



**Banco de Sabadell, S.A.  
Director Selection Policy**

**March 2019**

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## 1. Introduction

On 24 February 2015, the National Securities Market Commission (CNMV) released the Good Governance Code of Listed Companies (GGC), which is applicable to Banco Sabadell as a listed company. Under Recommendation 14, the GGC recommends that the Board of Directors approve a director selection policy that is concrete and verifiable, ensures that appointment or re-election proposals are based on a prior analysis of the Board's needs, and favours a diversity of knowledge, experience and gender.

In any event, the director selection policy must conform to the provisions of Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions ("LOSS"), which regulates the general composition of Boards of Directors and the suitability requirements that directors must meet; those criteria are elaborated upon in Royal Decree 84/2015, of 13 February ("ROSS") and in Bank of Spain Circular 2/2016, of 2 February (the "Circular").

## 2. Object

The purpose of this Policy is to establish the criteria that Banco Sabadell must apply in selecting new members of the Board of Directors and in re-appointing existing members, in the framework of the provisions of the LOSS, the ROSS, the Circular, the GGC, and Legislative Royal Decree 1/2010, of 2 July, approving the consolidated text of the Capital Companies Act ("CCA"), and any other applicable standard or recommendation.

This director selection policy will be applicable to candidates for directorships of the Bank who are natural persons. In the case of candidates for directorship that are legal persons, the provisions of this Director Selection Policy will extend to the natural persons who are to represent them. Nevertheless, candidates for directorships should preferably be natural persons.

## 3. Objectives of candidate selection

The candidate selection process will commence with an analysis of the Bank's needs by the Appointments Committee, to ensure that, as its first priority, the appointment pursues an appropriate balance in the Board's composition in terms of director categories (independent, proprietary and executive).

As a general rule, candidates for directorship must be honourable, suitable and have acknowledged competency, experience, qualifications and training; they must also have the necessary availability and a high degree of commitment to their function as a director of the Bank; the selection should seek to ensure an appropriate balance in the

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Board of Directors so as to enrich the process of decision-making and contribute a plurality of viewpoints to debates on matters that are within the Board's remit.

In particular, the following should be achieved:

- Professional competency, by selecting persons of acknowledged professional expertise in their area. Particular value will be attached to banking and financial experience, which will enable the candidate to contribute a strategic and business vision.
- Diversity, by selecting a variety of profiles (business, banking, academic, finance, auditing, law, consulting, etc.) and a range of experience, origins and nationalities within the Board of Directors. In particular, the number of female directors should be sufficient, the goal being that the under-represented gender accounts for at least 30% of the Board members by 2020. Likewise, it must be ensured that there is a sufficient representation of directors with banking experience in areas such as retail banking, business banking, corporate banking, or investment banking, both nationally and internationally.
- Integrity and suitability, by evidencing an appropriate track record and personal, commercial and professional conduct that shed no doubt as to the person's capacity to exercise healthy, prudent oversight of the company.

## **4. Impediments to selection as a Director**

Persons who fall under any of the prohibitions set out in the law or the Bank's Articles of Association, and any others who fail to pass the suitability tests for directors of financial institutions, may not be members of the Board.

## **5. Competent bodies**

The bodies that are competent for performing and coordinating the process of selecting candidates for director, to be submitted to the General Meeting of Shareholders, are the Board of Directors and the Appointments Committee.

### **1. Appointments Committee**

As provided by article 62 of the Articles of Association and article 14 of the Board of Directors Regulation and in the framework of the LOSS, the ROSS and the Circular, the Appointments Committee has the following powers:

