



BANCA VALSABBINA

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

Dear Shareholders,

This report on the financial statements as at 31/12/2018 is drawn up pursuant to Article 2429 of the Italian Civil Code and Article 153 of Legislative Decree No. 58 dated 24 February 1998.

The statutory audit and, in particular the auditing of the financial statements, pursuant to and for the purposes of Article 2409-bis of the Italian Civil Code, was entrusted to the auditing company BDO Italia S.p.A. for the period 2011-2019.

Financial statements as at 31/12/2018

With reference to the financial statements as at 31/12/2018, it is stated - pursuant to Article 2429, paragraph 2, of the Italian Civil Code - as follows:

- The financial statements for the year ended 31/12/2018 accompanied by the report of the Board of Directors shall be drawn up in accordance with international accounting standards issued by the International Accounting Standards Board (IASB) and approved at the date of completion of the same, as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular 262 of 22 December 2005 of Banca d'Italia, updated to 22 December 2017, which was adopted on the basis of the mandate contained in Legislative Decree 38/2005 implementing, in Italy, EC Regulation No. 1606/2002 in matters concerning international accounting standards;
- From 1 January 2018 accounting standard IFRS9 became effective. The first application of this standard led to the recognition of negative adjustments to the accounting entries as at 1 January 2018 (in particular financial assets) offset by shareholders' equity (reserves). Profit reserves were moved in negative terms by €66.5 million by opting for the opportunity to bring together all the economic effects that would have been recorded in the application of the principle from the outset in a profit reserve. The overall reduction of equity between 31 December 2017 and 1 January 2018 amounts to €61.5 million in the presence of positive changes in revaluation reserves amounting to approximately €5 million;

- the tables for the balance sheet and income statement have been drawn up on the basis of forecasts of the 5th update of the Banca d'Italia to Circular No. 262-2005, which implements international accounting standard IFRS 9 in force since 1 January 2018 and differs from those used until 31.12.2017. Pursuant to para. 7.2.15 of standard IFRS 9 no obligation of revaluation of the data reported for the purposes of comparison is provided for. However, for information purposes only the figures as at 31.12.2017 were restated in continuity of values pursuant to IAS 39, according to the new entries;
- with reference to the Goodwill quantified in the financial statements for €8.458 million and deriving from the acquisition of Credito Veronese and by the incorporation of Cassa Rurale di Storo, the Board of Statutory Auditors issued its consent to the recognition and subsequent valuation thereof, also with reference to the impairment test carried out with the support of an external consultant;
- the financial statements, together with the supporting reports, were provided to the Board of Statutory Auditors within the period stipulated in Article 2429 of the Italian Civil Code.

Within its mandate, the Board oversaw the layout of the financial statements, the effects of which are highlighted and shown in the explanatory notes to the financial statements and Management Report.

Financial year results

The financial statements for the year ended 31/12/2018 show:

Total Assets	4,907,016,438
Liabilities (items 10,20,60,80)	4,568,145,704
Severance indemnity and provision for risks	8,068,722
Shareholders' Equity (inclusive of positive Revaluation reserves of €108,365) net of operating result for the year	324,456,412
Own shares in portfolio	(8,840,411)
Profits for the year	15,186,011

Shareholders' equity recorded a decrease of €61.5 million between 31 December 2017 (€382 million) and 1 January 2018 (€320.5 million) following the adoption of IFRS9 as already highlighted. From the point of view of own funds (relevant for the calculation of supervisory ratios) a good part of this effect is sterilised progressively along the time span of five years until the end of the transitional regime, fixed as at 31 December 2022.

In arriving at the result for the financial year the contribution of positive and negative income items are analytically indicated in the income statement and extensively commented upon in the Directors' Report on Operational trends and in the Explanatory Notes.

