REPORT BY THE BOARD OF DIRECTORS OF BANCO DE SABADELL, S.A. IN CONNECTION WITH THE PROPOSAL TO DELEGATE TO THE BOARD OF DIRECTORS THE POWER TO ISSUE SECURITIES WHICH ARE CONVERTIBLE AND/OR EXCHANGEABLE FOR SHARES OF THE COMPANY, PREFERRED STOCK, WARRANTS AND SIMILAR SECURITIES THAT PROVIDE THE DIRECT OR INDIRECT RIGHT TO SUBSCRIBE FOR OR ACQUIRE SHARES OF THE COMPANY OR OTHERWISE SHARE IN THE CORPORATE EARNINGS, AND THE POWER TO INCREASE CAPITAL STOCK BY THE NECESSARY AMOUNT, WITH THE POWER TO OVERRIDE THE PRE-EMPTIVE SUBSCRIPTION RIGHT, PROVIDED THAT THE CAPITAL INCREASE OR INCREASES, TAKEN AS A WHOLE, DO NOT EXCEED 20% OF CAPITAL STOCK, AS REFERRED TO IN ITEM TEN OF THE AGENDA FOR THE GENERAL MEETING OF SHAREHOLDERS OF BANCO DE SABADELL, S.A. SCHEDULED FOR 31 MARCH 2016, AT SECOND CALL.

In accordance with the provisions of articles 285-290, 297 and 511 of the Capital Companies Act and 319 of the Mercantile Register Regulation, the Board of Directors issues this report in support of the proposal to delegate to the Board of Directors the power to issue convertible and/or exchangeable securities, preferred stock, and warrants and similar securities representing part of a debt that may give entitlement, directly or indirectly, to subscribe for or acquire shares of the Company or to share in the corporate earnings; the power to set the criteria for determining the conditions and forms of conversion and/or exchange (which may be a fixed ratio determined or determinable at the time of issuing the securities, or a variable ratio); and the power to increase capital in the amount necessary, with the power to override the pre-emptive subscription rights of the Bank's shareholders in connection with the issuance of convertible debentures or bonds, preferred stock, or warrants or any other convertible securities whose exercise entails subscription for shares without exceeding 20% of the total amount of share capital (considering, within that limit, both any capital increases that are required to cater for the conversion of bonds or other securities that are convertible into newly-issued shares of Banco Sabadell which are issued under the proposal laid before the General Meeting and those that may be decided upon by the Board of Directors under the authorisation to increase capital submitted to the General Meeting of Shareholders).

In any company, particularly a large listed company, the governing and management bodies must have the most appropriate instruments available to them at all times to enable them to respond quickly to the Bank's changing needs in view of market circumstances.

One of the most common financial instruments used to raise funds is by issuing debentures in their many forms: non-convertible, subordinated, exchangeable, convertible, contingently convertible, with maturity or perpetual, etc. Convertible and exchangeable debentures offer significant advantages. Firstly, they are favourable for the issuer in that they provide an efficient form of funding in terms of cost or the potential issuance of new capital, which contributes to strengthening the Bank's capital ratios or helps absorb losses in the event of non-viability or insufficiency of own funds (contingency). Secondly, they appeal to investors because they are a cross between fixed-income and equity securities since they include the option, in certain circumstances, or even the requirement to be converted into shares of the Bank. These advantages for investors are what potentially make these securities an attractive on-balance sheet funding instrument for issuers.

The Board of Directors understands that the motion presented to the company's General Meeting is motivated by the advisability of providing the Board with the instruments authorised by the current Capital Companies Act and other legislation that is applicable to the Bank so that, without having to first call and hold a General Meeting, it may issue convertible and/or exchangeable securities, preferred stock, and warrants and similar securities representing part of a debt that may give entitlement, directly or indirectly, to subscribe for or acquire shares of the Bank or otherwise share in corporate earnings, which–under the limits, terms, maximum amounts and other conditions decided by the General Meeting–are considered to be in the Bank's interests.

As indicated above, this proposal is presented under the provisions of articles 319 of the Mercantile Register Regulation and 511 of the Capital Companies Act, which provide the possibility for the General Meeting to delegate to the Board of Directors the power to issue bonds that are convertible into shares, preferred stock, and warrants and similar securities, with the power to override the pre-emptive subscription right. In this connection, the motion to grant powers to the Board of Directors also contemplates granting it the power to increase capital as necessary to cater for conversion provided that such capital increase by delegation, combined with the other capital increases that it has resolved to make under authorisations granted by the General Meeting, does not exceed one-half of the capital at the time of authorisation, as established under article 297.1.b) of the Capital Companies Act, for a 5-year period as from the date of the General Meeting at which those motions will be submitted for approval.

In view of the ongoing development and specialisation of securities issues in the financial markets, the motion to delegate to the Board of Directors the power to issue convertible and/or exchangeable debentures and preferred stock, warrants, and similar securities, distinguishes between convertible debentures, which are regulated specifically under the Capital Companies Act, and preferred stock, warrants, and any other security which in practice entitles the holder to convert or exchange for shares of the Bank. This distinction clarifies the potential different interpretations arising from the fact that those securities are not specifically regulated under the Capital Companies Act. The resolution requires that, in issuing such securities, the Board of Directors ensures strict compliance with the regulations applicable to the issuance of convertible securities as specifically regulated under the Capital Companies Act which is applicable due to their nature, thereby ensuring that the lack of specific regulations cannot be interpreted as meaning that it is not necessary to comply with the requirements established by that law for convertible debentures. In short, the conditions of the resolution will mean that all kinds of securities carrying the right to exchange or subscribe for shares of the Bank are given the same treatment in practice; this principle is established by analogous application of the provisions of Title XI (with the specific provisions for listed companies set out in Title XIV) of the Capital Companies Act regarding the requirements for the issuance of securities which are convertible into newly-issued shares, and by the principle of equivalence of securities as set out in Royal Decree 1310/2005, of 4 November, which partially implements the consolidated text of the Securities Markets Act,. approved by Legislative Royal Decree 4/2015, of 23 October, on listing of securities on official secondary markets, public offerings for sale or subscription, and the prospectus required for those purposes, as well as Order EHA/3537/2005, of 10 November, implementing article 37.6 of the consolidated text of the Securities Markets Act, approved by Legislative Royal Decree 4/2015, of 23 October, which establishes that the issuer of publicly-offered preferred stock, warrants, or similar securities must respect the basic aspects of the rules governing the issuance of convertible debentures.

