

REPORT BY THE BOARD OF DIRECTORS OF BANCO DE SABADELL, S.A. IN CONNECTION WITH THE AMENDMENT OF THE REGULATION OF THE BOARD OF DIRECTORS REFERRED TO IN ITEM SIX OF THE AGENDA OF THE GENERAL MEETING OF BANCO DE SABADELL, S.A. SCHEDULED FOR 31 MARCH 2016, AT SECOND CALL

At a meeting on 25 February 2016, the Board of Directors of Banco de Sabadell, S.A. (“Banco Sabadell” or the “Bank”) resolved to amend articles 5, 8, 11, 12, 13, 14 and 25 of the Regulation of the Board of Directors, contingent upon approval of the amendments of the Articles of Association submitted to the General Meeting, all following a favourable report by the Audit and Control Committee, in accordance with the procedure established in article 3 of the Regulation of the Board of Directors.

The amendment of the Regulation of the Board of Directors is a direct consequence of the amendment of the Articles of Association proposed to the General Meeting and arises from the need to adapt the articles in this Regulation to the new wording of the Articles of Association and current legislation.

The amendments presented for the General Meeting for it to take cognizance of them are as follows:

1. Amendment of article 5:

In line with the list of competencies established in article 58 of the Articles of Association and article 249 *bis* of the Capital Companies Act, this article is amended to modify the powers of the Board of Directors in connection with the appointment and removal of the most senior executives, by limiting them to the appointment and removal of the Bank's most senior executives.

The complete article is reworded to read as follows:

ARTICLE 5. GENERAL SUPERVISION FUNCTION

- 1. With the exception of matters falling within the remit of the Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Company and its consolidated group and is responsible under the law and the Articles of Association for the management and representation of the Company.*
- 2. Subject to the Articles of Association and the resolutions adopted by the Shareholders' Meeting, the Board of Directors represents the Company and the Company shall be bound by its decisions. The Board of Directors shall be responsible for taking such action as may be considered necessary in pursuit of the Company's object as described in the Articles of Association.*

The Board of Directors, following consultation with the Appointments Committee, shall assess the performance of the Board itself and the discharge of their duties by the Chairman of the Board and the Managing Director. Also, following a report by the Board's Delegated Committees, it shall evaluate their performance.

- 3. Without prejudice to the foregoing, the Board of Directors acts mainly as an instrument of supervision and control, and delegates the management of ordinary business matters of the Company to the executive organs and management team.*
- 4. Powers may not be delegated where they are required by law or the Articles of Association to be exercised directly by the Board of Directors or are necessary for the responsible performance of the general function of supervision.*
- 5. Specifically, to ensure better and more efficient performance of its general supervisory duties, the Board undertakes to discharge the responsibilities provided by law, including:*
 - a) those deriving from the generally-applicable corporate governance standards.*
 - b) approving the Company's general strategies;*
 - c) appointing and, as necessary, removing the company's senior executives;*
 - d) appointing and, as necessary, removing directors of the Company's subsidiaries;*
 - e) identifying the Company's and its consolidated Group's main risks and implementing and monitoring the appropriate internal control and reporting systems.*
 - f) setting policy on the reporting and disclosure of information to shareholders, the markets and the general public;*
 - g) setting policy on treasury stock in accordance with any guidelines laid down by the Shareholders' Meeting;*
 - h) authorising transactions between the Company and directors or significant shareholders which may lead to conflicts of interest; and*
 - i) generally deciding on business or financial transactions that are of particular importance for the Company; and*
 - j) those specifically envisaged in this Regulation.*
- 6. Delegation or assignment of the power to represent the Bank to one or more directors, whether individually or collectively, binds them to inform the Board of any actions they take in the exercise of such powers which go beyond ordinary administration.*

7. *The Board of Directors shall have the power and the function to determine and establish the limits and conditions governing risk and lending transactions that may be arranged by each of the subsidiaries, and the fees and general conditions to which such transactions must conform, without prejudice to the functions of the subsidiaries' Board of Directors.*
8. *In performing its functions of representing BANCO DE SABADELL, S.A., the Board of Directors shall designate the Chairmen of the governing bodies of the operating subsidiaries.*

The appointee must obligatorily inform the Board of Directors about business performance at the respective subsidiary.

