

**BANCA VALSABBINA - DIRECTORS' REPORT ON OPERATIONS**  
**FINANCIAL STATEMENTS AS AT 31 DECEMBER 2014**

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Dear Shareholders,

The traditional Shareholders' Meeting in spring called to approve the financial statements takes place this year in a climate and interlacing of events - very recent or otherwise - that give glimpses of an overall improvement of the economic trend and international trade scenario, albeit with strong differences between advanced and emerging countries.

In our Country, as well as in other Eurozone countries whose economy had lost momentum, important signs of an easing of the crisis are observed and cannot be ignored because of their credibility: we are still in it, but it is not rhetorical to say that "recovery is raising its voice".

Disappointed by a 2014 that was supposed to be the last devastating crisis delivering a marred economic and social territory, the country looks to the current year as the turning point: institutions and international bodies say so, the Government promises so and the analyses and estimates of the business community confirm so and for whom the extent of the significant changes in external conditions does not pass unnoticed. At least three things changed from the end of 2014 to the first part of 2015.

The euro weakened against other currencies but especially against the dollar, which has been falling since last spring and reached 1.05 at the beginning of the year, approaching parity like the beginning of the history of the single currency.

The oil price halved in less than six months, allowing a significant stimulus to growth to the greater competitiveness of businesses importing energy and to the boost given to consumption allowed by the increase in purchasing power.

Finally, the European Central Bank launched the long-awaited purchase programme of Government bonds of the Eurozone countries: a measure that should provide a strong impetus to the further decline in interest rates to the benefit of the recovery of investments and, as regards public debt, to the containment of its huge cost.

The effects of the events outlined above are exerting pressure on the national economy that could result in accordance with the most reliable estimates in about one percentage point: if the consolidation of an independent domestic growth were to engage on this result, widely expected in at least half a percentage point, the hope of a truly new 2015 would be confirmed.

The context is therefore improving, although it still remains complicated and tricky due to the abnormality of the public debt, the high unemployment rate, the weakness of the balances of the production system and the occurrence of unexpected geopolitical events; these last factors also affect considerably the development of the banking system and its prospects for stabilising against the trend of operating margins.

But even from this point of view, the economic situation is expected to be clearer at least for us and suggests how to behave: the crisis has taught us to be more careful and flexible when carrying out every day the effort of *not doing always the same things so that things can change*. The results rewarded our commitment because the 2014 financial statements that we are about to comment on end with satisfactory results; net profit almost doubled compared to the previous financial year, despite the crisis in margins, the deterioration of credit assets, the organisational and management difficulties determined by the substantial regulation of the banks.

And with reference to this last aspect, we cannot fail to mention, in this introduction, the reform measure of cooperative banks announced by the Government last January: a subject now set on the table of daily discussions that introduces many questions inside the

banking category. And not only to those to be transformed in companies limited by shares because with assets higher than Euro 8 billion.

The measure, at least at present, does not involve us owing to the current size of the Bank, still far from that parameter, but it cannot exempt us from an evaluation based on the authenticity of a written passage – but not too prophetically - at the beginning of our report last year: *“The path towards a new corporate season thus continued throughout 2013 without stopping or slowing down, supported by initiatives and programmes aimed at overcoming the obstacles to economic recovery and the risks that are typical and characteristic of the banking business. But also supported by a positive state of mind and awareness of being able to count on the wealth of a wider market served and on the consensus of the shareholders and the customers who assign Valsabbina the institutional and social responsibility of interpreting a Bank model with a truly co-operative vocation”*.

We will resume this subject later, after carrying out – as is customary - a short reference to the economic and financial environment, domestic or otherwise, within which the 2014 financial year was managed: the 117th year from the establishment of our “cooperative bank”.

## **1 THE INTERNATIONAL ECONOMIC AND FINANCIAL SCENARIO**

The high degree of openness of the Italian economy, the importance of the contribution made by export-oriented domestic companies to internal economic growth, the high presence of such companies on the same territory where our Bank operates, require us to pay always great attention to the trend of the international economic cycle, whose 2014 final data show - as usual - results differentiated by geographic area.

The European Central Bank offers an efficient summary on the development of the economies outside the Eurozone: during 2014, the global recovery was gradual but uneven, more moderate in the first half of the year, stronger in the second half, thanks to stronger fundamentals of major advanced economies.

The United States recorded a stronger than expected sustained growth. Positive factors such as the fall in oil product prices impacted on the economic trend, with a direct impact on income and consumption prospects of Americans, able to offset the negative elements mainly related - prospectively - to the appreciation of the dollar, as from December.

By contrast, there was a drop in the product in Japan especially due to a decline in investments, only partially offset by a modest recovery in consumption, so much as to suggest the government to adopt for 2015 incentives - albeit small - especially for small businesses, deferring to a more favourable period the increase in the already planned consumption tax.

The performance of emerging economies in 2014 also presents light and shade.

On the one hand, countries such as China and India are growing strongly, albeit the actual GDP of the first one could be below the declared annual growth target (7.5%).

On the other hand, the stagnation of the Brazilian economy continues, in the presence of a reduction in investments, and - most importantly - a significant worsening of the economic and financial situation in Russia is reported, subject to the embargo of Western countries, the sudden drop in oil prices, the scenarios of war in Ukraine, all factors that led to the significant collapse of the ruble.

The Bank of Italy provides the most effective summary on the performance of the economies within the Eurozone: there was a modest growth during 2014, albeit with different trends in the different countries participating in the single currency. All in all, the economic indicators confirm the positive trend of growth of production, with a further moderate expansion of the economy for 2015.

The prospects for growth of the Eurozone are encouraging also on a longer time horizon, thanks to signs of improvement recorded on the labour market, which could help reduce gradually the idle capacity and reabsorb unemployment.

In this context, the European Central Bank reports a decrease in the participation rate to the workforce - defined as portion of people employed or actively seeking for a job out of the total population of working age - (around 64% in 2014), despite an increase in the participation of older age groups (55-74 years old), compared with a declining youth participation (15-24).

The actions - in the pipeline also in our country - aimed at increasing flexibility in the labour market, including that for workers in retirement age, should hopefully encourage a gradual re-absorption of the mentioned gap, generational or otherwise.

## **2 THE PERFORMANCE OF THE MONETARY AND THE FINANCIAL MARKETS**

A large contribution to the economic growth of our country, and therefore of our Bank, is related - as will be illustrated in more detail in the next chapter on the development of the

economy of Brescia and Verona - to the development of export-oriented businesses, more ready to seize the opportunities of the global recovery.

Despite the benefits in the short term of the depreciation of the euro, the stability of the foreign exchange market represents - for our businesses operating on international markets - a cornerstone for the balance between production costs and selling prices, in the long run.

According to the European Central Bank, the general downward trend in the exchange rate of the single currency in 2014 is accompanied by trends differing in bilateral foreign exchange rates with major foreign currencies.

On the one hand, the Euro lost ground against the currencies of most major commercial partners of Anglo-Saxon countries. In 2014, a weakening of the single currency against the US dollar and the pound is reported, although to a lesser extent, reflecting the development of the expectations on the monetary policy of the ECB and the lower expectations on the economic prospects of the area. The quick depreciation of the Euro against the Swiss franc is reported since the beginning of 2015, following the announcement of the abandonment of the objective of a minimum exchange rate of 1.20 Swiss francs of the Swiss National Bank.

On the other hand, a strengthening of the euro against the Japanese yen was reported after the Bank of Japan announced - in October - a more expansive monetary policy. In the same period, the single currency strengthened against most of the currencies of the countries exporting raw materials and against some currencies of the emerging economies of Asia.

The benefits of the depreciation of the euro are not generalised but differentiated by each market area of our exporting companies.

The developments related to the financial markets and interest rates are not less important for our Bank.

Share prices increased in the last part of 2014 and at the beginning of 2015 in the Eurozone; in the presence of expectations - occurred later - of important measures of quantitative easing by the ECB, some restraining factors no longer existed.

With reference to the trend in interest rates, short-term interest rates of the money market recorded a further decline within a context of increased liquidity, reaching new historic lows for the time being.

The yields on government securities of advanced economies - leading securities for determining long-term interest rates - dropped also at the end of 2014 in the presence of a number of factors that are mainly affected by the decline in inflation expectations and the fears of a prolonged phase of stagnation of the economic activity resulting in the drop in growth potential.

In particular, the Bank of Italy reminds us that in 2014 the decline in long-term interest rates was common to all advanced economies and that the yields of ten-year government securities in the United States, the United Kingdom, Germany and Japan dropped to 2.0%, 1.6%, 0.5% and 0.3%, respectively.

The beginning of 2015 was characterised by a strong hope, represented by the decisive intervention adopted on 22 January by the Governing Council of the ECB aimed at a wide purchase programme of government securities and of institutions of the Eurozone. The characteristics of the intervention go beyond market expectations in terms of size, speed and absence of a time limit strictly established in advance.

The operations will continue until the occurrence of a complete economic trend reversal, until - to say with the words of the Governor Visco at the 21st ASSIOM FOREX congress - "there will not be a lasting change that returns inflation towards the goal of a value close to 2 per cent".

The risk of stagnation in the Eurozone seems to have been averted.

### 3 THE ITALIAN ECONOMIC SCENARIO

In the report to last year's financial statements, we expressed prudent notes of confidence on the prospects of performance of the production levels of wealth, after years of decline in gross domestic product. Actually, 2014 was another difficult year: it was not the year of recovery, but the third year of recession in a row, albeit more moderate than the previous year, since GDP decreased by 0.4%.

The number of businesses, especially crafts businesses, continued to decrease in our country from approximately 1,466 thousand of 2009 to approximately 1,372 thousand in December 2014, with a loss of approximately 94 thousand companies, a phenomenon that affected, albeit to varying degrees, all the Italian regions. In particular, the transport (-13.5%) and construction (-17.4%) sectors were affected, but all the activities related to the house segment, which represent more than 54% of the decrease in crafts businesses, recorded the greatest difficulties, related to the drastic decline in household consumption. However, a trend reversal in production, in the presence of a large idle capacity, is already in place as mentioned by the latest ISTAT figures on turnover and orders in industry.

If the turnover increased by 0.1% over the whole year 2014 compared to 2013, synthesis of a downturn in the domestic market (-1.2%) and of an increase in the foreign market (+2.9%), in December 2014 the turnover of the industry, net of the seasonal component, increased by 1.4% compared to November, recording increases both on the internal (+0.8%) and on the external market (+2.8%).

The first projections for the 2015-2016 two-year period, which will be dealt with in more detail below, are supported by the latest 2014 figures; the prospects for a gradual return to growth, estimated by the Bank of Italy in +0.4% in 2015 and a stronger GDP growth in 2016 (+1.2%), seem to be confirmed, although in a locally non-homogeneous framework.

If, on the one hand, all areas of the country have been affected by the weakening of the economic situation observed starting from summer 2014, on the other hand, there are more favourable prospects in some regions of the North East, especially as regards industrial turnover and exports.

An encouraging sign, differentiated by territorial areas, is represented by the interruption of the credit squeeze, although - with respect to the northern and central areas - southern businesses are more dependent on bank loans and face traditionally worse credit squeezes. This gap - mentions the Bank of Italy - reflects differences in the breakdown by segment and size of businesses, as well as different situations.

Another positive element, shown by the Annual report published on 13 February 2015 by Associazione delle Banche Popolari (Association of Cooperative Banks), is the one related to the new loans granted to the SMEs in 2014 of more than Euro 30 billion, corresponding to more than 50% of the new credit for businesses. Albeit within a widespread difficult economic context, all the Co-operative Banks continued to operate actively in support of areas, communities and the production system in which they are inserted, without denying the support to small and medium businesses in particular, that make up the historical unit of their customers.

On the other hand, the long years of crisis leave behind - as a significant problem for the Italian banking system - the impaired loans, increased on average by 20% per year since 2008 (they reached - in mid 2014 - 16.8% of the loans granted), whose solution is a central factor to restore the flow of money to the production system.

The strengthening of the supervisory policies on provisions and write-downs must be combined with, as shown in a recent study by the International Monetary Fund, new tools

to speed up the resolution and restructuring of non-performing loans: from the removal of tax impediments to the restructuring of loans, to legal reforms promoting court and out-of-court restructuring of the loan, to the development of the market of non-performing loans.

In the scenario outlined above, we are led to believe that the positive signals that occurred, albeit still slightly, in the production sector, will gradually confirm that the Italian economy - and before that the economy of our territory - is leaving the period of heavy recession that has characterised it in the past few years.

