BANCA VALSABBINA S.C.p.A.
Independent Auditors' Report pursuant to Article 14 of
Legislative Decree no. 39 dated 27 January 2010 and Article 10 of EU Regulation no. 537/2014

Financial Statements as at 31 December **2018**

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Independent Auditors' Report
Pursuant to Article 14 of Legislative Decree no. 39 dated 27 January 2010 and Article 10 of EU Regulation no. 537/2014

To the Shareholders of BANCA VALSABBINA S.C.p.A.

Financial Statements Audit Report

Opinion

We have audited the financial statements of BANCA VALSABBINA S.C.p.A. (the Bank), comprising the Balance Sheet as at 31 December 2018, the Income Statement, the Comprehensive Income Statement, the Statement of Changes in Shareholders' Equity, the Profit and Loss Account for the year ended as at that date and the Notes to the Financial Statements, which also include the summary of the most significant accounting standards applied.

In our opinion, the financial statements provide and true and accurate representation of the Bank's financial standing as at 31 December 2018, of the net profit and cash flows for the financial year ended on that date, in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of Article 43 of Legislative Decree 136/15.

Factors on which our opinion is based

We have carried out the audit in accordance with international auditing standards (ISA Italia). Our responsibilities pursuant to these standards are described in further detail in the section *Responsibilities of the auditing firm for the auditing of the financial statements* in this report.

We are independent from the company in accordance with the applicable regulations and standards in terms of ethics and independence as per Italian legislation on the auditing of financial statements. We believe we have gathered sufficient and appropriate evidence on which to base our assessment.

Key aspects of the audit

The key aspects of the audit are aspects which, in our professional opinion, have been most significant within the scope of the auditing of the financial statements in question. These aspects have been addressed by us as part of the audit and in forming our opinion on the financial statements as a whole; therefore, we do not express a separate opinion on these aspects.

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Key aspects	Audit procedures in response to the key aspects
Application of new international accounting standard IFRS 9 "Financial Instruments" *Financial statement information relating to the purposes of the first application of accounting standard IFRS 9, reported in Part A – Accounting Policies, Section 4 Other Aspects: Impacts resulting from the adoption of IFRS 9 "Financial instruments".* As of 1 January 2018, the date of the first application of IFRS 9 "Financial instruments", the equity values existing at the end of the previous financial year were subject to reclassification and measurement processes, required by the new accounting standard, based on the methods for managing these financial assets (Business Model) and based on the characteristics of the contractual cash flows of the financial instrument; furthermore, as regards the valuation of financial assets other than those valued at fair value with an offsetting item in the income statement, when defining a new methodology for determining impairment according to the expected credit loss model. As required by international accounting standard IAS 8 and by the provisions contained in the 5th update to Banca d'Italia Circular 262/2005, the Bank has provided information regarding the effects that the application of this new accounting standard has had on Shareholders' Equity, revealing a negative overall effect amounting to €61,477,557, net of the related tax effect. For the purposes of the audit, the impacts of the introduction of this new accounting standard are deemed significant in consideration of the complexities relating to the first application and the total related effects on initial equity.	The main audit procedures carried out in response to the key aspects relating to the application of IFRS 9 concerned the following: ▪ the analysis of the procedures and processes relating to the classification and measurement of financial assets, with specific reference to: - defining the business model for managing financial instruments; - policy relating to the examination of the characteristics of the cash flows of financial instruments (SPPI test); ▪ the analysis of the procedures and processes relating to the credit impairment model, with specific reference: - to defining and verifying the staging criteria and determining the significant increase in credit risk for the transition from stage 1 to stage 2; - to defining and verifying the models used to measure the expected credit losses (ECL) and methodologies for defining the parameters of the impairment model (PD, LGD, EAD); ▪ the analysis of the reconciliation and verification procedures for the figures reported in the reconciliation statements amongst the figures as at 31 December 2017 of the last approved financial statements and the opening figures as at

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1 January 2018 of the first financial statements drawn up on the basis of IFRS 9;

- the analysis of the reconciliation procedures for the figures existing in the operating systems and the information reported in the reconciliation statements;
- the verification of the information provided in the Notes to the Financial Statements relating to the transition to IFRS 9. Specifically, for the purposes of comparison, the Bank restated the values of the financial statements of the previous year and, as specified in the Notes to the Financial Statements, used the option provided for by IFRS 1 to not redetermine the comparison figures shown in the tables of the Notes to the Financial Statements.

