

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Dear Shareholders,

This report, relating to the financial statements for the year ended 31 December 2013, has been drawn up in accordance with Article 2429 of the Italian Civil Code, as well as Article 153 of Italian Legislative Decree No. 58 dated 24 February 1998 .

The official audit, pursuant to and for the purposes of Article 2409 *bis* of the Italian Civil Code, has been entrusted to the Independent Auditing Firm BDO S.p.A. for the period 2011-2019.

Results for the financial year

The financial statements for the year ended 31 December 2013 present:

Total Assets	4,239,270,493
Shareholders' equity (including the revaluation reserves for Euro 2,516,784) net of the profit/(loss) for the year	383,949,100
Own shares in portfolio	-5,664,305
Profit for the year	7,685,141

The positive and negative components of income analytically indicated in the income statement and extensively commented on in both the Directors' Report on Operations and section C of the explanatory notes, have contributed towards the formation of the profit for the year.

In short, the income statement discloses:

	31 December 2013	31 December 2012
Net interest and other banking income	111,964,868	121,686,563
Net value adjustments/writebacks	-50,074,428	-60,550,724
Net profit (loss) from financial operations	61,890,440	61,135,839
Operating costs	-50,562,842	-54,195,769
Gain (loss) on disposal of investments	-16,457	4,628
Income taxes for the year	-3,626,000	-3,904,250
PROFIT FOR THE YEAR	7,685,141	3,040,448

With respect to 2012, there was a decrease in net interest and other banking income, attributable to the drop in gains from the disposal of available-for-sale financial assets and to a different accounting classification of commission income.

The Profit for the year was once again affected by the extraordinary economic crisis still underway, which led to a consistent amount of value adjustments, albeit down with respect to the previous year.

A breakdown of impaired loans and receivables and the adjustments made to the income statement, as well as the trend in the credit quality ratios, is presented below.

Breakdown of loans and receivables and the adjusting provisions

2013 - Type of exposure/values (amounts in Euro 000s)	Gross exposure	Specific adjustments	Forfeit adjustments	Net exposure	% of total
a) Non-performing	257,599	89,834	-	167,765	5.62%
b) Watchlist	179,518	17,252	-	162,266	5.44%
c) Restructured exposures	19,070	2,201	-	16,869	0.57%
d) Past due exposures	58,802	2175	-	56,627	1.90%
Total impaired loans	514,989	111,462	-	403,527	13.53%
e) Performing loans	2,594,561	-	15,918	2,578,643	
Total	3,109,550	111,462	15,918	2,982,170	

Breakdown of adjustments made to income statement

Net value adjustments (amounts in Euro 000s)	31 December 2013	31 December 2012
A) ADJUSTMENT FOR IMPAIRMENT OF LOANS/RECEIVABLES	(43,222)	(56,613)
B) Value adjustments to AFS securities	(6,788)	(3,990)
C) Guarantees and commitments	(65)	52
TOTAL ADJUSTMENTS (A+B+C)	(50,075)	(60,551)

LOAN QUALITY RATIOS	31 December 2013	31 December 2012
on gross loans		
% of non-performing positions out of total gross loans	8.28%	7.65%
% of watchlist and restructured positions out of total gross loans	6.39%	6.06%
% of past due positions out of total gross loans	1.89%	1.27%
% of doubtful positions out of total gross loans	16.56%	14.99%
coverage percentages		
Non-performing loans	34.87%**	40.76%
Watchlist and restructured loans	9.80%	9.24%
Past due exposures	3.70%	1.94%
Total out of impaired loans	21.64%**	24.72%
Performing loans	0.61%	0.54%

** reduction to be ascribed to the disposal of more than Euro 65 million in non-performing loans

commented on

percentages on net loans		
% of non-performing positions out of total net loans	5.62%	4.73%
% of watchlist and restructured positions out of total net loans	6.01%	5.74%
% of past due positions out of total net loans	1.90%	1.30%
% of doubtful positions out of total net loans	13.53%	11.77%

In detail, the tables show:

1. the high incidence of value adjustments to loans and receivables due to the serious crisis underway and the related repercussions on the economic fabric of the area. The provisions are

due both with regard to the new non-performing positions emerging during the year - especially due to the decreased ability to reimburse by debtors - and with regard to the negative performance of real estate prices, with inevitable repercussions on the value of properties guaranteeing the credit positions. The growing incidence of the adjustments obliged the bank to pay special attention to the management of the credit quality. In this connection, the Board of Directors envisaged important activities in the strategic plan for streamlining and strengthening the management (approval process and monitoring) and recovery phase for the stock of impaired loans. The Bank has also implemented/reviewed the internal regulations for the quantification of the adjustments to be made to the financial statements in the presence of impaired positions. In this connection, the Board of Statutory Auditors highlights the considerable organisational efforts which the Bank has made and the constant commitment to up-date the criteria for determining the provisions for impaired positions.