Consequently, it seems that the prospects of the banking system for 2015 are directed towards a gradual improvement that should concern both the lending activities and the profit margins, by reason of the favourable development expected from the international and national economy, of the low level of exchange rate of the euro and of the low price of energy raw materials. On the other hand, we cannot confirm that the horizon is completely clear, also for the persistence of tensions in Eastern Europe, of the conflicts in the Southern area of the Mediterranean and of the uncertainties that still surround the Greek issue.

#### **4 THE ECONOMY IN THE BRESCIA AND VERONA AREA**

After six long years during which we represented with resigned realism a picture of the provincial economy in which, year after year, it was difficult to see the prospect of a trend reversal of the economic cycle, today we would like to resume the matter interrupted in the report to the 2008 financial statements.

At that time, at the first signs of a crisis whose real dramatic extent was unknown, the fundamentals of the provincial economy were considered with optimism to exorcise the contaminating effects we were importing from the American continent.

Today, we would like to understand those signs that seem to indicate that a very long season - which from the beginning of 2008 to date reduced drastically by almost one third the industrial activity of the province of Brescia - is probably coming to an end.

If the dramatic crisis we have experienced has not significantly altered the profiles of the local economic system we made in that report "*characterised by the presence of industrial districts, especially in the textile, metallurgical and mechanical sector, and the particular type of a large number of SMEs - characterised by a high degree of entrepreneurship, a strong foreign trade and a recognised organisational and production flexibility*" we can and we must look at the future with a positive and rational attitude.

The Industrial Association of the province of Brescia expresses itself in the same way: its expectations for the coming months are "*moderately positive and favour a widespread recovery of the provincial manufacturing sector*". And this precisely because of those elements we illustrated in the introduction: the substantial weakness of commodity prices that will affect positively the business costs by freeing up resources for investments; the substantial liquidity that will be injected into the system, also as a result of the so-called quantitative easing recently launched by the ECB, which will create favourable conditions for the re-activation of the credit system for businesses and households; the depreciation of the euro against the main world currencies, which should favour a significant competitive impulse to exporting companies. The remaining uncertainties on the immediate future, if any, are to be found in an international framework where hotbeds of crisis survive - Greece and Ukraine, but also the countries where weapons speak - which could nip the expected trend reversal in the bud.

It is also true that short-term forecasts of the operators of the manufacturing and crafts sector, of trade and services are less optimistic, but it should be noted that the year-end indicators confirmed the moderately positive trend, already observed in the middle of the year, for crafts and a slight trend reversal in trade and services. Above all, it does seem irrelevant to consider that these segments, especially trade and services, should be the main beneficiaries of an epoch-making event such as the Expo: from May to October this year, Milan will become Italy's showcase of the world and Lombardy the large reception area welcoming millions of visitors. It is easy to foresee that significant flows of visitors can be attracted - thanks also to the new motorway link of BreBeMi - by the wide range of tourist offer of the province of Brescia, from Franciacorta to the Lake of Iseo and lake of Garda to the mountains, or the "camuno" rock engravings, and by the lure of a highly appealing city in terms of art such as Verona. It must also be kept in mind that the theme of the Expo "Feeding the Planet, Energy for Life", by placing food and technologies that can help win the challenge against hunger in the world at the heart of the event, offers quite a few opportunities for agriculture and agri-food industry of the territories where the Bank operates, in order to draw the attention of economic operators from all over the world. We are sure that the Expo is an opportunity that our economic operators, each in their specific domains of activity, will profitably seize to provide further respite to the signs of recovery that are imminent in 2015.

Turning now to analyse the economic situation of the economy of Brescia, as it is represented by the figures provided by offices of the local chamber of commerce and by the various trade associations, we certainly cannot report a prosperous economic moment characterised by clearness and liveliness, but neither the greyness that characterised the comments we used to develop.

The development of the provincial industry does not differ significantly from the wider national and regional scenario and shows in the last quarter of 2014 a basically flat production trend of manufacturing companies, compared to a decline recorded in the previous period.

Despite the fluctuating trends, the industrial production index closed 2014 with a good average increase of 2.1%, higher than the regional one that was 1.5%, thanks to the significant contribution of exports that marked a growth of 3.61%. The overall share of exports to turnover, albeit it decreased at the end of the year, stood at 39.10%, since it was affected by the indirect consequences of the embargo by Russia as a result of the sanctions decided by EU and USA due to the role of Moscow in the affairs of Ukraine. The producers of the agricultural and food sector were those who suffered first and subsequently those of footwear and clothing.

But the entire provincial economy was significantly affected: the equivalent value of the loss of export flows is approximately Euro 100 million for the agribusiness and Euro 20 million for the fashion industry. The transport, rubber and plastics sectors underwent less pronounced but still significant setbacks, whereas the textile, chemical, iron and steel and mechanical industry recorded high-performance figures of 23.14%, 5.32%, 3.04% and 2.09%, respectively. The production of large and medium-sized enterprises is up by + 0.19% and + 1.27%, respectively, whereas the production of small enterprises decreased by 0.12%.

In a context of figures such as that outlined, the employment situation in the manufacturing sector is still negative, with a 1% decrease in the number of employees during 2014, which is accompanied by an increase in the use of the ordinary income support fund that in the fourth quarter impacted the quarterly total number of hours worked by 2.47%, compared to 1.58% of the previous quarter and with an increase in user



companies of more than 17% up to 20%. The utilisation rate of the plants stood at 70.48%, slightly up compared to 69.60% of the previous third quarter.

The provincial manufacturing crafts, in line with the regional trend recovering slowly but gradually over the past five quarters, scored an increase in production in the last three months of 2014 of 2.25%, compared to the same quarter of 2013, thanks to the good performance of the iron and steel industry (+ 11.64% yoy), clothing (+ 5.36%), plastic rubber (+ 4.70%), textiles (+ 4.33%) and mechanics (+ 3.46%). Medium and large businesses that ended 2014 with a growth yoy of 3.38% and 5.18%, respectively, compared to a decline of 3.06% of small businesses, contributed to this result. The utilisation rate of the plants marks a slight increase, reaching 68.19%.

As for the manufacturing industry, the crafts sector is affected in the last quarter of the year by a decrease in foreign orders of 4.90% on the previous quarter as a result of the aforementioned embargo measures. The employment rate is substantially stable, whereas the number of businesses that used the ordinary income support fund for more than 1% of the quarterly total number of hours worked increased to 9.52%

The business sector, just at the end of the year, mitigated the negative trend with a lower business turnover compared to the previous quarter. The figure of the province of Brescia goes against the regional trend that reports a slight increase of 0.07%. In particular, medium and small businesses and non-specialised trade also suffer in terms of employment levels, whereas large businesses reported an increase in turnover of nearly 4% year on year.

The companies of Brescia operating in the service sector - which includes in the chamber of commerce report the branch of constructions, wholesale trade, hotels and restaurants, transport and postal activities, information technology and telecommunications - closed 2014 with a turnover up by 0.6% year on year, in line with the regional trend, albeit slightly decreasing compared to the trend of the previous period. The contribution of both small and large enterprises is positive, expressing increases year on year of 4.63% and 7.97%, respectively; whereas medium enterprises (-3.53%) and micro-businesses (-2.34%) report decreases in turnover compared to the same period last year. However, it should be pointed out that the sector of services is characterised by a good performance of employment, increased by 0.41% during the period. The positive trends mainly concern transport and postal activities (+7.36%), services to persons (+5.79%) and advanced services (+3.34%), whereas the companies working in the field of information technology, telecommunications and constructions slightly decreased.

Now we dedicate a few words to the territory on which the bank has been operating over the last few years as a result of the acquisition of Credito Veronese; a transaction that - on the basis of the positive effects so far produced and measured in terms of brokered volumes and quality of operational relationships - is definitely likely to generate interesting opportunities.

After a lively start of the production system - with the figures of the first half of 2014 that had made it possible to record in the Unioncamere Report the judgment of a restart of the "Veneto driving force", ahead of the rest of the country - in the second half of the year, the industrial product gradually decreased: the final balance of 2014 summarises a modest growth, equal to + 0.2%, albeit against a 1.5% decrease recorded in 2013.

The positive sign is due to the significant contribution of exports that in the first nine months of 2014 increased by 2.5%, likely to increase up to 3.7% year on year, despite the effects of the aforementioned Russian embargo. According to the 2015 forecasts, the regional GDP is supposed to increase by 0.7% and the unemployment rate could decrease and stand at 7.3%.

One of the most encouraging factors of a possible economic recovery is the positive trend in orders from domestic and foreign demand, to which a 0.9% increase in household spending was also added.

These figures are specifically formulated within the economy of Verona, all in all in line with the regional trend. On the one hand, the increase in the consumption of durable goods recorded in the province of Verona a significant increase of +3.8%: with significant results in the car market, both new and second-hand cars, and in durable goods for the home, in particular in the sector of big and small household appliances and of consumer electronics. The trend benefits from the positive performance in the province of Verona of disposable income of households that, according to the figures of the Findomestic Observatory, increased by 0.6% compared to 2013, with an average value of Euro 20,198, in line with the regional one, which stood in absolute terms at Euro 19,945, and significantly higher than the domestic one of Euro 17,876.

In terms of foreign demand, the lively trend of the first nine months, which recorded exports of goods and services of Euro 7 billion - up by 1.2% compared to the same period of 2013 - underwent a partial downsizing in the last part of the year due to the already mentioned Russian embargo on agribusiness products. In fact, a decline was expected in productions for the export market of Euro 50-60 million in October, mainly in the sectors of fruit and vegetables and dairy products, while the risk of permanently losing the Russian market due to the entry of new non-European competitors, ready to take on unexpected market opportunities, was imminent.

Allusive signs of reversal of the recessionary trend and a recovery in production levels can be read in the balance between records and cancellations in the register of companies of the Province of Verona, positive for 150 units in 2014 and negative for 755 units in 2013: as a result of such opposing trends, the number of companies and premises of businesses located on the territory of Verona amounts to 115 thousand.

Other elements that confirm an improvement in the economic situation of the province of Verona are the return of the unemployment rate to pre-crisis levels: a rate that ranks just below 6%, whereas the national figure still exceeds 13%, in the presence of a parallel 24% reduction of the use of the redundancy fund in the first ten months of 2014.

The figures on the flow of tourists are very positive recording an 8% increase in tourists present - compared to a national figure of not more than 3.7% - thanks to the actual boom of visitors invading Verona during New Year festivities: auspicious prologue of what might the coming event of the Expo - which opens on 1 May - have in store.

The summarised elements mentioned are those on which the confidence of the entrepreneurs is based, focused on the prospects of a normalisation of the economic cycle and on the consolidation of the presence on the foreign markets: elements that are echoed by the president of the Chamber of Commerce of Verona, Giuseppe Riello, when he considers that the conditions for “venturing that maybe the driving force behind the recovery is starting” have been created. With moderation and much sense of proportion, we believe we can share - from our small but sensitive observatory - the same confidence, full of positive sensibility.

## **5 OUTLOOK FOR THE ECONOMIC AND FINANCIAL SCENARIO**

In a picture so full of changes as the one described above, it could be unrealistic to make assumptions on the expected outlines of the international economic and financial development: nevertheless the economy is accomplished through daily decisions that do not certainly disregard forecasts, at least in terms of trends. In this sense, we cannot get

out of outlining a summary of the evaluations reported by the international organisations and by the most accredited research centres.

The prospects of the world economy, according to the latest forecasts of the International Monetary Fund, indicate a growth scenario that should reach, in the 2015-2016 two-year period, 3.5% and 3.7% respectively.

The reduction in the price of oil, which is mostly justified by an increase in the offer, will provide a major boost to the growth of the world economy. However, this positive circumstance is countered by a prospect of gradual decrease in investments in the presence of increasing concern, both in emerging countries and in developing countries, on the strength of the economic growth in the medium term.

The US economy is the only one - among the big economies - for which growth projections have been revised upwards. In emerging countries, or in countries exporting crude oil, the reduction in oil prices is an element of uncertainty that feeds the volatility of international financial markets and leads to higher vulnerability of the balance of payments and internal budgets.

The macroeconomic framework outlined by the European Central Bank for 2015 is in line with the forecasts of the International Monetary Fund. The recent decline in oil prices supports the global economic recovery, which so far remains gradual and with different trends. Although growth remains high in the United States, it has not strengthened in Japan, it is losing force in China and is very alarming in Russia.