2. Amendment of article 8:

This article is amended to include the requirement for consultation with the Appointments Committee before appointment of the Chairman of the Board of Directors, as provided in article 529 sexies of the Capital Companies Act.

Additionally, the requirement that the position of Lead Independent Director fall to a Vice-Chairman, if there is one, is eliminated, in line with the amendment to article 55 of the Articles of Association submitted to this General Meeting.

The complete article is reworded to read as follows:

ARTICLE 8. THE CHAIRMAN OF THE BOARD OF DIRECTORS, THE MANAGING DIRECTOR AND THE LEAD DIRECTOR

1. *Following consultation with the Appointments Committee, the Chairman of the Board of Directors shall be elected from among its members and must fulfil the requirements of the Articles of Association for holding that position.*
2. *The Chairman of the Board of Directors is the Bank's chief representative and, in performing his functions, he is the person with primary responsibility for the effectiveness of the Board of Directors, representing the Bank in any event, and signing on behalf of the company; he will convene and chair meetings of the Board of Directors, setting the agenda, directing the debates and deliberations within the Board of Directors, and, in the event, the General Meeting, and shall be responsible for executing the decisions adopted by the Board of Directors and the General Meeting of Shareholders without the need for this to be expressly mentioned. Moreover, the Board shall delegate to him all the powers that it sees fit which may be delegated by law.*
3. *If for any reason the Chairman is incapacitated, he shall be replaced by the First Vice-Chairman and, absent the latter, by the Second Vice-Chairman; absent both of them, by the director designated by the Board of Directors.*
4. *The Board may appoint one of its members as Managing Director.*

The Managing Director shall be the person with primary responsibility for managing and directing the business, and he shall be the Bank's representative in the absence of the Chairman. Moreover, the Board shall delegate to him all the powers that it sees fit which may be delegated by law.

5. *The Board of Directors may designate a Lead Director from among the independent directors; that person will be empowered to give notice of meetings of the Board of Directors, add items to the meeting agenda, coordinate and meet with the non-executive directors, reflect the opinion of the external directors, and direct any regular assessment of the Chairman of the Board of Directors.*

In the absence of the Chairman and the Vice-Chairmen, if any, the Lead Director shall chair the Board of Directors.

3. Amendment of article 11:

It is proposed to introduce a final paragraph providing for the possibility that the committees of the Bank's Board of Directors may perform those same functions at subsidiaries which are required to have such committees but are exempted if the parent company's committees perform those functions, as provided in Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, Royal Decree 84/2015, of 13 February, implementing Act 10/2014, of 26 June, and the forthcoming entry into force, on 17 June 2016, of Act 22/2015, of 20 July, on Auditing.

The complete article is reworded to read as follows:

ARTICLE 11. DELEGATED AND CONSULTATIVE BODIES OF THE BOARD OF DIRECTORS

1. *The Board of Directors may, with the quorum established by the Articles of Association, permanently delegate, in whole or in part, such of its powers as may legally be delegated, as it may see fit, to members of the Board, to be exercised by them collectively as Delegated Committees.*
2. *The Board of Directors must establish the Delegated Committees that the Company is required to establish by law, and at least the following:*
 - *Executive Committee*
 - *Audit and Control Committee*
 - *Appointments Committee*
 - *Remuneration Committee*
 - *Risk Committee*

