

## **REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

Dear Shareholders,

This report, relating to the financial statements for the year ended 31 December 2015, 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, and in particular the audit of the annual financial statements, 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.

### ***Financial statements as at 31 December 2015***

With reference to the financial statements for the year ended 31 December 2015, 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 recorded in the financial statements respectively for Euro 8,458,000 and Euro 1,429,000 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;

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.

### ***Results for the financial year***

The financial statements for the year ended 31 December 2015 present:

|   |               |
|---|---------------|
| Total Assets  | 4,218,379,408 |
| Shareholders' equity (including the revaluation reserves of Euro 3,750,897) net of the profit/(loss) for the year | 393,017,060   |
| Own shares in portfolio   | (8,855,573)   |
| Profit for the year   | 8,061,835     |

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:

| Description | 31 Dec. 2015 | 31 Dec. 2014 |
|-------------|--------------|--------------|
|-------------|--------------|--------------|

|  |                    |                    |
|--|--------------------|--------------------|
| <b>Net interest and other banking income</b>           | <b>120,367,569</b> | <b>153,304,960</b> |
| Net value adjustments/write-downs                      | (49,259,857)       | (76,408,641)       |
| <b>Net profit (loss) from financial operations</b>     | <b>71,107,712</b>  | <b>76,896,319</b>  |
| Operating costs  | (60,004,502)       | (52,981,988)       |
| Disposal of investments and loss on equity investments | (118,032)          | 7,563              |
| Income taxes for the year                              | (2,923,343)        | (9,915,000)        |
| <b>PROFIT FOR THE YEAR</b>                             | <b>8,061,835</b>   | <b>14,006,894</b>  |

The administrative expenses include Euro 4.8 million in relation to the charges for the measures relating to the provisions for resolving the banking crisis and protection of deposits.

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

### Breakdown of loans and receivables and the adjusting provisions

| 31 Dec. 2015<br>Type of exposure/values<br>(amounts in Euro 000s) | Gross<br>exposure | Specific<br>adjustments | Forfeit<br>adjustments | Net exposure | % of total<br>net<br>exposure |
|---|-------------------|-------------------------|------------------------|--------------|-------------------------------|
| a) Non-performing   | 358,175           | 168,675                 | -                      | 189,500      | 6.82%                         |
| b) Probable defaults  | 208,368           | 38,877                  | -                      | 169,491      | 6.10%                         |
| c) Past due loans   | 31,995            | 2,359                   | -                      | 29,636       | 1.06%                         |
| Total impaired loans  | 598,538           | 209,911                 | -                      | 388,627      | 13.98%                        |
| d) Performing loans   | 2,408,405         | -                       | 16,601                 | 2,391,804    | 86.02%                        |
| Total   | 3,006,943         | 209,911                 | 16,601                 | 2,780,431    | 100.00%                       |

### Breakdown of adjustments made to income statement

| Net value adjustments (amounts in Euro 000s)       | 31 Dec. 2015    | 31 Dec. 2014    |
|--|-----------------|-----------------|
| A) Adjustments for impairment of loans/receivables | (46,179)        | (71,346)        |
| B) Guarantees and commitments                      | (92)            | (1,852)         |
| <b>TOTAL ADJUSTMENTS (A+B)</b>                     | <b>(46,271)</b> | <b>(73,198)</b> |

| Credit quality ratios   | 31 Dec. 2015 |        | 31 Dec. 2014 |        |
|---|--------------|--------|--------------|--------|
| <b>on gross loans</b>   |              |        |              |        |
| % of non-performing positions out of total gross loans  |              | 11.91% |              | 9.30%  |
| % of probable defaults out of total gross loans   |              | 6.93%  |              | 7.32%  |
| % of past due positions out of total gross loans  |              | 1.06%  |              | 0.95%  |
| % of doubtful positions out of total gross loans  |              | 19.90% |              | 17.57% |
| <b>coverage percentages</b>   |              |        |              |        |
| Non-performing loans *  | *52.32%      | 47.09% | *52.3 %      | 44.64% |
| Probable defaults   |              | 18.66% |              | 16.12% |
| Past due exposures  |              | 7.37%  |              | 6.14%  |
| Total out of impaired loans *   | *39.06%      | 35.07% | *36.10%      | 30.68% |
| Performing loans  |              | 0.69%  |              | 0.69%  |
| * also including the loans/receivables written off which the Bank still holds and the default interest. |              |        |              |        |
| <b>percentages on net loans</b>   |              |        |              |        |
| % of non-performing positions out of total net loans  |              | 6.82%  |              | 5.48%  |
| % of probable defaults out of total net loans   |              | 6.10%  |              | 6.53%  |
| % of past due positions out of total net loans  |              | 1.06%  |              | 0.94%  |

|   |               |               |
|---|---------------|---------------|
| <b>% of doubtful positions out of total net loans</b> | <b>13.98%</b> | <b>12.95%</b> |
|---|---------------|---------------|

The extent of the value adjustments, net of the write-downs made (over Euro 46,179,000 besides the adjustments on guarantees given for Euro 92 thousand and losses from disposal of receivables for Euro 1,066,000) is consequent to not only the continuing economic crisis underway, but also to the stringent criteria contained in the policy on the valuation of receivables approved by the Board of Directors.

