



**Banco de Sabadell, S.A.  
Report on the performance and activities of  
the Remuneration Committee**

**2019**

29 January 2020

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## Introduction

This Report on the performance and activities of the Remuneration Committee (the Committee) in 2019 is addressed to the shareholders of Banco de Sabadell, S.A. (Banco Sabadell, the Bank or the Institution) and was adopted by the Remuneration Committee at a meeting on 29 January 2020 and submitted for approval by the Board of Directors of Banco Sabadell at a meeting on 30 January 2020, in accordance with recommendation 6 of the Good Governance Code of Listed Companies, which requires that listed companies prepare this report and publish it on their website sufficiently in advance of the date of the General Meeting of Shareholders.

The Report sets out the activities performed by the Remuneration Committee in 2019 to discharge the duties assigned to it in its Regulation by the Board of Directors of Banco Sabadell within its main areas of responsibility.

Together with the publication of an Annual Report on Corporate Governance and the information available on the group's website, the distribution of this report at the General Meeting of Shareholders underlines once again Banco Sabadell's commitment to providing shareholders and investors with the information they need to keep themselves fully informed of the Company's corporate governance performance and to ensure that it is transparent in everything that it does.

## Regulation

In compliance with the provisions of article 36 of Act 10/2014, of 26 June, on the regulation, supervision and solvency of credit institutions, Banco Sabadell has a Remuneration Committee.

Article 62 of the Articles of Association and article 14 *bis* of the Regulation of the Board of Directors set out the basic rules governing the Remuneration Committee, which is also governed by the Remuneration Committee Regulation, approved by the Board of Directors on 24 October 2019, which establishes its rules of procedure, competencies and functions, and the basic rules for its organisation and functioning. Those documents are available on the corporate website [www.grupobancosabadell.com](http://www.grupobancosabadell.com). The Committee adheres to the Guidelines on Internal Governance issued by the European Banking Authority (EBA/GL/2017/11), the Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2017/12), and Technical guide 1/2019 on Nomination and Remuneration Committees published by the Spanish National Securities Market Commission (CNMV).

## Composition and attendance at meetings in 2019

At the end of 2019, the Committee was composed solely of non-executive directors, all of them independent directors, in compliance with the composition rules set out in article 62 of Banco Sabadell's Articles of Association, which requires that the Appointments Committee consist of at most five directors appointed by the Board of

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Directors, all of whom must be non-executive directors, and at least two of whom must be independent directors, with the requirement that the Chair be appointed from among the independent directors.

The Remuneration Committee underwent the following changes in 2019:

On 28 March 2019, the Board of Directors resolved to appoint Mr. José Ramón Martínez Sufrategui as a member of the Remuneration Committee in place of Ms. Maria Teresa Garcia-Milà Lloveras.

As indicated, all the members of the Remuneration Committee are independent directors.

Accordingly, the composition of the Committee complies with the requirements of article 529 *quindecies* of Legislative Royal Decree 1/2010, of 2 July, approving the consolidated text of the Capital Companies Act, which requires that it comprise only non-executive directors, at least two of whom (including the Committee Chair) must be independent directors. It also complies with the composition required by article 36 of Law 10/2014, of 26 June for the Remuneration Committee of a credit institution, which must comprise members of the Board of Directors who do not perform executive functions, at least one-third of whom (and, in any event, the Chair) must be independent directors.

Also, it complies with Recommendation 47 of the Good Governance Code of Listed Companies, which requires that a majority of the members be independent directors.

Section B.1 of the Annual Report on Director Remuneration and section C.2.1. of the Annual Corporate Governance Report, both of which are available on the website at [www.grupbancsabadell.com](http://www.grupbancsabadell.com), contain detailed information about the Remuneration Committee.

The appointment of the members of the Remuneration Committee by the Board of Directors takes account their knowledge, skills and experience in the areas of corporate governance, analysis and strategic assessment of human resources, design of remuneration policies and plans for directors and executives and performance of senior management functions, in compliance with the provisions of article 5.3 of the Regulation of the Remuneration Committee so that, overall, the members of the Committee have the pertinent knowledge and appropriate experience required for their functions. When appointing members of the Committee, efforts have been made to promote diversity, in terms of gender as well as professional experience, competencies, industry knowledge, international experience and geographical origin.

Further information on the skills, knowledge and experience of each of the Committee members can be found in the professional profile and the Matrix of competencies and diversity of the members of the Board of Directors of Banco Sabadell ("Internal Governance Framework" section) in the corporate governance section of the Group's website ([www.grupobancosabadell.com](http://www.grupobancosabadell.com)).

