



BANCA VALSABBINA

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Dear Shareholders,

This report, relating to the financial statements for the year ended 31 December 2020, 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 Mazars Italia s.p.a. for the period from 2020 to 2028. In this regard, the Board of Statutory Auditors, in its capacity as the Internal control and audit committee, issued the prescribed recommendation for the assignment of the task of external audit for the period from 2020 to 2028. With this Report, the Board of Statutory Auditors of Banca Valsabbina reports on the supervisory activities carried out during the 2020 financial year, in compliance with the reference regulations. During 2020, the Board of Statutory Auditors carried out its supervisory activities and fulfilled its duties. In this area:

- it attended the Shareholders' Meeting and all the meetings of the Board of Directors as well as, through its Chairman or an Auditor appointed by the latter, the meetings of the Risk Committee and obtained, in compliance with the provisions of the law and the Articles of Association, exhaustive information on the activities carried out and on the transactions of greater importance made by the Bank and its subsidiary Valsabbina Real Estate;
- it acquired the information necessary to check compliance with the law and the Articles of Association; on compliance with the principles of correct administration, as well as on the functionality and adequacy of the Bank's organisational structure and internal control and administrative-accounting systems. All this is done through direct investigations, collection of data

and information from the Heads of the Company Functions concerned, as well as from the Company in charge of external audit;

- it carried out its own checks on the internal control system, using the support of the Internal Audit Service and activating periodic meetings with all the heads of the Control Functions, so as to ensure the required functional and informative connection on the methods of carrying out their institutional control tasks, as well as on the results of the activities carried out;
- it monitored compliance with the provisions on transactions with related parties;
- it made sure that, based on the declarations made by the individual Directors and the considerations collectively expressed by the Board of Directors of the Bank, the criteria and procedures adopted by the latter to assess the independence of its members had been correctly applied;
- it checked compliance with the laws and regulations concerning the process of drawing up the Financial Statements and preparing the Non-Financial Statement pursuant to Italian Legislative Decree No. 254/2016.

Financial statements as at 31 December 2020

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. The Board of Statutory Auditors checked and investigated the process of preparation of the Financial Statements for the year 2020, as well as their compliance with the laws and regulations in force and their consistency with the resolutions adopted by the Board of Directors.

The Board 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.

In relation to these activities, the Board of Statutory Auditors has, among other things, (i) checked the methodological adequacy of the impairment test to which the financial statement assets concerned were subjected; (ii) ascertained the application of the newly introduced or amended accounting standards that are mandatory as from the 2020 financial statements; (iii) obtained the results of the audits carried out by the Independent Auditing firm on the proper bookkeeping and

the correct reporting of operating events in accounting entries; (iv) ascertained the existence of the disclosure, contained in both the Report on operations and the Explanatory Notes, regarding the impact of the Covid-19 health emergency.

As part of its audit activities, the Board of Statutory Auditors met several times with the Independent Auditing firm in order to ensure the exchange of information necessary, among other things, for the Board of Statutory Auditors to supervise, (in its role as "Internal Control and Audit Committee"), as required by Article 19 of Italian Legislative Decree No. 39/2010, as well as for the purpose of examining the issues considered most relevant for the preparation of the 2020 Financial statements. In the light of the provisions in force, the Independent Auditing firm issued:

1. to the Bank, pursuant to Article 14 of Italian Legislative Decree no. 39/2010, the Audit Report on the Financial statements for the year ended 31 December 2020. Mazars issued its Report today with no remarks or requests of further disclosure. For details of the key aspects of the audit, please refer to the contents of the Report, published together with the Financial Statements;
2. to the Board of Statutory Auditors, pursuant to Article 11 of EU Regulation no. 537/2014, the Report to the Internal Control and Audit Committee (known as "Additional Report"), which did not reveal any significant deficiencies in the internal control system in relation to the financial reporting process, worthy of the attention of the Board itself.

