the Business Plan approved by the Audit and Compliance Committee.

In 2019, in accordance with the Internal Audit and Compliance Plan that was submitted to the Audit and Compliance Committee, some internal procedures were audited, no significant issues were found, and suggestions for improvement were made for some of them.

Likewise, during the 2019 financial year the Committee registered its approval of the new version of the Company's Manual for the Internal Financial Reporting Control System (the 'Sistema de Control Interno de la Información Financiera', or 'SCIIF'), resulting in an update and simplification of the Manual approved in 2013 in line with the reality of the Alba Group, taking into account information set out in subsection F of the Annual Corporate Governance Report (the 'Informe Anual de Gobierno Corporativo', or 'IAGC', in its new configuration established by CNMV Circular 2/2018). During this financial year these provisions were followed and reported to the Audit and Compliance Committee, which in turn informed the Board of the outcome of the internal audits and compliance with the SCIIF.

#### **e) Review of non-financial information**

The Audit and Compliance Committee has overseen the Corporate Social Responsibility Policy and in this area, pursuant to Recommendation 55 of the Code of Good Government of the Listed Companies, since 2016 the Company has been reporting on corporate social responsibility issues through the Sustainability Annual Report, which is reported by the Audit and Compliance Committee prior to its approval by the Board of Directors and made available to the convening of the General Shareholders' Meeting.

By Law 11/2018 of 28 November on non-financial information and diversity, applying to the fiscal years started on 1 January 2018, several precepts of the Spanish Commercial Code, the Capital Companies Act and the Audit Law were changed, entering the obligation to include a non-financial information statement if the companies met a number of requirements.



In 2018 Alba did not meet the requirements imposed to formulate a non-financial information statement, and so for said financial year it published its Sustainability Report, on which the Audit and Compliance Committee issued a favourable opinion.

The 2018 Sustainability Annual Report, to a large extent, although the Company is not obligated to do so, compiles the content of the non-financial information required by the regulations reviewed. In accordance with the terms set out in the applicable regulations, the Sustainability Report refers to:

- The business model, and specifically the principles of the Alba Investment Policy, which were amended in 2017 in order explicitly to include the condition that its investee companies must comply with the highest standards of transparency, corporate governance, and Corporate Social Responsibility in general.
- The alignment with international sustainability standards, encouraging investees to identify the various Sustainable Development Goals (SDGs).
- Alba's commitment to its stakeholders and the channels for dialogue with them;
- Its commitment to shareholders and investors through the good governance, ethics and values of Alba, the management and control of non-financial risk, and regulatory compliance.
- Its commitment to employees through job stability, health and safety policies, professional development and talent retention.
- Its commitments to society: by encouraging its investees to measure their carbon footprint and to take part in the Carbon Disclosure Project, through appropriate management of waste, electrical energy, water and paper, and also the social impact of their operations through social and artistic initiatives and the promotion of financial education.

The Sustainability Annual Report also describes the Corporate Policies that apply and management and control of non-financial risks.

The Sustainability Annual Report is compiled in accordance with the ten principles of the UN Global Compact, to which Alba is signatory since 2015, and is based on one of the world's most widely used global regulatory frameworks, as is the Global Reporting Initiative (GRI).

In the 2019 financial year Corporación Financiera Alba, S.A. fulfilled for the first time the requirements imposed by the aforementioned Law 11/2018, and it will therefore be obliged to include the Non-Financial Information Statements in its annual accounts, replacing the Sustainability Report presented in previous financial years.



#### **f) Regulatory compliance and other aspects**

With regard to compliance with the legal system and internal regulations, a more detailed statement is made than in the previous points, since, in accordance with the provisions of both the Regulations of the Board of Directors and the Regulations of the Audit and Compliance Committee (Articles 26.c and 9.c, respectively), the Audit and Compliance Committee must prepare a report on this matter.

##### *Internal regulations*

First of all, it should be pointed out that the Company, in order to ensure compliance with the applicable regulations, has an appropriate organisation, which includes a Legal Department, a Tax Department and a Finance Department, each of which, in its own area of competence, ensures compliance with current regulations (external and internal). Likewise, within the scope of the Board, its Regulations provide that the Secretary shall be responsible for ensuring the formal and material legality of its actions, for the statutory regularity thereof and for compliance with its procedures and rules of governance.

In this regard, during the 2019 financial year the Committee completed the tasks required to adapt to the new Law 11/2018, of 28 December 2018, with regard to non-financial reporting and diversity.

