

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Shareholders,

This report, relating to the financial statements for the year ended 31 December 2016, has been drawn up in accordance with Article 2429 of the Italian Civil Code as well as of Article 153 of Italian Legislative Decree No. 58 of 24 February 1998.

The external audit, and in particular the audit of the 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 from 2011 to 2019.

Financial statements as at 31 December 2016

With reference to the financial statements for the year ended 31 December 2016, the following is hereby stated, in accordance with Article 2429, paragraph 2, of the Italian Civil Code:

- the financial statements, accompanied by the Directors' report on operations, were 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 of 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 for Euro 8.458 million and Euro 1 million, respectively, the Board of Statutory Auditors has given its consent to its recognition and consequent valuation, 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, were 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 supervised the layout given to the 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 2016 present:

Total assets	4,405,435,186
Shareholders' equity (including the negative revaluation reserves of Euro 4,459,878) net of the profit/(loss) for the year	390,154,058
Own shares in portfolio	(5,182,258)
Profit for the year	4,147,878

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	31/12/2016	31/12/2015
Net interest and other banking income	89,166,577	120,367,569
Impairment losses/reversals of impairment losses	(38,997,664)	(49,259,857)
Net profit (loss) from financial operations	50,168,913	71,107,712
Operating costs	(45,001,940)	(60,004,502)
Sale of investments and loss on equity investments	(359,211)	(118,032)

Income taxes for the year	(659,884)	(2,923,343)
PROFIT FOR THE YEAR	4,147,878	8,061,835

Administrative expenses include Euro 4.8 million for costs of interventions to the resolution funds of banking crisis and deposit protection.

Operating costs of Euro 62,501,940 are stated in the financial statements net of Euro 17,500,000 attributable to the extraordinary income from acquisition of the business unit of Hypo Alpe Adria Bank.

A breakdown of impaired loans and receivables as well as the trend in the credit quality ratios are presented below:

Breakdown of loans and receivables and the adjustment provisions

Type of exposure/Amounts (amounts in Euro 000)	Gross exposure	Individual impairment	Collective impairment	Net exposure	% of total net exposure
a) Non-performing loans	402,457	206,851	-	195,606	7.08%
b) Probable defaults	185,405	31,882	-	153,523	5.56%
c) Past due loans	32,160	2,606	-	29,554	1.07%
Total impaired loans	620,022	241,339	-	378,683	13.71%
d) Performing loans	2,396,650	-	12,883	2,383,767	86.29%
Total	3,016,672	241,339	12,883	2,762,450	100.00%

Breakdown of adjustments made to income statement (for loans and receivables and guarantees)

Net impairment losses (amounts in Euro 000)	31/12/2016	31/12/2015
A) NET IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES	(36,187)	(46,179)
B) Guarantees and commitments	(77)	(92)
TOTAL IMPAIRMENT LOSSES (A+B+C)	(36,264)	(46,271)

Credit quality ratios	31/12/2016		31/12/2015	
on gross loans and receivables				
% of non-performing loans out of total gross loans and		13.34%		11.91%
% of probable defaults out of total gross loans and receivables		6.15%		6.93%
% of past due loans out of total gross loans and receivables		1.07%		1.06%
% of impaired loans out of total gross loans and receivables		20.55%		19.90%
coverage percentages				
Non-performing loans *	*55.59%	51.40%	*52.32%	47.09%
Probable defaults		17.20%		18.66%
Past-due loans		8.10%		7.37%
Total impaired loans *	*42.45%	38.92%	*39.06%	
Performing loans		0.54%		0.69%
*also including extinguished loans still held by the Bank and default interests.				
percentages out of net loans and receivables				
% of non-performing loans out of total net loans and receivables		7.08%		6.82%
% of probable defaults out of total net loans and receivables		5.56%		6.10%
% of past due loans out of total net loans and receivables		1.07%		1.06%
% of doubtful loans out of total net loans and receivables		13.71%		13.98%

The measure of impairment losses, net of reversals of impairment losses (Euro 36,187 thousand in addition to impairments of guarantees given of Euro 77 thousand and losses from the sale of loans and receivables of Euro 97 thousand) is the consequence of the more restrictive criteria contained in the policy on the measurement of loans and receivables approved by the Board of Directors as well as of the persisting economic crisis in progress.

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

As regards the financial assets available for sale, it should be noted that:

- they amount to Euro 1,257 million and include units of funds of Euro 208 million, of which Euro 169 million in equity funds and Euro 35 million in real estate funds,
- the profit from sale / repurchase amounts to Euro 8.8 million,
- they include 300 of capital shares of the Bank of Italy of Euro 7.5 million,
- Fondo Atlante was evaluated on the basis of the communication received from the Quaestio sgr manager by booking the impairment to the valuation reserve of shareholders' equity,
- the Arca sgr shares were measured by comparative criterion, the related valuation reserve, net of the tax effect, amounted to Euro 5.2,
- the total valuation reserves are negative by Euro 5 million net of the tax effect, better described in the report on operations and in the explanatory notes,
- the impairment losses recognised in the income statement were Euro 2,733 thousand.

Significant events during the year

The events that characterised the management company are reported and commented on in the report on operations. The most significant economic results are also commented on in this report.

With letter dated 5 November 2015, the Bank of Italy, when carrying out its controls, requested an increase in the minimum requirements: by 0.5% for Tier1 and by 1.5% for Total capital ratio, up to 9% and 12%, respectively. We inform you that as at 31 December 2016, Banca Valsabbina has a Tier 1 capital ratio of 15.11% and a Total capital ratio of 16.83%.