2. The increase in value adjustments on securities (which amount to Euro 6,788 thousand) is attributable in particular to the write-down of the shares held in Ca.Ri.Fe and UBI Leasing. The book value as at 31 December 2013 was supported with regard to Ca.Ri.Fe (bank under temporary receivership) by a valuation commissioned by an outside company and with regard to UBI Leasing by the shareholders' equity of the investee as at 30 September 2013 (last available figure).

The balance sheet discloses a growing incidence of available-for-sale financial assets, as illustrated below.

Financial assets (amounts in Euro 000s)	31 December 2013	31 December 2012
Financial assets held for trading	197	157
Available-for-sale financial assets	1,012,280	845,165
Amounts due from banks	114,234	91,273
Equity investments	1,375	170
Total	1,128,086	936,765

In the presence of the importance undertaken by available-for-sale financial assets, the Bank has laid down stringent internal regulations aimed at the handling of the risk linked to the management and trading of the securities portfolio.

Significant events during the year

As from 1 May 2013, the new General Manager, Mr. Renato Barbieri undertook responsibility for the office. The head of Internal Auditing Mr. Tonino Fornari was called to cover the position of Deputy General Manager.

At the same time as these appointments, the Board of Directors implemented a reshaping of the main organisational positions, creating two new central Divisions which report directly to General Management.

The first is the Market Division which oversees the governance of the production departments and the sales network by means of the co-ordination of the Commercial, Loans, Financial, Foreign Goods Sectors, the Strategic Marketing, Planning and Products Sector as well as the Trend Monitoring Service.

The second is the General Affairs and Organisation Division which ensures the delicate relationship between company bodies and departments, in observance of the supervisory regulations concerning corporate governance, and which implements the role for co-ordination of important departments, such as Personnel and Organisation. In the report on operations, the Board of Directors declared

that “the innovation introduced in the organisational scheme has revealed itself, at a distance of nearly a year, to be efficient and productive of tangible results, above all else because it has been accompanied and supported by an accurate review - also in terms of scaling and qualification of the staff - of the functional sphere of the entire structure with a view to improvement of the efficiency, efficacy and operational cost-effectiveness profiles of both the production and sales apparatus and of those dedicated to the system of controls”.

Activities of the Board of Statutory Auditors

The Board of Statutory Auditors carried out the activities laid down by current legislation, in observance of the provisions issued by the Bank of Italy and Consob, in compliance with its institutional role and availing itself, where necessary, of the collaboration of the internal control units (Internal Audit, Compliance, Anti-money Laundering, Risk Management and Supervisory Body).

In detail, it had systematic and on-going disclosure relations with the Internal Audit Service, by means of the analysis of both the scheduled work plans and the periodic reports drawn up for the Board of Directors and the control bodies. The Board of Statutory Auditors also checked, on a test basis, and jointly consulting with the Internal Audit Service, the formalities for the definition and implementation of the controls on the branches (with particular regard to the extraction of transaction samples to be checked), for the purpose of assessing the effective method of carrying out the audit activities.

When carrying out the supervisory activities and in accordance with the work programme originally drafted, the Board of Statutory Auditors held meetings with General Management, with all the internal control units indicated above, with the Independent Auditing Firm as well as with the heads of the main areas of functional activities, in particular the Admin Sector, the Organisation Service, the Finance Service and the Loans Service.

The information and data necessary for the assessment of the organisational set-up, the internal controls, the administrative-accounting system and its effective functioning, was acquired from the encounters and meetings held.

Principles of correct administration

The Board of Statutory Auditors oversaw the observance of the principles of correct administration both during the periodic checks and during the weekly meetings of the Board of Directors in which it regularly took part, checking the correct functioning thereof, as well as the compliance of the resolutions with the provisions of the law and Articles of Association which discipline the same.