In summary, the income statement highlights:

Description	31-12-2018	31-12-2017
Intermediation margin	105,502,323	105,612,336
Impairment/Write-backs (including item 140 profits/losses from contractual changes without cancellations)	(14,522,532)	(51,964,359)
Net result of financial management	90,979,791	53,647,977
Operating costs	(74,618,809)	(64,192,205)
Transfer of investments and loss of equity investments	(362,156)	(311,725)
Income tax for the period	(812,815)	5,035,438
FINANCIAL YEAR RESULT	15,186,011	(5,820,515)

In accordance with the strategic plan approved by the Board of Directors the income statement highlights a significant improvement in the interest margin (+€6.863 million).

Overall, the intermediation margin is maintained substantially constant, even in the presence of a margin of interest in growth, mainly due to the reduction of profits from the sale of financial assets.

Value adjustments show a marked reduction (-€37.442 million) due in particular to the smaller flow of new impaired loans and the reduction of stocks than in the past.

The hedging of impaired loans reached good levels thanks to the benefits of the first-time adoption of the new IFRS 9 principle, which enabled the posting, as at 1 January 2018 of further write-downs of credits offset in shareholders' equity.

Operating costs show an increase equal to €10.4 million, due in particular to staff costs, higher charges for the contribution to the funds of the resolution of the banking crisis, higher costs for insurance premiums.

The greater staff cost was affected by the planned programme of recruitment linked both to the opening of new branches and the strengthening of the control functions and donations and premiums not allocated in the financial statement for the previous financial year.

We give below the detail of impaired loans as well as the trend in credit quality indicators:

Detail of credits and valuation reserve

31-12-2018 Types of exposures/Values (amounts in millions of euro)	Gross exposure	Specific adjustments	Lump-sum adjustments	Net exposure	% of total net exposure
a) Bad debts	287,066	164,160	-	122,906	4.01%.
b) Likely defaults	120,702	38,594	-	82,108	2.68%.
c) Overdue loans	22,342	2,595	-	19,747	0.64%.
Total impaired loans	430,110	205,349	-	224,761	7.33%.
d) Performing loans	2,870,121	-	26,755	2,843,366	92.67%.
Total Loans	3,300,231	205,349	26,755	3,068,127	100.00%.

CREDIT QUALITY INDICES	31-12-2018	31-12-2017	31-12-2016
of gross receivables			
% Bad debts of total gross receivables	8.70%.	12.73%.	13.41%.
% Likely defaults of total gross receivables	3.66%.	4.80%.	6.18%.
% overdue loans of total gross receivables	0.68%.	0.81%.	1.07%.
% total impaired loans of total loans receivable	13.03%.	18.35%.	20.65%.
hedging percentage			
Bad debts	57.19%.	55.84%.	51.40%.
Likely defaults	31.97%.	26.93%.	17.20%.
Overdue loans	11.61%.	7.94%.	8.10%.
Total impaired loans	47.74%.	46.14%.	38.92%.
Performing loans	0.93%.	0.46%.	0.54%.
Percentages on net receivables			
% Bad debts of total net receivables	4.01%.	6.17%.	7.12%.
% Likely defaults of total net receivables	2.68%.	3.85%.	5.59%.
% Overdue loans on total net receivables	0.64%.	0.82%.	1.08%.
% Total impaired loans on total net receivables	7.33%.	10.84%.	13.78%.

As regards financial assets, it should be noted that, with the application of IFRS 9, same are allocated in the following asset items:

20. Financial assets valued at fair value with impact on the income statement, amounting to €281,244 thousand.

30. Financial assets valued at fair value with impact on overall profitability, amounting to €298,198 thousand.

40. Financial assets valued at amortised cost, amounting to €893,994 thousand,

70. Equity investments amounting to €1,251 thousand.

It should be noted that item 40 also includes receivables from customers (commitments) for €3,068,127 thousand and loans and receivables from banks (other than debt securities) for €203,751 thousand.

