

REPORT BY THE BOARD OF DIRECTORS OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA IN CONNECTION WITH THE MOTION TO APPROVE THE CAP ON VARIABLE REMUNERATION FOR THE MEMBERS OF THE GROUP'S IDENTIFIED STAFF EQUIVALENT TO TWO YEARS' SALARY, AS REFERRED TO IN ITEM NINE ON THE AGENDA OF THE GENERAL MEETING OF SHAREHOLDERS OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA SCHEDULED FOR 19 APRIL 2018, AT SECOND CALL.

Object of the report and applicable regulations

This report of recommendations is drawn up by the Board of Directors of Banco de Sabadell, Sociedad Anónima, (hereinafter, the "Bank", or the "Institution"), in compliance with the provisions of article 34.1.g) of Act 10/2014, of 26, June, on ordering, supervision and solvency of credit institutions (hereinafter, "Act 10/2014"), in relation to the motion submitted to the next General Meeting of Shareholders under item nine on the agenda in which it is proposed to approve a maximum level of variable remuneration amounting to up to 200% of the fixed component of the total remuneration for the members of the Group's Identified Staff, comprising members of the workforce whose work has a significant impact on the Institution's risk profile.

The Report takes account of the other legislation in this area, in particular: (i) Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile (hereinafter the "Delegated Regulation 604/2014"); (ii) Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and capital adequacy, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) 575/2013 (hereinafter "Bank of Spain Circular 2/2016"); and (iii) the European Banking Authority ("EBA") "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 (hereinafter, the "EBA Guidelines").

Article 34.1.g) of Act 10/2014 provides that institutions must establish appropriate ratios between the fixed and variable components of total remuneration for the categories of personnel whose work has a material impact on the Group's risk (the "Identified Staff") by applying the following principles:

- 1. The variable component may not exceed 100% of the fixed component within the total remuneration for each individual.*

2. Nevertheless, the institution's General Meeting may approve a higher maximum level, provided that it does not exceed 200% of the fixed component of the total remuneration.

In order to approve this higher level of variable remuneration, the Institution's General Meeting of Shareholders must make its decision on the basis of a detailed recommendation by the Board of Directors stating the reasons and scope of the decision and setting out the number of persons involved, their positions, and the expected effect on the maintenance of a sound capital base, taking account of any decisions by the competent authority in relation to the need to restrict the dividend distribution policy.

The Report examines the scope of the decision by the General Meeting of Shareholders, including the functions that are affected and the areas in which they work, and, in accordance with the requirements of Act 10/2014, it examines the effect that this decision would have on the maintenance of a sound capital base, as detailed below.

Basic features of remuneration policy

Banco de Sabadell, Sociedad Anónima has been applying a sound, consistent remuneration policy, aligned with the Institution's long-term interests, with the interests of its shareholders and with prudent risk management, as stated in the Annual Report that the Remuneration Committee commissions from specialised firm Mercer Consulting, S.L. in line with the position of the Bank of Spain and the EBA on the advisability of the annual remuneration policy being subject to a central internal independent evaluation by an external independent expert.

The Banco Sabadell Group's Remuneration Policy is focused on creating long-term value by aligning the interests of its shareholders and employees, in coherence with the strategic goals in terms of risks and the business, and the values of the Bank, all under a prudent management approach while avoiding conflicts of interest.

That Policy conforms to the European Directives and Regulations and the current regulations, particularly Act 10/2014, Royal Decree 84/2015, of 13 February implementing Act 10/2014, and the EBA Guidelines on Internal Governance (GL 44), as well as Bank of Spain Circular 2/2016.

The principles of the Banco Sabadell Group's Remuneration Policy are as follows:

- a) Promote medium- and long-term business and corporate sustainability, in addition to alignment with the group's values.
- b) Ensure a competitive and equitable remuneration system (external competitiveness and internal fairness).
- c) Reward performance, by aligning remuneration with the results achieved by the individual and the level of risk assumed.

