

**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 2017

## 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

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. (the Bank), consisting of the balance sheet as at 31 December 2017, 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 to the financial statements which also include a summary of the most significant accounting standards applied.

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 2017, 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 136/15.

### 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 *Responsibility of the independent auditing firm for the auditing of the financial statements* section of this report.

We are independent from the company in compliance with the regulations and principles on ethics and independence applicable in Italian law to the audit 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.

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## Key aspects

### **Measurement of Loans and receivables with customers**

*Part A of the Explanatory Notes - Accounting policies in the part relating to the main items of the financial statements (4 - Loans and Receivables)*

*Part B of the Explanatory Notes - Information on the Balance Sheet in section 7 of assets*

*Part C of the Explanatory Notes - Information on the income statement in section 8*

*Part E of the Explanatory Notes - Information on risks and the related hedging policies*

Loans and receivables with customers as at 31 December 2017 totalled Euro 3,040 million, 71% of total balance sheet assets.

This item was considered significant for the purposes of the audit in consideration of its amount and the characteristics of the measurement processes and methods, including an estimate of certain components such as the existence of indicators of possible impairment losses, the determination of expected cash flows with the indication of their recovery timescales and the realisable value of any guarantees related to loans and receivables.

### **Audit procedures in response to key aspects**

The main audit procedures carried out in response to the key aspect relating to the measurement of loans and receivables with customers concerned:

- analysing the adequacy of the IT environment relating to IT applications relevant to the process of measuring loans and receivables with customers;
- analysing the procedures and processes relating to the item in question and checking the effectiveness of the controls monitoring these procedures and processes;
- the balancing and reconciliation procedures of the data in the management systems and the information in the financial statements;
- the procedures for comparative analysis and analysis of the results with the company functions involved;
- analysing the models for the (analytical and collective) measurement of loans and receivables and checking on a sample basis the reasonableness of the assumptions and components used within these models and the mathematical accuracy of their results;
- checking on a sample basis the measurement and classification in the financial statements in accordance with the IFRS adopted by the European Union and the measures issued in implementation of Article 43 of Italian Legislative Decree 136/2015 and Bank of Italy Circular no. 262/2005.

### **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 136/15 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 Company'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 company'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 company to cease operating as a going concern;
- we have 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. appointed us on 9 April 2011 with the external audit of the company's financial statements for the years from 31 December 2011 to 31 December 2019.

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 company 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.**

The Directors of BANCA VALSABBINA S.C.p.A. are responsible for the preparation of the report on operations of BANCA VALSABBINA S.C.p.A. as at 31 December 2017, including its consistency with the related financial statements and its 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 with the financial statements of BANCA VALSABBINA S.C.p.A. as at 31 December 2017 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 is consistent with the financial statements of BANCA VALSABBINA S.C.p.A. as at 31 December 2017 and is prepared in compliance with law regulations.

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.

Brescia, 27 March 2018

BDO Italia-S.p.A.  
Pasquale Enrico  
(Shareholder)