On the other hand, one of the functions of this Committee is to ensure the existence of an effective internal system to monitor the Company's compliance with the laws and regulations governing its activity, and to verify that the necessary procedures have been established to ensure that the management team and the employees comply with the internal regulations. It should also be noted that the meetings of the Committee are attended, when required and at the invitation of the Chairman, by the Chief Financial Officer responsible for the Company's internal control, who reports on developments relating to this matter.

In addition, as indicated above, the Company has an Internal Audit Service and a Risk Control and Management Unit, and a Risk Management Methodology and Monitoring Model have been adopted.

In the same sense, in 2016 the Company formalised and implemented a function of the Compliance Regulation, and in terms of health and safety it has a Crime Prevention Manual since 2015. More detailed information is provided in later sections of this Report.

The Company currently has in place the following Policies as indicated in the various provisions or corporate good governance recommendations: Corporate Governance Policy; Corporate Social Responsibility Policy; Communication Policy; Dividends Policy; Treasury Stock Policy; Investments Policy; Tax Policy; Board Remuneration Policy; Directorial Candidate Selection Policy; Risk



Management Policy; and Criminal Risk Prevention and Anti-Fraud Policy. These Policies are periodically reviewed in case they might need to be amended. During the 2019 financial year, following a report by this Committee the Corporate Governance Policy, the Risk Management Policy and the Corporate Social Responsibility Policy were updated, replacing those approved on 26 October 2015. The Appointments and Remunerations Committee also issued a report prior to the update to the Board Remuneration Policy and the Directorial Candidate Selection Policy.

In 2017, the Audit and Compliance Committee approved a Policy for the Provision by the External Auditor of Services other than Statutory Audit, in accordance with the provisions of article 529 quaterdecies 4. e) of the Law on Capital Companies, as amended, which entered into force on 17 June 2016.

As regards the existence of internal procedures, as mentioned above, the Company has a series of operating rules that establish the internal control criteria, as well as the Manuals of the Internal Control over Financial Reporting System, Risk Management Methodology and Monitoring Model, and Crime Prevention.

A new Code of Ethics and Conduct was approved in 2018, taking into account in particular the evolution of the legal regulations regarding the liability of legal entities. In addition, given the importance of internal reporting channels, an annex to the Code of Ethics and Conduct approved in 2018 is now included, which outlines a more detailed procedure for handling reports that allows you to communicate, in a confidential manner, any acts or conduct committed that may be contrary to applicable regulations or the Code of Ethics and Conduct within the company, in the performance of third parties that are in contract with the company or to its detriment. During 2019 there were no grievances reported.

In addition, since 2016, the Company has had Internal Rules of Conduct related to the Securities Market, aligned with market abuse regulations.

#### *Regulatory compliance*

In addition to the internal regulations mentioned in the previous paragraphs, Corporación Financiera Alba, as a complement to other actions that have been carried out in recent years to adapt to new requirements and best practices in corporate governance matters (such as, for example, the Internal Audit Service, the Financial Information Control System, the creation of the Risk Control and Management Unit, or the development of a crime prevention model and manual), in 2016, carried out the formalisation and implementation of a Regulatory Compliance function within the General Secretariat in order to coordinate, systematise and monitor the different actions and efforts it had been making in this area, with the collaboration of external consultants.

The purpose of this function is to provide reasonable certainty that Alba complies with its key legal and regulatory requirements, with the following actions being taken to this end: (i) the main legislative and regulatory obligations that must be



fulfilled by the Company have been identified; (ii) a compliance model has been designed (with activities and tasks to be performed, dates and owners); and (iii) a monitoring and follow-up model has been established for Compliance activities, with early warnings and twice-yearly reviews, so as to avoid potential breaches.

In the monitoring reports, the identified requirements are verified, with details of which have been met, those that have not been applied, and, where appropriate, the opportunities for improvement.

During 2019, the Regulatory Compliance Monitoring Reports for the second half of 2018 and the full year were prepared, as well as for the first half of 2019. The last of these confirmed that, with regard to the 74 requirements identified, 60 of them were fulfilled, 11 were not applicable during the half-year in question as they were connected with transactions that did not take place during the period, while 3 were not applicable because they correspond to the Spanish Data Protection Law, which has been replaced by the General Data Protection Regulation, and will be updated.

In 2018, in a further step of action and compliance culture in the Company's activity, with the favourable report of the Audit and Compliance Committee, the Company's Board of Directors approved the Regulatory Compliance Function Charter, and mandated the Secretary of the Board of Directors for Management of the Regulatory Compliance Unit, reporting to the Audit and Compliance Committee and with the external collaboration of Ernst & Young, S.L., from May 2019 onwards.

