

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 28 MARCH 2019, 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 the regulation, supervision and solvency of credit institutions (hereinafter, "Act 10/2014"), in relation to the motion submitted to the forthcoming General Meeting of Shareholders under item nine on the agenda in which it is proposed to approve a cap on variable remuneration for the members of the Group's identified staff amounting to the equivalent of two years' salary, i.e. 200% of the fixed remuneration assigned to each one of them.

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 (Delegated Regulation 604/2014); (ii) Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36/EU and Regulation (EU) No. 575/2013 (hereinafter, Bank of Spain Circular 2/2016), and (iii) 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, issued by the European Banking Authority (EBA) and adopted by the Bank of Spain 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 "the Group's 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.*

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 independent external 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 is aligned with the provisions of the Capital Companies Act, the specific legislation applicable to credit institutions, specifically, Act 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, the EBA Guidelines (EBA/GL/2015/22), of 27 June 2016, on sound remuneration policies, and the Principles for Sound Compensation Practices published by the Financial Stability Board (FSB) on 2 April 2009, Directives 2010/76/EU (CRD III) and 2013/36/EU (CRD IV), and is in line with the principles and items that were considered to be appropriate based on standard practice among listed companies and the characteristics of remuneration in financial institutions.

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.

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.

The Banco de Sabadell Group Remuneration Policy was reviewed by the Remuneration Committee on 19 December 2018 in order to make the necessary amendments to ensure it is 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 20 December 2018, and submits the new director remuneration policy for 2019-2021 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 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 employees. Benefits apply to all Banco Sabadell employees, including the members of the Group's identified staff (who include 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. The Board of Directors has the power, based on a proposal by the Remuneration Committee, to assign specific providential plans to the members of the Group's identified staff (who include senior management and the 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 (who include 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 (who include 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.

Variable annual remuneration and long-term remuneration for the members of the Group's identified staff is deferred as follows:

- Deferral by at least 3 years and at most 5 years for senior management and executive directors.
- At least 40% and at most 60% will be deferred in the case of executive directors and of members of the Group's identified staff whose variable remuneration exceeds 1,500,000 euro.
- The deferred variable annual remuneration will be paid 55% in the form of Banco Sabadell shares in the case of senior management and executive directors, and at least 50% in the case of the other members of the Group's identified staff.

- Variable remuneration paid in shares is subject to one-year lock-up. Unless they own shares amounting to the equivalent of twice their variable annual remuneration, executive directors may not dispose of the shares they receive until at least 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.
- The use of personal hedging strategies or any mechanism that guarantees receipt of part or all of the variable remuneration is not permitted.

As a result of the remuneration scheme described above, the incentives for the 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 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 a 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 members of 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 de Sabadell, Sociedad Anónima 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 members of 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 list of the members 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 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, and the internal criteria established by the Banco Sabadell Group.

The identification process is performed by the Human Resources Department in consultation with the Finance Department and the Compliance Department in their respective spheres, and is validated by the Risk Control Department.

After applying that identification process, the Group has identified 116 members of the Group's identified staff who are assigned variable remuneration as of the date of this report. Attached as annex 1 is a list of the members 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 of the current members of the Group's identified staff earned variable remuneration amounting to 200% of the fixed remuneration, that would amount to €33.6 million more in 2019 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

