

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Dear Shareholders,

This report, relating to the financial statements for the year ended 31 December 2017, 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 2017

With reference to the financial statements for the year ended 31 December 2017, 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 0.572 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 2017 present:

Total assets	4,300,623,073
Shareholders' equity (including the negative revaluation reserves of Euro 649,483) net of the profit/(loss) for the year	395,975,000
Own shares in portfolio	(8,185,301)
Loss for the year	(5,820,515)

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 loss for the year.

In short, the income statement discloses:

Description	31/12/2017	31/12/2016
Net interest and other banking income	105,964,421	89,166,577
Impairment losses/reversals of impairment losses	(50,917,606)	(38,997,664)
Net profit (loss) from financial operations	55,046,815	50,168,913
Operating costs	(65,591,043)	(45,001,940)
Sale of investments and loss on equity investments	(311,725)	(359,211)
Income taxes for the year	5,035,438	(659,884)
PROFIT (LOSS) FOR THE YEAR	(5,820,515)	4,147,878

In accordance with the strategic plan approved by the Board of Directors, the income statement shows a significant improvement in net interest income (Euro +7,488 million), in commissions (Euro +3,030 million) and in total net interest and other banking income (Euro +16,798 million).

Operating costs for the year amounted to Euro 65,591,043. The comparison with the previous year must consider the impact on 2016 data of the extraordinary contribution of Euro 17,500,000 attributable to the extraordinary income from the acquisition of the Hypo Alpe Adria Bank business unit.

Personnel costs increased by Euro 1.932 million, mainly due to the expansion of the commercial network.

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 (in Euro 000)	Gross exposure	Individual impairment	Collective impairment	Net exposure	% of total net exposure
a) Non-performing loans	411,342	229,674	-	181,668	5.98%
b) Unlikely to pay	155,286	41,825	-	113,461	3.73%
c) Past due loans	26,315	2,089	-	24,226	0.80%
Total impaired loans	592,943	273,588	-	319,355	10.51%
d) Performing loans	2,732,895	-	12,265	2,720,630	89.49%
Total	3,325,838	273,588	12,265	3,039,985	100.00%

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

Impairment losses/reversals of impairment losses (amounts in Euro 000)	31/12/2017	31/12/2016
A) Net impairment losses on loans and receivables	(44,954)	(36,187)
B) Guarantees and commitments	1,399	(77)
TOTAL IMPAIRMENT LOSSES (A+B+C)	(43,555)	(36,264)

Credit quality ratios	31/12/2017	31/12/2016
on gross loans and receivables		
% of non-performing loans out of total gross loans and	12.37%	13.34%
% of unlikely to pay out of total gross loans and receivables	4.67%	6.15%
% of past due loans out of total gross loans and receivables	0.79%	1.07%
% of impaired loans out of total gross loans and receivables	17.83%	20.55%
coverage percentages		
Non-performing loans *	*59.41% 55.84%	*55.59%
Unlikely to pay	26.93%	17.20%
Past-due loans	7.94%	8.10%
Total impaired loans *	*49.25% 46.14%	*42.45%
Performing loans	0.45%	0.54%
*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	5.98%	7.08%
% of unlikely to pay out of total net loans and receivables	3.73%	5.56%
% of past due loans out of total net loans and receivables	0.80%	1.07%
% of doubtful loans out of total net loans and receivables	10.51%	13.71%

The measure of net impairment losses on loans and receivables (Euro/1000 44,954 net of reversals of impairment losses) is the consequence of the 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 amount set aside also includes the observations made by the Bank of Italy during the inspection, as described below.

The Board of Statutory Auditors confirms the constant monitoring of impaired positions by the functions in charge.

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

- they amount to Euro 939 million and include units of funds of Euro 144 million, of which Euro 96 million in equity funds and Euro 48 million in real estate funds;
- the profit from sale / repurchase amounts to Euro 15.1 million. In this regard, it should be noted that the sale of a stake in Cedacri resulted in a capital gain of Euro 5.169 million. In accordance with accounting standards, the remaining shares were valued at their sale price of Euro 3.9 million, recognising the amount of Euro 2.489 million as an offsetting item in valuation reserves, net of taxes;
- impairment losses deriving from available-for-sale financial assets recognised to the income statement amounted to Euro 7.36 million and were due, in particular:
 - to the impairment of the equity investment in the Voluntary Scheme held by the Interbank Guarantee Fund of Euro 1.55 million;
 - to the write-down of shareholdings of Euro 0.65 million;
 - to the write-down of UCIT units held in Fondo mobiliare Atlante of Euro 3.998 million;
 - to the alignment of the book value expressed in the last half-yearly report of the UCIT real-estate funds (Euro 1.16 million).

The valuation reserves for available-for-sale financial assets are broken down in the following table

Asset/Amounts		Total 31/12/2017		Total 31/12/2016	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	82	(5,492)	725	(6,150)
2.	Equity securities	8,473	-	5,227	(91)
3.	UCIT units	155	(4,432)	493	(5,222)
4.	Loans	-	-	-	-
	Total	8,710	(9,924)	6,445	(11,463)

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

At the end of the prudent review procedure for the year 2016, in a letter dated 22 August 2017 the Bank of Italy issued the following capital requirements for our Bank:

CET 1 Ratio equal to 6.30%;

Tier 1 Ratio equal to 8%;

Total Capital Ratio equal to 10.25%.