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; in particular, for what concerns the purchase with separate deeds of a loan portfolio and of 7 branches from Hypo Alpe Bank, the securitisation of Euro 648 million of loans and receivables with SMEs, the participation to the TLTRO2 programme, the purchase transaction of loans and receivables with the Public Administration.

The activity 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 with the Internal Audit, the methods for defining and implementing the controls on the branches, for the purpose of assessing the effective methods of carrying out the audit activities.

Moreover, the Board obtained information and had meetings with the competent functions with regard to the implementation of risk management policies to which the Bank's activities are exposed, the application of anti-money laundering provisions, the compliance with the obligations regarding the transparency of banking operations and 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 required for assessing the organisational structure, the internal controls, the administrative-accounting system and its effective operation, were acquired from the encounters and meetings held.

Principles of correct administration

The Board of Statutory Auditors supervised 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 operation thereof, as well as the compliance of the resolutions with the provisions of the law and of the Articles of Association that regulate them.

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 business outlook 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 actions carried out are compliant with the law and the Articles of Association and are not manifestly imprudent, hazardous or in contrast with the resolutions adopted by the shareholders' meeting or such that they compromise the integrity of the company assets.

Organisational structure and internal control system

During 2016, the Board of Statutory Auditors supervised the adequacy of the organisational structure and of the internal control system, deeming them suitable, also further to the implementations carried out, with regard to the dimensions and structure of the Bank. It also checked that all the business risks are supervised within the context of precise organisational references according to a model that 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 the regulations in recurrent operations.

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

Activities continued for the updating and enhancement of the internal organisational structure 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 as part of the central structures and the network, in relation to specific auditing areas (loans and receivables segment, admin sector, commercial sector, financial sector, anti-money laundering monitoring) within which the various types of operations, their first level controls, their frequency and their responsibility were assessed.

In compliance with the provisions of the Bank of Italy,

the Board of Statutory Auditors also supervised 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, checking the observance of the envisaged limits;

- it checked that the implementation of the corporate strategies and policies is consistent with 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 describing the internal Risk Appetite Framework was approved by the Board of Directors on 18 June 2014, following the definition of metrics for the quantification of the risk position of the Bank, the objectives in terms of desired risk profile (risk appetite), risk tolerance (intended as absolute deviation from the objectives set) and the operating limits to be monitored on an ongoing basis for each type of risk. The RAF Policy was subsequently updated on 22 April 2015 and 20 July 2016.

The Bank, also in 2016, consolidated the measures to adapt the management process of planned risks as part of the self-assessment carried out in previous years with regard to the compliance of its corporate situation, with respect to the provisions introduced by Circular No. 285/2013.

In this regard, the Board of Statutory Auditors points out the significant organisational adjustment put in place by the Bank and the definition of appropriate internal regulations protecting asset quality. In this context, the internal regulation guarantees the required autonomy to the control functions and duly defines its duties and responsibilities. The Board of Statutory Auditors monitored constantly the process of implementation of the adjustments required by the regulations, the policies adopted by the Bank, the programmes of activities defined by the control functions. The checking of the periodic reports produced by

the control functions highlighted the effective implementation of the envisaged instruments. The Board also contributed to promoting a continuous reporting system for the Risk Management service to the benefit of the Risk Committee, focusing in particular on credit risk.

The Board checked the observance by the Bank of the obligations to send communications, reports and documents to the Supervisory Bodies.

Information and administrative-accounting system

The Board of Statutory Auditors supervised the administrative-accounting system in its entirety, as well as its reliability in correctly representing operating performance.

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

It also checked 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 used by the Bank) which did not reveal any particular shortfalls or anomalies.

Relations 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 external audit (BDO Italia S.p.A.), without reporting 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. The certification report was delivered on 24 March 2017 with no remarks or requests of further disclosures.

Complaints pursuant to Article 2408 of the Italian Civil Code

No complaints were presented during 2016, 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 financial 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 32 times to carry out the checks it is responsible for, both at the registered offices and at the individual branches.

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

In conclusion, a member of the Board of Statutory Auditors has become a member of the Supervisory Body.

Related parties

Related party transactions are regulated on the arms'-length basis envisaged for individual transactions or aligned, if the requirements are met, to the conditions applied to employees.

These transactions essentially comprise relations with Directors, Statutory Auditors, General Management and Companies relating to them, 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 of 12 March 2010 and subsequent amendments and additions and the provisions of the Bank of Italy, the Bank adopted and published in its website, the "Regulation 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 supervised, to the extent of its remit:

- the financial disclosure process;
- the efficacy of the internal control, internal audit and risk management systems, as results from the reports that document the activities of the Board of Statutory Auditors;
- the external audit of the annual accounts, by means of the exchange of information with the company appointed to audit the accounts;
- the independence of the External Auditing Company, in particular with regard to the provision of non-auditing services to the company subject to external 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 2016 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 us.

Having taken into account that, the information received by the Independent Auditing Firm appointed with the external 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 2016, as drawn up by the Board of Directors, and with regard to the proposed allocation of the result for the year.

Brescia, 24 March 2017

The Board of Statutory Auditors

Stefano Bastianon (Chairman)

Bruno Garzoni (Acting auditor)

Filippo Mazzari (Acting auditor)

Federico Pozzi (Acting auditor)

Mauro Giorgio Vivenzi (Acting Auditor)