

**REPORT PRESENTED BY THE REMUNERATION COMMITTEE IN CONNECTION WITH THE REASONED PROPOSAL BY THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF SHAREHOLDERS TO APPROVE THE DIRECTOR REMUNERATION POLICY OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA AS REFERRED TO IN ITEM TEN ON THE AGENDA OF THE GENERAL MEETING OF SHAREHOLDERS OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA SCHEDULED FOR 19 APRIL 2018, AT SECOND CALL.**

1. Introduction

This Report has been drawn up by the Remuneration Committee of Banco de Sabadell, Sociedad Anónima, in accordance with the provisions of paragraph two of article 529 novodecies of Legislative Royal-Decree 1/2010, of 2 July, approving the consolidated text of the Capital Companies Act (Capital Companies Act), which establishes that the remuneration policy for directors (the Policy) must be approved by the General Meeting of Shareholders at least every three years based on a reasoned proposal of the Board of Directors, which must be accompanied by a specific report from the Remuneration Committee.

In this respect, the functions of the Remuneration Committee of Banco de Sabadell, Sociedad Anónima, as defined in article 62 of the Articles of Association and article 14 bis of the Regulation of the Board of Directors, include analysing and reviewing the terms of the Director Remuneration Policy to be proposed by the Board of Directors for approval by the General Meeting of Shareholders.

2. Justification for the proposal and the amendments it contains

The General Meeting of Shareholders on 31 March 2016 approved the current Director Remuneration Policy of Banco de Sabadell, Sociedad Anónima, for the years 2016, 2017 and 2018. That Policy is aligned with the provisions of the Capital Companies Act and the specific legislation applicable to credit institutions, specifically, Act 10/2014, of June 26, on Ordering, Supervision and Solvency of Credit Institutions, with the Financial Stability Board (FSB) Principles for Sound Compensation Practices dated 2 April 2009, and with Directives 2010/76/EU (CRD III) and 2013/36/EU (CRD IV), and in line with principles and concepts that are considered to be appropriate on the basis of practices by listed companies and the specific features of remuneration in financial institutions.

Since then, the EBA has published its Guidelines on Sound Remuneration Policies (EBA/GL/2015/22), dated 27 June 2016, improvements have been introduced in the corporate governance system, and considerable progress has been made in defining criteria applicable to the remuneration of directors, both for acting as members of the Board of Directors and for carrying out executive duties.

The Director Remuneration Policy which is laid before the General Meeting of Shareholders for approval replaces in all its terms the one approved on 31 March 2016, and will remain in force in 2018, 2019 and 2020. It is intended to align the director remuneration criteria with the amendments that have been made, defining both the remuneration system for the directors in their capacity as members of the Board of Directors and the remuneration system applicable to those who perform executive duties; in the latter case, the applicable policy coincides with the Remuneration Policy for Banco Sabadell's Senior Management. It also establishes the maximum amount of annual remuneration payable to directors for discharging their duties.

The Director Remuneration Policy was reviewed in parallel and in a coordinated manner with the review of the Senior Management Remuneration Policy, the Remuneration Policy for the Group's Identified Staff, the Remuneration Policy for the Banco Sabadell Group and the Remuneration Policy for Banco Sabadell Spain for those same years, which were also submitted to the Board of Directors for approval based on a proposal by the Remuneration Committee.

This report sets out the reasons supporting the presentation by the Board of Directors to the General Meeting of Shareholders of a motion to approve the Director Remuneration Policy of Banco de Sabadell, Sociedad Anónima, for the years 2018, 2019 and 2020.

### 3. General principles of the Banco Sabadell Group's Remuneration Policy.

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.

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

1. Promote medium- and long-term business and corporate sustainability, in addition to alignment with the group's values. This entails:
  - Aligning the remuneration with the interests of the shareholders and with the creation of long-term value.
  - Promoting rigorous risk management, with measures to avoid conflicts of interest.
  - Aligning with the Bank's long-term business strategy, objectives, values and interests.

2. Ensure a competitive and equitable remuneration system (external competitiveness and internal fairness):

- Ability to attract and retain the best talent.
- Rewarding track record and responsibility.
- Aligning with market standards and flexible to adapt to changes in the situation and in the demands of the sector.