As at 31 December 2019, the composition of the Remuneration Committee was as follows:

Position	Name	Category	Date of appointment to the Committee
Chair Members	Ms. Aurora Catá Sala	Independent	28/05/2015
	Mr. Anthony Frank Elliott Ball	Independent	21/09/2017
	Mr. George Donald Johnston	Independent	26/10/2017
	Mr. José Ramón Martínez Sufrategui	Independent	28/03/2019
Secretary (non-voting)	Ms. María José García Beato		

As provided in the Committee's Regulation, it must meet as often as necessary, and at least once every three months. The Committee met on eleven occasions in 2019, in accordance with the schedule set at the beginning of the year, and the duration of the meetings was that required to discuss the matters on the agenda and to adopt the pertinent decisions.

The Committee may require the attendance at its meetings of such executives, including executive directors, as it sees fit, by notifying the General Manager(s) in question in order to schedule their attendance. The Committee may also require the presence of other directors, executives or professionals of the Institution or Banco Sabadell Group, external experts or any member of the governing bodies of associated companies, whose attendance will be confined to the items on the agenda for which their presence is required.

All meetings of the Committee were announced with at least the required' advance notice, and the agenda and the available documentation were provided. The use of documentation support tools provided the directors with regular and segmented access to Committee information and enabled them to have this information sufficiently in advance to be able to debate and make decisions about the matters on the agenda of the Committee meetings.

The attendance by the Committee members at the meetings in 2019 was as follows:

#### Number of meetings and attendance

Ms. Aurora Catá Sala	11 / 11
Mr. Anthony Frank Elliott Ball *	9 / 11
Mr. George Donald Johnston	11 / 11
Mr. José Ramón Martínez Sufrategui *	7 / 8
Ms. Maria Teresa Garcia-Milà Lloveras**	3 / 3

\* The committee member gave specific instructions to a proxy for meetings from which he was absent.

\*\* Number of meetings which the director attended with respect to the number of meetings held during the period in 2019 in which she was a member of the Remuneration Committee.

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In order to discuss the areas relating to their respective functions, meetings were also attended by the Banco Sabadell executives responsible for the matters dealt with at the respective meetings, whenever they were invited.

The Secretary took detailed minutes of every meeting, which were approved at the end of the meeting itself or at the next meeting. The Board of Directors was promptly informed of the content of those meetings.

## Functions

The Remuneration Committee is a sub-committee of the Board of Directors and its functions include those defined in article 62 of the Articles of Association of Banco Sabadell, those defined in Article 14 *bis* of the Regulation of the Board of Directors, as well as all the functions set out in the Regulation of the Remuneration Committee and those attributed to it by law.

The Committee has the following functions:

1. Making proposals to the Board of Directors in connection with the director remuneration policy.
2. Proposing, to the Board of Directors, the remuneration policy for general managers and others performing senior management functions who report directly to the Board of Directors, the Delegated Committee or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with.
3. Advising on remuneration programmes based on shares and/or options.
4. Periodically reviewing the general principles of remuneration, and the remuneration programmes for all employees, and considering whether they conform to those principles.
5. Reviewing the remuneration policy each year to ensure that it is aligned with the institution's situation and short-, medium- and long-term strategy and with market conditions and to assess whether it contributes to the creation of long-term value and to appropriate risk control and management.
6. Ensuring that the institution's remuneration policy and practices are up to date, by proposing any necessary changes, and ensuring that they are subject to a central, independent internal review at least once per year.
7. Verifying that the remuneration policy is applied properly and that directors do not receive remuneration outside the policy.
8. Assessing the mechanisms and systems adopted to ensure that the remuneration system duly takes account of all types of risks and liquidity and capital levels, and that the remuneration policy promotes and is consistent with

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adequate, effective risk management, and that it is in line with the Institution's business strategy, objectives, culture and corporate values and long-term interests.

9. Reviewing the various possible scenarios to analyse how remuneration policies and practices react to internal and external events, and considering retrospective evidence of the criteria used to determine remuneration and the ex-ante adjustment to risk based on actual risk outcomes.
10. Reviewing the conditions of the contracts with executive directors and senior management and providing advice in this connection to the Board of Directors, and verifying that they are consistent with the current remuneration policy.
11. Evaluating the degree of compliance with the criteria and objectives established in relation to the previous year, which is what must determine the proposal for the individual remuneration for directors, particularly executive directors, senior management and members of the Identified Staff, including the short-, medium- and long-term variable components, with the participation of the external advisor where appropriate.
12. Proposing the determination of remuneration earned by the directors and senior management.
13. Proposing the determination of the bonus for senior management at the Bank and its subsidiaries.
14. Verifying whether circumstances have arisen that justify triggering the malus or clawback clauses governing variable remuneration, and proposing the appropriate measures to recover any amounts due in that event.
15. Approving the appointment of external consultants on remuneration that the Committee decides to hire to provide advice or support.
16. Ensuring that any conflicts of interests are not detrimental to the independence of external advisors.
17. Ensuring that remuneration is transparent.
18. Verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration.
19. Preparing the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.
20. Reviewing to ensure that the information that the institution divulges via its website on matters that are the competence of the Committee in connection with directors and senior management is sufficient and adequate and conforms to the applicable corporate governance recommendations.