The Board of Statutory Auditors confirms the considerable organisational efforts which the Bank has made and the constant commitment to update the criteria for determining the provisions for the impaired positions.

With regard to available-for-sale financial assets, the following is indicated:

- they amount to Euro 1.141 billion and includes Euro 219 million in funds, of which stock & share for Euro 192 million and real estate property for Euro 27 million;
- the gain on disposal / repurchase amounts to Euro 38,570,000 and includes Euro 1,451,000 for the capital gain deriving from the disposal of the shareholding in Istituto Centrale Banche Popolari Italiane SpA;
- the Arca SGR shares have been valued on the basis of the last prices struck, the related valuation reserves, net of the tax effect, amounted to Euro 4,695,000;
- the total valuation reserves are negative for Euro 4.4 million net of the tax effect, as more fully illustrated in the report on operations and the explanatory notes; and
- value adjustments booked to the income statement amounted to Euro 2,989,000.

### ***Significant events during the year***

The events which characterised the business operations are illustrated and commented on in the report on operations. The most significant economic results are also commented on in this report.

By means of letter dated 5 November 2015, the Bank of Italy, when carrying out its inspections, requested an increase in the minimum requisites required: 0.5% for Tier1 and 1.5% for Total capital ratio, taking them respectively to 9% and 12%. We hereby inform you that as of 31 December 2015 Banca Valsabbina had a Tier 1 capital ratio of 14.94% and a Total capital ratio of 16.33%.

### ***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 for the purpose of assessing the effective method of carrying out the audit activities.

The Board also acquired information and held meetings with the competent units with regard to the implementation of the policies for managing the risks which the Bank's activities are exposed to, the application of the anti-money laundering provisions, the observance of the obligations relating to the discipline concerning transparency of the operations and the banking services.

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 2015, 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 implementations made, 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 to update and enhance 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 area of the central structures and the network, in relation to specific audit areas (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.

During 2015, the Bank established the measures for adapting the scheduled risk management process within the sphere of the internal assessment carried out in 2013 with regard to the

compliance of its corporate situation, concerning the provisions introduced by the 15th update of Circular No. 263/2006 and Circular 285/2013.

The aforementioned provisions systematically reviewed the legislative framework relating to the system of controls, with the aim of getting the banks to further strengthen their business risk management abilities. In particular, the legislative update confirmed how the system of internal controls must check the implementation of the corporate strategies and policies, ensuring the containment of the risk within the limits indicated in the reference framework for the determination of the Bank's propensity to risk (Risk Appetite Framework, abbreviated to RAF).

The document which describes the internal Risk Appetite Framework was approved by the Board of Directors in the meeting held on 18 June 2014, further to the definition of the metrics for the quantification of the Bank's risk position, the objectives in terms of desired risk profile (risk appetite), the tolerance to risk (understood as the absolute deviance from the established objectives) and the operating limits to be monitored on an ongoing basis for the individual types of risk. The RAF Policy was subsequently updated on 22 April 2015. To this end, the Board of Statutory Auditors highlighted the significant organisational adaptation put together by the Bank and the definition of appropriate internal norms to protect asset quality. In this context, internal regulations guarantee control units have the necessary autonomy and accurately define the tasks and responsibilities. The Board of Statutory Auditors has constantly overseen the process for implementation of the adaptations required by the legislation, the policies adopted by the bank, and the programmes of activities defined by the control units. The checking of the periodic reports produced by the control units highlighted the effective implementation of the envisaged instruments. The Board of Statutory Auditors has also contributed towards furthering an ongoing reporting system of the Risk Management service benefiting the Risks Committee, focused in particular on the credit risk.

### ***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 verified 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 Italia S.p.A.), without revealing data or information worthy of note in this report. The Independent Auditing Firm reported on the absence of situations of uncertainty or limitations in the checks carried out. The audit report was handed over in 24 March 2016 without finding or requests for disclosure.

### ***Complaints pursuant to Article 2408 of the Italian Civil Code***

No complaints were presented during 2015, 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 always meet once a week. The Board of Statutory Auditors - besides the constant participation in the Board of Directors meetings - met 28 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 a member of the Board of Statutory Auditors has become a member of the Supervisory Body.

***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 2015 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 note 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 2015, as drawn up by the Board of Directors, and with regard to the proposed allocation of the profit for the year.

Brescia, Italy, 8 April 2016

*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)*