

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Dear Members,

This report, relating to the financial statements for the year ended 31/12/2022, has been drawn up in accordance with Article 2429 of the Italian Civil Code as well as of Article 153 of Italian Legislative Decree of 24 February 1998, No. 58.

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 2020-2028.

With this Report, the Board of Statutory Auditors of Banca Valsabbina reports on the supervisory activities carried out during the 2022 financial year, in compliance with the reference regulations. During 2022, 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 former, 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 (in liquidation);
- acquired the information necessary to verify compliance with the law and the Articles of Association; on compliance with the principles of proper management, and on the functionality and suitability of the Bank's organizational 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 Departments, so as to ensure the required functional and informative connection on the methods of carrying out their control missions, 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

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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 31/12/2022

In as far as it is responsible, the Board of Statutory Auditors oversaw the layout given to the annual financial statements, whose effects have been highlighted and illustrated in the explanatory notes and the report on operations. The Board of Statutory Auditors checked and investigated the process of preparation of the Financial Statements for the year 2022, 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.

With regard to these activities, the Board of Statutory Auditors has, inter alia (i) verified the suitability, from a methodological point of view, of the impairment test process to which the balance sheet assets in question were subjected; (ii) ascertained the application of the newly introduced or amended accounting standards; (iii) ascertained the results of the checks carried out by the Independent Auditors on the proper keeping of the Company's accounts and the correct recording of operating events in the accounting records; (iv) ascertained the existence of the information, contained both in the Management Report and in the Explanatory Notes to the Financial Statements, relating to the impact of the health emergency linked to the Covid-19 pandemic and the Russian-Ukrainian conflict.

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 2022 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 2022. Mazars issued its

Report on 08 March 2023 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 (the Supplementary Report), from which no significant shortcomings in the internal control system relating to the financial reporting process worthy of the Board's attention were found.

On 08 March 2023, 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 2022, the following is hereby stated, in accordance with Article 2429, paragraph 2, of the Italian Civil Code:

- the draft financial statements, together with the accompanying reports, were approved by the Board of Directors on 1 March 2023;
- The financial statements for the year ended 31/12/2022 accompanied by the Directors' Report on Operations have been prepared in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed at the date of preparation thereof, as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular Letter No. 262 of 22 December 2005 of the Bank of Italy, updated as of 29 October 2021;
- 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

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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;

Based on the main evidence acquired in the performance of its duties, a number of significant events that characterised the 2022 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 2022 financial year.

Inspections by the Supervisory Panel.

The Bank of Italy's Inspection Report on the inspections conducted from 21 March to 1 July 2022 was notified on 8 September 2022 with a "partially favourable" outcome. The Bank has defined timely corrective actions to address the reported areas of improvement. On 23 November 2022, a meeting was held between the Board of Statutory Auditors and the heads of the control functions in order to verify the progress of the activities implemented in response to the inspection findings.

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 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;
- ✓ 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;
- ✓ 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.

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

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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 2 February 2023, the Bank of Italy announced the start of a new SREP procedure, on the basis of which the new capital requirements to be met by the Bank were redetermined as detailed below:

- primary tier 1 capital ratio (CET 1 Ratio) of 7.80%;
- tier 1 ratio of 9.60%;
- total Capital Ratio of 12.00%.

As part of the same process, a "Target Component" (known as P2G, second pillar component) of 1.00% was also notified as an increase to all the ratios detailed above.

The total coefficients are thus equal to: CET1 8.80%, Tier1 10.60% and Total Capital Ratio 13.00%.

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 extent of said quota 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. As of 31 December 2022, book equity amounted to 388 million euros.

It should be noted that the Bank also avails itself, for the purposes of calculating own funds as at 31 December 2022, of the "transitional regime" provided for by EU Regulation 2020/873 relating to the inclusion in CET 1 of reserves on securities issued by Central Governments and valued at "OCI Fair Value", whereby it is possible to sterilise changes in these reserves to the extent of 40% for 2022.

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It should also be noted that EU Regulation 630/2019 introduced the Calendar Provisioning regime, which took effect from the signal deadline of 30 June 2021. These Regulations defined the methods for calculating the minimum level of loss coverage for impaired exposures that arose or increased after 26 April 2019 through a gradual provisioning plan. The regulations provide for an automatic deduction from the Own Funds of insufficient coverage, meaning the differences between the minimum coverage provided for by the regulations and the provisions of the budget. This regulatory change had negligible impacts during 2022, but they may be potentially increasing over the next few years. The Bank therefore monitors the scope of credits to which this regulation applies and the relevant minimum coverage required, in order to be able to better calibrate the appropriate recovery strategies.