As at 31 December 2017, the Tier 1 capital ratio, determined by the ratio between the Tier 1 capital and the risk weighted assets, comes to 15.17% compared to 15.11% in December 2016, while the Total capital ratio, which expresses the ratio between total own funds and risk weighted assets stands at 16.6% compared to 16.83%.

Both ratios are significantly higher than the minimum requirements for 2017.

Between October 2017 and January 2018, the Bank underwent an ordinary inspection by the Bank of Italy and concerning the main areas of risk and the technical profiles of the intermediary. The activity of the inspection team concerned the general activities of the Bank and ended without the adoption of any measure or sanction for corporate representatives.

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.

Moreover, the Board obtained information and had meetings with the competent functions with regard to the implementation of policies for measuring, managing and mitigating risks 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 2017, 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.

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, 20 July 2016 and 21 September 2017.

The Bank, also in 2017, 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 consolidating a continuous reporting system for the Risk Management service to the benefit of the Risk Committee, focusing in particular on credit risk.

In 2017, the Board of Directors of the Bank approved the Recovery Plan in order to identify measures aimed at rebalancing the equity and financial situation in the event of significant deterioration.

In the investment advisory area, the policy on adequacy and appropriateness, which contains the reference parameters of the customer's "profiling" questionnaire, was updated. With this instrument, the Bank defines the risk profile of the customer and assesses the adequacy of recommended financial transactions, verifying their consistency with the customer's investment objectives, experience and knowledge of financial instruments/investment services and financial situation.

With regard to IT security, during the year the related policy was updated in order to bring it into line with new regulations regarding payments via the Internet.

With regard to anti-money laundering, a special attention was paid to the implementation in internal regulations of the provisions of Legislative Decree 90/2017 implementing EU Directive 2015/849.

In view of the coming into force of the new accounting standard IFRS 9, specific work-sites have been set up to determine the impact and implement specific risk management tools.

With regard to the activities of the Compliance Department, the new regulations and the Compliance Framework were approved: system for monitoring the relevant regulations based on the characteristics of the Bank (i.e. size, operations and complexity) and intended to be gradually improved in time in accordance with the principle of proportionality and graduality mentioned repeatedly by the Bank of Italy and Consob.

In the light of the issuance by the Bank of Italy in January 2018 of the "Guidance on the management of non-performing loans for Italy's Less significant institutions", the Bank launched a specific project aimed at further strengthening and implementing its internal credit risk control. In particular, the activity aims to improve the effectiveness and efficiency of the process of managing and recovering non-performing loans, also with a view to gradually reducing and disposing of the current stock, in line with the strategy outlined in the 2017-2019 Business Plan.

Finally, it should be noted that in 2017 the creation (formalised on 5 February 2018) of the Anomalous Loan Division was launched, including the Trend Monitoring, Pre-dispute, Legal and Disputes Services. The main purpose of this change in the organisational structure is to improve synergies and coordination between the various services as part of the debt collection activities by optimising the reporting process with regard to corporate bodies.

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 IT system, it should be noted that the Bank formalised the "Method for analysing and processing IT risks" on the basis of which the "Summary report on the situation of IT risk" is prepared on a regular basis. In particular, the "critical" processes were reported, the IT risks and related business continuity were identified, and the "Plan for managing emergencies and business continuity" was updated accordingly. The analysis is updated annually also on the basis of specific assessments made by IT outsourcers. Quarterly report of IT risk through analysis of the accident register does not reveal any critical issues worthy of mention.

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 27 March 2018 with no remarks or requests of further disclosures.

The certification report shows the "key aspects" of the audit, i.e. the most significant aspects of the audit of financial statements. These aspects relate to "assessment of loans and receivables with customers". For this purpose, the main audit procedures carried out are broken down.

On 27 March 2018, the independent auditing firm also issued the envisaged report on the "2017 non-financial statement" prepared by the Bank pursuant to Legislative Decree 254/2016.

Complaints pursuant to Article 2408 of the Italian Civil Code

During 2017, 5 reports were received pursuant to Article 2408 of the Italian Civil Code.

These reports were received before the date of approval of the 2016 financial statements and therefore the Board of Statutory Auditors has already reported on the matter to the Shareholders' Meeting, as it has not found any critical issues worthy of mention.

A copy of the minutes of the Board of Statutory Auditors' response to the requests received is attached to this report.

In conclusion, no 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)

The Board of Statutory Auditors - besides the constant participation in the Board of Directors meetings - met 33 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, as at 15 November 2017, the Board of Statutory Auditors took on the role of 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".

With a resolution dated 12 July 2017, the Board of Directors set up the Committee of Independent Directors in order to encourage greater coordination between them and improve information flows. Where requested, a prior opinion was always unanimously expressed first by the Independent Directors and then by the Committee. The opinion was always favourable for all the transactions proposed.

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.

The independent auditing firm sent to the Board of Statutory Auditors the envisaged "additional report for the internal control and audit committee" pursuant to Article 11 of Regulation (EU) 537/2014.

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 2017 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 2017, as drawn up by the Board of Directors, and with regard to the proposed allocation of the result for the year.

Brescia, 28 March 2018

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)