



Banca Valsabbina S.C.p.A.

Report of Independent auditing firm pursuant to Article 14 of Italian Legislative Decree no. 39 of 27 January 2010, and of Article 10 of Regulation (EU) no. 537/2014

Financial statements as at 31 December 2020



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To the Shareholders of Banca Valsabbina S.C.p.A.

Report on the Auditing of the Financial Statements

Opinion

We have audited the financial statements of Banca Valsabbina S.C.p.A. (hereinafter referred to as the "Bank"), consisting of the balance sheet as at 31 December 2020, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year then ended and the explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position, the results of the operations and of the cash flows of the Bank as at 31 December 2020, in compliance with the International Financial Reporting Standards adopted by the European Union, as well as with the measures issued in implementation of Article 43 of Italian Legislative Decree 136/2015.

Basis for judgement

We carried out the audit in compliance with the international auditing standards (IAS Italy). Our responsibilities under these standards are further described in the section called *Responsibility of the independent auditing firm for the auditing of the financial statements* of this report. We are independent from the Bank in compliance with the regulations and principles on ethics and independence applicable in Italian law to the auditing of the financial statements. We believe we have obtained sufficient and appropriate evidence on which to base our opinion.

Key aspects of the audit

The key aspects of the audit are those aspects that, in our professional opinion, have been most significant in the audit of the financial statements of the year under review. We have dealt with these aspects in our audit and in forming our opinion on the financial statements as a whole; therefore, we do not express a separate opinion on these aspects.

Mazars Italia S.p.A.

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Classification and measurement of Loans and receivables with customers

Explanatory notes “Part A – Accounting policies”: paragraph A.2.3 “Financial assets measured at amortised cost”

Explanatory notes “Part B – Information on the Balance Sheet – Assets”: Section 4 “Financial assets measured at amortised cost - Item 40”

Explanatory notes “Part C – Information on the income statement”: Section 8 “Net impairment losses for credit risk - Item 130”

Explanatory notes “Part E – Information on risks and related hedging policies”: Section 1 “Credit Risk”

Key aspects	Audit procedures carried out
<p>The disbursement of loans and receivables with customers is a significant activity of the Bank. Loans and receivables with customers, recorded as financial assets measured at amortised cost, amounted to Euro 4,864.6 million as at 31 December 2020 and represented 81.3% of total assets of the financial statements.</p> <p>Net impairment losses on loans and receivables with customers charged to the income statement for the year ended 31 December 2020 amounted to Euro 27 million.</p> <p>For the purposes of classification, the directors carry out analyses, complex or otherwise, aimed at identifying the positions that, subsequent to disbursement, show evidence of a possible impairment loss, considering both internal information, related to the trend in credit positions, and external information, related to the reference sector or to the debtors' overall exposure to the banking system.</p> <p>The measurement of loans and receivables with customers is a complex estimation activity, characterised by a high degree of uncertainty and subjectivity, in which the directors use measurement models developed internally, which take into consideration a number of quantitative and qualitative elements including historical data relating to collections, expected cash flows and related expected recovery times, the existence of indicators of possible impairment losses, the assessment of any guarantees, the impact of macroeconomic variables, future scenarios and the risks of the sectors in which the Bank's customers operate.</p> <p>For these reasons, we considered the classification and measurement of loans and receivables with customers included in financial assets measured at amortised cost to be a key aspect of the audit.</p>	<p>In response to the key aspect, our audit procedures included:</p> <ul style="list-style-type: none"> • an understanding of the Bank's business processes and related IT environment with respect to the disbursement, monitoring, classification and measurement of loans and receivables with customers; • examining the configuration and implementation of controls and carrying out procedures to assess the operational effectiveness of controls deemed relevant, with special reference to the identification of loans with indicators of impairment and the determination of impairment losses; • analysing the classification criteria used to bring loans and receivables with customers into the categories required by IFRS 9 (known as “staging”); • analysing the analytical and collective measurement policies and models used and examining the reasonableness of the main assumptions and variables contained therein; • selecting a sample of loans measured using collective methods, checking the application of the measurement models adopted and checking the correspondence between the percentages of impairment applied and those envisaged by these models; • selecting a sample of analytically measured loans and examining the reasonableness of the identified impairment loss indicators and recoverability assumptions, also on the basis of any guarantees received;

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- analysing significant changes in the categories of loans and receivables and related impairment losses compared to previous years' figures and discussing the results with the company functions involved;
 - examining the appropriateness of the financial statement disclosures relating to loans and receivables with customers included in financial assets measured at amortised cost.
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Other aspects - Comparative information

The financial statements of Banca Valsabbina S.C.p.A. for the year ended 31 December 2019 were audited by another auditor who issued on 23 April 2020 an unqualified opinion on those financial statements.

Responsibilities of directors and board of statutory auditors for the financial statements

The directors are responsible for preparing the financial statements that provide a true and fair view in accordance with the International Financial Reporting Standards adopted by the European Union and the measures issued in implementation of Article 43 of Italian Legislative Decree no. 136/2015 and, within the terms provided for by law, for that part of the internal control deemed necessary to allow the preparation of financial statements that do not contain significant errors due to fraud or unintentional behaviour or events.

The directors are responsible for assessing the Bank's ability to continue to operate as a going concern and, when preparing the financial statements, for the appropriateness of using the going concern assumption, as well as for adequate disclosure. Directors use the going concern assumption in the preparation of the annual financial statements unless they have assessed that the conditions for the liquidation of the Bank or for the interruption of its activities are met or they have no realistic alternative but to make such choices.