Risk-weighted assets as at 31 December 2022 amounted to EUR 2.78 billion compared to EUR 2.54 billion as at 31 December 2021.

This results in the following solvency ratios as at 31 December 2022.

The Tier 1 capital ratio comes to 14.03% ("phase-in") as against 15.32% in December 2021, while the Total capital ratio, which expresses the ratio between total Own Funds and risk weighted assets stands at 15.33% ("phase-in") compared with 16.64%. In the absence of the transitional regimes, the total capital ratio and Tier1 ratio would have been 14.25% and 12.94% respectively (fully phased-in ratios, 15.45% and 14.11% respectively as at 31/12/2021).

The Board of Directors pays particular attention to the definition of capital strengthening and lending optimisation measures in relation to regulatory capital absorption.

COVID-19 pandemic.

In particular, it should be noted that the outstanding debt from COVID-19 government-guaranteed loans at the end of the financial year 2022 amounted to EUR 993 million, compared to about EUR 872 million at the end of the previous year.

At the end of 2020, the volume of credits that had been granted a COVID moratorium measure amounted to EUR 700 million. As at 31/12/2022, 41.7 million gross of these loans were impaired.

Derisking policies.

During 2022, the Bank continued its strategic derisking actions that allowed for a significant reduction in the stock of impaired loans, achieving results that were substantially in line with the objectives defined in the 2022-2024 Non-Performing Loans Operational Plan.

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During the 2022 financial year, impaired loans totalling EUR 47 million were sold. These sales, together with ordinary credit recovery operations, enabled the Bank to reduce the Gross NPL Ratio (ratio of gross non-performing loans to gross loans) from 5.2% as at 31 December 2021 to approximately 4.64% at the end of 2022 and the net NPL Ratio (ratio of net non-performing loans to net loans) from 2.7% to 2.62%.

During the year, the Board of Statutory Auditors:

- took note of the appointment of Directors Nadia Pandini, Adriano Baso, Aldo Ebenestelli, Flavio Gnechi and Luciano Veronesi on 4 April 2022;
- took note of the appointment, effective 1 January 2023, of the new General Manager Marco Bonetti and the two Deputy General Managers, Hermes Bianchetti - former Head of the Business Division - and Antonio Beneduce - former Head of the Risk Management Service;
- gave a favourable opinion on the appointment of the new Head of the Compliance Service Andrea Moratti and the new Head of the Risk Management Service Stefano Noventa.

Results for the financial year

The financial statements for the year ended 31 December 2022 show the following results:

Description	31-12-2022	31-12-2021
Total assets	6,985,939,802	6,692,506,603
Liabilities (items 10,20,60,80)	6,589,596,498	6,282,496,797
Post-employment benefit fund and risk fund	8,236,196	8,671,936
Shareholders' equity excluding the profit/(loss) for the year	352,766,583	371,377,019
Own shares in portfolio	(6,080,195)	(9,225,112)
Profit for the year	41,420,720	39,185,963
Total liabilities	6,985,939,802	6,692,506,603

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:

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Description	31-12-2022	31-12-2021
Net interest and other banking income	212,675,071	178,702,717
Impairment losses/reversals of impairment losses (including item 140 modification gains (losses) without derecognition)	(32,038,881)	(22,120,390)
Net profit (loss) from financial operations	180,636,190	156,582,327
Operating costs	(122,886,470)	(106,186,481)
Disposal of investments and shareholdings	57,532	(423,432)
Income taxes for the year	(16,386,532)	(10,786,451)
RESULT OF THE FINANCIAL YEAR (profit)	41,420,720	39,185,963

The income statement shows an improvement in net interest income of EUR 41.4 million (+41.20%) and net fee and commission income of EUR 9.6 million (21.15%).

The amount of interest income recorded on securities owned was EUR 56.4 million, compared to EUR 22.7 million in the financial year 2021. The change is related in particular to the higher interest earned on inflation-indexed BTPs in the portfolio.

Interest income includes interest recognised by the ECB under the TLTROIII programme in the amount of EUR 5.7 million, down from the previous year (EUR 12.1 million) due to the change in the mechanism for determining the rates applied. In connection with these changes, interest expenses for loans received from the ECB were recognised in the latter part of the year.