With regard to the Eurozone, growth is more modest than previously estimated, mainly due to the weakness of investments and in the presence of a gradual decline in inflation. The favourable outlook is represented by a more accommodating monetary policy, more neutral budgetary policies and by the depreciation of the Euro. These positive factors are countered by the risks of a decline in investments, in part due to the prospects of lower growth in emerging countries, with a direct impact on the sectors most targeted for export. The annual growth of the Eurozone is estimated by the IMF in 1.2% for 2015 and in 1.4% for 2016.

For the economies of the Eurozone, the ECB expected, in the short term, a moderate expansion that could benefit from a significant support from the recent fall in oil prices. Inflation prospects are very low or even negative in the first months of 2015, and then gradually grow in 2015 and in 2016 as a result of monetary policy measures taken by the European Central Bank, most recently during the meeting of 22 January 2015: measures for purchasing on the secondary market bonds issued by central governments of Eurozone countries, by agencies in the Eurozone or by Community institutions. The stated objective of the European regulator is to return inflation to a level lower than, but close to, 2% in the medium term.

The Bank of Italy, in the sharing of the basic scenario just outlined, points out the risks of volatility in the financial markets of the single currency also after the elections in Greece and the impact of the first changes in the economic policies and in the management of the public debt of the country: these factors arise concerns about the cohesiveness of the area. Within this scenario, the ECB indicates that the European banks continued in 2014 to ease the criteria for granting loans to businesses and households, thanks to the improvement of the fund raising costs and budgetary conditions, as well as to the increase in competitive pressures. It also envisages that the impact of longer-term refinancing recently adopted becomes mostly a reduction in net interest income on loans.

Otherwise, the Bank of Italy points out that, in our country, the decline in loans to businesses continued in 2014, with a slight moderation compared to previous months, reflecting, on the demand side, the weakness of investments and, on the supply side, the

persistent riskiness of fund borrowers, especially smaller businesses. The decrease in interest rates on loans to businesses and households is being confirmed as an element of undoubted significance.

In Italy, a trend reversal in production, in the presence of a large idle capacity, could occur - according to a reliable source - in the first part of 2015, also in view of a slow recovery in household consumption, in place since summer 2013. The balance of trade, despite fluctuations in worldwide demand, remains the main driving force of the gross domestic product trend.

In this context, the projections of the Bank of Italy for the next two years indicate a gradual return to growth, estimated at +0.4% in 2015 and to a stronger extent (+1.2%) in 2016. In addition to the events mentioned several times, the measures laid down in the Stability Law - which reduces the tax wedge - also act in this direction.

The forecasts on the development of the economic and financial scenario for the Italian economy indicate, in summary, a trend reversal also for Italy, still in recession at the end of 2014, albeit with a greater time gap and with a more limited recovery compared to the other European Union partners. The sectors most open to international competition and export-oriented may benefit from a more favourable global macroeconomic environment - although it may be a reduced time frame due to the presence of signs of slowdown of investments in certain emerging markets - and from the further deterioration of the economic conditions in typical outlet countries of our export.

However, the context in which the Italian banks currently operate is complicated due to the structural and economic factors that can be summarised below:

- the difficulties in terms of deposits, in particular in the institutional markets, which continue to perceive a higher “country risk”;
- increased competition on retail deposits;
- decreasing loans at the system level, for the uncertain economic trend and the liquidity and asset constraints of the banks;
- the increase in minimum capital requirements, with capital deficits to be covered in the context of volatile financial markets;
- the still high presence of impaired loans, due to the economic crisis on the real economy;
- decreasing spreads, with the consequent direct impact on profitability profiles.

## **6 SHAREHOLDING STRUCTURE AND SHARE TRENDS**

The paragraph normally dedicated to the shareholding structure would not make sense if no reference is made to the historical and regulatory specificness that pertain only to a particular category of banks: the co-operative banks, in which the figure of the shareholder is central and dominant, as it is in our company, because the shareholder is a small business owner.

We dedicated entire pages to the figure of the shareholder to emphasise that he is the true protagonist of the thought and co-operative movement.

Precisely at a time when the debate on the reform of the co-operative banks is pressing, it seems nice to take up an extract of these pages that sums up our position within the debate with simple words.

“The consensus granted over time to co-operative banks in the context of a diversified national banking system has always been wide, but it has continued to grow further in

these latter years of deep economic crisis, so much so that a quarter of the entire Italian lending market is brokered precisely by banks in our category. And the reasons for this success are easy to recognise. Co-operative banks, mainly addressing the shareholder - customer and the area in which they spring up, give priority importance to the person rather than to the capital, supporting the development of the individuals and the communities and in this manner activating a virtuous circle which develops the social relationships with equal attention and intensity with respect to the economic and commercial ones.

Demonstration of the efficacy of the model is confirmed, in the specific case of the Bank, by the constant growth of the market shares, the volumes brokered, the number of customers and shareholders who, in an extraordinarily complex period full of difficulties, have confidently relied on the bank, asking to be able to share their projects, be supported with regard to their needs, to be able to entrust their savings relying on professional competence.”

Our shareholders - who increased in number from 36,574 at the end of 2012 to 38,194 at the end of 2013 and to 39,532 of 31 December 2014 - think alike.

More than 1,300 people were added to an audience, largely composed by the customers of the Bank, which characterised Valsabbina as one of the most popular among co-operative banks.

During 2014, around 1 million shares of our Bank were traded in the trading system managed by Istituto Centrale delle Banche Popolari Italiane at the price of Euro 18 per share.

During the year, the Bank purchased 96,440 shares at the average price of Euro 18 for a total of Euro 1,729 thousand under the authorisation of the shareholders' meeting and that of the Bank of Italy, pursuant to the CRR regulation, with prot. no.1069920 of 30 October 2014. Therefore, own shares in the portfolio increased from 313,747 for an equivalent value of Euro 5,664 thousand as at 31 December 2013 to 410,187 of Euro 7,393 thousand as at 31 December 2014.

## **7 EQUITY AND CAPITAL RATIOS**

During 2013, the Community institutions approved directive 2013/36/EU, known as “CRD IV”, and the EU Regulation no. 575, known as “CRR”, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (known as Basel III Framework).

The new provisions are in force from 1 January 2014.

The regulatory provisions mentioned above have been implemented at national level, through the following circulars:

- Bank of Italy circular No. 285: Supervisory Provisions for banks;
- Bank of Italy circular No. 286: Instructions for the completion of prudential disclosures for Banks and Financial Brokerage Companies;
- Update to Bank of Italy circular No. 154: Supervisory reports of Banks and Financial Institutions. Reporting statements and instructions for the submission of information flows.

The new regulatory framework envisages that Own Funds (or Regulatory capital) are made up of the following capital levels:

- Tier 1 Capital, in turn divided into:
  - Common Equity Tier 1 capital (CET1);
  - Additional Tier 1 capital (AT1);

- Tier 2 capital (T2).

Tier 1 capital mainly consists of Common Equity: ordinary shares net of the authorised purchase of own shares, capital reserves, income-related reserves, valuation reserves, deducted elements such as goodwill, intangible assets, residual intangible assets, deferred tax assets (DTA) related to future profitability.

In order for the issued capital instruments to be included in Common Equity, they must ensure the absorption of losses “on a going concern” by complying with the following characteristics:

- highest level of subordination;
- possibility of interrupting the recognition of dividends/coupons at the complete discretion of the issuing body and in a non-cumulative manner;
- irredeemability;
- absence of redemption incentives

With the application of the new rules, the regulatory capital amounted as at 31 December 2014, without the allocation of profit, to Euro 369,393 thousand and consists for Euro 368,665 thousand of Common equity tier 1 capital (CET 1) and for Euro 728 thousand of Tier 2 Capital.

The regulatory capital as at 31 December 2013 amounted to Euro 397,626 thousand, including tier 1 capital of Euro 371,647 thousand with a tier 2 capital of Euro 25,979 thousand, including subordinated loans issued.

In own funds as at 31 December 2014, the subordinated bonds were excluded (exclusion that concerned other Italian banks supervised by the ECB) based on an interpretation provided by EBA in reply to a question made by an intermediary with reference to a subordinated loan with amortisation clauses similar to our issues.

With risk assets of Euro 2,504,844 thousand, the total capital ratio amounted to 14.75%.

With the allocation of the profit for the 2014 year of Euro 6,788 thousand to reserves, the total regulatory capital would amount to Euro 376,181 thousand and the total capital ratio to 15.02%.

When calculating the regulatory capital, as already occurred in the past, the bank exercised the option currently allowed by the CRR Regulation, which permits - for the sole purposes of calculating said regulatory capital and limited to the securities issued by Countries of the European Union - the neutralisation of capital gains and losses relating to securities falling within the portfolio of available-for-sale financial assets (“AFS”).

For greater disclosure details regarding the development of the aggregates that make up the regulatory capital, please see section F of the explanatory notes.

The main capitalisation ratios present the following trend:

	<b>31/12/2014</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
shareholders' equity / customer deposits	12.13%	11.98%	12.20%
shareholders' equity/loans and	13.34%	12.80%	12.38%
shareholders' equity/total assets	8.98%	9.00%	9.23%
impaired loans/regulatory capital	103.80%	* 108.29%	90.37%
net non-performing loans/regulatory	43.89%	*45.02%	36.31%
regulatory capital/risk-weighted asset	14.75%	14.58%	14.10%
Tier 1 capital ratio	14.72%	13.63%	13.08%

\*Net of subordinated loans calculated in 2013.

The amount of equity and the large surplus of the capital ratios with respect to the minimum required, together with forecasts of an increase in risk weighted assets lower than in the recent past, because of the lower demand for credit caused by the persistence of the economic crisis - makes it possible to plan a harmonious growth in the size of the business operations, leaving the share capital unchanged.

## 8 DEPOSITS

During 2014, no particular tensions materialised on the market of deposits, in relation to low interest rates, generous funding policies carried out by the ECB, the liquidity profile kept by the Bank and the overall stagnant situation of the market of bank loans.

In this situation, the Bank kept the deposits in the form of medium-term bonds but, at the same time, used other instruments to reduce their cost, such as limiting the issues of time deposits and developing instead indirect deposits, especially in funds and insurance products also for a favourable commission return.

The improved liquidity position allowed to ask the consent of the Bank of Italy to the early redemption of State-guaranteed bonds. At the end of July, the Minister of Economy released the guarantee of the State granted in February 2012, to which the Bank resorted to during the moments of greatest tension at the end of 2011 and in the first few months of 2012, taking part in the LTRO programme implemented by the European Central Bank.

Moreover, only in the second half of the year, additional partial repayments of the loans of the LTRO programme of Euro 400 million existing at the beginning of the year were made for a total of Euro 250 million, reduced at year-end to Euro 150 million.

In September, the Bank joined the new loan programme of the ECB called TLTRO, by obtaining a four-year loan of Euro 170 million.

Total direct deposits thus rose in the financial year, on a like-for-like basis, by 2.2%, reaching a total of Euro 3,255 million; this remarkable result - made possible thanks to the considerable efforts made by the area network - is even more significant considering that in 2014, the already stiff competition among intermediaries was completed by the powerful supply capacity of the Government that, despite having decreased the gross returns, kept the net returns significant: the increase in the withholding tax on interest on current accounts, bank deposits and other bank deposits from 20% to 26%, did not concern Government securities, whose withholding tax was confirmed at 12.5%.

With regard to the development of the aggregates referring to the individual technical forms of deposits, the positive increase in current accounts must be pointed out with a balance of Euro 1,687 million, (+10.1%), which bears further witness to the favour granted by the customers vis-à-vis the Bank, and the appreciable performance of the bonds at Euro 1,195 million (-2.8%), thanks to the attention paid during the year to the new fixed-rate issues, so as to take into account both the need to safeguard suitable balances in the interest rate structure and the need to achieve a lengthening of the maturities. The result is even more appreciable since during the year bonds issued for a total of Euro 329 million matured.

Subordinated bonds for a total of Euro 60 million were issued.

