

**REPORT BY THE BOARD OF DIRECTORS OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA IN SUPPORT OF THE MOTION TO APPROVE A SUPPLEMENTARY LONG-TERM INCENTIVE BASED ON THE APPRECIATION BY THE SHARE OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA, AS REFERRED TO IN ITEM EIGHT ON THE AGENDA OF THE GENERAL MEETING OF SHAREHOLDERS OF BANCO DE SABADELL, S.A. SCHEDULED FOR 19 APRIL 2018, AT SECOND CALL**

1. Introduction

The Board of Directors of Banco de Sabadell, Sociedad Anónima proposes that the General Meeting of Shareholders adopt a motion to approve a supplementary long-term incentive plan linked to the appreciation by the shares of Banco de Sabadell, Sociedad Anónima, for executive directors, members of senior management and other executives who form part of the Group's identified staff (subject to compliance with the requirements set out in the general conditions of the Incentive, which will include the requirement that the potential Beneficiary is not assigned to TSB Banking Group Plc or its subsidiaries, including TSB Bank Plc, all of which are subsidiaries of Banco de Sabadell, Sociedad Anónima), conditional upon attainment by the Bank of certain multi-year indicators within a given time period (the Incentive).

The Board of Directors understands that the Incentive to be implemented contributes to aligning the interests of shareholders and the business objectives of Banco de Sabadell, Sociedad Anónima, and that configuring it as a multi-year programme contributes to incentivising the attainment of long-term goals and to retaining and ensuring the loyalty of the key personnel of Banco de Sabadell, Sociedad Anónima, it being an effective mechanism for retaining the best professionals.

The Incentive takes account of the European Banking Authority recommendations in its document entitled "Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013" (Document EBA/GL/2015/22) dated 27 June 2016, which was adopted by the Bank of Spain by decision of its Executive Committee on 27 July 2016. The Incentive also takes account of the proposed remuneration policy for directors of Banco de Sabadell, Sociedad Anónima for the years 2018, 2019 and 2020.

2. Brief description of the Incentive

The Incentive consists of the assignment to each of the Beneficiaries of a specific number of rights to the same number of shares of Banco de Sabadell, Sociedad Anónima. The number of rights assigned to each beneficiary will be adjusted in the first quarter of 2019 as a function of their individual attainment of their assigned annual objectives; if attainment is 80% or higher, the beneficiary will retain the amount of shares assigned initially; below 60% attainment will entail forfeiture of all the assigned rights.

In addition, like the other components of variable remuneration, the incentive is subject to the overall adjustments of the variable remuneration for 2018, as set out in the Banco Sabadell Group Remuneration Policy, which, in the event, will be applied in the first quarter of 2019.

Each right empowers the beneficiary to receive the amount of the increase in value of one share, 55% of which will be settled through the delivery of shares of Banco de Sabadell, Sociedad Anónima valued according to their market price at the end of the period for calculating the value of the Incentive; the remainder will be paid in cash.

The increase in value will be calculated taking, as the initial value, the arithmetic mean, rounded to the third decimal place, of the closing prices of the share of Banco de Sabadell, Sociedad Anónima in the first twenty market sessions of the month of January 2018, and the final value will be taken to be the arithmetic mean, rounded to the third decimal place, of the closing price of the share of Banco de Sabadell, Sociedad Anónima in the first twenty market sessions of the month of March 2021. Once the amount of appreciation has been determined for each beneficiary, as a function of the rights he/she holds, the number of Banco de Sabadell, Sociedad Anónima shares to be delivered will be calculated by dividing 55% of the amount of the appreciation thus obtained by the arithmetic mean, rounded to the third decimal place, of the closing price of the share of Banco de Sabadell, Sociedad Anónima in the first twenty stock market trading sessions of the month of March 2021; the remaining 45% of the appreciation will be paid in cash.

The beneficiaries of the Incentive are the executive directors of Banco de Sabadell, Sociedad Anónima (Chairman, Managing Director and Director-General Manager), members of senior management and other executives who form part of the Group's identified staff (subject to compliance with the requirements set out in the general conditions of the Incentive, which will include the requirement that the potential Beneficiary is not assigned to TSB Banking Group Plc or its subsidiaries, including TSB Bank Plc, all of which are subsidiaries of Banco de Sabadell, Sociedad Anónima).

The Incentive is obligatory for the Beneficiaries who form part of the Group's identified staff and its receipt is conditional upon the shares actually appreciating during the period of the Incentive; in the event that they depreciate, no monetary rights will be generated for the beneficiaries.

The number of rights to be settled may be equal to or less than the number of vested rights in the first quarter of 2019, depending on the level to which Banco de Sabadell, Sociedad Anónima attains four indicators during the Incentive's lifetime. The period for evaluating attainment will cover the years 2018, 2019 and 2020, for which objectives are established for the following indicators and with the following weightings: shareholder return (25%), for which the benchmark will be the share's closing price, rounded to the third decimal place, in the first 20 sessions of 2018 and the first 20 sessions of 2021; liquidity coverage ratio (25%); CET1 capital (25%); and the bank's return on risk-adjusted capital - RoRAC (25%). The last three indicators

will be measured at the end of the multi-year period, taking the average of the last three months of the year 2021. Other conditions attached to vesting will be (i) that the beneficiary maintain his/her employment or contractual relationship with the group, (ii) that he/she must not have incurred in any event triggering a *malus* clause, all in the conditions to be established by the Board of Directors in the general conditions of the Incentive, which must also consider, in accordance with the applicable regulations, the cases where the beneficiary may be required to repay any Incentive amount collected previously (clawback).

The assigned rights do not confer the status of shareholder or any right associated with such status, and they are non-transferable except to rightful heirs in the event of the beneficiary's death.

### 3. Initial individual assignment of rights

The initial individual allocation of the number of rights to each beneficiary will be performed by the Board of Directors at the proposal of the Remuneration Committee. The maximum number of rights that may be assigned will be 21,000,000. Within that maximum number, the amount not assigned initially will be reserved to cover the possible inclusion of new beneficiaries, or to increase the number allocated to pre-existing beneficiaries.

The number of rights to be assigned to the initial beneficiaries is estimated to be 19,750,000. Of that amount, the Chairman of the Board of Directors is assigned 1,700,000 rights; the Managing Director is assigned 1,500,000 rights; and the Director-General Manager is assigned 800,00 rights.

### 4. Duration

The period of share appreciation used for calculating the number of shares to be delivered begins on 30 January 2018 and concludes in the twentieth stock market session in the month of March 2021.

### 5. Settlement. Deferral and retention

In accordance with the general conditions, the incentive will be settled 55% in shares of Banco de Sabadell, Sociedad Anónima and the other 45% in cash.

The incentive will be settled in April 2022, except for the case of the executive directors and senior managers, to whom the current deferral rules are applicable as provided in the general terms of the Incentive. Executive directors and members of senior management will collect the incentive they have earned according to the following calendar:

- 60% in the first four months of 2022
- 20% in the first four months of 2023
- 20% in the first four months of 2024

All beneficiaries forming part of the Group's identified staff at the time of delivery of the shares must retain ownership of the shares for a lock-up period of at least one year from the delivery date.