Overall net interest and other banking income shows an increase of 34 million euros (+19.01%).

Value adjustments show an increase of about 10 million euros compared to 2021 and amounted to 32 million euros. The coverage percentages for non-performing loans are down on the previous year but still 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:

Net exposure (amounts in Euro/1000)	31-12-2022	31-12-2021	31-12-2020	31-12-2019	31-12-2018
Bad loans	46,854	55,844	81,596	96,063	122,906

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Unlikely to pay	49,076	39,217	48,870	66,781	82,108
Past due loans	5,990	5,962	9,251	13,766	19,747
Total non-performing loans	101,920	101,023	139,717	176,610	224,761
Performing loans	3,791,602	3,619,787	3,274,966	2,959,693	2,843,366
Total Net loans	3,893,522	3,720,810	3,414,683	3,136,303	3,068,127

CREDIT QUALITY RATIOS	31-12-2022	31-12-2021	31-12-2020	31-12-2019	31-12-2018
Percentage out of gross loans and receivables					
% of bad loans out of total gross	2.59%	3.38%	4.86%	5.62%	8.70%
% Probable default on total gross	1.87%	1.63%	2.17%	3.13%	3.66%
% of past due loans out of total	0.18%	0.18%	0.31%	0.48%	0.68%
% of non-performing loans out of	4.64%	5.19%	7.34%	9.23%	13.03%
Coverage percentages					
Bad loans	*58.52% 54.87%	*60.11% 56.96%	*55.80% 52.83%	*51.14% 48.03%	*60.89% 57.19%
Unlikely to pay	34.46%	37.56%	36.87%	35.15%	31.97%
Past due loans	16.36%	15.23%	15.27%	11.92%	11.61%
Total non-performing loans	*47.73% 45.16%	*51.86% 49.38%	*48.81% 46.53%	*43.97% 41.80%	*50.85% 47.74%
Performing loans	0.65%	0.64%	0.72%	0.81%	0.93%
Percentage out of net loans and receivables					
% of bad loans out of total net loans	1.20%	1.50%	2.39%	3.06%	4.01%
% Probable default on total net	1.26%	1.05%	1.43%	2.13%	2.68%
% of past due loans out of total net	0.15%	0.16%	0.27%	0.44%	0.64%
% of non-performing loans out of	2.62%	2.72%	4.09%	5.63%	7.33%

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

The ratio of impaired loans to total gross loans at system level was 4.3%, compared to 4.64% for the Bank. The coverage ratio of the Bank's impaired loans is 45.16% for an overall net NPL ratio of 2.62%. On the other hand, analysing values net of value adjustments, the banking system is characterised by an average coverage ratio of 46.2% and an average net NPL rate of 2.4%.

The coverage rates for both exposures in probable default (34.46% vs. 39.5%) and non-performing (54.87% vs. 60.0%), were lower systematic ones.

The gross NPL ratio was better than budgeted in the NPL plan (4.64% vs. 4.74%).

By contrast, the net NPL ratio was worse than budgeted in the NPL plan (2.62% vs. 2.5%) but slightly lower than at 31.12.2021 (2.7%).

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The reduction in the coverage percentage of impaired loans (45.16% compared to 49.38% in 2021) is related to the disposal of NPLs with high impairment percentages and the lower incidence of non-performing loans compared to other impairment classes.

It is also noted that the amount of gross impaired loans backed by state guarantees was approximately EUR 32 million at the end of 2022. In this regard, it should be noted that the coverage ratio of impaired loans restated excluding the credit component fully guaranteed by central governments or central banks or by cash pledges would be 55.09%.

Operating expenses amounted to EUR 122.9 million, an increase of EUR 16.7 million, attributable in particular to personnel costs (+ EUR 6.1 million); charges for paperwork related to the tax credit for building work (+ EUR 6.5 million), the contribution to the bank resolution funds (+ EUR 0.7 million), energy consumption (+ EUR 0.8 million), various consulting services (+ EUR 0.4 million); data processing centre costs (+ EUR 0.7 million), software maintenance costs and fees (+ EUR 0.6 million)

The number of employees as at 31 December 2022 was 804 (752 as at 31 December 2021).

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 256,936;

30. Financial assets measured at fair value through other comprehensive income, amounting to Euro/1000 564,028;

40. Financial assets measured at amortised cost, amounting to 1,615,679 thousands of euro. Item 40 includes loans to customers 3,893,522 thousands of euro and loans to banks (other than debt securities) of 81,527 thousands of euro.