The breakdown of financial assets highlights:

- ✓ The reduction of the consistency of the item 30, due to the divestment of Italian Government Bonds and the classification of newly acquired bonds mainly in the portfolio at amortised cost;
- ✓ The presence in item 20 of the Valsabbina Investments security for €148,562 thousand, the bond loan subscribed in full by the Institute and issued by a vehicle company for the securitisation of receivables from the public administration;

- ✓ The presence in item 20 of OICR security shares for €23,417 thousand and shares real estate funds for €44,488, the latter subject to write-downs of €3.3 million carried out by using the NAV provided by issuers.

On the assets side of the balance sheet are allocated current tax assets for €9,286,346 and pre-paid tax assets for €55,340,752.

Current assets represent the surplus of advances of Ires/Irap (Company and Regional taxes) tax for the years 2015 and 2016 in relation to the final balance of the tax burden for these years and the share of surpluses of "Aid to economic growth" relating to the years 2016/2017/2018 convertible into tax credits.

The tax anticipated assets are related mainly (€42,173) to write-downs of loans not fully deductible in the year of establishment.

In the balance sheet, liabilities item 10 (financial liabilities valued at amortised cost) amount to €4,484,196 and breaks down as follows:

	31-12-2018	total
(amounts in thousands of euro)		
c) Payables to Banks		1,241,118
Savings deposits	29,692	
Current accounts	2,247,613	
Time deposit	668,927	
Other deposit	463	
b) Payables to customers		2,946,695
Bonds	212,579	
Subordinated bonds	61,222	
Deposit certificates	22,582	
c) Outstanding securities		296,383
Total		4,484,196

Liabilities to banks comprise, in particular:

- ✓ payables to the ECB for a nominal €690 million related to the TLTROII programme. These transactions have maturities in June 2020 for €250 million, December 2020 for €150 million and March 2021 for €290 million. Due to these passive loans, the bank receives interest in the amount of 0.40%, a rate recognised until maturity;
- ✓ repos payable for an amount of €400 million, maintained with primary banking counterparties and with maximum maturity in February 2019;
- ✓ a loan paid the ECB for €150 million, that matured in January of the current year.

Significant events in the year

The events that have characterised the company management are reported and commented upon in the management report. The findings that are most economically relevant are also commented on in this report.

The transactions of greatest economic, financial and equity significance are extensively commented on in the Management report, to which reference is made.

It is pointed out that, at the conclusion of the prudential auditing process for the year 2016, by letter dated 22.8.2017, Banca d'Italia arranged for the Bank the following capital requirements:
capital equity Tier 1 ratio (CET 1 Ratio) equal to 6.925%;
capital equity Tier 1 ratio (Tier 1 ratio) of 8.625%;
total capital ratio equal to 10.875%

With risk weighted assets equal to €2.459 billion, the Tier 1 capital ratio, determined by the ratio between the core capital and risk-weighted assets of risk, is equal to 14.72% ("phased-in" ratio) versus 15.17% at December 2017, whilst the total capital ratio, which expresses the ratio between the total of own funds and risk-weighted assets of risk, stands at 15.73% ("phased-in") versus 16.6%. Both ratios are therefore significantly higher than the above-mentioned minimum requirements for 2018, amounting to 8.625% and 10.875%.

It is pointed out that with the entry into force of IFRS9, introduced in EU regulation 575/2013 - was CRR, a transitional ruling.

The above framework provides the opportunity to include in the capital equity tier 1 a positive transitional component equal to a portion of the write-downs suffered in respect of credits reflected in the financial statements due to the effect of the initial application of IFRS9. This share will in time decrease over a time span of five years.

In the absence of transitional arrangements, the total capital ratio and Tier1 ratios would equal, respectively, 13.74% and 12.69% ("fully phased" ratios).

On 19 February 2019, a communication was received from Banca d'Italia concerning the initiation of proceedings relating to capital requirements. The process will conclude within 90 days, unless suspended or interrupted.