### *Crime Prevention*

As a result of the regulations on the criminal liability of legal persons, especially following the reform of the Criminal Code by Organic Law 1/2015, a new Manual on Crime Prevention was approved (26 October 2015) and, during 2015 and 2016, various initiatives were launched, particularly regarding the application of the new corporate regulations and the means of monitoring, detection and response. In this respect, monitoring reports have been drawn up analysing various risks and their controls in accordance with the strategic plan and the annual plan, and general compliance with them has been observed and only a few recommendations have been made.

In 2019, the effectiveness of the Crime Prevention Model was monitored accordingly, with two reports being submitted, one for the full year 2018 and another in the first half of 2019, resulting in an overall situation of compliance regarding the risks analysed, with some recommendations being put forward. The Audit and Compliance Committee has considered the monitoring to be satisfactory.

### *Related-party operations*



In addition, within this area of regulatory compliance, reference should also be made to the examination of transactions with Directors, significant shareholders or their representatives, or persons linked to them, or with investees ("transactions with related parties"), which have been reported favourably, as they meet the conditions for doing so. In addition, in accordance with the provisions of the Good Governance Code of Listed Companies (recommendation 6), the Audit and Compliance Committee approved a report on the aforementioned transactions with related parties and published it on the Company's website.

#### *Other*

The Audit and Compliance Committee also examined the draft Annual Corporate Governance Report, which was subsequently approved by the Board of Directors, and the monitoring reports prepared by the control bodies of the Internal Rules of Conduct, the Code of Ethics and Conduct and the Crime Prevention Manual on the actions taken to comply with them.

Specific mention should be made of the monitoring of tax risk, which prompted the Audit and Compliance Committee to examine the Company's tax situation with reference to its tax obligations in general, the most significant aspects with regard to Corporation Tax, VAT and local taxes, and compliance with the various reporting obligations.

With respect to the communications with the National Securities Market Commission (CNMV), which include the communications of financial information, relevant events and other requests for information, all the necessary communications were made during the year.

Lastly, the Audit and Compliance Committee registered its approval of the new Corporación Financiera Alba, S.A. website, updated and modified during the first quarter of 2019 to refresh its image, align it with technical developments, and offer improved accessibility from the various devices available. The new website complies with the provisions of CNMV Circular 3/2015, of 23 June 2015, and is fully aligned with the provisions in force.

The Audit and Compliance Committee has kept track of the functionality of the website. In this regard, during the 2019 financial year a "white-hat hacking" report into the new website was conducted in order to ascertain its reliability and level of security.

#### *Assessment of the External Audit, the Internal Audit and the Audit and Compliance Committee*

Following the Recommendation 71 of the CNMV Technical Guide 3/2017, the Audit and Compliance Committee evaluated the external auditor, reviewing its submissions to the Committee and the various reports issued, with consideration given to the fact that during 2018 the external auditor successfully completed its



role in compliance with the Plan established for the year, without any incidents and contributing to the integrity of the Company's financial information.

In connection with the internal audit, and following Recommendation 58 of the CNMV Technical Guide 3/2017, the Committee has assessed this area of the Company, and in view of the work submitted and the Annual Report of the Internal Audit Service, it has considered that during 2018 the Internal Audit Service successfully completed its function, meeting the objectives of the Plan established for the year and no incidents occurred. In addition, the Internal Audit Officer has been deemed to have properly performed his role.

Following Recommendation 76 of the CNMV Technical Guide 3/2017, as part of the Board's annual assessment (compiled in the Board's Evaluation Questionnaire and its Evaluation Report), the Audit and Compliance Committee evaluated its performance in 2019. The Board's Evaluation Questionnaire contained the opinion of all Directors on the performance of this Committee, informing the Board of the assessed aspects and the outcome thereof. The assessment of the Audit and Compliance Committee has not resulted in any changes to the internal organisation and procedures of the Company.

## **V. Conclusions**

In view of the foregoing, the Audit and Compliance Committee considers that the Company has an adequate organisation and a sufficient regulatory framework to ensure satisfactory compliance with the regulations, and that effective compliance by the Company with the external and internal regulations applicable to it, as well as the provisions and recommendations on good corporate governance, is satisfactory.

In addition, it considers the Company to have adequate mechanisms for the Audit and Compliance Committee to properly exercise the functions it has legally assigned and in the internal regulations of the Company, in connection with periodic reporting of financial information, the external audit, internal audit, non-financial information and the internal control and risk identification systems, and that compliance on behalf of the Company in relation to these matters is satisfactory.

Madrid, 20 February 2020