70. Equity investments, amounting to Euro/1000 3,065.

The breakdown of financial assets shows:

- ✓ the increase in the size of item 20 (amounting to approximately EUR 50 million).

The item includes units of listed and unlisted UCITS securities amounting to EUR 120.3 million, valued according to the NAV published periodically by the issuer. Among the units of unlisted UCITS are funds whose portfolio holdings originate from the sale of impaired loans, amounting to EUR 19.5 million. Units in real estate UCITS are recorded at EUR 39.2 million and valued according to the NAVs published by the management companies.

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With regard to the valuation of unlisted UCITS with underlying impaired loans or real estate, it was deemed appropriate to define a "liquidity premium", i.e. a downward adjustment of the NAV, in order to take into account the possible illiquidity in perspective logic of certain types of underlying of UCITS shares.

- ✓ the presence in item 20 of the Valsabbina Investimenti security for approximately Euro 55.3 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, under item 40 a (loans to banks), of the compulsory reserve set up with the Bank of Italy in the amount of EUR 49.8 million (EUR 329.4 million as at 31 December 2021);
- ✓ The significant increase in ABS securities from securitisation transactions, amounting to € 306.4 million (€ 187.7 million as at 31 December 2021), in line with the strategic decision to diversify business areas.

Current tax assets of Euro 5.3 million and deferred tax assets of Euro 59.9 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 related (EUR 26 million) to write-downs of receivables that were not fully deductible in the year of formation and to capital losses charged against the negative valuation reserves for securities in the FVOCI portfolio (EUR 25 million).

Item 120 (other assets) includes tax credits for building work in the amount of EUR 186.8 million.

On the liabilities side of the balance sheet, item 10 (financial liabilities measured at amortised cost) amounts to 6,487,532 thousands of euro and is broken down as follows:

	31-12-2022	31-12-2021
(amounts in Euro/1000)		
a) Due to banks	1,581,991	1,318,486
b) due to customers		
Savings deposits	20,050	22,296
Current accounts	3,647,368	3,712,921
Time deposits	1,055,729	939,243
PcT with CC&G	68,187	-

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Future lease payments - IFRS 16	6,016	5,210
Other deposits	306	53
b) Due to customers	4,797,656	4,679,723
Bonds	38,993	78,343
Subordinated bonds	56,851	60,505
Certificates of deposit	12,041	15,428
c) Securities issued	107,885	154,276
Total item 10 liabilities	6,487,532	6,152,485

Due to banks include, in particular, amounts due to the ECB with a nominal value of Euro 1,330 million relating to the TLTROIII programme. These transactions have maturities of June 2023 for 460 million; September 2023 for 290 million; March 2024 for 120 million, and December 2024 for 460 million.

To monitor the liquidity risk, Banca Valsabbina continually monitors the value of the Counterbalancing capacity (CBC), understood as the availability of assets that can be promptly reimbursed, sold or used in refinancing transactions with the interbank system and that therefore make it possible to generate liquidity rapidly and efficiently. Liquidity risk is also controlled by monitoring the supervisory indicators represented by the short-term liquidity requirement (Liquidity Coverage Ratio - LCR) and the structural liquidity requirement (Net Stable Funding Ratio - NSFR).

At year-end, the Bank's LCR ratio was 192.86% (100% minimum limit), while the NSFR ratio was 136% (100% minimum limit)

Activities of the Board of Statutory Auditors

During 2022, the Board of Statutory Auditors met 29 times, took part in the only Shareholders' Meeting held in ordinary session and in 30 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

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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 necessary for the assessment of the organisational set-up, the internal controls, the administrative-accounting system and its effective functioning, was acquired from the encounters and meetings held.

Principles of correct administration

The Board of Statutory Auditors 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 2022, 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 overseen within the context of precise organisational references according to a model which uses methods and procedures aimed at ensuring the efficacy and efficiency of the operating processes, guaranteeing the reliability and integrity of the information and checking the observance of legislation in recurrent operations.

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The internal controls 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 progressively and constantly strengthen the credit management and monitoring process. 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. Verification of the organisational structure of control functions also in light of staffing changes and enhancements;
3. Verification of the process of adaptation of the Bank to the new regulations with particular regard to:
 - a. the Guidelines on Loan Origination and Monitoring, published by the EBA in May 2020;
 - b. the plan of initiatives for the Bank's alignment with supervisory expectations on climate and environmental risks.