3. Reward performance, by aligning remuneration with the results achieved by the individual and the level of risk that their position requires them to assume:

- An appropriate balance between the various remuneration components.
- Consideration of current and future risks and results, not encouraging the assumption of risks that exceed the level tolerated by the institution.
- Simple, transparent and clear system. The Banco Sabadell Group Remuneration Policy must be understandable and easy to communicate to the entire workforce.

4. Main developments in the Director Remuneration Policy

The main changes in the Policy with respect to the one approved by the General Meeting on 31 March 2016, in order to align it with the most recent changes in legislation and case law and with best practices in the field of corporate governance, are as follows:

- In the case of the remuneration for directors in their capacity as members of the Board of Directors of Banco de Sabadell, Sociedad Anónima, a clear distinction is made between fixed remuneration and per diem attendance fees; directors may collect attendance fees for up to two missed meetings provided that they grant proxy.
- In the case of executive directors, for their executive functions:
  - Clearer distinction between the fixed and variable proportions of remuneration.
  - Improved definition of short-term variable remuneration and the concept of long-term remuneration.

- More detailed definition and more precise demarcation of the measurement parameters for goals linked to both short-term variable remuneration and long-term remuneration.
- Increase in the deferral percentage of short-term variable remuneration and long-term remuneration to executive directors from 50% to 60% of the total amount receivable.
- Increase in the deferral period of short-term variable remuneration to 5 years.
- Introduction of multi-year objectives with defined parameters in the long-term incentive linked to share price rises and increase of the deferral period to 5 years.
- Restrictions on the transferability of the shares received in the form of short-term variable remuneration and the long-term incentive until a period of at least 3 years has elapsed since their delivery unless the director holds an amount equivalent to twice their fixed annual remuneration.
- Inclusion of an ex ante adjustment to the entire variable remuneration, determined by the Board of Directors at the proposal of the Remuneration Committee. Risk factors and the Bank's earnings will be taken into account in determining that adjustment. Additionally, variable remuneration will not be generated, or it will be reduced, if the Bank's capital is less than the Maximum Distributable Amount (MDA).
- Review of malus and clawback clauses, to better determine the reasons for their application.
- Limit on termination and non-competition clauses, where these exist, to two years' remuneration.
- Cap on variable remuneration at 200% of annual fixed remuneration, subject to approval by the General Meeting of Shareholders, in cases expressly defined in the Policy, without there being discretionality at the time of their recognition by the Remuneration Committee.

These measures were included in the Senior Management Policy approved by Banco Sabadell's Board of Directors at its meeting of 1 February 2018.

## 5. Comments

The Director Remuneration Policy of Banco de Sabadell, Sociedad Anónima establishes a system of remuneration for directors that is based on distinguishing between remuneration for their status as members of the Board of Directors and that paid for performing executive functions.

The former, i.e. remuneration for the directors' functions as members of the Board of Directors, conforms to the remuneration system for directors provided for in article 85 of the Articles of Association and is submitted to the General Meeting for approval. Consequently, this Committee understands that the amount of that remuneration is proper and appropriate and that the Policy is in conformity.

Regarding the latter, i.e. remuneration for performing executive functions, the Director Remuneration Policy analysed here is considered to be coherent with the contracts signed by the executive directors and with standard market practice among comparable companies, to be compatible with proper, healthy and effective management of the institution's risks and, above all, to conform to the regulatory parameters on prudential regulation and capital adequacy that apply to Banco de Sabadell, Sociedad Anónima.

## 6. Conclusion

Accordingly, the Remuneration Committee considers that the proposed amendments to the Director Remuneration Policy are appropriate, since it considers that they enhance it, strengthen its alignment with the group's risks and long-term objectives and interests, and comply with the requirements as to remuneration in the regulations applicable to credit institutions; therefore, it recommends that the Board of Directors adopt the Director Remuneration Policy of Banco de Sabadell, Sociedad Anónima, and present it for approval to the General Meeting of Shareholders scheduled for 19 April 2018, at second call.