Today, the Independent auditing firm presented its annual confirmation of independence pursuant to Article 6 of EU Regulation no. 537/2014, which does not reveal any situations that could compromise its independence. In this regard, during the year and in compliance with the provisions on external auditing, the Board of Statutory Auditors approved in advance - after checking the duties with regard to potential independence risks and the safeguard measures adopted - the non-audit services assigned to Mazars and to the companies belonging to its network. The Board also acknowledged the Transparency Report prepared by the Independent auditing firm, published on its website pursuant to Article 13 of EU Regulation no. 537/2014

With reference to the financial statements for the year ended 31 December 2020, the following is hereby stated, in accordance with Article 2429, paragraph 2, of the Italian Civil Code:

- The Financial Statements as at 31 December 2020, accompanied by the Directors' report on operations, were drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved on the date of

preparation of these financial statements, they were also drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 of 22 December 2005 of the Bank of Italy, updated as at 30 November 2018, issued on the basis of the authorisation contained in Italian Legislative Decree No. 38/2005, which acknowledged in Italy Regulation (EC) No. 1606/2002 regarding international accounting standards;

- the balance sheet and income statement have been prepared in accordance with the provisions of Bank of Italy Circular No. 262/2005;
- with reference to the Goodwill recorded in the financial statements for Euro 8.458 million and resulting from the acquisition of Credito Veronese and the incorporation of Cassa Rurale di Storo, 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 support of an external advisor. On the basis of the results of the analysis carried out, impairment losses on intangible assets with an indefinite duration were not booked to the income statement;
- the draft financial statements, together with the accompanying reports, were approved by the Board of Directors on 1 March 2021. The shareholders' meeting for approval is scheduled to be held on first call on 30 March 2021. The Board of Statutory Auditors, also in relation to the checks and in-depth analyses carried out on the draft financial statements prior to their approval (in particular on the occasion of the Risk Committee of 26 February 2021) expressly waives the term envisaged by Article 2429 of the Italian Civil Code and files this report within the terms envisaged by said Article 2429 of the Italian Civil Code.

Based on the main evidence acquired in the performance of its duties, a number of significant events that characterised the 2020 financial year have been identified, in respect of which, although largely illustrated in the Directors' Report on Operations (to which reference should be made), it is deemed appropriate to make a reference below, taking into account their significance as part of the assessments relating to the financial and economic situation of Banca Valsabbina and the consistency of the management decisions taken with the guidelines of the Budget for the 2020 financial year.

Capital requirements. Following the periodic prudential review process put in place by the Supervisory Authority, the Bank of Italy sent the Bank its decision on the new minimum capital ratios with effect from 30 June 2020:

- ✓ CET 1 Ratio equal to 7.45%, of which 4.5% for minimum regulatory requirements, 0.45% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 8.00%);
- ✓ Tier 1 Ratio equal to 9.15%, of which 6% for minimum regulatory requirements, 0.65% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 9.85%);
- ✓ Total Capital Ratio equal to 11.35%, of which 8% for minimum regulatory requirements, 0.85% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 12.35%).

As part of the same process, a "Target Component" (known as the P2G, second pillar component) of 0.50% was also notified as an increase to all the ratios detailed above. The resulting total ratios (CET1 7.95%, Tier1 9.65%, and Total Capital Ratio 11.85%) provide the Bank of Italy with a capital adequacy condition consistent with the specific risk profiles.

On the definition of regulatory capital, note that with the entry into force of IFRS 9, a transitional arrangement was introduced in the EU 575/2013 - CRR Regulation, which defers in time the impact on Own Funds deriving from the application of the new impairment model introduced by the accounting standard itself.

After exercising the specific option, the above regulations envisage the possibility of including in Common Equity Tier 1 capital a transitional positive component equal to a portion of the impairment losses recognised in the financial statements as a result of the first-time adoption of IFRS 9. The amount of this share is decreasing over time over a five-year period according to the following percentages: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. As at 1 January 2018, shareholders' equity decreased by Euro 61.5 million (book equity as at 31 December 2017 Euro 382 million, as at 1 January 2018 Euro 320.5 million); the transitional arrangements referred to above envisage that, from a prudential point of view, this effect will be progressively sterilised over a period of five years.

Risk-weighted assets amounted to Euro 2.38 billion compared to Euro 2.54 billion as at 31 December 2019, albeit with an increase in total assets of Euro 845 million, indicating an investment in low- or no-weighted assets.

This results in the following solvency ratios as at 31 December 2020.

The Tier 1 capital ratio comes to 15.92% ("phase-in") as against 14.43% in December 2019, while the Total capital ratio, which expresses the ratio between total Own Funds and risk weighted assets stands at 17.11% ("phase-in") compared with 15.77%.

In the absence of the transitional regime, the Total capital ratio and Tier 1 would have been 15.73% and 14.51%, respectively ("fully phased").

COVID-19 pandemic. The regulations introduced in 2020 in response to the COVID19 emergency are contained in EU Regulation 2020/873, adopted by the European Parliament, under which the starting date of application of certain measures was changed, with the simultaneous introduction/amendment of certain transitional regimes impacting Own Funds.