As at 31 December 2014, the breakdown of deposits was as follows:

Customer deposits (Euro 000)	31/12/2014	31/12/2013	% change	
			Absolute	%
Savings deposits	39,473	44,446	(4,973)	(11.19%)

Current accounts	1,686,749	1,531,697	155,052	10.12%
Bonds	1,194,540	1,228,746	(34,206)	(2.78%)
<i>of which: Subordinated bonds</i>	86,242	25,003	61,239	N/A
Certificates of deposit	26,507	8,709	17,798	N/A
Time deposits	246,492	370,285	(123,793)	(33.43%)
Other deposits	978	691	287	41.53%
Deposits from international	60,003	-	60,003	N/A
<b>Total direct deposits</b>	<b>3,254,742</b>	<b>3,184,574</b>	<b>70,168</b>	<b>2.20%</b>

The change in bonds during the year, at nominal value, discloses issues of Euro 327 million and redemptions of Euro 329 million. The balance of Euro 1,214 million differs from the previous table, which states the bonds at amortised cost, because net of the bonds repurchased and gross of the interest accrual maturing.

#### Change in bond issues at nominal value (Euro 000)

		2014		2013
<b>Outstanding bonds as at 1/1</b>		<b>1,216,338</b>		<b>1,289,897</b>
Bonds issued:		326,699		448,083
of which: fixed rate	326,699		428,114	
mixed rate	-		19,969	
Matured bonds		(328,724)		(521,642)
of which: fixed rate	(222,678)		(343,494)	
floating rate	(32,831)		(147,700)	
step up	(73,215)		(11,924)	
mixed rate - zero coupon	-		(18,524)	
<b>Outstanding bonds as at 31/12</b>		<b>1,214,313</b>		<b>1,216,338</b>

As already said, indirect deposits disclosed a positive trend. At the end of 2014, they amounted to Euro 1,279 million compared with Euro 1,162 million as at 31 December 2013 (+ Euro 117 million or 10%). The increase is partly attributable to the improvement in the stock-market price of the shares, but above all else it is the result of a careful business policy aimed at asset management in mutual funds and insurance asset management. The two segments achieved 35.7% of the total of indirect deposits, compared with 29% last year, leading to an increase in mutual funds of 49.3% and insurance asset management of 21.1%.

Indirect deposits from customers (Euro 000)	31/12/2014	31/12/2013	% change	
			Absolute	%
Bot (T-bills) Government securities	358,449	362,770	(4,321)	(1.19%)
Italian and foreign shares	283,317	262,173	21,144	8.06%
Corporate and foreign bonds	181,023	199,999	(18,976)	(9.49%)
Mutual funds	252,148	168,913	83,235	49.28%
Zurich insurance policies - Arca life policy	204,150	168,634	35,516	21.06%
<b>Total</b>	<b>1,279,087</b>	<b>1,162,489</b>	<b>116,598</b>	<b>10.03%</b>

Total deposits therefore rose at the end of 2014 to Euro 4,533.8 million, with an annual 4.3% increase.



## 9 LOANS

With regard to loans, our Bank was also affected by the negative developments that characterised for years the trend of the aggregate at system level.

According to the ABI, in December 2014, total loans to households and businesses represented a balance of Euro 1,820.6 billion, decreasing by 1.75% over the previous year. For our Bank, loans to customers at the end of December 2014 amounted to Euro 2.96 billion, decreasing by 0.72%. Net of treasury transactions, they decreased by 1.3% with regard to households and by 2.2% with regard to businesses.

Although the demand for credit remained weak, the figures show, irrespective of any emphatic representation, that - especially in times of recognised "credit crunch" - Banca Valsabbina has been able to maintain its commitment to support the production system: it paid attention to the needs of the companies in one of the areas of greatest entrepreneurial vocation in the country - and therefore with more intense demand for credit and lending services.

This was done by the Bank with promptness and versatility, activating its own or system instruments so as to permit customers in temporary difficulty, but worthy of trust, to deal with the negative effects of the serious economic crisis. In this context, having verified the compliance with the requirements established by the regulatory practices, the Bank has accepted further applications from businesses in difficulty as part of the moratorium of the debts of small and medium-sized companies furthered by ABI, the Ministry of the Economy and Finance and the trade and consumer associations. Again with a view to providing support and assistance in company situations of greatest criticality, the Bank has subsequently facilitated - for the part falling within its remit - access to regulated procedures that allow them to overcome the state of crisis: unconditional arrangement with creditors (Article 161 of Italian Bankruptcy Law), debt restructuring agreements as per Article 182 bis of Italian Bankruptcy Law and arrangement with creditors on a going concern basis (Article 186 bis of Italian Bankruptcy Law) as well as the recovery plans (Article 67 of Italian Bankruptcy Law.).

The change in the composition of loans by technical form in 2014 is presented as follows:

Loans to customers (Euro 000)	31/12/2014	31/12/2013	% change	
			Absolute	%
Current accounts	544,851	610,895	(66,044)	(10.81%)
Mortgages	1,641,173	1,675,305	(34,132)	(2.04%)
Personal loans	2,893	3,643	(750)	(20.59%)
Other loans	388,224	288,800	99,424	34.43%
Impaired loans	383,437	403,527	(20,090)	(4.98%)
<b>Total loans to customers</b>	<b>2,960,578</b>	<b>2,982,170</b>	<b>(21,592)</b>	<b>(0.72%)</b>

The analysis of the trends of the technical forms shows a decrease mainly in the item current accounts consisting of "overdraft facilities" and "advances subject to due reserve", unfortunately, a typical sign of decline in turnover that can be paid in advance by the production world.

During 2014, the effective initiative continued in the specific sector of microcredit addressing business in the Brescia and Verona areas who are not customers, who in fact bear the features of micro-businesses, with turnover no higher than Euro 2 million and a maximum of nine employees. By means of this initiative, 467 procedures were finalised for a total of Euro 22.7 million, for unit amounts ranging between Euro 20 thousand and Euro

100 thousand, backed by government guarantees up to 80% of the amount via Mediocredito Centrale.

Loans granted with state guarantee by means of the above-mentioned intermediary reached at the end of the year the number of 772 for a total amount of Euro 119.9 million, increasing by 49% compared to 2013 (Euro 80.5 million).

Moreover, the credit support provided to households as mortgages for the purchase of the first home continued at significant levels and reached during the year the number of 375 for a total of Euro 45 million.

MEDIUM/LONG-TERM DISBURSEMENTS	2014		2013	
	Trans. No.	Amount	Trans. No.	Amount
<b>A) Directly using funds of the Bank</b>				
Loans with Mediocredito Centrale backing made available by Italian Law No. 662/1996	772	119,942	618	80,475
Artisan loans backed by surety of the Credit Guarantee Consortiums making reference to the various Trade Associations	145	8,112	198	10,337
Ordinary mortgage, building and land loans	630	132,353	795	184,524
Loans and mortgages to Shareholders of the Bank	742	10,415	754	11,071
Mortgage-secured current accounts	4	6,740	8	8,710
<b>B) Indirectly as intermediary of specialised Institutes</b>				
Lease transactions	186	18,946	134	12,307

The breakdown of customers granted credit by category of credit facility confirms the strategy adopted by the Bank of pursuing a suitable fractioning of the loan portfolio and preferring credit to households and small-to-medium-sized companies which represent the reference customers in the area of choice.

Number of customers granted credit facilities broken down by credit facility category						
	2014	% of total credit	2013	% of total credit	2012	% of total credit
Up to Euro 40,000	14,025	4.1	13,939	4.0	13,591	3.7
From Euro 40,001 to Euro	6,070	12.9	5,743	11.8	5,532	10.8
From Euro 125,001 to Euro	2,887	13.6	2,950	13.6	3,004	13.0
From Euro 250,001 to Euro	1,237	11.8	1,310	12.2	1,482	13.0
From Euro 500,001 to Euro	714	13.6	722	13.2	791	13.8
From Euro 1,000,001 to Euro	528	27.5	559	27.9	613	28.7
Over Euro 5,000,001	64	16.5	67	17.3	72	17.0
<b>Total</b>	<b>25,525</b>	<b>100.0</b>	<b>25,290</b>	<b>100.0</b>	<b>25,085</b>	<b>100.0</b>

The numbers shown in the table are the result of the lending policy pursued and implemented during the year, aimed at the expansion of the customer base and the reduction of the risk concentration: the credit facilities granted to customers with facilities below the threshold of Euro 500 thousand grew during the financial year from 41.6% to 42.4% and those with credit facilities above Euro 1 million decreased from 45.2% to 43.9%.

Also the breakdown of the loan portfolio by business activities shows itself to be balanced, taking into account the average system figures referring to the areas in which the Bank is

present and the trend of the various sectors of the economy of Brescia and Verona upon which we dwelt in the specific section of this report.

	Sectors of business activities	2014	2013	2012	2011	2010
1	Private concerns	22.45	23.30	22.64	22.29	20.74
2	Other services	16.76	18.07	17.91	19.41	19.19
3	Wholesale trade	9.37	9.11	8.90	8.67	9.11
4	Other mechanical engineering businesses	8.63	10.25	10.73	11.26	11.15
5	Construction and public works	8.05	8.72	9.16	9.79	9.51
6	Financial companies	6.58	2.56	2.23	0.44	1.64
7	Retail trade and public services	4.78	4.99	4.92	4.81	4.71
8	Agriculture, forestry and fishing	2.53	2.57	2.57	2.38	2.16
9	Agricultural and industrial machinery	2.49	2.17	2.05	2.30	2.43
10	Iron and steel industries	2.36	1.44	1.30	1.53	2.29
11	Foodstuffs and beverages	2.26	2.42	2.62	2.19	2.29
12	Wood, furniture and other industrial products	1.80	1.83	1.91	2.06	2.24
13	Textile products and clothing	1.75	1.88	2.08	2.10	2.02
14	Electricity, energy and chemical products	1.59	1.40	1.60	1.33	0.92
15	Construction materials	1.49	1.73	1.57	1.69	1.41
16	Transport services	1.34	1.51	1.52	1.33	1.30
17	Electrical supplies and materials	1.16	1.13	1.18	1.02	1.16
18	Rubber and plastic products	1.13	1.39	1.45	1.55	1.80
19	Public administration authorities	0.70	0.75	0.75	0.92	0.51
20	Vehicle repairs and sundry articles	0.70	0.72	0.68	0.68	0.79
21	Paper and publishing	0.68	0.55	0.63	0.52	0.65
22	Glass and ceramic industries	0.62	0.60	0.60	0.69	0.67
23	Means of transport	0.36	0.44	0.49	0.62	0.63
24	Non-ferrous metal industries	0.26	0.32	0.34	0.25	0.48
25	Fine and precision engineering	0.16	0.15	0.17	0.17	0.20
		100.00	100.00	100.00	100.00	100.00

Continuing the work of the last financial years, the policies for selecting and handling the credit facilities were appropriately reviewed and streamlined so as to deal with the general decline in the quality of the portfolio, caused by the considerable deterioration of the economic operating context, especially in those sectors where the local economy is more inclined and the bank consequently committed; in this sense, additional procedural and organisational stratagems have been adopted suitable for intensifying the efficacy of the monitoring and the accuracy of the control measures on the facilities granted, which are of particular importance for limiting the rise in doubtful loans as far as possible. Nevertheless, the persistence of the economic crisis has led to the further weakening of the traditional solidity of the fabric of small and medium businesses also in our area - in particular in the construction sector and related supply-side industries, the engineering and transformer machinery sectors - with inevitable repercussions on the risk profiles of the bank assets.

However, the flow of new impaired loans slowed down compared to the previous years, and in particular compared to the last three years, so that - also due to the strict policy of provisions that will be discussed later - the total amount of impaired loans decreased from Euro 403.5 million to Euro 383.4 million (-5%): a circumstance that seems of good omen for the times to come.

The overall incidence of net impaired loans out of total net loans decreased from 13.53% to 12.95%.

The net amount of non-performing loans was Euro 162.1 million (5.48% of net loans and receivables) compared to 5.62% in 2013.

Substandard and restructured loans increased from Euro 179.1 million to Euro 193.4 million, corresponding to 6.53% of net loans and receivables, whereas past-due loans amounted to Euro 27.9 million, equivalent to 0.94% of net loans and receivables.

With regard to coverage, during the financial year, the Board of Directors revised the entire internal regulation, introducing more stringent criteria when examining the irregularly performing loans, evaluating the guarantees, in determining the recoverable amount and timing of periodic revision of the defaulting counterparties, for a greater protection and monitoring of the quality of loans.

The measure of impairment losses, net of reversals of impairment losses, of Euro 71,346 thousand (in addition to adjustments to guarantees given of Euro 1,852 thousand) is considerable and, despite the slowdown observed in the stock of non-performing loans, well above the one already considerable made over the last few financial years, by virtue of the prudential nature of the internal policies of credit management and of the most restrictive, analytical and uniform criteria contained in the policy.

