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(Barcelona)

## **Independent Auditor's Report on the Consolidated financial statements**

*(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)*

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

### **Opinion**

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We have audited the consolidated financial statements of Banco de Sabadell, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated balance sheet at 31 December 2020, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2020 and of its consolidated financial performance and consolidated cash flows 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**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

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## Key Audit Matters

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

### Impairment of loans and advances to other debtors

See notes 1, 2, 4.4.2 and 11 to the consolidated financial statements

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's portfolio of loans and advances to other debtors reflects a net balance of Euros 149,183 million at 31 December 2020, while allowances and provisions recognised at that date for impairment total Euros 3,081 million.</p> <p>For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3), or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of the credit risk provision varies depending on the category in which the financial asset has been included.</p> <p>Impairment is calculated based on an expected loss model, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate.</p> <p>Individual provisions consider estimates of future business performance and the market value of collateral provided for credit transactions.</p> <p>For the collective analysis, estimates of expected losses are calculated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past, present and future information to be considered. The Group regularly conducts recalibrations and tests of its internal models in order to improve their predictive capabilities based on actual historical experience.</p> <p>The COVID-19 pandemic is affecting the economy and business activities of the countries where the Group operates, leading to an economic recession in</p>	<p>Our audit approach in relation to the Group's estimate of impairment of loans and advances to other debtors due to credit risk included an assessment of the relevant controls associated with the processes for estimating impairment, as well as different tests of detail on that estimate, for which we involved our credit risk specialists.</p> <p>Our procedures related to the control environment focused on the following key areas:</p> <ul style="list-style-type: none"> <li>– Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations.</li> <li>– Evaluating the appropriate classification of the loans and advances to other debtors portfolio based on their credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions.</li> <li>– Testing of the relevant controls relating to the information available for the monitoring of loans outstanding.</li> <li>– Evaluating the design and implementation of the relevant controls over the management and measurement of collateral and guarantees.</li> <li>– Evaluating the correct functioning of the internal models for estimating both individual and collective provisions for expected losses.</li> <li>– Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions.</li> <li>– Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place.</li> </ul>

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## Impairment of loans and advances to other debtors

See notes 1, 2, 4.4.2 and 11 to the consolidated financial statements

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>many of these countries. To mitigate the impacts of COVID-19, governments of different countries have launched initiatives to support the most affected sectors and customers through various measures such as the provision of State-backed credit facilities, the deferral of payments without penalties (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Group to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.) and have had a significant effect on the allowances and provisions for impairment of financial assets measured at amortised costs in the year ended 31 December 2020.</p> <p>The consideration of this aspect as a key audit matter is based both on the significance for the Group of the loans and advances to other debtors portfolio, and of the corresponding allowances and provisions recognised, and on the relevance and complexity of the process for classifying these financial assets for the purpose of estimating impairment thereon and of the calculation of that impairment, while also taking into consideration the situation generated by the COVID-19 pandemic.</p>	<p>Our tests of detail on the estimated expected losses included the following:</p> <ul style="list-style-type: none"> <li>– With regard to the impairment of individually significant transactions, we analysed the appropriateness of the cash flow discount models used by the Group. We also selected a sample from the population of significant credit-impaired risks and assessed the adequacy of the provision recognised.</li> <li>– With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Group, assessing the integrity and accuracy of the input balances for the process and the correct functioning of the calculation engine by repeating the calculation process for all contracts, taking into account the segmentation and assumptions used by the Group.</li> </ul> <p>In carrying out our audit procedures, we have taken into consideration the impacts of COVID-19 and the government aid on the parameters used to calculate the expected loss, as well as the adjustments made by the Group to the internal estimate models for this expected loss. To this end, we brought in our corporate business valuation specialists to assess the macroeconomic scenario variables used by the Group in its internal models to estimate the expected loss.</p> <p>Finally, we analysed whether the disclosures in the explanatory notes to the consolidated financial statements are appropriate, in accordance with the criteria set out in the financial reporting framework applicable to the Group.</p>