The Board of Statutory Auditors periodically obtained information from the Directors, General Management and the heads of the main areas of functional activities, on the general operating trend, its outlook for the future as well as on transactions of greatest significance, due to their size or features, carried out by the Bank; in this connection, it can be reasonably stated that the action carried out is compliant with the law and the Articles of Association and is not manifestly imprudent, hazardous or in contrast with the resolutions adopted by the shareholders' meeting or such that it compromises the integrity of the company assets.

The transactions of greatest economic, financial and equity importance and extraordinary nature are fully commented on in the Report on operations to which reference is made.

Organisational set-up and internal controls system

During 2013, the Board of Statutory Auditors oversaw the adequacy of the organisational set up and the system of internal controls, deeming them suitable, also further to the changes introduced, with regard to the dimensions and structure of the Bank. It also checked that all the business risks are

overseen within the context of precise organisational references according to a model which uses methods and procedures aimed at ensuring the efficacy and efficiency of the operating processes, guaranteeing the reliability and integrity of the information and checking the observance of legislation in recurrent operations.

The internal controls system is periodically subject to review and adaptation in relation to the changes in business operations and the reference context.

Activities continued for the up-dating and enhancement of the internal organisational set-up with particular attention to the loans and receivables segment, both with regard to the approval process stage and the control stage, as well as to the anti-money laundering fulfilments.

Attention was also paid to the line and remote controls within the sphere of the central structures and the network, in relation to specific audit spheres (loans and receivables segment, admin sector, commercial sector, financial sector, anti-money laundering safeguards) within which the various types of operations, the first level controls, the frequency and the responsibility for the same were assessed.

In compliance with the provisions of the Bank of Italy, the Board of Statutory Auditors also oversaw the process for the calculation of the internal capital (ICAAP), by means of the analysis of suitable information flows by the corporate bodies and the internal control units, revealing observance of the envisaged limits.

The Board of Statutory Auditors checked the observance by the Bank of the obligations relating to forwarding of communications, reports and documents to the Supervisory Bodies.

With regard to the activities for adaptation to Circular No. 263/2006 concerning the “new prudent supervisory instructions for banks”, the Board of Statutory Auditors observed that Banca Valsabbina has activated a self-assessment process with regard to the suitability of its situation with respect to the instructions introduced by the 15th up-date of the Bank of Italy Circular No. 263/2006. In detail, on a consistent basis with the matters envisaged by the communication which accompanied the publication of the afore-mentioned instructions, the Bank carried out gap analysis activities aimed at identifying the adaptation measures and, consequently, took steps to plan the same in accordance with the legislative deadlines.

The report on the self-assessment was approved by the Board of Directors in the meeting held on 29 January 2014. The report analytically identifies the points of improvement highlighted within the sphere of the gap analysis, the action which will be adopted for the adaptation and the related planning time-wise of the measures to be activated.

The action to be undertaken contained in the report refers in particular to section 7 (Internal controls system) of the Instructions. Furthermore, in pursuance of the Bank of Italy communication dated 6 December 2013, the self-assessment relating to section 8 (information system) and 9 (operating continuity) has been carried out by means of the compilation of a specific questionnaire.

The adaptation activities continue according to the timescale established by the Board of Directors.

Information and administrative-accounting system

The Board of Statutory Auditors oversaw the administrative-accounting system in its entirety, as well as the reliability of the same to correctly represent the operating events.

It checked the procedures and the work phases by means of which the financial statements were drawn up, the compliance of the same with the formats and compilation rules envisaged by the Supervisory Authorities and the IAS-IFRS international accounting standards.

It also ascertained that the Directors did not make exceptions to the provisions of law.

With regard to the supervision of the information system, the Board of Statutory Auditors examined the report drawn up by a leading Independent Auditing Firm on the information system of the Cedacri consortium (data processing centre which the Bank avail itself of) which did not reveal any particular shortfalls or anomalies.

Dealings with the Independent Auditing Firm

During the institutional activities, the Board of Statutory Auditors exchanged information with the Independent Auditing Firm also appointed to carry out the official audit (BDO S.p.A.), without revealing data or information worthy of indication in this report. The Independent Auditing Firm reported on the absence of situations of uncertainty or limitations in the checks carried out.

Complaints pursuant to Article 2408 of the Italian Civil Code

No complaints were presented during 2013, in accordance with Article 2408 of the Italian Civil Code, nor did any omissions, reprehensible facts, limitations, exceptions or irregularities emerge, such that they would require mentioning in this report.