As a result, the percentage of coverage of non-performing loans increased from 34.9% to 44.6% and reached 52.3% including the extinguished loans and receivables still held by the Bank as at 31 December 2014 and default interests.

In turn, the percentage of coverage of substandard and restructured loans increased from 9.8% to 16.12% and that of past due loans from 3.7% to 6.14%.

In general terms, the percentage of coverage of impaired loans increased from 21.6% to 30.7% and reached 36.1% including, as said, the extinguished loans and receivables and the default interests on non-performing loans.

The coverage reflects the presence, for the majority of these loans, of suitable collaterals valued in relation to the consistency and quality of the underlying assets and the related estimated recoverable amount. Net non-performing loans, backed by collateral or by government guarantee via Mediocredito Centrale, represent 70% of the aggregate.

The following table shows the amount of impaired loans, with breakdown of the figures by each category envisaged by supervisory regulations, and the related percentage out of total net loans, compared with 2013.

<b>31/12/2014</b>					
<b>Type of exposure/values (amounts in Euro 000)</b>	<b>Gross exposure</b>	<b>Individual impairment</b>	<b>Collective impairment</b>	<b>Net exposure</b>	<b>% of total Net exposure</b>
a) Non-performing loans	292,825	130,703	-	162,122	5.48%
b) Substandard loans	211,120	35,474	-	175,646	5.93%
c) Restructured loans	19,404	1,680	-	17,724	0.60%
d) Past-due loans	29,773	1,829	-	27,944	0.94%
<b>Total impaired loans</b>	<b>553.122</b>	<b>169.686</b>	<b>-</b>	<b>383.436</b>	<b>12.95%</b>
e) Performing loans	2,595,104	-	17,962	2,577,142	87.05%
<b>Total</b>	<b>3,148,226</b>	<b>169.686</b>	<b>17,962</b>	<b>2,960,578</b>	<b>100.00%</b>

31/12/2013					
Type of exposure/values (amounts in Euro 000)	Gross amount	Individual impairment	Collective impairment	Net exposure	% of total Net exposure
a) Non-performing loans	257,599	89,834	-	167,765	5.62%
b) Substandard loans	179,518	17,252	-	162,266	5.44%
c) Restructured loans	19,070	2,201	-	16,869	0.57%
d) Past-due loans	58,802	2,175	-	56,627	1.90%
Total impaired loans	514,989	111,462	-	403,527	13.53%
e) Performing loans	2,594,561	-	15,918	2,578,643	86.47%
<b>Total</b>	<b>3,109,550</b>	<b>111,462</b>	<b>15,918</b>	<b>2,982,170</b>	<b>100.00%</b>

Performing loans were also submitted to more stringent measurement bases for determining the collective impairment. Collective impairment of performing loans increased from Euro 15,918 thousand to Euro 17,962 thousand, with an increased percentage of coverage from 0.61% to 0.69%.

A more advanced model is being introduced, prepared by Cedacri, which envisages a different segmentation of customers according to homogeneous groups bringing together corporate companies, the sector of small and medium enterprises (SMEs), real estate and households

Taking account of reversals of impairment losses (both of collection and evaluation), the strictness of the measurements made affected negatively the income statement of Euro 71,346 thousand, recognised in item 130 a) (Euro 43,222 thousand in 2013).

The cost of credit, represented by the percentage-based incidence of the losses and impairments on loans and receivables with respect to the amount of the net loans and receivables recorded in the financial statements, amounts to 2.41%, compared with 1.53% in 2013.

The change in the last three years with regard to the amounts of the different categories of doubtful loans, the related indicators and the respective degrees of coverage, is presented below:

Net exposure (amounts in Euro 000)	31/12/2014	31/12/2013	31/12/2012
Non-performing loans	162,122	167,765	146,198
Substandard and restructured loans	193,370	179,135	177,481
Past-due loans	27,944	56,627	40,132
<b>Total impaired loans</b>	<b>383,436</b>	<b>403,527</b>	<b>363,811</b>
Performing loans	2,577,142	2,578,643	2,727,010
<b>Total net loans and receivables</b>	<b>2,960,578</b>	<b>2,982,170</b>	<b>3,090,821</b>

<b>CREDIT QUALITY RATIOS</b>	<b>31/12/2014</b>	<b>31/12/2013</b>	<b>31/12/2012</b>
<b>on gross loans</b>			
% of non-performing loans out of total gross	9.30%	8.28%	7.65%
% of substandard and restructured loans out	7.32%	6.39%	6.06%
% of past due loans out of total gross loans	0.95%	1.89%	1.27%
% of doubtful loans out of total gross loans	17.57%	16.56%	14.99%
<b>coverage percentages</b>			
Non-performing loans	*52.3%	34.87%**	40.76%
Substandard and restructured loans	16.12%	9.80%	9.24%
Past-due loans	6.14%	3.70%	1.94%
Total out of impaired loans	*36.10%	21.64%**	24.72%
Performing loans	0.69%	0.61%	0.54%
*also including extinguished loans as at 31 December 2014 still held by the Bank and default interests.			
** reduction to be ascribed to the sale of more than Euro 65 million in gross non-performing loans			
<b>percentages out of net loans and receivables</b>			
% of non-performing loans out of total net	5.48%	5.62%	4.73%
% of substandard and restructured loans out	6.53%	6.01%	5.74%
% of past due loans out of total net loans and	0.94%	1.90%	1.30%
<b>% of doubtful loans out of total net loans</b>	<b>12.95%</b>	<b>13.53%</b>	<b>11.77%</b>

## 10 FINANCIAL AND TREASURY ASSETS AND THE EQUITY INVESTMENTS

Financial assets and liabilities comprise:

<b>Financial assets and liabilities (amounts in Euro 000)</b>	<b>31/12/2014</b>	<b>31/12/2013</b>
Financial assets held for trading	181	192
Available-for-sale financial assets	1,183,203	1,012,280
Loans and receivables with banks	108,266	114,234
Equity Investments	1,375	1,375
<b>Total</b>	<b>1.293.025</b>	<b>1.128.081</b>
Due to banks	(652,260)	(585,598)

Available-for-sale financial assets amount to Euro 1,183 million increasing by Euro 170.9 million compared to the previous year and are broken down as follows:

<b>(amounts in Euro 000)</b>	<b>31/12/2014</b>	<b>% of portfolio</b>	<b>31/12/2013</b>	<b>% of portfolio</b>
Italian government securities	984,439	83.20%	978,744	96.69%
Other bonds	58,102	4.91%	4,437	0.44%
Units of mutual investment funds	126,874	10.72%	13,676	1.35%
Equity securities	13,788	1.17%	15,423	1.52%
<b>Total</b>	<b>1.183.203</b>	<b>100.00%</b>	<b>1.012.280</b>	<b>100.00%</b>

As shown in the table, the amount at the end of the year of government securities is in line with the previous year. The units of mutual investment funds increased from Euro 13.7 million to Euro 126.9 million, of which Euro 121.8 million in equity funds and Euro 5.1 million in real estate funds. This choice of diversification is approved by the Board of Directors in relation to the current situation of the markets and in a logic of better portfolio management. Investments took place through two major industry players who have been given also the limitations of risk and composition of the investment lines. Real estate funds largely derive from the contributions to the Polis funds of the properties taken over by the subsidiary Valsabbina Real Estate srl.

The management of the bond portfolio was affected, as a result of a steady, thorough and careful observation of market trends, by targeted purchases and sales, especially of Italian government securities and marginally of other Eurozone Countries and corporate bonds, without exceeding the limits of V.a.R., duration, composition and size of the securities portfolio resolved by the Board of Directors. The average duration of the Bank's portfolio as at 31 December 2014, considering the expected cash flows, came to 1.80 compared with 3.88 as at 31 December 2013. Through these transactions, a profit was made on securities of Euro 69,339 thousand, also including that achieved with mutual funds.

As mentioned in the initial part of this report, the accommodating monetary policy of the European Central Bank represented, for all the banks, a favourable opportunity for the positive repercussions caused on the income statements in periods of significant difficulty for the core management of the banks.

For what concerns the risks related to the securities portfolio, the Italian government securities of Euro 984,439 thousand consist of the BTP (long-term treasury bonds) of Euro 340,684 thousand (34.6%), CCT (treasury certificates) of Euro 474,945 thousand (48.3%), CTZ (zero coupon treasury certificates) of Euro 148,847 thousand (15.1%), BOT (treasury bills) of Euro 19,963 thousand (2%).

On the basis of their maturity, these securities - which are substantiated in the so-called "sovereign debt" - are broken down as follows (amounts in Euro 000):

<b>Duration</b>	<b>31/12/2014</b>	<b>% of</b>	<b>31/12/2013</b>	<b>% of aggregate</b>
up to one year	120,290	12.22%	266,210	27.20%
between 1 and 2 years	187,095	19.00%	74,374	7.60%
between 2 and 3 years	235,726	23.95%	57,870	5.91%
between 3 and 5 years	253,475	25.75%	211,259	21.59%
between 6 and 10 years	187,853	19.08%	241,068	24.63%
beyond 10 years	-	-	127,963	13.07%
<b>Total government securities</b>	<b>984.439</b>	<b>100.00%</b>	<b>978,744</b>	<b>100,00%</b>

The other bonds are mainly represented by foreign government securities with maximum maturity in 2018.

The list of equity securities held by the Bank as at 31 December 2014 for the purpose of long-term investment of Euro 13,788 thousand is shown in the following table that indicates also the changes compared to the previous year.



Description (amounts in Euro 000)	Balance as at 31/12/2013	Purchases	Sales	Impairment to income statement	Impairment to equity	Balance as at 31/12/14	No. of shares	% of holding
ICBPI	673	-	-	-	(60)	613	12,162	0.08%
UBI Leasing SpA	2,133	-	-	(107)	-	2,026	405,550	0.38%
Unione Fiduciaria SpA	28	-	-	-	-	28	4,320	0.40%
Swift SC	1	-	-	-	-	1	2	0.02%
SSB SpA	1	-	-	-	-	1	8,147	0.01%
Consulting SpA	24	-	-	-	-	24	22,500	15.00%
Gruppo Azione Locale Scrl	1	-	-	-	-	1	1	1.53%
Arca Sgr Spa	288	-	-	-	1,522	1,810	590,000	1.18%
Cedacri Spa	2,777	824	-	-	-	3,601	390	3.79%
Pieffe assicurazioni srl	3	-	-	-	-	3	1	15.00%
Consorzio servizi srl	2	-	(2)	-	-	-	-	-
Banca popolare di Cividale	2,070	-	-	-	(414)	1,656	84,500	-
Carife SpA	4,385	-	-	(2,895)	-	1,490	476,190	1.13%
Banca Popolare di Vicenza	2,127	247	-	-	-	2,374	37,990	-
Banca popolare dell'Etruria e del Lazio	910	-	(910)	-	-	-	-	-
Aedes SpA	-	160	-	-	-	160	279,950	-
<b>TOTAL SHARES</b>	<b>15,423</b>	<b>1,231</b>	<b>912</b>	<b>(3,002)</b>	<b>1,048</b>	<b>13,788</b>		

The application of the so-called impairment - the procedure for verifying impairment losses of assets recorded in the financial statements required by the international accounting standards - resulted in capital losses of Euro 3,211 thousand, posted to item 130 of the income statement. They refer to Carife of Euro 2,895 thousand, Ubi Leasing of Euro 107 thousand and by using the valuation reserve to Banca Popolare Cividale of Euro 50 thousand, in addition to write-downs of units of mutual investment funds of Euro 159 thousand.

Equity investments are unchanged in the amount of Euro 1.4 million and consist of the subsidiary Valsabbina Real Estate srl of Euro 171 thousand and of the equity investment of 9.8% in Polis Fondi Immobiliari of Banche popolari Sgr p.A. of Euro 1,205 thousand.

### Equity investment in Valsabbina Real Estate

On 31 December 2014, the fifth financial business of the subsidiary Valsabbina Real Estate ended: financial year full of direct initiatives aimed at supporting non-performing loans of the Bank.

During the year, the company participated in several tenders, winning 13 residential and instrumental properties. As at 31 December 2014, it owns no. 12 residential and instrumental properties, recognised at cost of Euro 7,544 thousand, inclusive of accessory charges for taxes and notary's expenses in addition to enhancement expenses incurred.