In particular, they include:

the new dynamic system that allows the sterilisation of the increase in collective impairments on performing loans;

The anticipation of the new supporting factor (PMI supporting factor).

The economic and financial impacts related to the Covid19 epidemic that have already been recorded and the bank's view on some relevant issues, including prospectively, are detailed in a specific section of the explanatory notes. The following are noted:

Net fee and commission income: The trend in commissions was positive and increased compared to the previous year. However, the various components - and in particular, the fee and commission income from Collection and payment services - were adversely affected by the partial reduction in branch operations between the first and second quarters of the year;

Operating expenses: During the year, extraordinary operating expenses related to Covid19 were recognised under administrative expenses for approximately Euro 400 thousand; these expenses were partially recovered thanks to contributions and tax credits, established by specific laws, to which the Bank had access;

Market trends: The turbulence in the financial markets during the year depressed share prices and the value of debt securities in the first half of the year. In the second half of the year there was a consistent recovery in stock market values, which was also positively influenced by the active policies of the Central Banks. As can be seen from the income statement, the Bank was able to seize the opportunities arising from these market trends;

Goodwill: Covid19 scenarios were also taken into account in goodwill impairment; the sensitivity tests gave positive results and there was no need to impair these financial statement assets;

Going concern: the Directors believe that the risks and uncertainties that the Bank may face as a result of the pandemic crisis are not of such a magnitude as to cast doubt on its ability to continue as a going concern;

Legislative, interbank, discretionary moratoria: During the year, the Bank granted various facilities to businesses in the form of deferment/suspension of payments by virtue of law provisions, interbank agreements and discretionary initiatives.

Specific weekly and quarterly reporting requirements have been introduced for the monitoring of moratoria. Positions under moratorium are specifically and continuously monitored;

Credit risk and impairment losses: The issue of "Credit Risk" related to its possible post-Covid19 development has recently been discussed by the Bank within the 2020-2022 Business Plan.

The actions implemented, described in the multi-annual plan, focus on three aspects:

raising network awareness

strengthening of monitoring processes

derisking.

Most moratoria were granted under national regulations and the ABI interbank agreement, particularly those granted to businesses.

Moreover, the portfolio of loans under moratorium is diversified and not concentrated in sectors particularly affected by the Covid19 emergency.

Derisking policies. In 2018, the Bank defined the NPL Plan for the period from 2018 to 2021, which will be updated in 2019 and 2020, in the light of the "Guidelines for Less Significant Italian Banks in the management of non-performing loans". The main objective of the NPL Plan is 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 stock. The Bank periodically monitors the objectives of the Plan in order to check their achievement and to assess any corrective actions.

As part of the derisking policies aimed at limiting the volume of non-performing loans - in addition to the ordinary management carried out by dedicated internal structures - it should be noted that during the year two massive disposal transactions were concluded: one relating to bad loans for a gross amount of over Euro 6 million and one relating to unlikely to pay loans for a gross amount of over Euro 28 million. The unlikely to pay loans were sold to the Efesto fund, which, offsetting the sale, paid the Bank 10.9 million in UCIT units. This was a transaction in which seven banks contributed unlikely to pay loans totalling Euro 476 million and received Euro 218 million in UCIT units in return; Banca Valsabbina's participation in the fund is limited and in any case complies with the accounting derecognition process. During the year, other transactions were also completed for approximately Euro 6.6 million including unlikely to pay and bad loans.

Gross non-performing loans decreased by approximately Euro 42 million compared to financial year 2019, a change represented by bad loans of Euro 11.9 million, unlikely to pay loans of Euro 25.5 million and past due non-performing loans of Euro 4.7 million.

The stock of gross NPLs totalled Euro 261.3 million, broken down into bad loans of Euro 173 million, unlikely to pay of Euro 77.4 million and past due non-performing loans of Euro 10.9 million.

It should also be noted that as from 1 January 2021, the new definition of default under EU Regulation No. 575/2013 (CRR) came into force. The impacts for the Bank can be summarised as an expected increase in the incidence of positions classified as past due and as unlikely to pay.

Still with regard to the impacts related to the development of the regulatory framework, the entry into force of Calendar Provisioning (EU Regulation 630 of 2019), i.e. the regulations that determine the minimum expected coverage levels of non-performing loans for prudential purposes, is significant. Under these provisions, the impacts are estimated to be negligible during the 2021-2022 period and incremental from the following years.