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## Training

The Director Training Programme, which includes the members of the Remuneration Committee, continued in 2019 with training sessions relating to market technology trends, corporate social responsibility policy, the housing market in Spain, and new retail products and distribution channels.

## Activities in 2019

The main activities of the Remuneration Committee in that period are as follows:

### Human Resources Division report on remuneration policy in the Banco Sabadell Group

- It examined the report that is drafted each year by that division to provide the Committee with the basic information it needs to perform the functions entrusted to it in connection with reviewing the general principles of Banco Sabadell's remuneration policy and with supervising the remuneration of the Chairman, CEO, executive directors, the Bank's senior management and the other members of the Identified Staff.

### Fixed and variable remuneration

- It analysed the degree of attainment of the objectives established for the year 2018, approved the percentages of attainment of the objectives for the Group, for the Chairman, CEO, executive directors, members of senior management and the Audit Manager, as well as for the members of the Identified Staff of the Group and of TSB.
- It issued a favourable report to the Board of Directors as to the amounts of the variable remuneration for 2018 for all the Group employees, as well as the Chairman, CEO, executive directors, senior management, Internal Audit, and other members of the Identified Staff of the Group and TSB.
- It issued a favourable report to the Board of Directors on the approval of the targets of the Group and TSB and for the members of the Identified Staff of the Group and of TSB for 2019.
- It reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the overall maximum limit on remuneration for the Board of Directors for 2019.
- It reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the maximum limit on variable remuneration for the members of the Identified Staff.

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- It issued a favourable report to the Board of Directors on the salary review for 2019 in connection with the fixed remuneration for all the group's employees, as well as on an increase in the total amount of fixed salaries for 2019.
  - It issued a favourable report to the Board of Directors on the 2019 remuneration proposal for the Chairman, CEO, executive directors, senior management and internal audit, and the fixed remuneration for 2019 for them and for the members of the Identified Staff in the Group and TSB.
  - It reported favourably to the Board of Directors on the approval of the annual and multi-year targets for variable remuneration in 2019 of the Group, and the members of the Identified Staff in the Group and in TSB.
  - It also issued a favourable report to the Board of Directors on the approval of a long-term remuneration scheme for 2019, as well as targets for executive directors.
  - It approved the Group's Variable Remuneration Fund for 2019 and analysed its variation in stressed scenarios.

#### Identified Staff

- It issued a favourable report to the Board of Directors on proposals for the addition and removal of members of the Identified Staff of Banco Sabadell, TSB and subsidiaries.

#### Policies

- It reviewed and issued a favourable report to the Board of Directors on Banco Sabadell's remuneration policies, comprising the Remuneration Policy for the Banco Sabadell Group, the Remuneration Policy for Senior Executives, the Remuneration Policy for the Group's Identified Staff, and the Remuneration Policy for Banco Sabadell Spain.
- It advised the Board of Directors on the Director Remuneration Policy for 2019, 2020 and 2021, which, once approved by the General Meeting of Shareholders, replaced the one approved on 19 April 2018 in all its terms.

#### Annual Corporate Governance Report of Listed Companies

- It analysed, vetted and cleared the information to be disclosed in the Annual Corporate Governance Report.

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Annual Report on Director Remuneration at Listed Companies

- It issued a favourable report to the Board of Directors on the content of the Annual Report on Director Remuneration.

Assessment of the remuneration policy and its implementation

- It examined the report by external consulting firm Mercer on the Prudential Assessment of Remuneration 2018, which was commissioned in order to analyse whether Banco Sabadell's remuneration policy and practices conform to the regulators' requirements and recommendations.
- It analysed the reports issued by consulting firm Willis Towers Watson analysing the competitiveness of the remuneration for executive directors (Executive Chairman, CEO and Director General Manager), senior management and Internal Audit.
- It analysed the Independent performance evaluation report in connection with oversight over variable remuneration that was produced by an external consultant, which concluded that the Remuneration Committee, the second and third line of defence and the annual independent external evaluation comply with the provisions of the regulations and with the corporate governance recommendations regarding the control of variable remuneration, and that they conform to market best practices in this area.

Mexico

- It approved amendments to the Remuneration Policy of the Bank's subsidiaries in Mexico and its alignment with the Remuneration Policy for the Group's Identified Staff.

TSB

- It was informed of material issues presented to the TSB RemCo.