- Chair
- Managing Director
- Director - General Manager
- Director - Secretary General
- Director - Chief Risk Officer
- General Manager - Operations and Persons
- General Manager - Chief Financial Officer
- General Manager - Sabadell Spain
- Assistant General Manager - Business
- Assistant General Manager - Asset Transformation and Industrial and Real Estate Holdings
- Assistant General Manager - Risk Management
- Assistant General Manager - Marketing and Business Transformation
- Assistant General Manager - Corporate and Investment Banking
- Assistant General Manager - Eastern Region
- Deputy General Manager - Human Resources
- Deputy General Manager - Asset Management
- Deputy General Manager - TSB Strategy
- Deputy General Manager - Bancassurance
- Deputy General Manager - Technology Innovation
- Deputy General Manager - Global Financial Control
- Deputy General Manager - Legal
- Deputy General Manager - Trading, Custody and Research
- Deputy General Manager - Catalonia
- Deputy General Manager - Sabadell Consumer Finance
- Deputy General Manager - Central Spain
- Deputy General Manager - Private Banking
- Deputy General Manager - Customer Solutions
- Deputy General Manager - Group Coordination and Corporate Services
- Deputy General Manager - Solvia
- Deputy General Manager - Corporate Transactions
- Deputy General Manager - Chief of Staff to the Managing Director and Strategic Planning
- Deputy General Manager - North-western Spain
- Deputy General Manager - Southern Spain
- Deputy General Manager - Internal Audit
- Deputy General Manager - Corporate A&A and SIB
- Deputy General Manager - Communication
- Deputy General Manager - Treasury and Markets
- Deputy General Manager - Institutional Business

- Deputy General Manager - Structured Finance
- Deputy General Manager - Mexico
- Deputy General Manager - Real Estate and Institutional Markets
- Deputy General Manager - Global Financial Management and CFO Spain
- Deputy General Manager - Risk Control
- Deputy General Manager - Corporate Banking & EMEA
- Deputy General Manager - Compliance
- Deputy General Manager - Chief Economist
- Deputy General Manager - Corporate and Retail Customer Risk
- Deputy General Manager - Northern Spain
- Deputy General Manager - Chief Information Officer
- Manager - Wholesale Distribution of Money Markets and Currencies
- Manager - Distribution
- Manager - Market Origination
- Manager - Debt Asset Management
- Manager - Savings Solutions
- Manager - Asset Risk and Equity Holdings
- Director - Delinquency Prevention and Management
- Manager - Risks, Central Spain
- Manager - Finance
- Manager - Systems Spain
- Manager - Trading
- Manager - Sabadell UK Branch
- Manager - Treasury and Markets
- Manager - Customers and Commercial Transformation
- Manager - PISA project
- Manager - Research
- Manager - Business Intelligence, Control and APS
- Manager - Corporate Governance
- Manager - Corporate and Global Risk
- Manager - Corporate Credit Restructuring and Investees
- Private Banking Country Manager
- Risk Manager - Catalonia Region
- Manager - Corporate Banking
- Manager - International Audit, Corporate Banking, Compliance and Real Estate Asset Management
- Manager - Origination and Middle Market Spain
- Manager - DCM Origination (2 people)
- Manager - Solvia Desarrollos Inmobiliarios
- Senior Private Banker

- Manager - Marketing
- Manager - Corporate Finance
- Manager - BS Capital
- Manager - Control and Asset Administration
- Manager - Trading and Distribution
- Manager - Debt Restructuring from Capital and Management
- Manager - Group Services and Operations
- TSB Interim Executive Chairman
- TSB Chief Financial Officer
- TSB Commercial Banking Director
- TSB Chief Risk Officer
- TSB HR Director
- TSB Distribution Director
- TSB Products and Digital Director
- TSB Chief Audit Officer
- TSB Chief Operating Officer
- TSB Chief Information Officer
- TSB Change Director
- TSB Commercial Products Director
- TSB Finance Director: Cost and Business Transformation
- TSB Director of Performance & Reward
- TSB Director of HR Business Partnering, ER & HR Operations
- TSB Director of Operations
- TSB Communications & Corporate Affairs Director
- TSB Director of Audit: IT, Operations and Change
- TSB Director Credit Unsecured
- TSB Payments Director
- TSB Chief Marketing Officer
- TSB Mortgage Distribution Director
- TSB Digital Director
- TSB Group Chief Data Officer
- TSB Director of Mortgages, GI & Protection
- TSB Financial Controller
- TSB Finance Director: Corporate Development and Business Performance
- TSB Treasurer
- TSB Director of Audit, Risk
- TSB Director of Infrastructure and Architecture
- TSB Director Brand and Content Strategy