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 of Statutory Auditors checked the observance by the Bank of the obligations relating to forwarding of 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

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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).

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 oversaw the administrative-accounting system in its entirety, as well as the reliability of the same to correctly represent the operating events.

With regard to the supervision of the IT system, which consists of the IT risk assessment of the main application-type resources (applications) and technology-type resources (infrastructure), the Board of Statutory Auditors examined both the "Summary Report on ICT Adequacy and Costs 2021" and the "IT Risk Assessment Report 2021". In particular, the latter identifies the IT risks and the business continuity risks related to them, based on the specific assessments made by IT outsourcers. In accordance with the "Business Impact Analysis", "critical" processes are detected, IT and business continuity risks related to them are identified, and the "Emergency and Business Continuity Management Plan" is updated. Overall, the risk analysis identified an overall level of exposure to threats that is on average "Low" and therefore consistent with the Institute's risk appetite.

The board also verified the implementation of safeguards on outsourced functions and planned remediation processes.

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With regard to business continuity, the bank maintains a secondary site at all times to ensure the continuity of operation of the IT system, and the outsourcers Cedacri and Lutech SpA carried out planned disaster recovery tests in the year 2022 with positive results.

The quarterly IT risk survey carried out through the analysis of the "incident register" prepared by the Bank for the year 2022 did not reveal any incidents with total disruption 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 2022. In this context, the following are noted in particular:

- with regard to the Internal Audit Service, a) the continuous implementation of remote controls b) the 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, the tax credit purchase process - Ecobonus, credit risk also for the purposes of risk-weighted assets (RWA), delegated powers in the area of credit autonomy, interest rate risk, administrative aspects and business activities, and mandatory checks provided for by supervisory regulations (ICAAP-ILAAP, Remuneration Policies, FITD and Outsourced Functions) d) carrying out on-site checks at Branches in the areas of credit, finance, banking products, anti-money laundering and operations (management of values, transparency, counter operations, etc.).
- with regard to the Compliance Service, a) the continuous implementation of remote controls on both the distribution network and central offices; b) participation in at least one-third of the inspections carried out by the Internal Audit Service at branches in the area of investment services and transparency c) monitoring the review of organisational processes and internal regulations, including through ex-ante compliance checks, including processes relating to new products and services offered by the Bank; d) audits relating to regulations on Transparency and Usury, Provision of investment services, Distribution of insurance products, Remuneration Policies, US Taxation and Fintech;

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- 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 Russia-Ukraine war crisis, and c) ongoing cooperation in the structuring of targeted training courses for Commercial Network staff;
- with regard to the Risk Management service, a) the improvement and implementation of risk measurement tools, ensuring their functionality and application within the Bank as well as their timely alignment with current regulations; b) periodic risk analysis and reporting activities through the "risk dashboard" tool; c) the strengthening of strategic processes, RAF, ICAAP and ILAAP; d) the extension and strengthening of second level control activities on credit processes, with particular reference to the introduction of the EBA LOM Guidelines.

Non-Financial Statement

As part of the performance of the functions assigned to it, the Board of Statutory Auditors monitored compliance with the provisions contained in Legislative Decree of 30 December 2016, No. 254, in particular with reference to both the drafting process and the contents of the Non-financial Statement prepared by Banca Valsabbina. 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;

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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.

On 8 March 2023, the independent auditors issued the required report on the 2022 non-financial statement in which they attest to the following: "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 2022 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 2022, no complaints were received pursuant to Article 2408 of the Italian Civil Code.

Supervisory Body

As of 15 November 2017, the Board assumed the duties of the Supervisory Board pursuant to Legislative Decree No. 231 of 8 June 2001 in order to verify the proper functioning of the organisational controls provided for in the Organisational, Management and Control Model adopted by the Bank and necessary to prevent its involvement in acts punishable pursuant to Legislative Decree 231/2001.

As early as 2021, it was deemed appropriate to update the Organisational Model adopted by the Bank in order to make it more effective and complete, by implementing its General Section with the inclusion among the hypotheses of imputation of liability to the Entity also that of complicity of persons in the crime; the updated and integrated Model 231 was approved by the Board of Directors at its meeting of 1 September 2021.

The Board of Statutory Auditors was able to verify that, also during 2022, the Bank continued its efforts to improve the System of Internal Controls, in order to safeguard the risks to which it is exposed in the exercise of its activity and the consequent responsibilities, as well as to strengthen the relationship of trust with customers and members and its reputational capital.