The new capital requirements requested, which will be applicable only at the end of the process, are the following:

capital equity Tier 1 ratio (CET 1 Ratio) equal to 8% (previously 6.925%);
capital equity Tier 1 ratio (Tier 1 Ratio) equal to 9.85% (previously 8.625%);
total capital ratio equal to 12.35% (previously 10.875%).

In this regard, the Board highlights that the strategic plan approved by the Bank envisages a progressive improvement of the ratios resulting in particular from leveraging self-financing (allocation of profits to reserves) that will ensure the recovery of own funds progressively affected by the write-downs following the entry into force of IFRS9.

With regard to the liquidity profile, it is pointed out that the position of the Bank is well above the minimum ratios.

In the course of the financial year non-performing loan disposal transactions were concluded for an amount of over 120 million gross receivables, distributed over about a thousand positions. The programme for the disposal of stocks of impaired loans will continue even during the course of 2019; as early as in the month of February a transfer transaction was concluded of about 53 million in bad debts, transferred to about 400 positions.

The gross amount of impaired loans was reduced to a significant extent (about 163 million) compared to the consistency as at 31 December 2017.

The activity of the Board of Statutory Auditors

The Board carried out the activity prescribed by the regulations in force, in compliance with the provisions issued by Banca d'Italia and the Consob, in accordance with its institutional role and, where necessary, collaborated with internal control functions (Internal Audit, Compliance, Money Laundering, Risk Management and the Supervisory Body).

In particular, the Internal Audit Department continuously and systematically provided information, through the analysis of both scheduled working plans and regular reports prepared for the Board of Directors and Control Bodies.

The Board has also acquired information and held meetings with the competent functionaries in relation to the implementation of policies for measurement, management and mitigation of risk to which the activities of the Bank are exposed, to the application of money laundering provisions, compliance with obligations relating to legislation on transparency of operations and banking services.

In the performance of its supervisory activities and in the implementation of the work programme at the time it was prepared, the Board held meetings with general management, with all the internal control functionaries specified above, with the external auditors as well as with the leaders of the major areas of functional activity.

From the interviews and from meetings the information and data necessary for the evaluation of the organisational, internal controls, the system of administrative and accounting procedures and of its specific operation were acquired.

Principles of good governance

The Board has overseen compliance with the principles of good governance both during the periodic checks and in the course of the meetings (normally fortnightly) of the Board of Directors which it regularly attended, verifying smooth functioning, as well as compliance with resolutions concerning the laws and regulations that govern them.

The Board periodically obtained from the Directors, General Management and the leaders of the major areas of functional activity, information on general performance, on foreseeable development as well as on the most significant transactions, in terms of size and characteristics, carried out by the Bank. In this respect, one can be reasonably assured that actions implemented

are in accordance with the law and Articles of Association and were not manifestly imprudent, hazardous or in conflict with decisions taken at the shareholders' meeting, nor such as to compromise the integrity of the company assets.

Organisational structure and internal audit system

In the course of the 2018 financial year, the Board oversaw the adequacy of the organisational structure and the internal controls system, considered appropriate, also as a result of measures taken and the size and structure of the Bank. It also verified that overall business risk is monitored in the context of specific organisational references according to a model using methodologies and procedures aimed at ensuring the effectiveness and efficiency of operating processes, to ensure the reliability and integrity of information and to check compliance with regulatory requirements in the continuing functionality.

The system of internal controls is periodically subject to review and adjustment in relation to the evolution of the company's operations and the business context.

Attention was also paid to line and distance controls within the scope of central structures and of the network, in relation to specific audit within which were identified the different types of operations, the first-level checks, the cadence and the responsibility for same.

The Board verified the Bank's compliance with the requirement to send communications, reports and documents to the supervisory authorities.

Specific attention was paid to the verification of the timely adaptation of the organisational and procedural structure of the Bank and to the measures taken following the investigations of Banca d'Italia effected between 23 October 2017 to 17 January 2018.