During the year, the Board of Statutory Auditors:

took note of the confirmation of the Directors Renato Barbieri (confirmed as Chairman of the Board of Directors), Enrico Gnutti and Alberto Pelizzari;

took note, on 11 January 2021, of the resignation of the Deputy Chairman of the Board of Directors, Santo Ivano Beccalossi, and expressed a favourable opinion on the appointment of the Director Pier Andreino Niboli, who will remain in office until the next Shareholders' Meeting;

took note of the appointment of Alberto Pelizzari as Deputy Chairman of the Board of Directors to replace Santo Ivano Beccalossi, who had resigned;

took note of the appointment of Marco Bonetti, former Deputy General Manager, as Joint General Manager. With regard to relations with the Supervisory Authorities, in April 2020 the Bank received notification from the Bank of Italy of its decision on the outcome of the annual Supervisory Review and Evaluation Process (SREP).

With regard to the formulation of the previous capital requirements, the new procedure also defined additional "non-binding" capital requirements, known as the Target Component (Pillar II Capital Guidelines), which the Bank is required to maintain in order to "ensure compliance with binding measures even in the event of a deterioration in the economic and financial environment".

The figures recorded as at 31 December 2020 are above the parameters required by the Bank of Italy and show:

	31/12/2020 phase in	31/12/2019 phase in	31-12-2020 fully phased	31-12-2019 fully phased
total capital ratio	17.11%	15.77%	15.73%	14.06%
Tier 1 capital ratio	15.92%	14.43%	14.51%	12.69%

As at 1 January 2018, with the adoption of IFRS 9, shareholders' equity decreased by Euro 61.5 million compared to 31 January 2017. The transitional arrangements referred to above envisage that (for the sole purpose of calculating Own Funds) this effect will be "spread" over a period of five years. In the absence of this transitional regime, the Total capital ratio and Tier 1 would have been 15.73% and 14.51%, respectively ("fully phased" shown in the table).

In this regard, the Board of Auditors notes that the Bank's Board of Directors expects a gradual improvement in the ratios resulting, in particular, from the leverage of self-financing (allocation of profits to reserves), which will be able to ensure the restoration of the own funds affected by the write-downs made following the entry into force of IFRS 9. This approach is reflected in the economic forecasts prepared by the Board of Directors as part of the 2020 - 2022 Business Plan.

Results for the financial year

The financial statements for the year ended 31 December 2020 show the following figures:

Description	31/12/2020	31/12/2019
Total assets	5,984,291,973	5,139,292,482
Liabilities (items 10,20,60,80)	5,603,444,011	4,785,933,203
Post-employment benefit fund and risk fund	7,211,535	6,621,803
Shareholders' equity excluding the profit/(loss) for the year	358,914,013	335,814,193
Own shares in portfolio	(9,616,966)	(9,379,211)
Profit for the year	24,339,380	20,302,494

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 in the explanatory notes, have contributed towards the formation of the profit for the year.

In short, the income statement discloses:

Description	31/12/2020	31/12/2019
Net interest and other banking income	152,439,777	125,683,643
Impairment losses/reversals of impairment losses (including item 140 modification gains (losses) without derecognition)	(28,428,652)	(17,940,658)
Net profit (loss) from financial operations	124,011,125	107,742,985
Operating costs	(89,890,640)	(81,465,935)
Sale of investments and loss on equity investments	(421,599)	(552,381)
Income taxes for the year	(9,359,506)	(5,422,175)
PROFIT FOR THE YEAR	24,339,380	20,302,494

The income statement shows an improvement in net interest income of Euro 9.8 million (+13.43%) and net fee and commission income of Euro 3.1 million (+8.64%).

Interest income includes interest recognised by the ECB under the (completed) TLTROII programme and the new ongoing TLTROIII programme. Considering the reasonable certainty that the Bank will meet its targets in terms of lending performance for the period relevant for determining the rate recognised by the ECB, interest income commensurate with the maximum applicable rate of 1% has been recognised in the 2020 financial statements.

Total net interest and other banking income increased by Euro 26.7 million (+21.29%), partly due to gains on sale of financial assets.

Impairment losses show an increase of approximately Euro 11 million compared to 2019 and amount to Euro 28.1 million. The coverage percentages for non-performing loans are up on the previous year and in line with the strategic objectives defined in the NPL plan approved by the Bank.