In any event, the motion to delegate to the Board of Directors the power to issue convertible and/or exchangeable securities as well as preferred stock, and warrants and similar securities that provide the direct or indirect right to subscribe for or acquire shares of the Bank, includes safeguard clauses to ensure that the subscription price of those securities may not be less than the par value of the shares into which they are convertible, thereby ensuring compliance with the provisions of articles 59.2 and 415.2 of the Capital Companies Act, which prohibits the issuance of shares at a price below their par value.

The motion also provides the criteria for determining the rules and forms of conversion and/or exchange, although, in the event that the Board of Directors decides to make use of the authorisation granted by the General Meeting, the Board of Directors is entrusted with specifying some of those rules and forms for each issue in accordance with the criteria established by the General Meeting.

Accordingly, it will be the Board of Directors that determines the specific conversion ratio, which may be determined at the time the securities are issued or may be a variable conversion ratio and, to that end, at the same time as approving the issuance of convertible and/or exchangeable securities under the delegation granted by the Meeting, it must produce a report detailing the specific rules and forms for conversion applicable to the specific issue, which must be accompanied by the report by auditors other than those of the Bank that is referred to in articles 414 and 417.2.b of the Capital Companies Act.

Specifically, the resolution to grant the Board of Directors the power to issue convertible and/or exchangeable fixed-income securities, preferred stock, and warrants and similar securities that may give entitlement, directly or indirectly, to subscribe for or acquire shares of the Company which is submitted to the General Meeting provides that the securities to be issued under the authorisation be valued at their nominal value and the shares be valued:

(i) at the determined or determinable fixed price that is established in the Board of Directors resolution made by use of this delegation and, in any event, at least the higher of the share's average price (whether the arithmetic mean or a weighted average, at the discretion of the Board of Directors) on the Continuous Market of the Spanish Stock Exchanges, based on the closing prices, the average price of each session or another reference price, during a period to be determined by the Board amounting to not more than three months and not less than three calendar days, which may conclude at any time up to the date of adoption of the decision by the Board of Directors to issue the securities of reference, and the share price on that same Continuous Market based on the closing price of the last session immediately before the adoption of the aforementioned resolution; additionally, a discount not exceeding 25% may be established with respect to that minimum share value.

(ii) with a variable conversion and/or exchange ratio in which the price of the shares for the purposes of conversion and/or exchange is the average price (arithmetic and/or weighted) on the Continuous Market of the Spanish Stock Exchanges in which they are listed, based on the closing prices, the average price in a session or another reference price, during a period to be determined by the Board amounting to not more than three months and not less than three calendar days, which may conclude at any time up to the beginning of the period for conversion or the date of conversion or exchange, as may be decided; additionally, a minimum and/or maximum reference price for the shares may be established for the purposes of conversion and/or exchange, in the terms that the Board of Directors sees fit.

Accordingly, the directors consider that the Board is being granted sufficient flexibility to establish the share value for the purposes of conversion as a function of market conditions and other applicable factors.

Additionally, and in accordance with article 415.2 of the Capital Companies Act, the motion to delegate to the Board of Directors the power to issue convertible securities envisages that, for conversion purposes, the nominal value of the debentures may not be less than the par value of the shares.

It is also placed on record that the authorisation to issue securities representing part of a debt which are convertible and/or exchangeable as well as warrants and similar securities that may directly or indirectly give entitlement to subscribe for or acquire shares of the Bank includes, in accordance with article 511 of the Capital Companies Act, empowering the Board of Directors to totally or partially override shareholders' pre-emptive subscription rights when it is necessary to raise funds in the markets or when it is otherwise in the Bank's interests.

The Board also considers that overriding the pre-emptive subscription right enables the company to pay a lower yield on the debt security and reduces the transaction costs (including, in particular, fees paid to participating banks) compared with an issue with a pre-emptive subscription right. It also has less of a distorting effect on trading in the Bank's shares during the issuance period due to taking less time and because they are securities whose conversion ratio, and the formulas for adjusting it, must compensate for any dilution of shareholders, in accordance with the provisions of article 417 of the Capital Companies Act.

In any case, in accordance with article 511 of the Capital Companies Act, if the Board decides to override the pre-emptive subscription right for any or all of the issues it decides to perform under that authorisation, it must produce, at the time of approving the resolution to issue convertible debentures, preferred stock, warrants, and similar securities, a report detailing the specific reasons in connection with the Bank's interests, which must be accompanied by a report by an auditor other than that of the Bank, appointed by the Mercantile Register as referred to in article 417.2.b of the Capital Companies Act by reference from article 511 of that Act. Those reports will be made available to shareholders and disclosed to the first General Meeting held after the decision to issue.

In conclusion, the motion submitted to the General Meeting greatly expands the Board of Directors' scope for manoeuvre and its ability to respond, and it is justified by the flexibility and agility that are needed to act in the current financial markets in order to seize opportunities when market conditions are most favourable.