As at 31 December 2014, Valsabbina Real Estate paid the awarding price of no. 7 property units, whereas for other no. 2 property units, also awarded during 2014, it paid only the security deposit, totalling Euro 1,109 thousand. The ownership of these assets will be formalised during 2015.



The properties were purchased using the loan, regulated by market rates, made available by Banca Valsabbina, used on 31 December 2014 of Euro 8,784 thousand.

Changes in the properties account, during the financial year, were as follows (sales net of revenue):

Description (amounts in Euro 000)	Amount
Opening inventories as at 31 December 2013: no. 12 property units	5,760
Assignment deeds: no. 15 property units	4,746
Expenses relating to properties	15
Net realised capital gains (plus gross 411; minus gross 133)	278
Sales:	
- sale, with reservation of title clause, of a property unit, forming part of a property complex	(185)
- sale to the Polis FAB IV fund of no. 9 property units	(2,070)
- contribution to the POLIS FAB V fund of no. 5 property units	(1,000)
= Closing inventories as at 31 December 2014 (no. 12 property units)	7,544

With regard to the income statement, the value of production amounted to Euro 3,266 thousand, of which Euro 3,255 thousand for the sale of properties and Euro 11 thousand for lease rentals.

2014 closed with a loss of Euro 37 thousand as indicated in the income statement below, compared with the previous financial year:

(amounts in EUR 000)	31/12/2014	31/12/2013
Value of production	3,266	1,766
Costs for services	(85)	(77)
Operating expense	(52)	(25)
Difference between costs for purchases of properties and the change in inventories	(2,977)	(1,580)
<b>Total net of interest and taxes</b>	<b>152</b>	<b>84</b>
Interest expense	(171)	(92)
Tax	(18)	(17)
<b>Total</b>	<b>(37)</b>	<b>(25)</b>

The book value of the properties is less than the one resulting from the auction surveys.

The shareholders' equity, inclusive of the loss, amounts to Euro 94 thousand.

The paid-in and subscribed share capital amounted to Euro 100,000 and, as said, is entirely held by Banca Valsabbina S.C.p.A.

The financial statements as at 31 December 2014 - if the conditions necessary exist - are prepared in condensed form pursuant to Article 2435 bis of the Italian Civil Code.

Consolidated financial statements are not drawn up due to the scant significance and relevance of the amounts of the subsidiary with respect to those of the parent company Banca Valsabbina, as emerges from the "Framework for the Preparation and Presentation of financial statements", which represents the conceptual model underlying the IAS standards. The financial statement total of the company (Euro 9 million) is lower than the limits envisaged by the Supervisory instructions for the consolidated reports (balance sheet assets less than Euro 10 million).

## 11 BUSINESS STRATEGIES

As already mentioned in the report to the last year's financial statements, the Board of Directors approved at the end of 2013 the 2014 - 2016 Strategic Plan, whose second financial year is starting now. The fundamental assumptions that develop the size of the plan are inherent to the enhancement of the co-operative banking model of the territory. The expression "Bank of the territory" can have a plurality of definitions and for this reason sometimes it is an abused term, because far from the actual features characterising the intermediary.

In a recent speech at the Chamber of Deputies, the General Manager of the Bank of Italy, Salvatore Rossi, defined the bank of the territory as follows: *"a bank that focuses its loans in a specific territory and that represents also a significant portion of the loans disbursed in that territory. Therefore, a mutual relation: the territory is important for the bank, the bank is important for the territory"*.

We do not consider an abuse to take possession of this definition, if we consider that Banca Valsabbina is the only independent co-operative bank in the province of Brescia, in which it holds a market share of more than 6%; it operates through a network of 61 branches all dedicated to the traditional lending activities; it consists of 40 thousand shareholders and more than 90 thousand customers, all highly loyal and accustomed to rapid response times for every need. It has a strong capital strength and it is an important Bank for the territory for this reason as well.

Aware of the responsibility of such an economic and social aspect, the 2014 - 2016 Strategic Plan was therefore built and develops in two separate directions.

First of all, it is based on the strong conviction that there are still significant areas for a local independent Bank - also as a result of concentration, reorganisation, revision of business models and possible reductions in assets of competitors - attentive to credit quality and commercial development.

Secondly, it is based on an increasing focus on innovation, which allows to offer, in an efficient and effective manner, but not separated from the typical sensitivity of those close to retail customers and businesses, products and services of good quality at competitive and profitable conditions. This context includes the action aimed at increasing customer use of the "on line" channels, with the aim of reducing merely executive counter transactions, thereby improving the time dedicated to customer relations.

The sales policies of the Bank, in strict compliance with the Strategic Plan, confirm the goal of being at the service of households and small and medium enterprises, in line with the centuries-old history of the Bank and the requirements of the economic market of reference, focusing on the consolidation of the volumes brokered, the expansion of the number of shareholders and customers, the specialisation of the services, the harmonious growth in loans compared to direct deposits.

In the light of the aforementioned objective, the commercial development of the Bank is based on the following mandatory guidelines:

- setting the working relations in the long term, placing the relation with the customer at the centre of a strategy that deals with the customer as if it were the only one;
- focusing on the core management, collecting and managing money on trust and lending it at its own risk: collecting and managing savings, loans to households and businesses, especially small and medium businesses, collection and payment services also for large businesses;
- managing risk prudently, knowing its Customer and territory;
- maintaining a structural balance between deposits and loans;

- engaging considerably in the control of costs, efficiency of processes and continuous search of innovation;
- maintaining a strong capital base supported by an adequate and sustainable profitability.

In full compliance with the guidelines outlined above, the actions implemented by the Bank as part of the loans are aimed at:

- dividing and diversifying the risk, by limiting the maximum size of the new operations and gradually reducing the commitment on the counterparts with funding granted greater than Euro 10 million;
- maintaining the initiative on "micro-credit" for more than 40,000 companies from Brescia and Verona with micro-enterprise characteristics;
- promoting the campaign of unsecured loans guaranteed by the Government through Medio Credito Centrale;
- focusing on the goodness and the sustainability of the business projects underlying the funding requests;
- favouring the work support of companies working with foreign countries;
- limiting mortgages intended to obtain mere cash;
- considering very carefully, without excluding the support, loans to commodity sectors that have suffered most from the crisis;
- containing loans to counterparts not operating in the territory of reference.

With regard to large areas in which the price list of products/services is broken down, the Strategic Plan focuses in a very special way on the consolidation of two operations.

A traditional/institutional one, which is summed up in the formula "Socio & Cliente", which rewards customers, when also shareholders, in terms of remuneration of the deposit and cost of services. The "package" being constantly enriched and revised is now studied also with a view to extend its usability also to corporate customers.

The other one is highly innovative and relaunches and enhances "Conto Online", focusing on the enhancement of "mobile" type applications that open up possibilities until recently unimaginable in communicating with the Bank and in making payments and carrying out services over the web.

In support of the efforts to expand commented on above, the Board of Directors approved an initiative providing support, first for the styles and business practices, through an institutional communication campaign, aimed at achieving several objectives: in primis, the promotion of the image and reputation of Banca Valsabbina, but then also the raising of the central role of the shareholder and the enhancement of the strong points of the Bank.

The outcome of this extended and planned media intervention, which allowed to spread the name, character and style of the Bank also beyond its traditional area of operations, turned out to be very positive since it conveyed a clear and simple message: there is a business project behind Valsabbina made of concrete actions, field operations, targeted initiatives and convincing business tools, the first of which is certainly the qualification and high sense of belonging of the personnel when relating with the market.

The results of the first year of the Plan, as better described in other sections of this report, confirm the validity of the strategic objectives and sales policies adopted so far, mainly directed to the profitability and capitalisation profiles of the Bank, to the strong and effective monitoring of all the risks and to the harmony of the relation with shareholders and customers in compliance with the rules.

## 12 THE INTERNAL CONTROLS SYSTEM

A clear and timely identification of the risks that the Bank is potentially exposed to is an indispensable condition for the informed undertaking and accurate assessment of said risks, implemented by means of the use of effective instruments and appropriate techniques for measuring, mitigation and handling. Once again in 2014, the Board of Directors dedicated particular attention and sensitivity to internal controls, convinced that the competitiveness of the company and its stability over the mid/long-term cannot do without - in observance of the principles of sound and prudent management - an integrated and efficient system which involves - according to skills which are the prerogative of the various roles - the management body, the board of statutory auditors, general management, the departments appointed due to specific legislative provisions and the personnel.

Within this fundamental assumption, the array of business risks is monitored within the context of precise organisational references according to a model that implements the indications of Circular no. 263/2006 and 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 recurring operations.

Outlining the profiles and the features of the bodies and the internal control functions, we cannot fail to remember preliminarily that the Banca Valsabbina Group is made up of the parent company Banca Valsabbina S.C.p.A. and the subsidiary Valsabbina Real Estate S.r.l., an operating company active in the real estate sector, whose share capital is wholly-owned by the parent company.

With reference to this scope, the Bank's organisational structure envisages, within the specific sphere of the internal controls, the following departments:

- The internal audit department (known as the Internal Audit Service);
- The compliance control department (known as the Compliance Service);
- The risk management department (known as the Risk Management Service);
- The department tasked with preventing and fighting the achievement of laundering and terrorism funding transactions (known as the Anti-money Laundering Service), whose Head is assigned the appointment of "Appointee as per Article 42 of Italian Legislative Decree No. 231/2007" in relation to the reporting of suspect transactions, as well as reference individual for aggregate anti-money laundering reports (S.ar.a.).

The internal controls system - designed to mitigate the risks to which the Bank is exposed - has a strategic importance and favours the sound and prudent management of the bank, while preserving its long-term stability. It is based on the interaction between the Board of Statutory Auditors, control functions and the entire business organisation.

The internal controls system contained in the fifteenth update of Bank of Italy Circular no. 263/2006 is broken down in three levels.

The first level is represented by the controls delegated to the operating structures of the branch or head office. Typically, the first level is characterised by the line controls that allow to intercept the anomalies at the same time they occur.

The second level is called to supervise different types of risks and is divided into a plurality of control functions.

First of all, reference is made to the risk management department, which has historically the task of measuring the financial risks, developed in the new regulatory framework with strategic process aimed at preserving the value of the bank.

A role of increasing importance, always with a view to a second-level control, is assigned to the monitoring function of compliance with standards, called to determine ex ante the compliance of each new project, preventing from the beginning any risk of inconsistency with the system of rules and the supervisory guidelines.

The anti-money laundering function addresses, always in terms of second-level controls, the need for a gradual specialisation of controls for preventing reputational risks and sanctions related to the involvement in laundering and international terrorism.

Finally, the third level is represented by the internal audit department, which has historically the task of assessing the completeness, adequacy, functionality and reliability of the organisational structure and of the other components of the internal controls system.

In relation to the activity carried on by the control functions, the Compliance oversees, according to a risk-based approach, the management of non-compliance risk with regard to business activities, ensuring that the internal procedures are adequate to prevent such risk.

In this regard, the Bank of Italy specifies that “with reference to other regulations for which specific forms of specialised monitoring are already envisaged [...], the bank, on the basis of an assessment of the adequacy of the specialist controls to manage the risk profiles of non-compliance, can graduate the compliance tasks, which in any case is liable, in collaboration with the specialist controls in charge, at least for defining the methods for assessing the non-compliance risk and for identifying the relevant procedures, and verify the adequacy of the procedures to prevent the non-compliance risk”.

In compliance with the above provisions, Banca Valsabbina defined a system for monitoring the relevant regulations based on the characteristics of the Bank (i.e. size, operations) and intended to be gradually improved in time in accordance with the principle of proportionality and graduality mentioned repeatedly by the Bank of Italy and Consob. This model provides for graduated monitoring methods of the Compliance Service based on the specialist skills already present within the Bank.

The Compliance Service subsequently carried out, as envisaged by legislation, an important assistance function in the prior definition of the adaptations of the internal regulations to the new legislation that came into force during the year.

The risk management department, known as Risk Management, is by contrast the structure responsible for the assessment and measurement of the risks, in an aggregate logic, aimed at determining the overall internal capital. Within the sphere of responsibility, the department further streamlined the methods and the instruments to support the monitoring of the compliance of the Bank's development in terms of equity and financial balance on the basis of the Supervisory indicators of the Bank of Italy and the limits established by the Board of Directors.

The activity carried out by the Risk Management within the context of the regulations of the internal controls system will be accurately represented in the following chapter on risk management.