In addition to the Director Remuneration Policy, the Banco Sabadell Group Remuneration Policy comprises: (i) the Remuneration Policy for Senior Management, (ii) the Remuneration Policy for the Group's Identified Staff, (iii) the Remuneration Policy for the Banco Sabadell Group, and (iv) the specific remuneration policies of the group companies, including the Remuneration Policy for Banco Sabadell Spain.

Those remuneration policies were reviewed by the Remuneration Committee on 26 January 2018 in order to make the necessary amendments to ensure they are aligned with the applicable regulations and with best practices in the field of corporate governance. Based on a proposal by that Committee, the Board of Directors approved those policies at a meeting on 1 February, and submits the new director remuneration policy for 2018-2020 to the General Meeting of Shareholders for approval under item ten on the agenda in order to incorporate the new components and criteria set out in the remuneration policy for senior management and the Group's identified staff.

The Banco Sabadell Group's Remuneration Policy contemplates a vision of total remuneration taking into account all the remuneration elements and the relationship between them, establishing an appropriate balance between fixed and variable remuneration, and a distribution of remuneration between the short and long term, safeguarding the rights and interests of customers.

The components into which the remuneration of all Banco Sabadell employees, including senior management and executive directors, is structured are the following:

- A sufficient amount of fixed remuneration so as not to encourage excessive risk-taking. This includes the following items:
 - Fixed salary: which comprises the sum of guaranteed remuneration components linked to the set of functions and responsibilities of the person's position and that recognise the executive director's or employee's contribution in that position.
 - Benefits: which aim to complement the monetary and non-monetary remuneration with other elements that increase the loyalty and commitment on the part of Banco Sabadell's executive directors and employees. Benefits apply to all Banco Sabadell employees, including members of the Group's identified staff (which includes senior management and the executive directors). Benefits may vary according to territory, the sector and/or the collective agreement that is applicable to the employee.
 - Pension schemes and retirement benefits: these vary in type and amount depending on the group to which the employee belongs, in order to cover retirement and other contingencies appropriate to the

nature of the functions performed by certain employees or executive directors.

- Short-term variable remuneration: defined annually and whose main purpose is to reward performance during the year measured through objectives aligned with the risk incurred. The main goals of the short-term variable remuneration are to promote the attainment of the short- and medium-term strategic objectives without encouraging risk-taking in excess of the level tolerated by the institution, as well as motivating employees to improve their performance. In the case of the members of the Group's identified staff (which includes senior management and the executive directors), this variable remuneration is deferred and paid in equity instruments, in accordance with the applicable regulations and with decisions by the competent bodies.
- Long-term remuneration: assigned to the members of the Group's identified staff (which includes senior management and the executive directors), which may consist, by decision of the Board of Directors at the proposal of the Remuneration Committee, of a long-term variable remuneration system, to which end an amount and multi-year objectives may be established, in combination with the executive's performance; or a proposal, for approval by the General Meeting of Shareholders, of a system based on the appreciation of the share price of Banco de Sabadell, Sociedad Anónima, tied to the attainment of certain multi-year objectives in combination with the individual's performance, which is deferred and paid in equity instruments in accordance with the applicable regulations and the decisions of the competent bodies, thus aligning the remuneration with long-term results and with the interests and risks of the shareholders.

The variable remuneration of the executive directors, senior management and other members of the Group's identified staff is deferred and paid in equity instruments in the following terms and percentages:

- Deferral over five years for executive directors and members of senior management and 3 years for the rest of the Group's identified staff.
- Deferral of at least 60% in the case of executive directors and of those members of senior management and the Group's identified staff with especially high remuneration. The term "especially high variable remuneration" is defined as amounting to over €1.5 million.
- Deferral of at least 40% for the other members of senior management and the Group's identified staff.
- Deferred variable remuneration is paid in shares of Banco Sabadell in the proportion of 55% for executive directors and members of senior management and 50% for the rest of the Group's identified staff. The shares received as

variable remuneration are under lock-up for a period of 1 year after their delivery.