In order to strengthen the effectiveness of the system, joint meetings between the Board of Statutory Auditors and Managers of the control functions were intensified, with the aim of developing discussions which will allow the emergence of criticality and focus points as well as areas for improvement and corrective actions.

In accordance with the provisions of Banca d'Italia, the Board of Statutory Auditors:

- has overseen the process of determination of total capital adequacy to address all relevant risks (ICAAP) and assessment of the adequacy of the governance and management of liquidity risk (ILAAP) through the analysis of a sufficient flow of information from corporate bodies and internal control functions, observing compliance with the limits indicated;
- has verified that implementation of the strategies and business policies is consistent with the limits set out in the framework for the determination of risk appetite of the Bank (Risk Appetite Framework, in short RAF).

The document describing the internal Risk Appetite Framework was approved by the Board of Directors on 18 June 2014, following the definition of the metrics for the quantification of the risk position of the Bank, the objectives in terms of risk profile desired (risk appetite), risk tolerance (understood as absolute deviance from the objectives set) and operational limits to be monitored continuously for each type of risk. The RAF Policy was subsequently updated on 22 April 2015, 20 July 2016, 21 September 2017 and 6 June 2018.

In accordance with Directive 2014/59/EU, Bank Recovery Resolution Directive (BRRD), the Bank has also implemented a Remediation Plan. This document, prepared in 2017 and updated in 2018,

represents the instrument dedicated to managing crisis situations in a timely and effective manner, by regulating response measures to restore the stability of the equity and financial position of the Bank. The action plan defines the indicators to be monitored, in the context of regular positioning analysis with respect to risk assumed, early detection of crisis situations as well as strategies and actions to be taken in order to eliminate any critical issues.

The Bank, also during 2018, consolidated interventions for the adaptation of processes for risk management programmes within the scope of the self-assessment carried out in recent years in evaluating its own business situation, in particular with regard to the provisions introduced by Circular No. 285/2013. In this context, it is noted in particular the updating of the self-assessment with regards to reputational risk.

In this regard, the Board confirms the relevant organisational structure put in place by the Bank and the defining of proper internal rules to protect the quality of assets. In this context, the internal rules guarantee the necessary autonomy of control functions and precisely define tasks and responsibilities.

The Board has constantly overseen the process of implementation of the adjustments required by legislation on the policies adopted by the Bank on the asset programmes defined by the control functions. The verification of periodic reports produced by the audit departments revealed the actual implementation of the instruments referred to.

In the context of investment advice, the relevant policy has been updated to align with European and national legislation implementing MiFID II and the definition of basic advice. A specific policy in the field of knowledge and skills of the staff in investment services was approved.

In the field of money laundering particular attention was paid to the activities to align internal rules with the provisions referred to in Legislative Decree 90/2017 of implementation of the EU Directive 2015/849.

In light of the issue, in January 2018, by Banca d'Italia of "Guidelines for less significant Italian banks in the management of impaired loans", the Bank has launched a specific project activity with the aim of further strengthening and implementing the internal oversight of credit risk. In particular, the activity has as its objective improving the effectiveness and efficiency of the process of recovery and management of non-performing loans, also in the light of the progressive reduction and disposal of the current stock, in accordance with the strategy outlined in the context of the Business Plan. The analysis resulted in the identification of specific "gap" areas and the provision of an adequate plan of intervention. The Bank also has a specific NPL strategic plan 2018-2021. The document originates from the issue of the aforementioned guidelines concerning impaired loans aimed at smaller banks where the need to define a strategic plan for the reduction of NPL and the strategic guidelines for the attainment of the objectives aimed at optimising their management is underlined.

It should be noted that during the course of 2018, the creation of an Anomalous Credit Division was formalised, comprising Performance Monitoring, Pre-Litigation and Legal and Litigation services. This change in the organisational structure mainly has the purpose of improving synergies and coordination between the various departments within the scope of the activity of credit recovery by optimising the reporting process to company bodies.

It is highlighted, finally, that the Bank resolved upon the adoption of European Regulation 2016/679 on the Protection of Personal Data.

