

**REPORT BY THE BOARD OF DIRECTORS OF BANCO DE SABADELL, SOCIEDAD ANÓNIMA 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 SECURITIES, 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 FIVE ON THE AGENDA FOR THE GENERAL MEETING OF SHAREHOLDERS OF BANCO DE SABADELL, S.A. SCHEDULED FOR 19 APRIL 2018, 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 of Banco de Sabadell, Sociedad Anónima issues this report in support of the proposal to delegate to the Board of Directors the power to issue securities that are convertible and/or exchangeable for shares, preferred securities, and warrants and similar securities representing part of a debt claim that may give entitlement, directly or indirectly, to subscribe for or acquire shares of Banco de Sabadell, Sociedad Anónima 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 shareholders of Banco de Sabadell, Sociedad Anónima in connection with the issuance of notes or bonds that are convertible into shares, preferred securities, 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 de Sabadell, Sociedad Anónima 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 under Agenda item four).

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 changing needs of Banco de Sabadell, Sociedad Anónima in view of market circumstances.

One of the most common financial instruments used to raise funds is by issuing notes in their many forms: non-convertible, subordinated, convertible and/or exchangeable for shares, contingently convertible into shares, with maturity or perpetual, etc. Notes that are convertible and exchangeable for shares 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 capital ratios of Banco de Sabadell, Sociedad Anónima 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 or exchanged for shares of Banco de Sabadell, Sociedad Anónima. These advantages for investors are what potentially make these securities an attractive funding instrument for issuers in terms of appropriate management of the balance sheet.

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

This proposal is presented under the provisions of articles 511 of the Capital Companies Act and 319 of the Mercantile Register Regulation, which provide the possibility for the General Shareholders' Meeting to delegate to the Board of Directors the power to issue bonds that are convertible into shares, preferred securities, and warrants and similar securities, with the power to override the preemptive 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 notes that are convertible and/or exchangeable for shares, and preferred securities,

warrants, and similar securities, distinguishes between convertible notes, which are regulated specifically under the Capital Companies Act, and preferred securities, warrants, and any other security which in practice entitle the holder to convert or exchange for shares of Banco de Sabadell, Sociedad Anónima. 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 notes. In short, the conditions of the resolution will mean that all kinds of securities carrying the right to exchange or subscribe for shares of Banco de Sabadell, Sociedad Anónima 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 securities, warrants, or similar securities must respect the basic aspects of the rules governing the issuance of convertible notes.

In any event, the motion to delegate to the Board of Directors the power to issue notes that are convertible and/or exchangeable for shares as well as preferred securities, and warrants and similar securities that provide the direct or indirect right to subscribe for or acquire shares of Banco de Sabadell, Sociedad Anónima, 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 of Shareholders, 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 of Shareholders.

Accordingly, it will be the Board of Directors that determines the specific conversion and/or exchange 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 of Shareholders, it must produce a report detailing the specific rules and forms for conversion applicable to the specific issue, which must be accompanied by reports by the auditors and by an independent expert other than the auditor of Banco de Sabadell, Sociedad Anónima, as 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 notes that are convertible and/or exchangeable for shares, as well as preferred securities, and warrants and similar securities that may give entitlement, directly or indirectly, to subscribe for or acquire shares of Banco de Sabadell, Sociedad Anónima which is submitted to the General Meeting of Shareholders 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 average price of the shares of Banco de Sabadell, Sociedad Anónima (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 of Directors 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 and/or exchange or the date of conversion and/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 and/or exchange 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 notes 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 claim which are convertible as well as warrants and similar securities that may carry a direct or indirect right to subscribe for or acquire shares of Banco de Sabadell, Sociedad Anónima 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 Company's interests.

The Board of Directors 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 shares of Banco de Sabadell, Sociedad Anónima 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 of Directors 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 notes, preferred securities, 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 independent expert other than the auditor of Banco de Sabadell, Sociedad Anónima, designated 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 must be made available to shareholders and disclosed to the first General Meeting of Shareholders held after the decision to issue.

In conclusion, the motion submitted to the General Meeting of Shareholders 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.