- Executive directors may not dispose of shares amounting to twice their fixed annual remuneration until at three years have elapsed from the time of delivery. The above condition will not apply to any shares that the director must dispose of to cover tax obligations related to their delivery.
- Executive directors, members of senior management and the rest of the Group's identified staff may not use personal hedging strategies with ad hoc financial products or any mechanism that guarantees that they will collect part or all of the remuneration.
- Variable remuneration is subject to ex ante adjustments to ensure its alignment to risk. This remuneration will not accrue, or will be reduced, if the capital of the bank is lower than the Maximum Distributable Amount (MDA) or if the Remuneration Committee decides to apply a correction factor due to the Group's risks or results.

As a result of the remuneration scheme described above, the incentives for the members of the Group's identified staff are configured for maximum alignment of their remuneration with the risks, objectives and long-term interests of the Institution and its shareholders, seeking a balance between the fixed and variable components of remuneration, as well as between the short and long term, ensuring maximum flexibility in the receipt of variable remuneration, which may be reduced to zero.

Reasons for, and scope of, the proposal

Based on the profiles and responsibilities of the professionals who are defined as risk takers and consequently form part of the identified staff, and on the need to retain them, it is appropriate to request that, for those cases in which the application of the established levels of attainment to the system of defined objectives gives rise to an amount of variable remuneration that exceeds 100% of the fixed remuneration for the member of the Group's identified staff, to enable this to be paid to the professional in question up to at most 200% of the fixed remuneration subject always to the rules on deferral, payment in shares, lock-up periods and malus and clawback clauses defined in the Remuneration Policy.

Raising the maximum ratio of variable remuneration to 200% of the remuneration in the aforementioned cases for the Group's identified staff makes it possible to maintain a remuneration structure with a combination of fixed and variable components and of short- and long-term components that may prove to be competitive in the markets in which Banco Sabadell competes.

In order to achieve maximal alignment between Banco de Sabadell's remuneration structure and returns to shareholders, the remuneration structure is tied to share performance, among other factors, since that is one of the indicators for the long-term remuneration established for the Group's identified staff; accordingly, in this case it

makes sense to approve an increase in the variable remuneration ratio to 200% in order to maintain the incentive that variable remuneration should represent.

The composition of the Group's identified staff is reviewed at least once per year in line with the qualitative and quantitative criteria established for this procedure by Delegated Regulation (EU) No 604/2014 as regards the technical regulations governing the qualitative and quantitative criteria for determining the categories of persons whose professional activities have a significant impact on an institution's risk profile.

The identification process is performed by the Human Resources Department and is validated by the Risk Control Department.

After applying that identification process, the Group's Identified Staff that is assigned variable remuneration as of the date of this report comprises 95 persons. Attached as annex 1 is a list of the Group's Identified Staff to whom the aforementioned maximum limit on variable remuneration is applicable.

In any case, it should be considered that the motion laid before the General Meeting of Shareholders represents an authorisation for the variable remuneration of certain functions to exceed 100% and to amount to at most 200% of the fixed component of their total remuneration only where application of the established levels of attainment for setting the amount of variable remuneration results in an amount that exceeds 100% of the fixed remuneration, but this does not necessarily mean that the variable remuneration will reach that maximum limit.

This authorisation has been requested from the General Meeting of Shareholders in previous years but has not been used to date.

The motion laid before the General Meeting of Shareholders empowers the Bank to approve this same level in the Group's subsidiaries.

It is hereby placed on record that, in the event that all the current members of the Group's identified staff earned variable remuneration amounting to 200% of the fixed remuneration, that would amount to €38.2 million more in 2018 than the ordinary variable limit on total remuneration for the year.

Based on that figure, the decision to approve a cap on variable remuneration at 200% of the fixed remuneration for the functions in question would not affect the maintenance of a sound capital base for the Group or the fulfilment of the Institution's capital adequacy obligations.