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Key aspects	Audit procedures in response to the key aspects
Classification and valuation of receivables from customers at amortised cost *Part A of the Notes to the Financial Statements – Accounting policies in that part relating to the main financial statement items (3 – Financial assets valued at amortised cost)* *Part B of the Notes to the Financial Statements – Information on the statement of assets and liabilities in section 4, assets* *Part C of the Notes to the Financial Statements – Information on the Income Statement in section 8* *Part E of the Notes to the Financial Statements – Information on risks and related hedging policies* Receivables from customers (item 40 B) as at 31 December 2018 show a balance of €3,958 million (€3,105 million as at the end of the previous year), corresponding to 81% of the total assets of the Statement of Assets and Liabilities (72% at the end of the previous year), in relation to which net impairments were allocated (item 130 a) for €14.2 million (€51.9 million at the end of the previous year). This item was deemed significant for the purposes of the audit in consideration of its total and of the characteristics of the valuation processes and methods (collectively for performing loans, broken down by homogenous categories and analytically for impaired loans), taking into account the presumed possibility of recovery, the determination of expected cash flows and the indication of the related recovery times and realization value of any guarantees related to the loans, according to the methodologies provided for by the accounting policies adopted by the Bank.	The main audit procedures carried out in response to the key aspect relating to the classification and valuation of receivables from customers at amortised cost, in addition to what is stated in the preceding point, specifically concerned the following: ▪ the analysis of the adequacy of the computer environment relating to the relevant IT applications for the purpose of the process of valuing receivables from customers; ▪ the analysis of the procedures and processes relating to the item in question and the checks on the efficacy of the controls governing said procedures and processes; ▪ the comparative analysis and results analysis procedures with the corporate departments involved; ▪ the verification, on a sample basis, of the appropriateness of the recoverable value determined by the Bank via the recalculation thereof and the analysis of the reasonableness of the classification criteria, assumptions and financial hypotheses applied; ▪ the obtaining and examination of written confirmations by the lawyers appointed by the

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Bank, in order to obtain the information and elements supporting the valuation;

- the analysis of events subsequent to the financial year-end date;
- the analysis of the completeness and conformity of the information provided in the Notes to the Financial Statements.

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

The directors are responsible for preparing financial statements that provide a true and accurate representation, in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of Article 43 of Legislative Decree 136/15 and, under the terms provided for by law, for that part of the internal audit considered necessary, by said terms, to permit the drafting of financial statements that do not contain significant errors due to fraud or unintentional conduct or events.

The directors are responsible for assessing the Bank's ability to continue operating as a going concern and, in the drafting of the financial statements, for the appropriateness of the use of the going concern presumption, as well as for adequate information in this regard. The directors use the going concern presumption in drafting the financial statements, unless they have assessed that conditions exist for the liquidation of the Bank or for the termination of the business or they do not have realistic alternatives to said options.

The board of statutory auditors is responsible for overseeing, in terms provided for by law, the process of preparing the Bank's financial information.

Responsibility of the auditing firm for auditing the financial statements

Our goals are to obtain reasonable certainty that the financial statements, as a whole, do not contain significant errors - due to fraud or unintentional conduct or events – and to issue an audit report that includes our opinion. Reasonable certainty means a high level of certainty that, however, does not provide a guarantee that an audit carried out in accordance with the international accounting standards (ISA Italia) always identifies a significant error, if any. Errors may result from fraud or unintentional conduct or events and are considered significant if we can reasonably expect that said errors, either individually, or as a whole, are capable of influencing the economic decisions of users, made on the basis of the financial statements.

