



Auditor's Report on Banco de Sabadell, S.A. and Subsidiaries

(Together with the consolidated annual accounts and consolidated directors' report of Banco de Sabadell, S.A. and subsidiaries for the year ended 31 December 2021)

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



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Independent Auditor's Report on the Consolidated Annual Accounts

(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.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. (the "Bank") and its subsidiaries that, together with the Bank, form the Banco de Sabadell Group (hereinafter the "Group"), which comprise the consolidated balance sheet at 31 December 2021, and the consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of total changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its 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

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 Annual Accounts* 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 annual accounts 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the 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.

Impairment of loans and advances to customers

See notes 1.3, 4.1, 4.4.2 and 11 to the consolidated annual accounts

<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 customers reflects a net balance of Euros 157,366 million at 31 December 2021, while allowances and provisions recognised at that date for impairment total Euros 3,302 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 allowances and provisions for credit risk 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 allowances and provisions consider estimates of future business performance and the market value of collateral provided for credit transactions.</p> <p>In the case of collective allowances and provisions, 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>Our audit approach in relation to the Group's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the expected loss calculations and the reliability of the data used. To this end, we brought in 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"> – Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. – Evaluating the appropriate classification of the loans and advances to customers 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. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for expected losses, and for the management and valuation of collateral, are functioning correctly. – Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions.

Impairment of loans and advances to customers

See notes 1.3, 4.1, 4.4.2 and 11 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The COVID-19 pandemic continues to affect the economy and business activities of the countries where the Group operates. To mitigate the impacts of COVID-19, in 2021 governments of different countries have continued to launch initiatives to support the most affected sectors and customers through various measures relating to the provision of State-backed credit facilities, penalty-free payment deferrals (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Group at 31 December 2021 to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.), thus increasing the uncertainty associated with their estimation.</p> <p>The consideration of this matter as a key audit matter is based both on the significance for the Group of the loans and advances to customers portfolio, and thus of the related allowance and provision, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses, while also taking into consideration the situation brought about by the COVID-19 pandemic.</p>	<ul style="list-style-type: none"> – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place. <p>Our tests of detail on the estimated expected losses included the following:</p> <ul style="list-style-type: none"> – 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. – 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. – Assessing the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – 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 losses. 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>Likewise, we analysed whether the disclosures in the notes to the consolidated annual accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.</p>

Recoverability of goodwill

See notes 1.3, 12 and 16 to the consolidated annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>At 31 December 2021 the Group has recognised goodwill totalling Euros 1,026 million, from the acquisition of certain entities and businesses in Spain. This goodwill is allocated to the group of cash-generating units (CGUs) that comprise the operating segment of the banking business in Spain.</p> <p>At 31 December 2021 the Group's assessment determined that there was no impairment of recognised goodwill.</p> <p>Testing of goodwill for impairment requires that cash-generating units (or groups of cash-generating units) be determined to which goodwill is allocated, and also requires identification of indications of impairment in each of the CGUs comprising a group of CGUs, calculation of their carrying amount and estimation of the recoverable amount of the CGUs (or groups of CGUs)</p> <p>This estimate entails, among other matters, financial projections that take into account, inter alia, expected trends in macroeconomic variables and their impact on the CGU's (or groups of CGU's) future business, the internal circumstances of the Group and its competitors and trends in discount rates.</p> <p>Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, 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 the group of CGUs to which goodwill is allocated, and evaluating the potential impairment of goodwill made by management, which has been subject to review by an independent expert engaged by the Group.</p> <p>With the collaboration of our specialists in corporate business valuation and financial projections, we performed procedures of detail including the following:</p> <ul style="list-style-type: none"> – Assessing the existence of indications of impairment of each of the CGUs that comprise the group of CGUs to which goodwill is allocated. – Evaluating the reasonableness of the methodology used by management to analyse goodwill impairment, performing procedures on the reliability of the information used to calculate the recoverable amount of the group of CGUs comprising the operating segment of the banking business in Spain. We also carried out procedures to evaluate the reasonableness of the main assumptions considered, including the financial projections used by the Group. – Analysing the sensitivity of certain assumptions to changes that are considered reasonable. <p>Likewise, we analysed whether the disclosures in the notes to the consolidated annual accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.</p>

Risks associated with information technology

<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 assistance of our specialists in information systems, we carried out tests, at each of the Group entities that are considered relevant for the purpose of the audit, relating to the internal control of the processes and systems involved in generating financial information in the following areas:</p> <ul style="list-style-type: none"> • An understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information. • Testing of the key automated processes that are involved in generating the financial information. • Testing of the controls over the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems. • Testing of the controls over the operation, maintenance and development of applications and systems.

Other Information: Consolidated Directors' Report

Other information solely comprises the 2021 consolidated directors' report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts 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 and the Annual Report on Directors' Remuneration, 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 annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. 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.

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 annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

Responsibilities of the Bank's Directors' and the Audit and Control Committee for the Consolidated Annual Accounts

The Bank's Directors are responsible for the preparation of the accompanying consolidated annual accounts 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 annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Bank'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 Bank's Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Bank's Audit and Control Committee is responsible for overseeing the 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 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 the economic decisions of users taken on the basis of these consolidated annual accounts.

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 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 Bank's Directors.
- Conclude on the appropriateness of the Bank'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 a true and fair view.

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- 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 Bank'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 Bank'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 Bank, we determine those that were of most significance in the audit of the consolidated annual accounts 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Bank, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2021 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 Bank, 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 annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts 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 annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Bank's Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit and Control Committee dated 16 February 2022.



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Contract Period

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
17 February 2022