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## Recoverability of goodwill

See notes 1 and 16 to the consolidated financial statements

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2020 the Group has recognised goodwill totalling Euros 1,026 million, from the acquisition of certain entities and businesses in Spain.</p> <p>The Group tests recognised goodwill for impairment annually, or when impairment indicators are identified.</p> <p>The measurement of goodwill requires that associated cash-generating units (CGUs) be determined, that the carrying amount of each CGU be calculated, that their recoverable amount be estimated and that any events that may indicate impairment be identified.</p> <p>This estimate entails, among other matters, financial projections that take into account, inter alia, the expected performance of macroeconomic variables and their impact on the CGU's future business, internal circumstances of the entity and its competitors and the performance of discount rates. These projections have taken into consideration the economic impact of the COVID-19 pandemic.</p> <p>Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, also taking into consideration the situation triggered by the COVID-19 pandemic, the recoverability of goodwill has been considered a key audit matter.</p>	<p>Our audit procedures included analysing the key processes and controls established by management relating to the process followed by the Group to identify CGUs to which goodwill is associated, and evaluating the methodology and estimates used by the Group to determine their future impairment, which has been subject to assessment by the independent experts engaged by the Group.</p> <p>We also carried out procedures of detail in relation to the evaluation of goodwill impairment, particularly with regard to the reliability of the information used, the reasonableness of the methodology used to calculate the recoverable amount of the CGUs and of the main assumptions considered, as well as the reasonableness of the adjustments to the assumptions which have been affected by the impact of COVID-19.</p> <p>Lastly, we analysed whether the disclosures in the explanatory notes to the consolidated financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.</p>

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<b>Risks associated with information technology</b>	
<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence of these systems with regard to the processing of the Group's financial and accounting information, make it necessary to ensure that these systems function correctly.</p> <p>In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, operating of systems, or development and maintenance of information applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.</p>	<p>With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas:</p> <ul style="list-style-type: none"> <li>• An understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information.</li> <li>• Tests of the key automatic processes that are involved in generating the financial information.</li> <li>• Testing of the controls of the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems.</li> <li>• Testing of the operation, maintenance and development controls of applications and systems.</li> </ul>

### **Other Information: Consolidated Directors' Report**

Other information solely comprises the 2020 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated financial statements.

Our audit opinion on the consolidated financial statements does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, as follows:

- a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.
- b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated financial statements, based on knowledge of the Group obtained during the audit of the aforementioned consolidated financial statements. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

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Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated financial statements for 2020, and that the content and presentation of the report are in accordance with applicable legislation.

## **Directors' and Audit and Control Committee's Responsibilities for the Consolidated Financial Statements**

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The Parent's Directors are responsible for the preparation of the accompanying consolidated financial statements in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Parent'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 Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's Audit and Control Committee is responsible for overseeing the preparation and presentation of the consolidated financial statements.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 prevailing legislation regulating the audit of accounts 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 economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, 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's Directors.
- Conclude on the appropriateness of the Parent'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 financial statements 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 financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Control Committee of the Parent 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's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit and Control Committee of the Parent, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and which 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.

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## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **European Single Electronic Format**

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We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2020 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated financial statements for the aforementioned year and the XBRL files tagged by the Company, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2020 annual report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital files prepared by the Directors of the Parent, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated financial statements included in the aforementioned digital files fully corresponds to the consolidated financial statements we have audited, and whether the consolidated financial statements and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated financial statements, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

### **Additional Report to the Audit and Control Committee of the Parent**

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The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Control Committee dated 5 February 2021.





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## **Contract Period**

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We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 28 March 2019 for a period of three years, beginning the year ended 31 December 2020.

KPMG Auditores, S.L.  
On the Spanish Official Register of  
Auditors ("ROAC") with No. S0702

*(Signed on the original in Spanish)*

Francisco Gibert Pibernat  
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586  
5 February 2021