Meetings of the Board of Directors, the Board of Statutory Auditors and the Supervisory Body (SB)

During the year, the Board of Directors meet constantly once a week. The Board of Statutory Auditors - besides the constant participation in the Board of Directors meetings - met 29 times to carry out the checks it is responsible for, both care of the registered offices and care of the individual branches.

The Board of Statutory Auditors also took part in the meetings of the Supervisory Body, which meets quarterly, not revealing any events which would require mentioning in this report.

In conclusion, it is hereby disclosed that further to the amendment of the related regulations, a member of the Board of Statutory Auditors has become a member of the Supervisory Body.

Financial statements as of 31 December 2013

With reference to the financial statements for the year ended 31 December 2013, the following is hereby stated, in accordance with Article 2429.2 of the Italian Civil Code:

- the annual financial statements, accompanied by the Directors' report on operations, have been drawn up on the basis of the IAS-IFRS international accounting standards approved by the European Commission and in observance of the regulations laid down by the Bank of Italy and the Bank of Italy-Consob-Isvap document No. 4 dated 3 March 2010;
- the accounting standards used are consistent with those adopted for the preparation of the previous year's financial statements;
- with reference to the Goodwill and the other intangible fixed assets (core deposit), recorded in the financial statements respectively for Euro 8,458 thousand and Euro 2,286 thousand, the Board of Statutory Auditors has given its consent to the recognition and consequent valuation of the same, also with reference to the impairment test carried out with the collaboration of an external advisor;
- the financial statements, together with the reports which accompany them, have been made available to the Board of Statutory Auditors by the deadline envisaged by Article 2429 of the Italian Civil Code;
- the official audit, and in particular the audit of the annual financial statements, have been entrusted to the Independent Auditing Firm "BDO S.p.A.", which also drew up its report, revealing no exceptional circumstances.

In as far as it is responsible, the Board of Statutory Auditors oversaw the layout given to the annual financial statements, whose effects have been highlighted and illustrated in the explanatory notes and the report on operations.

Related parties

Dealings with related parties are disciplined on the basis of the normal market conditions (arms'-length basis) envisaged for the individual transactions or aligned, if the requirements are met, to the conditions applied to employees.

These transactions essentially comprise dealings with Directors, Statutory Auditors, General Management and Companies relating to the same, as well as subsidiary companies of the Bank.

Within its supervisory role, the Board of Statutory Auditors has always checked the observance of the regulatory provisions envisaged in this connection. Pursuant to Consob resolution No. 17221 dated 12 March 2010 and subsequent amendments and additions and the provisions of the Bank of Italy, the bank has adopted and published in its website, the "Regulations containing provisions on related-party transactions".

Internal control and audit committee pursuant to Article 19 of Italian Legislative Decree No. 39/2010

Within bodies of public interest (which include banks), the internal control and audit committee is the Board of Statutory Auditors. In this guise, the Board of Statutory Auditors oversaw, in as far as it is responsible:

- the financial disclosure process
- the efficacy of the internal control, internal audit and risk management system, as emerging from the reports which document the activities of the Board of Statutory Auditors
- the official audit of the annual accounts, by means of the exchange of information with the company appointed to audit the accounts
- the independence of the Independent Auditing Firm, in particular with regard to the provision of non-auditing services to the company subject to audit.

Final assessments regarding the supervisory activities of the Board of Statutory Auditors

Dear Shareholders,

on the basis of the checks carried out and the information acquired, it is hereby stated that during 2013 the corporate activities were carried out in observance of the law and the Articles of Association and that no omission or reprehensible fact worthy of indication in this report has been noted by ourselves.

Having taken into account that, the information received by the Independent Auditing Firm appointed with the official audit has not revealed any findings or reservations, we hereby formulate a favourable opinion both with regard to the approval of the draft financial statements for the year ended 31 December 2013, as drawn up by the Board of Directors, and with regard to the proposed allocation of the profit for the year.

Vestone, Italy, 9 April 2014

The Board of Statutory Auditors

Mr. Stefano Bastianon (Chairman)

Mr. Bruno Garzoni (Acting auditor)

Mr. Filippo Mazzari (Acting auditor)

Mr. Federico Pozzi (Acting auditor)

Mr. Mauro Giorgio Vivenzi (Acting Auditor)

The undersigned, Mr. Ezio Soardi, in his capacity as Chairman and Legal Representative of Banca Valsabbina Scpa, hereby certifies the correspondence of this document with that filed with the company's deeds.

The Chairman Legal Representative
(Ezio Soardi)