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

31/12/2020 Type of exposure/amounts (amounts in Euro 000)	Gross exposure	Individual impairment	Collective impairment	Net exposure	% of total net exposure
a) Bad loans	172,979	91,383	-	81,596	2.39%
b) Unlikely to pay	77,413	28,543	-	48,870	1.43%
c) Past due loans	10,918	1,667	-	9,251	0.27%
Total non-performing loans	261,310	121,593	-	139,717	4.09%
d) Performing loans	3,298,700	-	23,734	3,274,966	95.91%
Total Loans	3,560,010	121,593	23,734	3,414,683	100.00%
31/12/2019 Type of exposure/amounts (amounts in Euro 000)	Gross exposure	Individual impairment	Collective impairment	Net exposure	% of total net exposure
a) Bad loans	184,838	88,775	-	96,063	3.06%
b) Unlikely to pay	102,979	36,198	-	66,781	2.13%
c) Past due loans	15,629	1,863	-	13,766	0.44%
Total non-performing loans	303,446	126,836	-	176,610	5.63%
d) Performing loans	2,983,792	-	24,099	2,959,693	94.37%
Total Loans	3,287,238	126,836	24,099	3,136,303	100.00%

Net exposure (amounts in Euro 000)	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Bad loans	81,596	96,063	122,906	181,668	195,606
Unlikely to pay	48,870	66,781	82,108	113,461	153,523
Past due loans	9,251	13,766	19,747	24,226	29,554
Total Non-performing loans	139,717	176,610	224,761	319,355	378,683
Performing loans	3,274,966	2,959,693	2,843,366	2,626,745	2,369,343
Total Net loans	3,414,683	3,136,303	3,068,127	2,946,100	2,748,026

CREDIT QUALITY RATIOS	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Percentage out of gross loans and receivables					
% of bad loans out of total gross loans and receivables	4.86%	5.62%	8.70%	12.73%	13.41%
% of unlikely to pay out of total loans and receivables	2.17%	3.13%	3.66%	4.80%	6.18%
% of past due loans out of total gross loans and receivables	0.31%	0.48%	0.68%	0.81%	1.07%
% of non-performing loans out of total loans and receivables	7.34%	9.23%	13.03%	18.35%	20.65%
Coverage percentages					
Bad loans	*55.80%	*51.14%	*60.89%	*58.73%	*54.75%
Unlikely to pay	52.83%	48.03%	57.19%	55.84%	51.40%
Past due loans	36.87%	35.15%	31.97%	26.93%	17.20%
	15.27%	11.92%	11.61%	7.94%	8.10%

Total non-performing loans	*48.81% 46.53%	*43.97% 41.80%	*50.85% 47.74%	*48.64% 46.14%	*41.73% 38.92%
Performing loans	0.72%	0.81%	0.93%	0.46%	0.54%
Percentage out of net loans and receivables					
% of bad loans out of total net loans and receivables	2.39%	3.06%	4.01%	6.17%	7.12%
% of unlikely to pay out of total net loans and receivables	1.43%	2.13%	2.68%	3.85%	5.59%
% of past due loans out of total net loans and receivables	0.27%	0.44%	0.64%	0.82%	1.08%
% of non-performing loans out of total net loans and receivables	4.09%	5.63%	7.33%	10.84%	13.78%

*also including write-offs on bad loans for positions still open at 31/12

Operating expenses amounted to Euro 89.8 million, an increase of Euro 8.4 million, mainly due to labour costs (Euro +4.5 million), the contribution to resolution funds of banking crisis (Euro +1.4 million), insurance premiums (Euro +0.6 million) and costs for data processing centre (Euro +0.5 million).

The increase in labour costs was affected by the renewal of the CCNL (National Collective Labour Agreement) and the recruitment programme related in particular to the opening of new branches and the diversification of the business. The number of employees as at 31 December 2020 was 689 (634 as at 31 December 2019).

In commenting on the Balance Sheet, the Board of Auditors notes the following.

With regard to financial assets, note that with the application of the accounting standard IFRS 9, they are allocated to the following asset items:

20. Financial assets measured at fair value through profit or loss, amounting to Euro/1000 214,157

30. Financial assets measured at fair value through other comprehensive income, amounting to Euro/1000 568,539

40. Financial assets measured at amortised cost, amounting to Euro/1000 1,452,848. Item 40 includes loans and receivables with customers (loans) of Euro/1000 3,414,683 and loans and receivables with banks (other than debt securities) of Euro/1000 141,224.