Administrative and accounting and information system

The Board has overseen the administrative and accounting system as a whole as well as the reliability of the latter to correctly represent management facts.

It has verified the procedures and phases of work during which the financial statements were drawn up, their conformity to the formats and rules for compilation provided by the Supervisory Authorities and IAS-IFRS international accounting standards.

It has also verified that directors have not derogated from the provisions of the law.

As regards the oversight of the information system, it should be pointed out that the Bank has formalised the "Methodology for the analysis and handling of IT risks" on the basis of which the "Summary Report on the IT risk situation " is periodically prepared. In particular, "critical" processes are recognised, IT risks are identified, and operational continuity related thereto, accordingly updating the "Plan for emergency management and operational continuity". The annual update of the analysis is also conducted on the basis of specific evaluations undertaken by the IT outsourcer. The quarterly survey of IT risk operated through analysis of the incident record reveals no criticality worthy of mention.

It is evident that the outsourcers Cedacri and Disc SpA carried out, in the 2018 year, the disaster recovery test and issued the report of the test, which reported the positive outcome of the verification.

From the "incident record" prepared by the Bank for the 2018 year there were no incidents that have total out-of-service times exceeding tolerance limits (Recovery Time Objective) defined.

Relations with the Auditing Firm

In the course of the institutional activity, the Board exchanged information with the Auditing Firm also responsible for the statutory audit (BDO Italia S.p.A.), without detecting data and information worthy of reporting in this report. The Auditing firm has reported on the absence of situations of uncertainty and limitations in the checks carried out. The certification report was delivered today without findings or disclosures.

The certification report highlights the "key aspects" of the audit, that is to say the most significant aspects in the context of the audit of the financial statements. These aspects are related:

- ✓ to the application of new IFRS9 international accounting standard;
- ✓ to the classification and valuation of loans to customers at amortised cost.

For these areas, the major revision procedures carried out are detailed.

Non-Financial Statement

The Bank has drawn up the non-financial statement pursuant to Legislative Decree 254/2016, choosing to attach a separate document from the management report.

The statement, "to the extent necessary to ensure the understanding of the activity of a company, its evolution, its results and the impact from the same produced, covers environmental and social issues, those relating to staff, in respect of human rights, the fight against bribery and corruption

that are relevant taking into account the activities and characteristics of the enterprise, setting out at least:

a) the management and organisational model of activities of the enterprise, including models of organization and management may be adopted pursuant to Article 6, paragraph 1, letter a) of Legislative Decree No. 231 of 8 June 2001, also with reference to the management of the above themes;

b) policies practised by the company, including those of due diligence, the results achieved thereby and their fundamental indicators for non-financial provisions;

c) the main risks, including procedures for managing the same, generated or suffered, connected to the aforementioned themes and that derive from the activities of the company, its products, services or commercial relations, including, where relevant, supply chains and subcontracting".

The Board certifies that the report is properly drawn up in accordance with the applicable laws.

Today, the auditing company has issued the planned report on the non-financial statement 2018 in which it is attested as follows: "no facts came to our attention that lead us to believe that the DNF of BANCA VALSABBINA S.C.p.A. relating to the financial year ended 31 December 2018 has not been drawn up in all significant aspects, in conformity with the requirements of Article 3 of the Decree and the Global Reporting Initiative" accounting standard.

Statement in terms of Article 2408 of the Italian Civil Code

In the course of the 2018 year no complaints were received pursuant to Article 2408 of the Italian Civil Code.

Meetings of the Board of Directors, the Board of Statutory Auditors and the Supervisory Body (O.d.V.)

The Board of Statutory Auditors - in addition to the constant participation in the meetings of the Board of Directors, met 29 times to carry out verifications of its own competence.