Improvement in corporate governance

- It reported favourably to the Board of Directors on the proposed Remuneration Committee Regulation.

Assessment

- It approved and advised the Board of Directors on the Remuneration Committee Assessment Report for 2018 and the proposed plan of action for 2019.

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- It approved the Report on the Functions and Activities of the Remuneration Committee for 2018, which was submitted to the Board of Directors and published on the corporate website sufficiently in advance of the date of the General Meeting of Shareholders, thus complying with best practices in the area of corporate governance.

## **Main progress in relation to the 2019 Action Plan**

During the year, the Remuneration Committee fulfilled the Action Plan established for 2019 by adopting the following measures:

- In connection with the increase in relations with proxy advisers and significant shareholders, the Chair of the Committee and the Lead Independent Director participated together in the Corporate Governance Road Show held at the beginning of February 2019 for proxy advisers and significant shareholders, discussing the key issues relating to Remuneration Policy.
- As for the establishment of mechanisms to increase the transparency of decision-making with regard to remuneration by incorporating best practices, the Annual Report on Director Remuneration 2018 was accompanied by a presentation document in order to provide a detailed explanation, with the utmost transparency, of the key contents of the Annual Report on Director Remuneration and the applicable Remuneration Policy. That document is available on the corporate website [www.grupobancosabadell.com](http://www.grupobancosabadell.com).
- Training for Board members continued under the Director Training Programme in 2019 with the goal of providing insights into management policies and mechanisms, key issues of new regulatory requirements, changes to applicable legislation, risk management, new market trends, and key business issues.
- It oversaw the preparation of an action plan to monitor implementation of the qualitative requirements established in SREP 2018.
- An external consultant carried out a performance assessment in connection with oversight over variable remuneration, and concluded in its report that the Remuneration Committee, the second and third line of defence and the annual independent external evaluation comply with the provisions of the regulations and with the corporate governance recommendations regarding the control of variable remuneration. They also conform to market best practices in this connection.
- Internal procedures and technical systems for circulating meeting documentation to Committee members were stepped up, and the structure of the supporting documentation was enhanced to include an executive summary, background information and the purpose of each document.

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- The Bank's executives continued to be involved, as they were invited to attend Committee meetings to present issues in their competency that were being discussed.

The Remuneration Committee was assisted by Willis Towers Watson, which provided advice on the degree to which the remuneration conforms to the applicable regulations and on the implementation of any modifications that might arise; it also provided updates on current trends in governance and any new or evolving regulatory issues that affect Banco Sabadell; its fees amounted to 35,000 euros.

The Committee was also assisted by Mercer Consulting, which produced the Report on the Prudential Assessment of Remuneration in order to ensure that the determination of the Institution's Identified Staff, as well as their remuneration practices and policies, conform to the requirements established in the applicable regulations and to the interpretation criteria of the EBA and the Bank of Spain; its fees amounted to 24,000 euros.

There are no potential conflicts of interest between the external advisers and the Institution or companies in its group.

### **Evaluation of the performance of the Remuneration Committee**

Article 529 nonies of the Capital Companies Act, establishes the obligation of the Board of Directors to assess its own performance and that of its sub-committees each year and, on the basis of the results, to propose a plan of action to correct any deficiencies detected.

In compliance with Recommendation 36 of the Good Governance Code of Listed Companies, whose scope was expanded by section 7 of Technical Guide 1/2019 on Nomination and Remuneration Committees of listed companies, the Board of Directors performs the assessment every three years with the support of an external consultant whose independence is verified by the Appointments Committee.

Although the aforementioned Recommendation 36 of the Good Governance Code recommends a frequency of at least every three years, and the last time Banco Sabadell was assisted by an external consultant for this assessment was in 2017, the Appointments Committee decided that the performance assessment of the Board of Directors and its Committees for 2019 should be conducted by an independent external consultant, Deloitte Legal, S.L.P.

The performance assessment of the Remuneration Committee for the year 2019 is being performed with the assistance of independent external consultant, Deloitte Legal, S.L.P. The support of an external consultant makes it possible to perform the assessment and draw up the resulting action plan from an impartial, independent standpoint based on knowledge of numerous organisations of different types.

The outcome of the assessment will make it possible to draw up an improvement plan that will enable the Board of Directors and the Remuneration Committee to identify possible areas for development and progress in the design of, and compliance with, a corporate governance system on the basis of the identified milestones.

## **Conclusion**

During 2019, the Remuneration Committee properly discharged the duties assigned to it by the Articles of Association, the Regulation of the Board of Directors and its own Regulation.

On 29 January 2020, the members of the Remuneration Committee signed this report on the functioning of the Committee in 2019, which will be presented to the Board of Directors and published on the corporate website prior to the date of the General Meeting of Shareholders.