70. Equity investments, amounting to Euro/1000 1,651

The breakdown of financial assets shows:

- ✓ the increase in the amount of item 30 (approximately Euro 157 million), attributable to purchases of Italian government bonds. In addition to Government Securities, the portfolio

also includes bonds issued by leading national and international companies, both financial and industrial;

- ✓ the presence in item 20 of the Valsabbina Investimenti security for approximately Euro 68 million, a bond fully subscribed by the bank and issued by a special purpose vehicle for the securitisation of loans and receivables due from the Public Administration;
- ✓ the presence in item 20 of UCITS units of approximately Euro 60 million and real estate UCI units of approximately Euro 41 million - the latter subject to write-downs of Euro 1.4 million made to adjust the value to the NAV provided by the issuers;
- ✓ The increase in the amount of item 40 (concerning "Financial assets measured at amortised cost - Debt securities") by approximately Euro 386 million, following purchases of both government securities and other bonds. At 31 December 2020, Italian government securities accounted for 90.29% of the portfolio of debt securities measured at amortised cost.

Current tax assets of Euro 7.2 million and deferred tax assets of Euro 44.4 million are allocated to the balance sheet assets.

Current assets include an amount requested for reimbursement of Euro 5 million originating from the payment of IRES advances that later turned out to be excessive.

Deferred tax assets mainly relate (Euro 36 million) to impairment of receivables that are not fully deductible in the year of accrual.

On the liabilities side of the balance sheet, item 10 (financial liabilities measured at amortised cost) amounts to Euro/1000 5,505,277 and is broken down as follows:

	31/12/2020	total
(amounts in Euro 000)		
a) Due to banks		1,204,723
Savings deposits	23,989	
Current accounts	3,146,587	
Time deposits	789,363	
PcT with CC&G	131,802	
Other deposits – future lease payments IFRS 16	5,535	
b) Due to customers		4,097,276
Bonds	99,053	
Subordinated bonds	83,014	
Certificates of deposit	21,211	
c) Securities issued		203,278
Total		5,505,277

Due to banks include, in particular, amounts due to the ECB with a nominal value of Euro 1,210 million relating to the TLTROIII programme. These operations have maturities of Euro 920 million in June 2023 and of Euro 290 million in September 2023. Against these loans payable, the bank receives interest income booked in 2020 at the maximum applicable rate of 1%.

Item 80 (other liabilities) amounting to Euro 92 million includes in particular currency spreads on portfolio transactions of Euro 44.7 million, credit transfers to be carried out of Euro 16.5 million and due to suppliers of Euro 7.9 million.

In terms of liquidity, the Bank's position was already well above the minimum ratios. The expected regulatory instrument is the LCR (Liquidity Coverage Ratio) given by the ratio between the reserve of liquid assets and the net outflow of liquidity envisaged over a 30-day stress period, which must be more than 100%. This indicator is designed to ensure that banks have sufficient high quality (uncommitted) liquid reserves available in a 30-day stress situation. At the end of the year, the Bank's LCR ratio was 180%.

The activity of the Board of Statutory Auditors

During 2020, the Board of Statutory Auditors met 23 times, took part in the only Shareholders' Meeting held in ordinary session and in 24 meetings of the Board of Directors.

The Board of Statutory Auditors carried out the activities laid down by the regulations in force, 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).

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.

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 meetings (normally every two weeks) 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

The Board of Statutory Auditors monitored the progressive adoption by the Board of Directors of decisions suitable for maintaining a regulatory framework and internal organisational structures adequate for the correct application of operating processes.

During 2020, 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.

The Board of Statutory Auditors supervised, also by means of specific monitoring and targeted in-depth analyses, some activities, in consideration of their relevance with reference to organisational, control and risk management aspects. The following are noted in particular:

1. measures to strengthen the credit management and monitoring process progressively and constantly. The Board of Statutory Auditors continued its monitoring activities on the progressive refinement of the relevant regulatory and organisational framework, with special reference to the management and assessment of non-performing loans;
2. Checking the organisational structure of control functions also in the light of recent staff changes and increases;
3. Checking the controls in place in the area of credit risk and money laundering in relation to the emergency arising from the covid-19 health crisis;
4. Analysing the moratoria granted in accordance with regulations to combat the covid-19 crisis;
5. Analysing on a regular basis the status of due diligence questionnaires for the purposes of anti-money Laundering Regulations;
6. Analysing the Mifid Questionnaire re-submission process;
7. Analysing the aspects of interest of control functions in relation to "fintech" initiatives and more generally to new business initiatives.
8. Preliminary discussion with the heads of control functions on the planning of activities for 2021.

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 within which the various types of operations, their first level controls, their frequency and their responsibility were assessed.

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

In order to strengthen the effectiveness of the system, joint meetings between the Board of Statutory Auditors and the heads of control functions were organised with the aim of developing debates aimed at highlighting critical issues and points of attention as well as areas for improvement and corrective action.

