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Independent auditor's report on the consolidated annual accounts

To the shareholders of Banco de Sabadell, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2019, and the income statement, statement of recognized income and expenses, statement of total changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2019, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matters

How our audit addressed the key audit matter

Impairment for credit risk of "Loans and advances", impairment of real estate assets arising from foreclosed assets and sale of real estate portfolios

Determining impairment for credit risk is one of the most significant and complex estimation exercises performed when preparing the accompanying consolidated annual accounts. The evaluation of impairment for credit risk is based on both individualized and collective estimates of coverage, in this case through the application of the Group's internal models, and involves a process that implies judgments and estimates, and so it has been a key matter of our audit.

In the determination of hedges for credit risk, guarantees, real or personal, considered effective are considered. In this sense, the Group has developed internal methodologies for evaluating the recoverable amount of real estate collateral.

It should be noted that the estimation of the impairment of real estate assets originated from credit activities and which, through lieu in payment, purchase or judicial proceedings, are awarded to the Group, are subject to the same policies indicated above for real estate collateral.

The performance of the models used to calculate impairment for expected losses required by International Financial Reporting Standard 9 (IFRS 9) require a high level of judgment to determine these credit losses considering, amongst others, elements such as:

- Identification and classification in stages ("staging") of impaired assets or assets with a significant increase in credit risk.
- Use of concepts such as macroeconomic scenarios, expected life of the operation and segmentation criteria.
- Construction of parameters for these models such as probability of default (PD) and loss given default (LGD).

Our work has focused on the analysis, evaluation and testing of the internal control system, as well as the performance of test of details over credit risk impairment losses estimated collectively and individually.

With respect to internal control system we have performed the following procedures, among others:

- Verifying that the various policies and procedures and the approved internal models comply with applicable regulations and Group's internal governance model.
- Analysis of the periodic risk assessment and follow-up alerts carried out by the Group, as well as the effective performance of the process of periodic review of files of accredited persons for the follow-up of their classification and, in the cases in which it applies, registration of the impairment.

In addition, we carried out the following tests of details:

- Analysis of the methodology for classifying credit assets in the three stages defined in the standard, analyzing the adequacy of: i) the definition of impairment applied; and ii) the methodology for estimating the significant increase in credit risk for assets classified as Stage 2, based on the definition of qualitative indicators and thresholds for the increase of quantitative indicators.
- Evaluation of the different calculation methodologies and the criteria adopted for the estimation of the risk parameters used in the calculation of the expected credit loss, including: i) the estimation of the risk parameters throughout lifetime or 12 months, depending on the corresponding stage; ii) the use of alternative scenarios in the projections carried out in the future; and iii) the use of retrospective contrast methodologies for the most relevant parameters in the impairment's estimation.

Key audit matters

In 2019, the Group has executed the transfer of real estate assets included in the sales operations previously agreed. On 19 July 2018, the Group agreed to transfer almost all of its real estate exposure to a subsidiary of Cerberus Capital Management L.P. The real estate assets of the operation had a joint carrying amount of approximately €3,900 million at the date of the agreement. In addition, on 2 August 2019, the sale of an additional portfolio of real estate assets to the same company was agreed with a joint carrying amount of €342 million.

On 20 December 2019, the Group has executed the transfer of most of the real estate assets of the aforementioned portfolios to companies wholly owned by a subsidiary of Cerberus that owns 80% of its capital, the remaining 20% being owned by Banco de Sabadell, S.A., with the corresponding derecognition of these real estate assets from the Group's balance sheet. The price of the operation is approximately €3,430 million. The transferred real estate assets include, amongst others, certain units subject to the exercising, in the short term, of rights of pre-emption by third parties totalling €1,149 million. In addition, there is a payment that has been deferred by the aforementioned subsidiary of the Cerberus Group totalling €447 million, which matures in 24 months.

See Notes 1, 2, 4.4.2, 11 and Appendix VI to the accompanying consolidated annual accounts with respect to impairment for credit risk and Notes 1, 2, 4.4.2, 13, 15, 17 and Appendix VI to the accompanying consolidated annual accounts with respect to the impairment of real estate assets arising from foreclosed assets and sale of real estate portfolios.

How our audit addressed the key audit matter

- Checks referred to: i) the reliability and consistency of the data sources used; ii) historical loss rates for impairment in credit risk in the estimation of future cash flows and historic discount rates on sale of real estate assets against the appraised value; and iii) recalibrations and retrospective contrasts performed in internal models.
- Check referred to the working of the "calculation engine" and re-execution of the calculation of collective hedges, for portfolios with structural models, and of the calculation of impairment of real estate assets deriving from foreclosed assets based on the different asset categories.
- Analysis of a sample of individualized credit files, as well as real estate assets deriving from foreclosed assets, to evaluate their proper classification and registration, as the case may be, of the corresponding impairment.

Regarding the sale of real estate portfolios, we have performed the following tests:

- Verification and analysis of the support contractual documentation of the agreements reached, and the report prepared by an independent expert on the accounting treatment of the operation that has led to loss of control of the transferred real estate assets.
- Verification of the accounting classification and of the analysis of recoverability of the deferred payment and the collection right associated with the assets subject to the exercising of the rights of pre-emption by third parties.

As a result of our tests on the calculations and estimates of the amount of credit risk impairment and real estate assets deriving from foreclosed assets, we have not identified any differences outside a reasonable range in the amounts recorded in the accompanying consolidated annual accounts.

Key audit matters

How our audit addressed the key audit matter

Verification of the recoverability of goodwill

Evaluation of the recoverability of goodwill is a complex exercise and requires a high level of judgment and estimation, and therefore it has been a key matter in our audit.