With effect from 15 November 2017, the Board has assumed the tasks of Supervisory Body referred to in Legislative Decree of 8 June 2001, no. 231. In the course of the meetings during the year, Supervisory Authority 231 had the opportunity to consider the adoption by the bank of the necessary organisational measures relating to the application of the rules to combat money-laundering and the financing of international terrorism also in light of the recent changes with Legislative Decree 90/2017. There were also several specific checks concerning: 1) Market Abuse; 2) corporate crimes; 3) IT crime and illegal data processing; 4) misappropriation, money laundering, use of money and self-laundering.

These tests were conducted using the methodology of risk assessment approved by the bank, used in the process of management and control of non-compliance risk. In light of the changes in the external legislation of reference and of the direct allocation to the Board of Statutory Auditors of responsibility of Supervisory Authority 231, initiated and completed, with the support of a specialist consulting firm, a draft revision and updating of the Organisation, Management and Control Model pursuant to Legislative Decree No. 231/2001, as well as in order to standardise the content of the document to the best practice, guidelines and principles of in this matter.

Related parties

Transactions with related parties are governed by the appropriate internal rules pursuant to Article 2391-bis of the Italian Civil Code, Consob Resolution No. 17221 of 12 March 2010 and subsequent amendments and additions and Title V, Chapter 5 of Banca d'Italia Circular No. 263/2006. The internal regulation shall be published on the website of the Bank

All transactions with related parties and with the subjects related to them have been carried out by Banca Valsabbina and by group companies in respect of the criteria of substantial and procedural fairness and under conditions similar to those applied to the best customers. It should also be noted that there were no - neither with related parties nor with other subjects - atypical and/or unusual transactions, this term referring to transactions that, for significance and/or relevance, nature of counterparties, the subject of the transaction procedures for determining the price and timing can give rise to doubts as to the correctness and/or completeness of the disclosures, conflicts of interest, to the preservation of the integrity of the corporate assets, to protect the shareholders.

In order to promote greater coordination between the independent directors to improve information flows, the Committee of Independent Directors was established that, whenever called upon to give its reasoned and non-binding opinion, it has always pronounced in favour of the transaction unanimously. Finally, it should be noted that no transaction with related parties and/or related subjects influenced, to a considerable extent, the equity situation or results of the Bank, nor were there modifications or development of transactions with such counterparties that could have a significant effect in this sense. Data and more detailed information are contained in Part H - Transactions with related parties - of the Explanatory Notes.

Internal control and audit committee pursuant to Article 19 of Legislative Decree 39/2010

For public-interest entities (including banks) the internal control and audit committee identifies itself with the Board of Statutory Auditors. In this capacity, the Board has overseen, insofar as it is responsible:

- the financial reporting process;
- the effectiveness of the internal control systems of internal auditing and risk management, as is evident from the minutes documenting the activities of the Board;
- the statutory audit of annual accounts, through the exchange of information with the company responsible for the statutory audit;
- the independence of the auditing firm, in particular as regards the provision of non-auditing services to the entity subject to statutory audit.

The auditing firm sent the Board the required "additional report for the internal control and audit committee" pursuant to Article 11 of EU Regulation 537/2014.

Final valuations according to the oversight activity of the Board of Statutory Auditors

Dear Shareholders,

On the basis of the checks carried out and the information acquired, it is certified that, in the course of 2018, the corporate business was carried out in compliance with the law and Articles of Association and that no omission or fact worthy of reporting in this report has been detected.

Having also taken into account that the information received by the Auditing Company responsible for the statutory audit did not reveal any findings or reservations, we formulate a favourable opinion both in relation to the approval of the draft financial statements as at 31 December 2018, as drawn up by the Board of Directors and in relation to the proposal for the allocation of the operating result.

Brescia, 13 March 2019

The Board of Statutory Auditors

Mr. Mauro Giorgio Vivenzi (President) _____

Accountant Bruno Garzoni (Auditor) _____

Accountant Filippo Mazzari (Auditor) _____

Advocate Nadia Pandini (auditor) _____

Mr. Federico Wells (Auditor) _____