ANNEX 1

- Chairman
- Managing Director
- Director - General Manager
- Company Secretary - Vice-Secretary of the Board of Directors
- General Manager - Operations, Organisation and Resources
- General Manager - Chief Financial Officer
- General Manager - Commercial Banking
- Assistant General Manager - Asset Transformation and Industrial and Real Estate Investees
- Assistant General Manager - Private Banking and Asset Management
- Assistant General Manager - Risk Management
- Assistant General Manager - Business Transformation and Marketing
- Assistant General Manager - Corporate and Investment Banking
- Deputy General Manager - Human Resources
- Deputy General Manager - Asset Management and Research
- Deputy General Manager - Bancassurance
- Deputy General Manager - Chief Analytics Officer
- Deputy General Manager - Global Financial Control
- Deputy General Manager - Legal
- Deputy General Manager - Catalonia
- Deputy General Manager - Deputy Risk Manager
- Deputy General Manager - Sabadell Consumer Finance
- Deputy General Manager - Institutional Business
- Deputy General Manager - Personal Banking
- Deputy General Manager - Organisation and Services
- Deputy General Manager - Corporate Transactions
- Deputy General Manager - North-western Spain
- Deputy General Manager - Southern Spain
- Deputy General Manager - Internal Audit
- Deputy General Manager - Eastern Spain
- Deputy General Manager - Central Spain
- Deputy General Manager - Structured Finance
- Deputy General Manager - Global Financial Management and CFO Spain
- Deputy General Manager - Risk Control
- Deputy General Manager - Corporate Banking EMEA
- Deputy General Manager - Compliance and Corporate Governance
- Deputy General Manager - Chief Economist
- Deputy General Manager - Northern Spain
- Deputy General Manager - Global IT and Operations
- Deputy General Manager - Trading and Custody
- Deputy General Manager - Sabadell Urquijo Banca Privada
- Deputy General Manager - Solvia
- Deputy General Manager - Treasury and Capital Markets
- Deputy General Manager - Real Estate and Institutional Markets

- Deputy General Manager - Corporate A&A and SIB
- Deputy General Manager - Mexico
- Manager - Treasury Distribution
- Manager - Product Strategy and Asset Allocation
- Manager - Asset Risk and Equity Holdings
- Director - Delinquency Prevention and Management
- Manager - Systems Spain
- Manager - Trading
- Manager - Customers and Commercial Transformation
- Manager - Alliances
- Manager - Research
- Manager - Business Intelligence, Control and APS
- Manager - Corporate Governance
- Chief Technical Officer
- Manager - Corporate and Global Risk
- Managing Director's Chief of Staff
- Manager - Corporate Credit Restructuring and Investees
- Manager - Prudential Regulation and Public Policy
- Manager - Solvia Promoción y Desarrollo
- Manager - Marketing
- Manager - BS Capital
- Manager - Trading and Distribution
- Manager - Company and Retail Customer Risk
- Manager - Group Services and Operations
- Manager - Capital Markets
- Manager - Corporate Banking
- TSB CEO
- TSB Chief Financial Officer
- TSB Chief Operating Officer
- TSB Chief Information Officer
- TSB Chief Risk Officer
- TSB Chief Audit Officer
- TSB Treasurer
- TSB Distribution Director
- TSB Chief Marketing Officer
- TSB Corporate Affairs Director
- TSB Products Director
- TSB HR Director
- TSB General Counsel and Company Secretary
- TSB Director Credit Risk Infrastructure & Change
- TSB Director of ALM
- TSB Director of Digital Innovation & Transformation
- TSB IT and Migration Director
- TSB Mortgage Distribution Director
- TSB Customer Service Design & Delivery Director

- TSB Finance Director Cost and Business Transformation
- TSB Finance Director Corporate Development and Business Performance
- TSB Director of HR Business Partnering, ER & HR Operations
- TSB Commercial Products Director
- TSB Director of Audit IT, Operations & Change
- TSB Financial Controller
- TSB Director of Mortgages, GI & Protection