



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

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1. - Introduction

As provided in article 529 *novodecies* of the current Capital Companies Act (CCA):

“1. Director remuneration policy must conform, as appropriate, to the remuneration system established in the articles of association and must be approved by the general meeting of shareholders at least once every three years as a separate item on the agenda.

2. The motion regarding remuneration policy for the Board of Directors must be reasoned and accompanied by a specific report by the Appointments and Remuneration Committee. Both documents must be placed at the disposal of shareholders on the company's website from the time notice is given of the general meeting, and shareholders may also ask to be given or sent copies free of charge. Notice of the general meeting must mention that right.

3. The director remuneration policy so approved will be valid for the three years following the one in which it was approved by the general meeting. Any amendment or replacement of the policy will require prior approval by the general meeting of shareholders in accordance with the procedure established for approving it.”

The last General Meeting of Shareholders, on 28 May 2015, was asked to approve, on a binding and not merely consultative basis, as the law requires, the Annual Report on Director Remuneration, which contained the director remuneration policy, which, in accordance with the provision set out above, is valid for three years.

Although this new remuneration policy broadly maintains the terms of the one approved by the General Meeting of Shareholders on 28 May 2015, practices among other listed companies and the specific features of remuneration in financial institutions make it advisable to expressly distinguish between the director remuneration policy and the Annual Report on Remuneration, to which this policy refers in certain areas, in order to provide shareholders with more up-to-date detailed information.

2.- General principles

- Banco Sabadell's remuneration policy is based generally on the idea that remuneration is a generator of value, using a competitively-structured

remuneration package which is partly linked to specific objectives that are aligned with shareholders' interests.

- The compensation system allows for remuneration to be individualised based on each person's contribution, his professional performance and the achievement of certain objectives, and is competitive with comparable parameters of the market, having regard to the levels of risk assumed by each one.

Banco Sabadell's remuneration generally comprises a fixed component; a number of voluntary components, as a function of the individual's responsibility and performance; a variable component based on the achievement of specific objectives, for specific identified functions; and, in accordance with the Plans that may be approved by the General Meeting of Shareholders, a long-term supplementary Incentive for certain executives performing specifically identified functions.

- Variable remuneration considers a range of factors, in particular professional performance, in accordance with risk assumed and quality of performance; it is not determined simply by the general performance of the markets or sectors in which the Bank operates or other similar circumstances.
- Variable remuneration may not exceed one year's fixed remuneration; however, the General Meeting approved the possibility that the Remuneration Committee may, in exceptional circumstances, authorise variable remuneration amounting to up to two years' fixed remuneration.
- Executive directors' remuneration is governed by the same general principles as that of the other Banco Sabadell executives and the Group's general policy, which provides for reduction clauses of up to 100% of the total variable remuneration and clauses allowing for remuneration already paid to be recovered in expressly defined cases.
- Remuneration for directors for their mere status as members of the Board of Directors does not have a variable component.
- Banco Sabadell's remuneration system is aligned with the Financial Stability Board (FSB) Principles for Sound Compensation Practices dated 2 April 2009, with the provisions on remuneration contained in Directives 2010/76/EU (CRD III) and 2013/36/EU (CRD IV), and the national transpositions set out in Sustainability Economy Act 2/2011, of 4 March, Royal Decree 771/2011, of 3 June, Royal Decree 14/2013, of 29 November, on urgent measures for the adaptation to Spanish law of EU regulations on supervision and solvency of financial institutions, and Act 10/2014, of 26 June, as implemented by Royal Decree 84/2015, of 13 February.
- Director remuneration policy conforms to the provisions of articles 217 et seq. of the Capital Companies Act, as amended by Act 31/2014 of 3 December.

Banco Sabadell also complies with the principles of transparency and public disclosure regarding remuneration.

3.- Basic features of director remuneration

In accordance with the provisions of articles 529 *septdecies* and 529 *octodecies* of the Capital Companies Act, it is necessary to distinguish between directors' remuneration for their status as such and that for the performance of executive functions.

1. Director remuneration for their status as such.

Board remuneration for its function as a governing body is determined in accordance with article 86 of the Articles of Association.

Article 86 of the Articles of Association states:

"The remuneration to which Directors shall be entitled for performing their corresponding functions as members of the Board of Directors, which will consist of an amount whose annual cap will be set by the General Meeting, will be deducted, and the Board will be broadly empowered to establish its annual remuneration within that limit, which remuneration it may distribute freely among its members."