During 2014, the anti-money Laundering department, called to prevent the risk of the Bank's involvement in money laundering and/or financing of international terrorism, focused its attention on the implementation of the new supervisory provisions regarding customer due diligence, through the adoption of the required organisational and information measures. A significant effort was also made with reference to the awareness of the network in connection with the development of money laundering techniques and

the growing importance taken by certain types of offences known as "liable" offence, from the offence of tax evasion to corruption.

Also the Internal Audit Service, which in the hierarchy of the apparatus, acts as a third level function, has carried out - in observance of the agenda established in the annual plan - a wide programme of checks, both remote and at the various operating units; checks that concerned the main activities carried out in central services and the operations of the sales network.

In compliance with the "New prudential supervisory provisions for banks" of the Bank of Italy relating to internal control systems, information systems and business continuity, the Internal Audit Service prepared during 2014 a multi-year audit plan, by planning the audit to ensure the regular course of business operations and the development of risks as well as the completeness, adequacy, functionality and reliability of the organisational structure and of all the internal controls system.

In particular, the Bank envisaged the preparation of the plan over a three-year period, considering such period as appropriate to represent the development of the internal controls system also in relation to the strategic developments of the Bank's operations.

The preparation of the three-year plan considered the results of the audit (in situ, remote and on important outsourced operational functions) carried out over the years and the analysis of operations of the Bank based on the main risks (current and prospective) related to it.

During 2014, the controls carried out on the central departments were mainly concentrated on the loan sector, on the administration sector, on the commercial sector and on the financial one, allowing to carry out verifications concerning specific operating processes; by checking also, among other things, the adequacy and efficiency of the anti-money laundering measures. Within the sphere of the checks carried out, besides the operating regularity, the adequacy and efficacy of the line and procedure controls were ascertained, which are the typical first level controls, in addition to the second level ones, entrusted to other control departments, in other words Compliance, Risk Management and Anti-money Laundering.

The controls in situ on the distribution network carried out during the year concerned 33 branches. On the basis of the results of the checks carried out, the Internal Audit Service as and when drew up proposals and recommendations aimed at overcoming the shortfalls noted, with a view to strengthening the safeguards in the various operating sectors.

For the whole of 2014, remote controls continued, appropriately structured to identify and analyse thoroughly the operations of specific management spheres exposed to high risk profiles, both effective and potential. The related activities used a specific IT application that guarantees high flexibility in the performance of certain controls and makes it possible to obtain prompt reports on the operations carried out that exceed the previously established warning thresholds; in conclusion, the versatility of the instrument facilitates the identification of the necessary corrective measures and the prompt adoption of the appropriate measures.

The results of the checks of the control units - which directly report to the corporate bodies - were analysed in-depth using the internal apparatus concerned and subsequently submitted to the General Management and the Board of Statutory Auditors and formed the subject matter of systematic reporting to the Board of Directors within the sphere of the information flows, as envisaged by current legislation.

During 2014, the main measures to adapt to the provisions introduced by the Bank of Italy with the 15th update of Circular 263/06 concerning the "New prudential supervisory provisions for banks" relating to internal control systems, information systems and operational continuity were completed.

### **13 THE RISK MANAGEMENT SYSTEM**

The risk management system adopted by the Bank reflects the structure required by the prudent supervisory instructions for banks as per the Bank of Italy Circular No. 263 dated 27 December 2006.

The Bank, in 2014, put in place the measures to adapt the management process of planned risks as part of the self-assessment carried out in 2013 with regard to the compliance of its corporate situation, with respect to the provisions introduced by the 15th update of Circular No. 263/06.

This update issued in July 2013 systematically reviewed the legislative framework relating to the system of controls, internalising and furthering best practices, with the aim of getting the banks to further strengthen their business risk management abilities. In particular, the regulatory update confirmed how the internal control system must check the implementation of the corporate strategies and policies, ensuring the containment of the risk within 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 document is expected to be revised on an annual basis in order to align the parameters adopted and the objectives set to the economic scenario as well as to company strategies, evaluating their sustainability.

The "three pillars" on which the structure of the Prudential Supervision of the banks is based were partially revised by the recent EU regulations and redefined in their logics.

The first pillar identifies the capital requirements aimed at covering the credit, counterparty, market and operational risks typical of banks.

The second pillar requires banks to adopt a strategy and process for controlling capital adequacy and stronger governance mechanisms.

Finally, the third pillar introduced public disclosure obligations on capital adequacy, risk exposure and general characteristics of management and control systems.

Over the years, the Bank adopted and developed a series of organisational solutions, detection, monitoring and management processes and policies for the exposure to the various types of risk, established in the respective general guidelines by the Board of Directors. The performance of the second level controls regarding the governance of the risks is entrusted to the Risk Management, Planning and Control Service, while the Compliance Service is tasked with ensuring the compliance of the business operations with the regulations.

Having said that, we are obliged to illustrate - aware of the technical complexity of the matter - the assessment, management and mitigation methods of the various types of risk, risks which, on the basis of the internal self-assessment process, were identified as significant in the light of the operations and the contained degree of complexity of the Bank. Section E of the Explanatory Notes "Information on the risks and the related hedging policies" provides additional qualitative and quantitative information on risks, while section F "Information on the capital" includes detailed information relating to the own funds.

## **Credit risk**

The analysis of the risk associated with the disbursement of credit - which represents the main activity carried out - is particularly important and is aimed at assessing the ability of the Bank to suitably select its customers and the economic initiatives that are creditworthy, as well as the efficacy of the disbursement, management, monitoring and trend control process of the loans disbursed. In quantitative terms, the credit risk represents the most significant risk, in the light of the high incidence of loans with respect to total balance sheet assets.

The Bank measures the capital requirement relating to the credit risk using the standardised method, which envisages the application of different weighting ratios for the portfolio loans according to the segment the counterpart granted credit belongs, the creditworthiness and the type of guarantees possibly acquired.

For the analysis and accurate and constant monitoring of the credit risk, the Bank also uses a management system, known as "Credit Rating System - CRS", which classifies the customers on the basis of creditworthiness, via an internal scoring system. The system comprises a statistical-type insolvency risk assessment model which, by means of fundamental and trend analysis of the main economic and financial indicators of the counterpart, makes it possible to assess the main relationship data, estimating the Probability of Default (PD). The Credit Rating System also represents the reference basis for the calculation of the estimated loss used for the quantification of the impairment (collective impairment) of performing loans, together with the estimate of loss in the event of default (LGD -Loss Given Default).

During 2014, the Bank continued the analyses and internal tests for the adoption of the second generation rating models developed by the outsourcer Cedacri (Statistic CRS). The checks carried out revealed how the latter perform better, with respect to the previous ones, with regard to the identification of signs of deterioration in credit quality.

The Bank also uses the "Collateral" procedure provided always by the outsourcer Cedacri for the purpose of checking all the conditions of general and specific admissibility of the mortgage guarantees, as defined by prudential supervisory regulations, so as to benefit from a minor capital absorption in the presence of credit risk and had also an efficient system for managing the mortgage guarantees. This procedure also monitors the residual risk, or the risk that a minor amount than that envisaged is obtained from the enforcement of a guarantee.

The monitoring process of problem loans is entrusted to the "Performance Monitoring Service", which manages performing loans with anomalies and "past due" loans, and to the Pre-dispute Service, which manages substandard and restructured loans.

The credit management activity is supported by the application "Quality Credit Management" provided by Cedacri that allows to quickly identify the counterparts with anomalies, divide customers into sub-portfolios according to the monitoring the strategies of the Bank, and customise the process chosen in terms of players and possible actions to be undertaken.

Moreover, the concentration risk per individual borrower and the concentration risk vis-à-vis counterparts belonging to the same business sector or the same geographic area (geo-sectoral concentration) represent specific interpretations of the credit risk.

The concentration risk per individual borrower is monitored examining - with specific methods - the exposures involving a significant amount vis-à-vis individual counterparts and between those associated legally and/or economically, while the assessment of the risk takes place using a model on the entire loan portfolio based on the Herfindahl index, in line with the matters envisaged by the supervisory instructions. The checks are carried out promptly, for the purpose of maintaining the degree of concentration within



thresholds consistent with the diversified allocation policy of the loan portfolio established by the Board of Directors.

With regard to the assessment of the geo-sectorial concentration risk, within the ICAAP process the Bank uses the valuation model proposed by the work group specifically set up within ABI (Italian Banking Association).

The Bank also uses the procedure known as C.C.M. (Credit Capital Management), made available by the outsourcer Cedacri, with the aim of providing support for the calculation of the prudential requirements (First Pillar), the supervisory review process (Second Pillar) and the preparation of reports for public disclosure (Third Pillar).

The Board of Directors defines the lending policies overseeing the quality of the loans both during the first resolution and opening of the relation and in the subsequent management of the relation, taking into due consideration the Bank's economic/equity amounts and the related economic scenario. The policies in the last few years have seen the splitting of the credit risk as the prevailing strategic approach, a behaviour the Bank has strictly complied with.

### **Market risk**

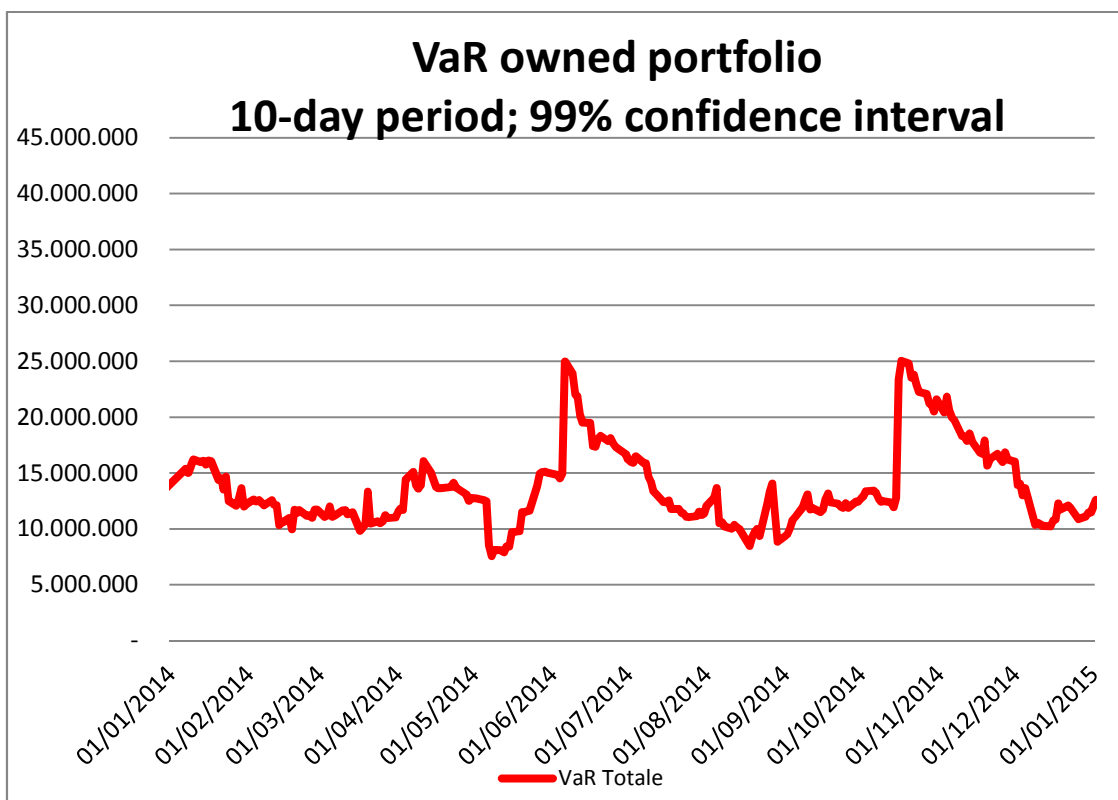
The Bank has developed methods for the measurement of market risks that include price, interest rate and exchange risk on a consistent basis with the strategies adopted and with the characteristics of the financial assets held.

In 2014, the Bank confirmed the previously existing strategies of prudential management of the financial portfolio, aimed at optimising the management of company liquidity, directing the investment choices mainly towards the bond market of government securities of the Eurozone. To increase the investment opportunities in particularly specialised areas, two management agreements with two important asset management operators were signed. The portfolio managed by them amounted as at 31 December 2014 to Euro 122 million and was mainly invested in UCIT units. The management mandate envisages specific limitations of risk and pre-established compositions of the investment lines.