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- a. Making proposals to the Board of Directors as to the appointment of independent directors, for direct co-optation by the Board or for submission to the General Meeting, and proposals for their re-appointment or removal by the General Meeting of Shareholders.
  - b. Advising on proposals as to the appointment of other director categories, for direct co-optation by the Board or for submission to the General Meeting, and proposals for their re-appointment or removal by the General Meeting of Shareholders.
  - c. Ensuring that the composition of the Board of Directors complies with the provisions of article 54 of the Articles of Association, under which external or non-executive directors must account for a majority of the members of the Board. There should be a significant proportion of independent directors among the external or non-executive directors.
  - d. Checking possession of the competency, knowledge and experience required for the Board of Directors. In this connection, articles 24 of the LOSS, article 31 of the ROSS and article 32 of the Circular provide that the composition of the Board of Directors as a whole must have sufficient knowledge, competencies and experience in the governance of credit institutions so as to properly comprehend the entity's activities, including the main risks, and ensure that the Board of Directors has effective capacity to make decisions independently and autonomously in the Company's interests. To this end, it must evaluate the balance of knowledge, skills, diversity and experience on the Board of Directors and, for this purpose, it will define the roles and capabilities required of the candidates to fill each vacancy.
  - e. Ensuring that, when filling vacancies or appointing new directors, the selection procedures promote a diversity of experience and knowledge, facilitate the selection of female directors and, in general, contain no implicit bias that might entail discrimination in any form.
  - f. Checking compliance with this Policy each year and reporting the degree of compliance to the Board of Directors. The outcome of this verification process must be disclosed in the Annual Corporate Governance Report.

## **2. The Board of Directors**

In addition to the approval of this Policy, in accordance with the provisions of articles 529 bis.2 and 529 decies of the CCA, article 51 of the Articles of Association, article 7 of the Board of Directors Regulation, and

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Recommendation 14 of the GGC, the Board of Directors has the following functions, among others:

- a. Making proposals for the appointment or re-appointment of directors other than independent directors, for submission to the General Meeting of Shareholders or for designation by co-optation.
- b. Drawing up a report to the effect that it has checked the competency, experience and merits of a candidate for a directorship, which must be attached to the proposal for appointment and be included in the minutes of the General Meeting of Shareholders or the Board of Directors meeting.
- c. Ensuring that the procedures for selecting directors encourage a diversity of gender, experience and knowledge, with no implicit bias entailing any discrimination, and, in particular, that they facilitate the appointment of female directors.

### **3. General Meeting of Shareholders**

In accordance with article 160.b) of the CCA and article 47 of the Articles of Association of Banco Sabadell, the General Meeting of Shareholders is the body with powers to debate and decide upon director appointments.

## **6. Procedure**

### **1. Analysis of Board competencies and diversity, and definition of candidate profile.**

The Appointments Committee will perform an initial analysis of the competencies, knowledge and experience required for appointment as a member of the Board of Directors; to this end, it will take account of the balance of knowledge, skill, diversity and experience of the members of the Board of Directors, for which purpose it will define the functions and aptitudes required of candidates for each vacancy and will assess the time and dedication required to discharge the duties effectively.

### **2. Director selection**

- **Search for candidates.** If it sees fit, the Committee may engage a prestigious consulting firm in the area of personnel selection to initiate

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the search for candidates who meet the desired profile. Any director may also suggest candidates, provided that they meet the conditions established in this Director Selection Policy.

- **Suitability assessment.** Once a candidate has been selected, but before the Appointments Committee makes a proposal or issues a report, the "Procedure for assessing the suitability of members of the Board of Directors and key officers" must be completed, in which the Appointments Committee will check that the candidates are suitable in terms of fulfilling the integrity, knowledge, experience and governance requirements set out in the applicable regulations.

To assess their commercial and professional integrity, the Committee must consider all available information, including:

- a. The candidate's track record vis-à-vis regulatory and supervisory authorities; the reasons for his/her removal from previous positions; his/her personal history of solvency and fulfilment of obligations; his/her professional performance in any positions of responsibility in credit institutions that were subject to early intervention or resolution; whether he/she has ever been disqualified under Act 22/2003, of 9 July, on Insolvency, if the period of disqualification established in the court ruling on insolvency has not expired, or he/she is an undischarged bankrupt under insolvency proceedings that pre-dated the entry into force of that Act.
- b. Sentences for crimes or misdemeanours, and penalties for administrative violations, considering:
  1. Whether the crime, misdemeanour or administrative violation was due to malice or negligence.
  2. Whether or not the sentence or decision is final.
  3. The severity of the sentence or penalty.
  4. The classification of the events that resulted in the sentence or penalty, particularly in the case of crimes against property, money laundering, crimes against the socio-economic order, the Exchequer or the Social Security administration, or violations of the regulations governing banking, insurance, the securities market or consumer protection.
  5. Whether the events that led to the sentence or penalty were performed for his/her own benefit or to the detriment of the interests of third parties to whom the candidate had a fiduciary duty, in which case