The Board of Statutory Auditors is responsible for supervising the process of preparing the Bank's financial disclosure, within the terms provided for by law.

Responsibility of the independent auditing firm for the auditing of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or unintentional behaviour or events, and to issue an audit report that includes our opinion. Reasonable assurance is defined as a high level of assurance that, however, does not provide the assurance that an audit carried out in accordance with international auditing standards (IAS Italy) always identifies a material misstatement, where one exists. Errors may arise from fraud or unintentional behaviour or events and are considered to be material if, taken individually or together, they can reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit in compliance with international auditing standards (IAS Italy), we exercised our professional judgement and maintained our professional scepticism throughout the entire period of the audit. Moreover:

- we identified and assessed the risks of material misstatement of the financial statements, due to fraud or unintentional behaviour or events; we defined and carried out audit procedures in

response to these risks; we obtained sufficient and appropriate evidence on which to base our opinion. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error due to unintentional behaviour or events, as fraud may involve the existence of collusion, falsification, intentional omission, misleading representations or forcing of internal control;

- we have acquired an understanding of internal control relevant for the purpose of auditing the financial statements in order to establish appropriate audit procedures in the circumstances and not to express an opinion on the effectiveness of the Bank's internal control;
- we have considered the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates made by the directors, including the related disclosure;
- we came to a conclusion on the appropriateness of the directors' use of the going concern assumption and, on the basis of the evidence acquired, on the possible existence of significant uncertainty with regard to events or circumstances that could give rise to significant doubts about the Bank's ability to continue to operate as a going concern. In the event of significant uncertainty, we are required to draw attention in the audit report to the relevant disclosure or, if such disclosure is inadequate, to express such circumstance in the formulation of our opinion. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may cause the Bank to cease operating as a going concern;
- we considered the presentation, structure and contents of the financial statements as a whole, including the disclosure provided, and whether the financial statements represent the underlying transactions and events in such a way as to provide a true and fair view.

We informed the managers of the governance activities, identified at an appropriate level as required by IAS Italy, among other aspects, the scope and timing planned for the audit and the significant results obtained, including any significant deficiencies in internal control identified during the audit.

We also provided managers of the governance activities with a statement to the effect that we complied with the regulations and principles on ethics and independence applicable in Italian law and disclosed to them any situation that may reasonably be expected to affect our independence and, where applicable, the relevant safeguards.

Among the aspects communicated to the managers of governance activities, we identified those that were most relevant in the audit of the financial statements for the year in question, which were therefore the key aspects of the audit. We described these aspects in the audit report.

[Other information communicated pursuant to Article 10 of Regulation \(EU\) 537/2014](#)

The shareholders' meeting of Banca Valsabbina S.C.p.A. entrusted us on 29 June 2020 with the external audit of the Bank's financial statements for the years from 31 December 2020 to 31 December 2028.

We declare that no services were provided - other than the external audit - prohibited pursuant to Article 5, paragraph 1, of Regulation (EU) 537/2014 and that we remained independent from the Bank in carrying out the external audit.

We confirm that the opinion on the financial statements expressed in this report is in line with that indicated in the additional report for the Board of Statutory Auditors, in its function as internal control and audit committee, prepared pursuant to Article 11 of the said Regulation.

Report on other law and regulatory provisions

Opinion pursuant to Article 14, paragraph 2, letter e), of Italian Legislative Decree 39/10 and Article 123-bis, paragraph 4, of Italian Legislative Decree 58/98

The Directors of Banca Valsabbina S.C.p.A. are responsible for the preparation of the report on operations and of the specific section on the report on corporate governance and ownership structures of Banca Valsabbina S.C.p.A. as at 31 December 2020, including their consistency with the related financial statements and their compliance with law regulations.

We carried out the procedures indicated in audit standard (AS Italy) no. 720B in order to express an opinion on the consistency of the report on operations and certain specific information in the section on corporate governance and ownership structure referred to in Article 123-bis, paragraph 4, of Italian Legislative Decree No. 58/98, with the financial statements of Banca Valsabbina S.C.p.A. as at 31 December 2020 and on its compliance with law regulations, as well as to make a statement on any material errors.

In our opinion, the above-mentioned report on operations and certain specific information in the specific section of the report on corporate governance and ownership structure are consistent with the financial statements of Banca Valsabbina S.C.p.A. as at 31 December 2020 and have been prepared in accordance with the law.

With reference to the declaration set forth in Article 14, paragraph 2, letter e) of Italian Legislative Decree 39/10, based on the knowledge and understanding of the company and of the relevant context acquired during the audit, we have nothing to report.

Declaration pursuant to Article 4 of Consob Regulation implementing Italian Legislative Decree no. 254 of 30 December 2016

The directors of Banca Valsabbina S.C.p.A. are responsible for preparing the Non-financial Statement pursuant to Italian Legislative Decree no. 254 of 30 December 2016. We have verified that the directors have approved the Non-financial Statement.

Pursuant to Article 3, paragraph 10, of Italian Legislative Decree no. 254 of 30 December 2016, this statement is the subject matter of a separate certificate of conformity issued by us.

Verona, 8 March 2021

Mazars Italia S.p.A.

/signature/

Alfonso Iorio
Shareholder