



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

2018

29 January 2019

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This Report on the performance and activities of the Remuneration Committee (the Committee) in 2018 is addressed to the shareholders of Banco de Sabadell, S.A. (Banco Sabadell or the Bank) in accordance with recommendation 6 of the Unified Good Governance Code of Listed Companies, which requires that listed companies prepare this report and publish it on their website sufficiently in advance of the date of the General Meeting of Shareholders.

1.- Introduction

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

2.- Regulation and functions

Article 62 of the Articles of Association¹ 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.

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 its Chairman 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.
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

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

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;
 - 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;

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- 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 must 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 2018, 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)

Non-Member Secretary:

Ms. María José García Beato

There were no changes in the composition of the Remuneration Committee in 2018.

As indicated, all the members of the Remuneration Committee are independent directors.

Accordingly, the composition of the Committee complies with the requirements of article 529 quincecies 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 (including the Committee Chair) must be independent directors. It also complies with the composition required by article 36 of Law 10/2014, of 26 June for the Remuneration Committee of a credit institution, which must comprise members of the Board of Directors who do not perform executive functions, and at least one third of them (and in all cases the Chair) must be independent directors.

Also, it 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).

Section B.1 of the Annual Report on Director Remuneration and section C.2.1. of the Annual Corporate Governance Report, both of which are available on the website at www.grupbancsabadell.com, contain detailed information about the Remuneration Committee.

4.- Activities

The Remuneration Committee met on twelve occasions in 2018.

The main activities of the Remuneration Committee in that period are as follows:

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 management and the other material risk takers.

Fixed and variable remuneration

- It analysed the degree of attainment of the objectives established for the year 2017, approved the percentages of attainment of the objectives for the Group, for the Executive Directors, members of Senior Management and the Audit Manager, as well as for other material risk takers of the Group and of TSB.
- It issued a favourable report to the Board of Directors as to the amounts of the variable remuneration for 2017 for all the Group employees, the Executive Directors, Senior Management, Internal Audit, and other material risk takers of the Group and TSB.
- It issued a favourable report to the Board of Directors on the approval of the targets of the Group and TSB and for the material risk takers of the Group and of TSB for 2018.
- It reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the overall maximum limit on remuneration for the Board of Directors for 2018.
- It reported favourably to the Board of Directors on the submission to the General Meeting of Shareholders of the maximum limit on variable remuneration for the material risk takers.
- It issued a favourable report to the Board of Directors on the salary review for 2018 in connection with the fixed remuneration for all the group's employees, as well as on an increase in the total amount of fixed salaries for 2018.
- It issued a favourable report to the Board of Directors on the remuneration proposal for executive directors, senior management and internal audit, and the fixed remuneration for 2018 for them and for the material risk takers in the Group and TSB.
- It reported favourably to the Board of Directors on the approval of the annual and multi-year targets for variable remuneration in 2018 of the Group, and the material risk takers in the Group and in TSB.
- It issued a favourable report to the Board of Directors on the proposal for the long-term supplementary incentive programme for 2018-2021 based on the appreciation by the shares of Banco de Sabadell, S.A. for executive directors, senior management and other executives who are part of the Group's list of material risk takers, to be submitted to the Ordinary General Meeting of Shareholders.

- It approved a procedure regarding share lock-up applicable to executive directors in order to ensure compliance with the provisions of the Director Remuneration Policy.
- It approved the Group's Variable Remuneration Fund for 2018 and analysed its variation in stressed scenarios.

Amendment of Articles of Association

- It advised the Board of Directors, for approval by the Ordinary General Meeting of Shareholders, on the amendment of articles 50 and 85 of the Articles of Association to update their provisions in connection with the remuneration to which directors are entitled for performing their duties, the goal being to adapt the wording to current legislation and to best practices in the area of corporate governance.

Policies

- It reviewed and issued a favourable report to the Board of Directors on Banco Sabadell's remuneration policies, comprising the Remuneration Policy for the Banco Sabadell Group, the Remuneration Policy for Senior Executives, the Remuneration Policy for the Group's Material Risk Takers, and the Remuneration Policy for Banco de Sabadell Spain.
- It advised the Board of Directors on the Director Remuneration Policy for 2018, 2019 and 2020, which, once approved by the General Meeting of Shareholders, replaced, in all its terms, the one approved on 31 March 2016.

Annual Corporate Governance Report of Listed Companies

- It analysed, 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 external consulting firm Mercer 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 regulators' requirements and recommendations.
- It analysed the reports issued by consulting firm Willis Towers Watson analysing the competitiveness of the remuneration for executive directors (Executive Chairman, Managing Director and Director-General Manager), senior management and Internal Audit.

The Americas

- It approved amendments to the Remuneration Policy of the Bank's subsidiaries in Mexico and its alignment with the Remuneration Policy for the Group's material risk takers.

TSB

- It was advised of the status of the review of the TSB Remuneration Policy by TSB's RemCo.
- It approved the remuneration for the CEO of TSB submitted by TSB's RemCo.

Assessment

- It approved and advised the Board of Directors on the Remuneration Committee Assessment Report for 2017 and the proposed plan of action for 2018.

- It approved the Report on the Functions and Activities of the Remuneration Committee for 2017, which was submitted to the Board of Directors and published on the corporate website sufficiently in advance of the date of the General Meeting of Shareholders, thus complying with best practices in the area of corporate governance.

5.- Conclusion

During 2018, the Remuneration Committee properly discharged the duties assigned to it by the Articles of Association and the Regulation of the Board of Directors.