As part of the audit carried out in accordance with the international accounting standards (ISA Italia), we exercised our professional opinion and maintained our professional scepticism throughout the audit. Furthermore:

- we identified and assessed the risks of significant errors in the financial statements, due to fraud or unintentional conduct 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 resulting from unintentional conduct, given that fraud may entail the existence of collusion, falsification, intentional omissions, misrepresentations or internal audit manipulations;
- we have obtained a significant understanding of the internal audit for the purposes of the audit of accounts in order to define audit procedures that are appropriate to the circumstances and not to express an opinion on the efficacy of the company's internal audit;
- we have assessed the appropriateness of the accounting standards used, as well as the reasonableness of the accounting estimates made by the directors, including the related information;

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- we have reached a conclusion regarding the appropriateness of the use, by the directors, of the going concern presumption and, based on the evidence obtained, on any existence of a significant uncertainty regarding events or circumstances that may lead to significant doubts regarding the company's ability to continue to operate as a going concern. In the event of a significant uncertainty, we are required to draw attention to the audit report on the related financial statement information or, should said information be inadequate, to reflect this circumstance in formulating our opinion. Our conclusions are based on the evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the company ceasing to operate as a going concern;
- we have assessed the presentation, structure and content of the financial statements as a whole - including the information note – and if the financial statements represent the underlying transactions and events in order to provide an accurate representation.

We have informed the governance activity managers, identified an appropriate level as required by ISA Italia, *inter alia*, the scope and timings planned for the audit of accounts and the significant results that have emerged, including any significant shortcomings in the internal audit identified during the audit of accounts.

We have also provided the governance activity managers with a declaration on the fact that we have complied with the applicable regulations and standards in terms of ethics and independence in terms of Italian legislation and we have informed them of any situation that may reasonably have an effect on our independence and, where applicable, the related protective measures.

Among the aspects reported to the governance activity managers we have identified those that were most relevant within the scope of the auditing of the financial statements in question which, therefore, constituted the key aspects of the audit. We have described these aspects in the audit report.

Other information notified pursuant to Article 10 of EU Regulation 537/2014

The shareholders' meeting of BANCA VALSABBINA S.C.p.A. granted us, on 9 April 2011, the mandate to audit the company's financial statements for the financial years from 31 December 2011 to 31 December 2019.

We declare that we have not been granted services, other than the auditing of accounts, that are prohibited under Article 5, paragraph 1 of EU Regulation 537/2014 and have remained independent from the company in the performance of the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is in line with what is stated in the additional report intended for the board of statutory auditors, in its role as internal audit and statutory audit committee, prepared pursuant to Article 11 of the aforementioned Regulation.

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Report on other legal and regulatory provisions

Opinion pursuant to Article 14, paragraph 2, section e), of Legislative Decree 39/10.

The directors of BANCA VALSABBINA S.C.p.A. are responsible for preparing the directors' report of BANCA VALSABBINA S.C.p.A. as at 31 December 2018, including its consistency with the related financial statements and its compliance with the legislation.

We have carried out the procedures specified in auditing standard (SA Italia) no. 720B in order to express an opinion on the consistency of the directors' report with the financial statements of BANCA VALSABBINA S.C.p.A. as at 31 December 2018 and on the compliance of the latter with the legislation, as well as to issue a declaration on any significant errors.

In our opinion, the directors' report referred to above is consistent with the financial statements of BANCA VALSABBINA S.C.p.A. as at 31 December 2018 and is drawn up in accordance with the legislation.

As regards the declaration referred to in Article 14, paragraph 2, section e) of Legislative Decree 39/10, based on the knowledge and understanding of the company and the related context acquired during the audit, we have nothing to report.

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

The directors of BANCA VALSABBINA S.C.p.A. are responsible for preparing the Non-Financial Statement pursuant to Legislative Decree no. 254 dated 30 December 2016. We have verified the approval, by the directors, of the Non-Financial Statement.

Pursuant to Article 3, paragraph 10 of Legislative Decree no. 254 dated 30 December 2016, this statement is subject to a separate confirmation of compliance by ourselves.

Brescia, 13 March 2019

BDO Italia S.p.A.
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Pasquale Errico
(Partner)