3. *The Delegated Committees shall meet upon notice being given by their Chair. Absent specific provisions in the Articles of Association and in this Regulation, the rules of functioning established by this Regulation in relation to the Board shall apply, provided that they are compatible with the Delegated Committee's nature and purpose.*
4. *Without prejudice to the specific provisions of this Regulation with regard to each specific Delegated Committee, the committees shall comprise two or more directors, as decided by the Board of Directors, and shall be chaired by the Chairman of the Board of Directors or, in his absence, by the director designated by the Committee itself from among its members. The Secretary of each of the Delegated Committees shall be appointed by the Board of Directors and need not be a director. In any event, minutes will be countersigned and ratified by the Secretary or Vice-Secretary of the Board, who shall issue such certificates as may be pertinent.*
5. *Each Delegated Committee may require the attendance at its meetings of such executives, including executive directors, as it sees fit, to which end it shall notify the General Manager(s) to schedule their attendance.*
6. *Without prejudice to the specific provisions of this Regulation with regard to each specific Delegated Committee, the Chairman of each Committee shall determine the order or frequency of meetings and give notice of same.*
7. *Any Director may request that the Board be informed of any matter that is within the remit of any of the Delegated Committees.*
8. *The committees of the Bank's Board of Directors may also exercise those same functions for those subsidiaries or dependent companies which, under the legislation applicable at any given time, are also required to have such bodies.*

4. Amendment of article 12:

In line with the amendment proposed to article 60 of the Articles of Association, this article is amended to clarify the number of members of the Executive Committee.

The complete article is reworded to read as follows:

ARTICLE 12. THE EXECUTIVE COMMITTEE

1. *The Executive Committee shall consist of a maximum of six directors, who shall be appointed by the Board of Directors; its composition in terms of director categories shall be similar to that of the Board itself.*

2. *The Executive Committee shall coordinate the Bank's executive management and, to this end, adopt any resolutions and decisions within the scope of the powers vested in it by the Board of Directors.*

The Executive Committee shall report its decisions to the Board of Directors.

3. *The Chairman of the Board of Directors shall always be a member of the Executive Committee and act as its Chair.*
4. *It shall meet whenever convened by its Chairman or by the Vice-Chairman standing in for the former, and its meetings may be attended by any person, whether related to the Company or otherwise, who is invited to attend, by a decision of the Committee itself or the Chairman of same, for the purposes to be determined on the basis of the purpose of the matter in question; such persons may speak but not vote.*
5. *The Committee Secretary, who need not be a director, shall be designated by the Board of Directors, which shall also designate a substitute secretary for cases of illness or absence.*
6. *The Committee shall be quorate if at least one-half of its members are in attendance in person or by proxy; it shall adopt all resolutions by majority of those in attendance, in person or by proxy; the Chairman shall have a casting vote in the event of a tie. Members of the Committee may grant proxy to another member, but no member may hold more than two proxies.*
7. *The resolutions of the Commission shall be entered in a minutes book, and the minutes shall be signed by the Chairman and the Secretary or, where applicable, by those who played those roles at the meeting in question, by virtue of the provisions of this Regulation.*

5. Amendment of article 13:

This amendment is proposed in line with the proposed amendment of article 61 of the Articles of Association and the forthcoming rewording of article 529 *quaterdecies* of the Capital Companies Act in connection with the composition of the Committee once Act 22/2015, of 20 July, on Auditing, which amends that article of the Capital Companies Act, comes into force.

It is also proposed to make technical and drafting improvements: eliminate point 2 since its content is deemed to be already included in point 2, adapt power 6.b) of this article to the literal wording of the law, replace the reference to "Committee" with the more appropriate term "Commission" (Translator's note: refers only to the Spanish version) and replace the reference to "present" in line with the Articles of Association.

The complete article is reworded to read as follows:

ARTICLE 13. AUDIT AND CONTROL COMMITTEE

- 1. The Audit and Control Committee shall comprise at most five directors, appointed by the Board of Directors, none of whom may be an executive director; at least a majority 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. At least one of the members of the Audit and Control Committee must be appointed in consideration of his expertise in accounting, auditing, or both. Other non-executive directors may be designated to attend and speak, but not vote, in order to cover absences or vacancies. The Chairman of the Audit and Control Committee shall hold office for at most 4 years and may only be re-elected after a lapse of one year. The Board of Directors shall appoint the Committee Secretary, who need not be a director.*
- 2. The Audit and Control Committee must meet at least once every three months, and whenever convened by the Chairman at his own initiative or at the request of any Committee member, or at the request of the Chairman of the Board of Directors or of the external auditors.*
- 3. Meetings of the Audit and Control Committee shall be minuted by the Secretary designated by the Board of Directors. The business transacted at Committee meetings shall be reported to the Board of Directors at the next meeting by means of a reading of the minutes of each meeting.*
- 4. The Audit and Control Committee may require the attendance at its meetings of such executives, including executive directors, as it sees fit, to which end it shall notify the General Manager(s) to schedule their attendance.*
- 5. The Audit and Control Committee has the responsibilities established by law, including:*
 - a) Informing the Shareholders' Meeting on the questions raised by shareholders which fall within its scope of authority;*
 - b) Supervising the effectiveness of the company's internal control, internal audit and risk management systems, including those relating to tax risk, as well as discussing with the auditors or audit firms any significant weaknesses in the internal control system detected in the course of the audit;*
 - c) Overseeing the drafting and presentation of regulated financial information.*
 - d) Proposing to the Board of Directors, for submission to the General Meeting, the appointment of the external auditor, establishing the engagement conditions, the scope of the professional mandate, and revocation or non-renewal, if appropriate; reviewing compliance with the audit contract, striving to ensure that the opinion on the financial statements and the main content of the auditors' report are drafted clearly and accurately.*

- e) *Advising on the annual, quarterly and half-yearly financial statements and the prospectuses that must be submitted to the regulatory or supervisory bodies, exercising vigilance to ensure compliance with the requirements of the law and the proper application of generally accepted accounting principles, and advising on proposals to amend those principles.*
 - f) *Establishing the appropriate relations with external auditors to receive information about any issues that might jeopardise their independence, to be reviewed by the Committee, and any others related to the process of performing the audit functions and in the audit rules.*
 - g) *Reporting on any issues referred to the Committee by the Board of Directors that are within its remit.*
 - h) *Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.*
6. *The Audit and Control Committee shall draft an annual report on its activities, which must be included in the Directors' Report referred to in article 82 of the Articles of Association.*

6. Amendment of article 14:

This amendment is made in line with the amendment of article 62 of the Articles of Association with respect to the grouping of proposals for the appointment and removal of senior executives and the Designated Group under item e) of the list of the Appointments Committee's basic responsibilities.

The complete article is reworded to read as follows:

ARTICLE 14. APPOINTMENTS COMMITTEE

1. *The Appointments 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. In any event, the Chairman of the Committee shall 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 Appointments Committee shall have the following basic duties:*
 - a) *make proposals to the Board of Directors as to the appointment of independent directors, for co-optation or for remittal to the General Meeting, and as to the re-appointment or removal of such directors;*
 - b) *advise on proposals to appoint other directors by co-optation or for remittal to the General Meeting, and on proposals to re-appoint or remove them;*
 - c) *ensure that the composition of the Board of Directors complies with the provisions of article 54 of the Articles of Association;*
 - d) *check that the members of the Board of Directors are suitable and possess the necessary competency, knowledge and experience,*
 - e) *advise on proposals for the appointment and removal of senior executives and of the Designated Group;*
 - f) *advise on the basic conditions of the contracts of executive directors and senior executives;*
 - g) *examine and organize succession plans for the Chairman of the Board of Directors and of the Bank's chief executive and, as appropriate, make proposals to the Board;*
 - h) *establish a target for representation of the gender that is less represented on the Board of Directors and draw up guidelines on how to achieve that target;*
3. *The Appointments 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 case, it shall meet once per year to provide advice in advance on the Board's performance evaluation.*

7. Elimination of article 16 bis:

The regulation of the Strategy Committee is hereby eliminated since it is not obligatory to create such a committee and it is not listed as one of the committees that the Board of Directors is required to have under articles 59 of the Articles of Association and 11 of the Regulation of the Board of Directors, on the basis of which it was dissolved on 28 May 2015.

8. Amendment of article 25:

This amendment is to distinguish between the Appointments Committee and the Remuneration Committee, whose competencies and functioning are now different.

The complete article is reworded to read as follows:

ARTICLE 25. OBLIGATION NOT TO COMPETE

- 1. Directors may not render professional services in Spanish companies whose object is wholly or partly similar to that of the company. This prohibition does not refer to any positions they may hold in Group companies.*
- 2. Before accepting any executive appointment in another company or entity, directors must notify the Appointments Committee.*