On an annual basis, or when there are indications of impairment, the Group performs an assessment to determine whether the goodwill recognized in its consolidated annual accounts is impaired.

Each goodwill item is associated with one or more cash generating units (CGU), using the discount method for profits distributed through the various operating plans within each CGU to estimate their recoverable value.

The estimation of the recoverable value of each CGU is inherently uncertain and includes a high level of judgments and estimates given that it is based on assumptions concerning macroeconomics evolution and other matters such as key business assumptions (the evolution of credit, non-performing loans ratio, interest rates, etc...) that determine the cash flows, discount rates and long-term growth rates that are applied. The models are sensitive to the variables and assumptions used, and there is a risk of the inaccurate assessment of those items due to their nature.

See Notes 1 and 16 to the accompanying consolidated annual accounts.

We gained an understanding and performed a review of the estimation process carried out by the Group, as well as the internal control environment, focusing our procedures on aspects such as:

- Verification of the criteria for defining the Group's CGUs associated with the various goodwill items.
- Evaluation of the method used by to estimate the impairment of goodwill.
- Analysis of the annual measurement reports, prepared by both the Group and external experts, on the assessment of impairment of goodwill.

We have performed tests to examine the cash flow projection models for the various CGUs utilized by the Group, taking into consideration the content of current legislation, market practices and the specific expectations for the banking sector. This assessment included the verification of assumptions such as growth rates and discount rates used, as well as an analysis of the budgetary monitoring of the primary CGUs and the impact of variations identified in the budgets and growth rates.

Finally, we have also reviewed the adequacy of the information presented in the accompanying consolidated annual accounts.

As a result of the aforementioned procedures, we consider that the estimates made by the Group with respect to the recoverability of goodwill fall within a reasonable range within the context of the circumstances under which these consolidated annual accounts are prepared.

Key audit matters

How our audit addressed the key audit matter

Financial information systems

Due to its nature, Banco Sabadell Group's business, particularly the preparation of financial and accounting information, is highly dependent on information technology systems, such that adequate control of these systems is crucial to ensuring correct data processing.

Moreover, as the systems become more complex, the risks relating to the organization's information technology systems and, by extension, the data they process, increase.

The effectiveness of the general internal control framework for information systems relating to the accounting recognition and closing process is essential for the performance of certain audit procedures relating to internal controls.

Considering this context, it is vital to evaluate aspects such as the organization and governance of the Information Technology Area, software maintenance and development controls, physical and logical security and system operation.

With the help of our information technology system experts, our work consisted of reviewing the general internal control environment associated with the information systems and applications that support the Group's accounting recognition and closings. We have also gained an understanding of the functionalities and involvement of the various information systems at the Group within the accounting recognition and closing process.

We essentially performed the following procedures on the information systems considered relevant to the financial reporting process:

- Review of the general computer controls relating to aspects deriving from operations, the development and maintenance of applications, their security and the governance and organization of the Group's Information Systems Area.
- Review of the general controls to manage authorization to access financial reporting systems and controls relating to the authorization of personnel to make changes to computer processes.
- Understanding of key business processes, identifying automatic controls that exist in those processes and their validation.
- Understanding and review of the process for generating manual accounting entries considered to give rise to a risk. Extraction, completeness validation and filtering of the accounting entries.
- Understanding and re-execution of some of the calculations performed by the Group considered to have the highest impact, particularly those relating to the apportionment of financial product interest (loans, credit facilities and deposits).

In general terms, the results of our procedures were satisfactory and we did not detect any material aspect affecting the financial information included in the accompanying consolidated annual accounts.

Other information: Consolidated Director's report

Other information comprises only the consolidated Director's report for the 2019 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated Director's report. Our responsibility regarding the information contained in the consolidated Director's report is defined in the legislation governing the audit practice, which establishes two distinct levels in this regard:

- a) A specific level applicable to the consolidated statement of non-financial information and certain information included in the Annual Corporate Governance Report, as defined in article 35.2 b) of Audit Act 22/2015, that consists of verifying solely that the aforementioned information has been provided in the Director's report or, if appropriate, that the Director's report includes the pertinent reference in the manner provided by the legislation and if not, we are required to report that fact.
- b) A general level applicable to the rest of the information included in the consolidated Director's report that consists of evaluating and reporting on the consistency between that information and the consolidated annual accounts as a result of our knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts and does not include information different to that obtained as evidence during our audit, as well as evaluating and reporting on whether the content and presentation of that part of the consolidated Director's report is in accordance with applicable regulations. If, based on the work we have performed, we conclude that material misstatements exist, we are required to report that fact.

On the basis of the work performed, as described above, we have ascertained that the information mentioned in paragraph a) above has been provided in the consolidated Director's report and that the rest of the information contained in the consolidated Director's report is consistent with that contained in the consolidated annual accounts for the 2019 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the Audit and Control Committee for the consolidated annual accounts

The Parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the aforementioned directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's Audit and Control Committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.

- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's Audit and Control Committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's Audit and Control Committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.



Banco de Sabadell, S.A. and Subsidiaries

Report on other legal and regulatory requirements

Report to the Parent company's Audit and Control Committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's Audit and Control Committee dated January 28, 2020.

Appointment period

The General Ordinary Shareholders' Meeting held on March 28, 2019 appointed us as auditors of the Group for a period of 1 year, as from the year ended December 31, 2019.

Previously, we were appointed by resolution of the General Shareholders' Meeting for an initial period and we have audited the accounts continuously since the year ended December 31, 1985.

Services provided

Services, different to the audit, provided to the Group are detailed in note 33 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by

Raúl Ara Navarro (20210)

January 31, 2020