Members of the Board of Directors collect meeting attendance fees as well as remuneration for holding the office of Chairman, Vice-Chairman and Lead Independent Director. Non-executive directors also collect remuneration for chairing or being members of a Board committee. Non-executive directors may also be remunerated for membership of the Board of Directors of other group companies or of the banks' territorial Advisory Boards.

The amounts collected each year are disclosed in the Annual Report on Director Remuneration, which is published on the websites of the CNMV and of Banco Sabadell itself.

The overall amount of director remuneration for performing their duties as mere members of the Board of Directors was capped at 2,500,000 euro in 2014 and 2015, and the Board of Directors has approved the same amount for 2016, in accordance with the policy approved by the last General Meeting of Shareholders.

In general, at its first meeting each year, the Board of Directors sets the overall amount for the year, in accordance with the applicable laws and regulations, having regard particularly to the fact that this is a financial institution and in accordance with the applicable general principles of

Banco Sabadell's remuneration policy, which place particular emphasis on attainment of objectives, transparency and the Bank's long-term interests, and on not incentivising excessive risk-taking, so as to safeguard customers, investors and shareholders. Likewise, the Board of Directors approves the amount to be collected by each director and each office, which is also disclosed in detail in the Annual Report on Director Remuneration.

2. Director remuneration for performing executive functions

The executive directors' remuneration for performing executive functions is governed by the general rules applicable to all Banco Sabadell executives, as set out in the individual contracts signed with the Bank by each one of them.

Article 51 of the Articles of Association states expressly that: "the position of director is compatible with any other office or executive role in the Company and with the remuneration which, based on a proposal from the Remuneration Committee and a resolution by the Board of Directors, is deemed appropriate by the Company for the discharge of such other functions". It also provides that: "directors carrying out executive functions may also, subject to a decision by the General Meeting as required by the Spanish Capital Companies Act, participate in incentive schemes approved for the Bank's executives in the form of shares, stock options, or remuneration linked to the share value".

The remuneration consists of:

- a fixed component linked to general components and criteria applicable in the market, set on the basis of their high levels of responsibility and remunerating the contribution of each post they hold and their executive and leadership skills, and includes all the fixed items that are applicable on the basis of the responsibilities they bear and the contracts that are in force. The remuneration amounts were determined on the basis of comparable situations in the market. Executive directors also enjoy certain benefits in the same conditions as the rest of the workforce.
- a variable component, based on fulfilment of specific objectives, approved each year by the Bank's Remuneration Committee, having consideration for a number of factors, especially the beneficiaries' professional performance, in line with the risks assumed. The Committee assesses the degree of fulfilment and determines the amount to be paid once the year has ended.

The variable remuneration fulfils the requirements of deferral and payment in capital instruments that were introduced by Royal Decree

771/2011, of 3 June, under which 50 per cent of remuneration is collected in the year it is approved and the other 50 per cent is deferred over three years. Additionally, all variable remuneration, deferred or otherwise, is paid 50% in cash and 50% in Banco Sabadell stock.

- Long-term supplementary incentives that may be approved by the General Meeting of Shareholders, which is competent to approve them, which may be linked to the execution of specific Plans or to the passage of a specific period of time, the General Meeting of Shareholders being competent to approve their frequency and specific amounts based on proposals by the Board of Directors.
- long-term savings systems arranged in the form of insurance policies, where the Bank pays the premiums in accordance with the individual contracts signed with the executive, as disclosed in the Annual Report on Director Remuneration.

This remuneration is itemised for each executive director in the Annual Report on Director Remuneration.

4.- Comments on remuneration policy in future years

Banco Sabadell plans to maintain over the next three years, the period established in Article 529 novodecies of the CCA, the principles, characteristics and items of remuneration for directors both for discharging their duties as members of the Board of Directors and for performing executive functions.

Each year, the Board of Directors will review the specific amounts, within the criteria set out above, and provide detailed disclosure of remuneration to the General Meeting of Shareholders in the form of the Annual Report on Director Remuneration; in any event, it will submit for the Meeting's approval any long-term incentives that may be considered necessary and appropriate in each year.

In any case, it will also adapt the remuneration policy and components to any new legislation that may be applicable to Banco Sabadell.

The Annual Report on Director Remuneration will be submitted to the General Meeting of Shareholders each year in accordance with the provisions of article 61.ter of the Securities Market Act.