In compliance with the provisions of the Bank of Italy, the Board of Statutory Auditors:

1. - supervised the process for the calculation of the Total Capital adequate to cope with all significant risks (ICAAP) and for assessing the adequacy of the governance and liquidity risk management system (ILAAP) by analysing suitable information flows by the corporate bodies and the internal control units, and checking the observance of the envisaged limits
2. - 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, 21 September 2017, 6 June 2018, 19 June 2019, 2 September 2020.

In accordance with the provisions of the 2014/59/EU Bank Recovery Resolution Directive (BRRD), the Bank adopted a Recovery Plan. This document, initially prepared in 2017 and subsequently updated at least every two years, represents the instrument dedicated to dealing promptly and effectively with crisis situations, regulating the measures to be taken to restore the Bank's economic, equity and financial equilibrium. The plan defines the indicators to be monitored and the relevant alert thresholds, as part of the periodic analysis of positioning with respect to the risks taken, for the timely identification of crisis situations as well as the strategies and actions to be taken in order to remove any critical issues.

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

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. The risk analysis identified an overall level of exposure to threats that is on average "Low" and the quarterly report of IT risk through analysis of the accident log does not reveal any critical issues worthy of mention.

The outsourcers Cedacri and Lutech SpA carried out the disaster recovery test in 2020 and issued a Test report detailing the applications involved, the validation of the communication procedures and recovery operations, and the reactivation of the systems. Both test sessions were successful.

The "accident log" prepared by the Bank for the year 2020 did not reveal any accidents with total inefficiency times exceeding the tolerance limits (Recovery Time Objective) defined in the "Business Impact Analysis".

The necessary and constant increase in the effectiveness and efficiency indices of the control system continued in 2020. In this context, the following are noted in particular:

- as regards the Compliance Service, a) the supervision it provides on the review of organisational processes and internal regulations, also through ex ante compliance checks, including processes relating to new products and services offered by the Bank; b) checks relating to Transparency, Provision of Investment Services, Distribution of Insurance Products, Remuneration Policies and Taxation;

- with regard to the Anti-Money Laundering Service, a) the activation of new, more high-performance IT tools, b) the activation of specific measures aimed at seizing the phenomena indicated by the Supervisory Authority, related to the Covid-19 health emergency and indicative of possible unlawful operations, and c) ongoing cooperation in the structuring of targeted training courses for Commercial Network staff;
- as regards the Risk Management service, a) the activity of improving and implementing risk measurement tools, ensuring their functionality and application within the Bank; (b) periodic risk analysis and reporting activities through the "risk dashboard" tool; (c) the strengthening of the strategic processes, RAF, ICAAP and ILAAP; (d) the extension and strengthening of second-level control activities on credit processes;
- As regards the Internal Audit Service, a) the continuous implementation of remote controls, also related to issues arising from the spread of the covid-19 pandemic; b) constant monitoring of credit processes, also with reference to developments in internal contracts and projects relating to compliance with regulatory provisions; c) the performance of targeted checks on the Bank's central offices in the areas of anti-money laundering, new products, credit enhancement and guarantees, management of non-performing loans and mandatory checks required by supervisory regulations (ICAAP-ILAAP, Remuneration Policies, FITD and Outsourced Functions); d) the carrying-out of on-site checks at Branches in the areas of credit, finance, banking products and operations (management of valuables, transparency, counter operations, compliance with anti-money laundering regulations, etc.).

Non-Financial Statement

When performing the functions assigned to it, the Board of Statutory Auditors monitored compliance with the provisions contained in Italian Legislative Decree no. 254 of 30 December 2016, with reference to both the process of preparation and the contents of the Non-financial Statement prepared by Banca Valsabbina, in particular. The Statement, "to the extent necessary to ensure understanding of the company's activities, performance, results and impact, covers environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption, which are relevant considering the company's activities and characteristics, by describing at least:

- a) the company model for the management and organisation of the company's activities, including any organisation and management models adopted pursuant to Article 6, paragraph 1, letter a) of Italian Legislative Decree No 231 of 8 June 2001, also with reference to the management of the aforementioned issues;
- b) the company's policies, including its due diligence policies, the results achieved through them, and related non-financial key performance indicators;
- c) the main risks, including how to manage them, generated or incurred, related to the above issues and deriving from the company's activities, products, services or business relationships, including, where relevant, supply chains and subcontracting".

The Board of Statutory Auditors certifies that the report has been properly prepared in accordance with the applicable law provisions and the Global Reporting Initiative (GRI) reporting standards.