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the materiality of the events that resulted in the sentence or penalty should be considered in relation to the functions assigned or to be assigned to the position in the credit institution for which the candidate is being considered.

6. Whether the crimes or administrative violations are statute-barred or whether the criminal liability has expired.
  7. Whether there are attenuating circumstances, and the candidate's performance subsequent to the crime or violation.
  8. Whether the candidate has had repeated sentences or penalties for crimes, misdemeanours or violations.
- c. Whether there were material and well-founded investigations, in the criminal or administrative sphere, into any of the events referred to in item b).

The Committee will also check that candidates possess the knowledge and experience that are required in accordance with article 24 of Act 10/2014, of 26 June, i.e. whether their training is of the appropriate type and level, and they have practical experience arising from previous occupations over sufficient periods of time. Knowledge acquired in an academic setting will be taken into account, as will experience in professional functions in other entities or companies that are similar to those to be performed in the proposed position.

When assessing practical and professional experience, particular attention should be paid to the nature and complexity of previous positions, the competencies and decision-making powers and responsibilities assumed, the number of persons reporting to them, the technical knowledge they attained in connection with the financial sector, and the risks to be managed.

To assess the ability of Board members to provide good governance of the entity, in accordance with the requirements of Article 24 of Act 10/2014, of 26 June, the Committee will consider:

- a. The existence of potential conflicts of interest arising from undue influence by third parties as a result of:
  1. Positions held in the past in the same entity or in other private- or public sector organisations.

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2. A personal, professional or economic relationship with other members of the Board of Directors of the entity, its parent company or its subsidiaries.
  3. A personal, professional or economic relationship with shareholders that control the entity, its parent company or its subsidiaries.
- b. The ability to devote sufficient time to performing the proposed functions.

In its proposal of a candidate for a directorship, or its report on a candidate, the Appointments Committee must state whether it considers that the candidate meets the suitability requirements.

**a. Special rules for selecting independent directors:**

The Appointments Committee is entrusted with ensuring that candidates meet the independence requirements set out in article 529 duodecies.4 of the CCA, ensuring that the candidates are in a position to perform the functions of the position without being compromised by their relations with the Company or its group, its significant shareholders or its executives.

**b. Rules for selection of proprietary and other external directors:**

In other cases where the Board, whether at its own initiative or at the request of a shareholder (in the case of proprietary directors), refers a candidacy for directorship to the Appointments Committee for it to issue an opinion, the Committee must take account of the competencies, knowledge and experience required in the Board of Directors and the balance of knowledge, skill, diversity and experience existing in the Board; in consequence, it must assess whether the candidate's profile matches the needs detected after examining all of them.

The Committee will assign the director to the category of proprietary or other external in accordance with the provisions of article 529 duodecies of the CCA.

• **Re-appointment and ratification of directors**

In the case of re-appointment or ratification of directors, the proposal or report, as the case may be, by the Appointments Committee must also contain an assessment of the director's work and actual dedication in the period since his/her last appointment as a Board member.

- **Administrative procedure**

Once a director has been appointed, the Company Secretary is responsible for the necessary paperwork and notifications to the Bank of Spain and other regulatory authorities, particularly registration with the Bank of Spain's Register of Senior Officers.

## **7. Annual assessment and information on the application of this policy**

In accordance with Recommendation 14 of the GGC, each year the Appointments Committee must check that this Policy is being complied with and must ensure that this is reported in the Company's Annual Report on Corporate Governance.

That Annual Report must also contain specific information about the Company's director selection or re-appointment procedures as set out in this Policy.