



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

2017

January 2018

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This Report on the performance and activities of the Remuneration Committee (the "Committee") in 2017 is addressed to the shareholders of Banco de Sabadell, S.A. ("Banco Sabadell" or the "Bank") in accordance with recommendation 6 of the Good Governance Code of Listed Companies, which requires that companies draw up this report and publish it on their website sufficiently in advance of the Ordinary General Meeting of Shareholders.

1.- Introduction

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

2.- Regulation and functions

Article 62 of the Articles of Association sets out the basic rules governing the Remuneration Committee, which are supplemented and expanded upon in the Regulation of the Board of Directors, whose article 14 *bis* establishes the Committee's composition, functioning and competencies.¹

Article 62 reads as follows:

"The Remuneration Committee shall comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. The Board of Directors shall appoint the committee's Chair from among the members who are independent directors, with the favourable vote of two-thirds of its members.

The Remuneration Committee shall have, at least, the following functions:

1. Proposing, to the Board of Directors, the director remuneration policy.

¹The Articles of Association and the Regulation of the Board of Directors of Banco Sabadell are available on the group website www.grupobancsabadell.com

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 Executive Committees 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 the annual report on director remuneration.
4. Advising on remuneration programmes based on shares and/or options.
5. Periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;
6. Ensuring that remuneration is transparent."

Article 14 *bis* of the Regulation of the Board of Directors establishes that:

- “ 1. The Remuneration Committee must comprise at most five directors appointed by the Board of Directors, none of whom may be an executive director; at least two of them must be independent directors. In any event, the Chairman of the Committee must be appointed from among its members who are independent directors.

Nevertheless, at the request of the Committee's Chairman, General Managers, even if directors, may attend meetings when issues of the Bank's senior management are being discussed, except where they refer directly to them or to the Chairman of the Board of Directors.

2. Without prejudice to the other duties assigned to it by law, the Articles of Association, the Board of Directors or this Regulation, the Remuneration Committee shall have the following basic duties:
 - a) proposing, to the Board of Directors, the director remuneration policy;
 - b) 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 Executive Committees or the Managing Directors, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with;

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- c) regularly reviewing remuneration policy;
 - d) advising on remuneration programmes based on shares and/or options;
 - e) periodically reviewing the general principles of remuneration and the remuneration programmes for all employees, and considering whether they conform to those principles;
 - f) ensuring that remuneration is transparent;
 - g) ensuring that any conflicts of interests are not detrimental to the independence of external advisors;
 - h) verifying the information on remuneration contained in the various corporate documents, including the Report on Director Remuneration;
3. The Remuneration Committee shall meet whenever the Board or its Chairman requests that it issue a report or adopt a proposal, and whenever it is advisable in order to properly discharge its duties. In any event, the Committee shall meet once per year to prepare the information on directors' remuneration that the Board of Directors must approve and include in its annual public documentation.
4. The Committee shall also determine the bonuses for the senior executives of the Bank and its subsidiaries at the proposal of the General Manager(s)."

3.- Composition

As of 31 December 2017, the members of Banco Sabadell's Remuneration Committee were as follows:

Chair:

Ms. Aurora Catá Sala (Independent director)

Members:

Mr. Anthony Frank Elliott Ball (Independent director)

Ms. María Teresa Garcia-Milà Lloveras (Lead Independent Director)

Mr. George Donald Johnston (Independent director)

Secretary:

Ms. María José García Beato

The composition of the Remuneration Committee underwent the following changes in 2017:

- On 21 September 2017, the Board of Directors resolved to appoint Mr. Anthony Frank Elliott Ball as a member of the Committee in place of Mr. Joaquín Folch-Rusiñol Corachán.
- On 26 October 2017, the Board of Directors resolved to appoint Mr. George Donald Johnston as a member of the Committee.

Accordingly, all the members of the Remuneration Committee are independent directors.

Consequently, 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 must be independent directors, and that the committee's chair be an independent director. It also complies with the composition required by article 31 of Act 10/2014, of June 26, for the Remuneration Committee of a credit institution, which must be composed of members of the Board of Directors who do not perform executive functions, at least one-third of whom, including the Chair, must be independent directors.

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

The curriculum vitae of the Committee members can be examined on the Bank's website (www.grupbancsabadell.com).

Sections A.2 of the Annual Report on Director Remuneration and C.2.1 of the Annual Corporate Governance Report, both of which are available on the website www.grupbancsabadell.com, contain detailed information about the Remuneration Committee.

4.- Activities

The Remuneration Committee met on twelve occasions in 2017.

The main activities of the Remuneration Committee in that period are summarised below:

Human Resources Department report on remuneration policy in the Banco Sabadell Group

- It examined the report that is drafted each year by that Department 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 executive directors, the Bank's senior executives and the other persons in the identified staff.

Fixed and variable remuneration

- It analysed the degree of attainment of the objectives established for 2016, approving the percentages of attainment of the objectives for the group, for the executive directors, senior management and Audit Manager, and for the members of the identified staff. It also issued a favourable report to the Board of Directors with respect to the amount of variable remuneration for 2016 for all group employees.
- It issued a favourable report to the Board of Directors with respect to the fixed remuneration for all employees of the group and for the increase in the total amount of wages in 2017.
- It approved the fixed remuneration for 2017 for the Board of Directors, the Advisory Boards in the Banco Sabadell group, and the independent directors on the Boards of subsidiaries and affiliates.
- It recommended that the Board of Directors approve the fixed remuneration for the Chairman, Managing Director and Director-General Manager for the year 2017, and approved the fixed and variable remuneration corresponding to senior management and internal audit, and to the members of the identified staff.
- It recommended that the Board of Directors approve the targets for variable remuneration for 2017 for the group as a whole, the executive directors and the members of the identified staff.

Banco Sabadell Remuneration and Benefits Policy

- It reviewed the Remuneration and Benefits Policy for the Banco Sabadell Group and approved an amendment to adapt it to the European Banking Authority's guidelines on sound remuneration.

Annual Corporate Governance Report of Listed Companies

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

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 specialised consulting firm Mercer Consulting, S.L. on the assessment of remuneration policy and practices, which was commissioned in order to analyse whether Banco Sabadell's remuneration policy and practices conform to the supervisors' requirements and recommendations.
- It analysed the reports issued by the consultant Willis Towers Watson on the competitiveness of the remuneration for the executive directors (Executive Chairman, Managing Director and Director-General Manager), senior management and internal audit, as well as the report issued by consulting firm Spencer Stuart on benchmarking the Board of Directors remuneration.
- It analysed and gave its approval to the plan to review the objectives, remuneration scheme and talent development model of Banco Sabadell, and monitored its progress during the year.

America

- The Committee analysed and issued a favourable report to the Board of Directors on the review of the fixed remuneration for 2017 and the variable remuneration for 2016 for the employees of Sabadell United Bank, N.A., Sabadell International Branch and the New York branch.

TSB

- It issued a recommendation to the Board of Directors to approve the remuneration for 2017 for the Chairman and non-executive directors of TSB.
- It approved the remuneration for TSB's CEO that was presented by TSB's RemCo.

Assessment

- In accordance with Recommendation 36 of the Good Governance Code of Listed Companies, and in compliance with the provisions of article 5.2 of the Regulation of the Board of Directors, the assessment of the Committee's performance in 2017 will be conducted with the assistance of an external consultant whose independence has been verified by the Appointments Committee.

5.- Conclusion

During 2017, the Remuneration Committee properly discharged the duties assigned to it by the Articles of Association and the Regulation of the Board of Directors.