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In 2022, the Organisational, Management and Control Model adopted by the Bank was further updated in the light of the regulatory changes, but also in terms of its formal structure, modifying the organisation of the document in order to provide the Bank with an instrument that is as complete as possible and more immediately comprehensible to the recipients, and to better define the areas of verification of the Supervisory Board. The Model now consists of a General Section (in which the reference regulatory framework is summarised and the purposes of the Model, the process of adopting, amending and updating the document, the relations between the Model, the 231 Supervisory Body and the Disciplinary System are described), a Special Section (which with reference to each type of offence/crime that the Bank has decided to take into consideration, taking into account the characteristics of its business, identifies the activities/transactions at risk and indicates the principles of conduct to be followed in order to mitigate the risk of the offences set out in the Decree) and two Annexes, I (List of offences pursuant to Legislative Decree 231/2001 and sanctions) and II (Risk Assessment with the mapping of risk activities, offences, safeguards and residual risk, constantly updated to reflect the risks to which the Bank is exposed from time to time). The updated Model was approved by the Board of Directors at its meeting on 18 January 2023.

In the course of 2022, the 231 Body - using the Risk Assessment methodology approved by the Bank - also carried out audits concerning occupational health and safety regulations (Article 25 septies of Decree 231), the risks of receiving stolen goods, money laundering, use of money and self money laundering (Article 25 octies of Decree 231) and offences relating to payment instruments other than cash (Article 25 octies.1 of Decree 231). As a result of these audits - and within the limits of these audits - no specific critical situations or elements were found that could expose the Bank to the sanctions provided for in Legislative Decree 231/01, nor were any reports received during 2022 of crimes and/or offences relevant to the regulation, nor were there any other reports of violations or alleged violations of the rules of conduct or procedures contained in the Model.

In the course of 2023, the Supervisory Board will continue to verify the proper functioning of the adopted Model, as well as assessing the need for its updating in line with any expansion of the range of predicate offences and the related risk mitigation measures.

Related parties

Transactions with related parties are governed by specific internal regulations pursuant to Article 2391 bis of the Italian Civil Code, Consob Resolution No. 17221 of 12 March 2010 as

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ADERENTE AL FONDO INTERBANCARIO DI TUTELA DEI DEPOSITI
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amended and supplemented (in particular Consob Resolution No. 22144 of 22 December 2021) and Bank of Italy Circular Letter 285/2013. 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 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. In compliance with the regulations, the Bank has also adopted and published on its website an internal regulation on this matter, which: a) governs the identification, decision-making process and execution of transactions carried out by the Bank with related parties and related parties; b) establishes rules aimed at ensuring the transparency and substantial and procedural correctness of transactions; c) defines the operating procedures concerning the monitoring and management of transactions with related parties and governs the procedures for carrying out the controls and reports required by the supervisory provisions.

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;

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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 Letter No. 285/2013, the Board of Statutory Auditors carried out its own self-assessment with reference to the 2021 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.

It should be noted that following the resignation of lawyer Nadia Pandini, as of 2 March 2022, lawyer Donatella Dorici took office as Standing Auditor. The appointment of Lawyer Dorici was confirmed by the Shareholders' Meeting on 4 April 2022, also taking into account what was indicated by the Board of Auditors in the document on its optimal qualitative and quantitative composition, drawn up following the self-assessment process.

The Board of Auditors started the preparatory activities for the definition of the self-assessment for the financial year 2022 pursuant to Article 8 of the Rules of the Board of Auditors.

Final assessments regarding the supervisory activities of the Board of Statutory Auditors

Dear Members,

On the basis of the checks carried out and the information acquired, it is hereby stated that during 2022 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 official audit has not revealed any findings or reservations, we hereby formulate a favourable opinion both with regard to the approval of the draft financial statements for the year ended 31 December 2022, as drawn up by the Board of Directors, and with regard to the proposed allocation of the profit for the year.

Brescia, 10 March 2023

The Board of Statutory Auditors

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Dr Mauro Giorgio Vivenzi (Chairman)_____

Lawyer Donatella Dorici (Standing Auditor)_____

Accountant Bruno Garzoni (Standing Auditor)_____

Accountant Filippo Mazzari (Standing Auditor)_____

Dr Federico Pozzi
(Standing Auditor)_____

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