Today, the independent auditing firm issued the required report on the 2020 Non-Financial Statement in which the following is stated: "On the basis of the work carried out, nothing has come to our attention that causes us to believe that the NFS of Banca Valsabbina S.C.p.A relating to the year ended 31 December 2020 has not been prepared, in all material respects, in accordance with the requirements of Article 3 of the Decree and GRI Standards".

Complaints pursuant to Article 2408 of the Italian Civil Code

During 2020, no complaints were received pursuant to Article 2408 of the Italian Civil Code.

Supervisory Body

As from 15 November 2017, the Board took over the duties of the Supervisory Body pursuant to Italian Legislative Decree No. 231 of 8 June 2001. During 2020, no reports were received regarding the commission of crimes and/or offences relevant under the regulations, as well as other information regarding violations or alleged violations of the rules of behaviour or procedures contained in the Organisational, Management and Control Model.

At the meetings held during the year, the 231 Body had the opportunity to analyse and assess the adequacy of the organisational and precautionary measures adopted by the Bank to manage and contain the health emergency resulting from the spread of the Covid-19 virus.

Specific checks were also carried out on: 1) Corruption offences; 2) Tax offences; 3) Receiving stolen goods, money laundering, re-use of money and self-money laundering. These checks were carried out using the Risk Assessment method approved by the Bank and used in the non-compliance risk management and control process.

The 231 Body examined and discussed the annual reports of the various control functions of the Bank, in particular evaluating any critical aspects emerging and the related measures adopted and/or planned by the Bank for their removal.

As a result of the checks, no specific points of attention were found.

In 2020, following the expansion of the catalogue of offences from which the entity's administrative liability may derive, it became necessary to update the Organisational, Management and Control Model. In particular, the regulatory changes, introduced by Italian Law no. 133/2019 and Italian Legislative Decree no. 75/2020, had a direct impact on the special part of the document, which has been supplemented with computer fraud offences and tax offences and with the implementation of offences against the Public Administration. The updated and integrated Model 231 was approved by the Board of Directors at its meeting on 16 December 2020.

Related parties

Related-party transactions are regulated by specific internal regulations pursuant to Article 2391 bis of the Italian Civil Code, Consob Resolution No. 17221 of 12 March 2010 as amended and Section V, Chapter 5 of the Bank of Italy Circular No. 263/2006. The Internal Regulations are published on the Bank's website.

It is specified that all the transactions with related parties and parties associated with them have been carried out by Banca Valsabbina and by the group companies in observance of the criteria of essential and procedural correctness and under conditions identical to those applied to best customers. It is also specified that no atypical and/or unusual transactions have been entered into, either with related parties or with other parties, these being understood to be transactions that, due to significance and/or importance, nature of the counterparties, subject matter of the

transaction, method for determining the price and timescale, may give rise to doubts in terms of the correctness and/or completeness of the financial statement disclosure, conflicts of interest, the safeguarding of the integrity of the company assets and the safeguarding of the shareholders.

In order to encourage greater coordination between the independent Directors and to improve information flows, a Committee of Independent Directors was set up and, whenever called upon to express its opinion, has always unanimously expressed its support for the transaction.

The Bank, in compliance with the regulations, has also adopted and published on its website an internal regulation on this matter, which: a) regulate the identification, decision-making process and execution of the transactions carried out by the Bank with related parties and parties associated with them; b) establish suitable rules for ensuring the transparency and essential and procedural correctness of the transactions; c) define the operating procedures regarding the monitoring and handling of the transactions with related parties and regulate the checks and the reports required by the new supervisory instructions.

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:

1. the financial disclosure process;
2. the efficacy of the internal control, internal audit and risk management systems, as reflected in the minutes documenting the Board's activities;
3. the external audit of the annual accounts through the exchange of information with the company appointed to audit the accounts;
4. 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.

Self-assessment of the Board of Statutory Auditors

In accordance with Supervisory Provisions of the Bank of Italy Circular No. 285/2013, the Board of Statutory Auditors carried out its own self-assessment with reference to the 2020 financial year, drawing up the relevant Concluding Document. At the end of the process, the Board considered that it could confirm an overall opinion of substantial "adequacy" as regards its composition and operation.

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 2020 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 2020, as drawn up by the Board of Directors, and with regard to the proposed allocation of the result for the year.

Brescia, 8 March 2021

The Board of Statutory Auditors

Mauro Giorgio Vivenci (Chairman) _____

Bruno Garzoni (Acting auditor) _____

Filippo Mazzari (Acting auditor) _____

Nadia Pandini (Acting Auditor) _____

Federico Pozzi (Acting auditor) _____