With regard to the assessment of the price risk on the securities portfolio, a management model is used based on the Value at Risk (VaR), able to express briefly and in monetary terms the non-easy concept of the "maximum possible loss of a static portfolio, in relation to a time horizon and a confidence level chosen prudently".

For the calculation of the VaR, the Risk Management, Planning and Control Service uses the ERMAS application, provided by Prometeia. The financial information necessary for the determination of VaR (volatility, correlations, forward structure of the interest rates, exchange rates, stock and benchmark indices) is provided by the Risk Size product. The VaR model adopted is parametric: i.e. it prudentially uses a confidence interval of 99% and a time period of 10 days. The VaR is calculated on a daily basis both on the securities portfolio directly managed by the Bank and on the portfolio entrusted to external managers.

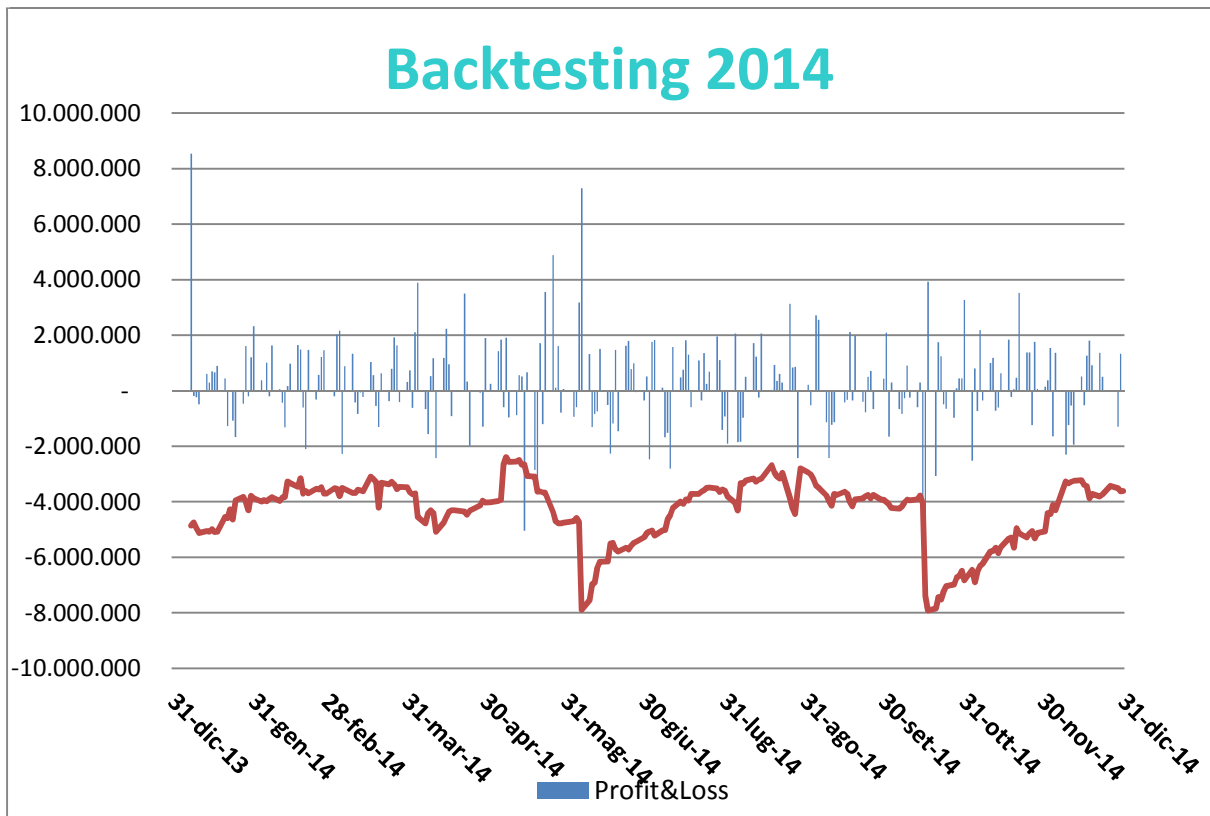
The trend in the Bank's exposure to the market risk during the financial year, relating to its internally managed securities portfolio, assessed according to the VaR method described above, is as follows:



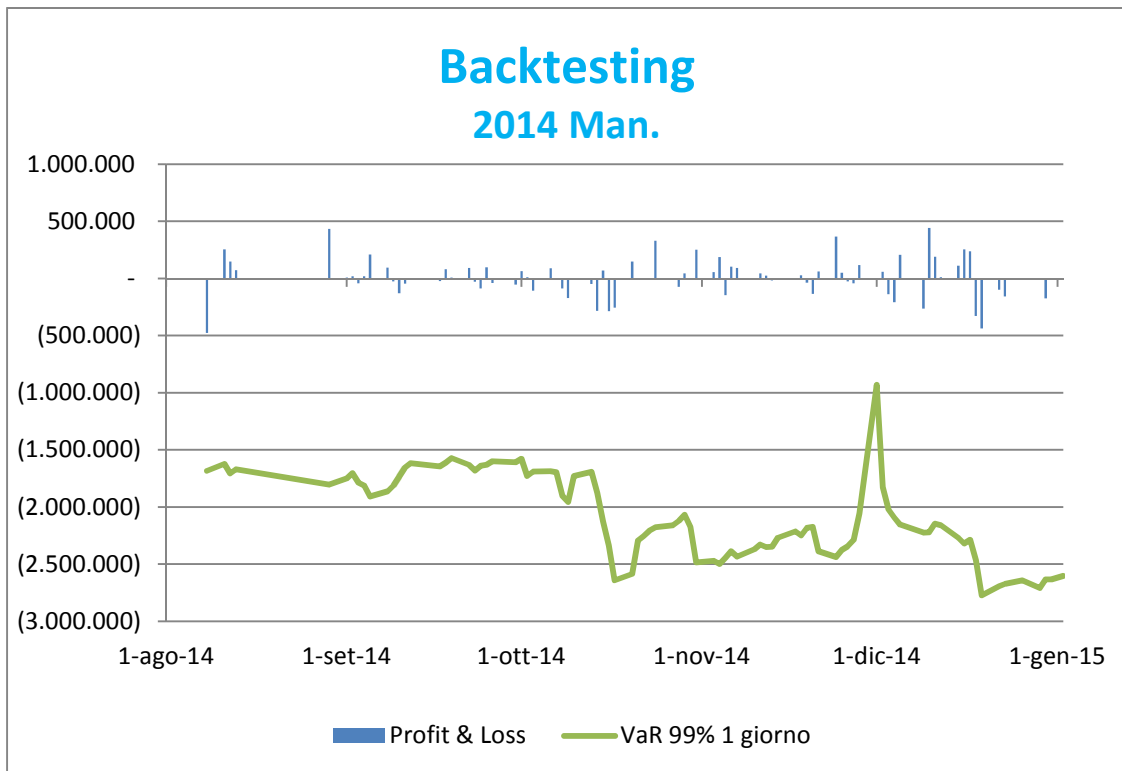
The VaR trend, from the moment that the securities portfolio is almost entirely made up of Italian government securities, aligned itself with the fluctuations registered on the related markets. In particular, the maximum values were recorded in early June and mid-October, following the volatility observed in the markets, which was then subsequently normalised. In particular, the peak of October is due to the intensification of the Greek crisis and other negative news relating to the Eurozone; subsequently, the situation normalised also due to the gradual reduction of the BTP-Bund spread.

Specifically, the VaR measured on the bond portfolio at the end of the financial year decreased significantly compared to the value at the beginning of the year, also as a result of the significant reduction of the Duration, of 655 days as at 31 December 2014 (compared to 1,424 days as at 31 December 2013), which was confirmed well within the maximum limit established by the Board of Directors (5 years).

According to the “backtesting” analysis carried out in 2014 and as shown in the graph, VaR was exceeded in only 2 cases, recorded in mid-May and in mid-October, when negative news circulated on the market concerning both the trend of the Italian real economy and the Greek crisis.



As from the second half of 2014 and in order to monitor also the risk of the portfolio entrusted to external managers, the VaR was also calculated on a daily basis on this portfolio, subjecting it to backtesting. The figure shows the trend of VaR at day 1 and the backtesting analysis; in particular, the latter did not show cases in which VaR was exceeded thus confirming the reliability of the measurement made.



## Operational risk

The operational risk is the risk of incurring losses due to the inadequacy or inefficiency of procedures, human resources and internal systems or external events.

The Bank determines the capital requirement in the presence of operational risk, using the B.I.A. method (Basic Indicator Approach), according to which the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR.

The supervision of the operational risk, in any event, is subject to constant attention both in the various phases of the operational processes and procedures and within the sphere of the periodic adequacy checks on the system adopted, carried out with the contribution of the various company departments involved in the processes.

The Bank has defined a series of organisational processes for the supervision and management of operational risks, within which it uses - together with the competent Risk Management department - the Internal Audit, Compliance and the Supervisory Body established in accordance with Italian Leg. Decree No. 231/2001. In order to limit the negative consequences, in economic and reputational terms, deriving from the occurrence of operational risks, the Bank also adopted the Business Continuity Plan, aimed at safeguarding the Bank in the presence of critical events that may invalidate full operations and also carried out the mapping of the main operating processes.

For the purpose of improving the operational risk management process, the Bank adopted an integrated measurement, assessment, monitoring, mitigation and control system for these risks. In this regard, a system has been created for the collection and storage of data relating to operational events and losses, which permits the creation of a database for the measurement of the operational losses at each central and network organisational unit. Cedacri's LDC (Loss Data Collection) procedure was adopted to support this system, making it possible to collect the data relating to specific cases and classify it according the Basel 2 logics. The collection of the events that have led to operational losses allows the

Bank to promptly identify the reiteration of negative events or conduct, thus encouraging appropriate corrective measures.

As part of the operational risk, the recent regulatory update placed particular emphasis on the IT risk, assigning the internal controls system the task of assessing the reliability and security of the company information and the IT procedures. During 2014, 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” was prepared. 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 showed that the identified residual risks of the structure must be considered to be substantially lower and, therefore, consistent with the risk appetite of the Bank.

### **Interest rate risk**

The interest rate risk is generated by the imbalance between the maturities (repricing) and the asset and liability items belonging to the bank book, which is made up of all the financial assets and liabilities not included in the trading portfolio as per supervisory regulations. The mitigation of the interest rate risk takes place by means of the integrated management of the bank assets and liabilities, aimed at stabilising the net interest income and protecting the economic value of the bank book.

The measurement of the interest rate risk is also carried out by the Risk Management, Planning and Control Service. The assessment takes place monthly according to a dynamic approach; therefore, for each sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.

The ERMAS procedure makes it possible to monitor all the Bank’s activities associated with the transformation of the maturities of the assets and liabilities and to quantify the balance sheet and income statement effects, induced by hypothetical shocks of the market rates. Said shocks are processed within the macro-economic scenarios, or rather theoretic shifts of the market rate curves.

For the purpose of measuring the variability of the net interest income, determined by positive and negative changes in the rates over a time period of 365 days, the differences between asset and liability items of the financial statements are monitored, grouped according to the maturity or rate redefinition date; the method used is “gap analysis”, via several approaches that make it possible to achieve increasingly accurate estimates. The valuation techniques of the interest rate risk also include the estimate of the effect related to the "core" component of the on demand items.

The measurement of the variability of the economic value of the Bank’s assets and liabilities to monitor the current value of the equity is carried out via Duration Gap analysis and Sensitivity Analysis, which make it possible to check the sensitivity of the Bank’s economic value with regard to the change in the interest rates.

The calculation of the exposure to the interest rate risk is also carried out on the basis of the standard algorithm envisaged by Circular No. 285/2013, by means of the creation of a summary index which expresses the ratio between the change in the economic value of the bank book in the presence of a interest rate shock (+/- 200 base points) and "own funds". The Bank has always maintained the risk index under the maximum threshold established by the regulations (20%). The change in the economic value of the bank book is also calculated in the presence of negative and positive interest rate shocks that represent the 1st percentile and the 99th percentile of the changes in the market rates recorded over the last 6 years.

## Liquidity risk

The liquidity risk is represented by the risk that the Bank is unable to efficiently cover the expected and unexpected cash outflows without risking its ordinary operations and its financial equilibrium.

The overall model adopted by the Bank for the management and monitoring of the liquidity risk is divided up into three distinct spheres according to the reference scope, the time horizon and the analysis frequency:

- the management of the intraday liquidity, or rather the management of the daily settlements of the debit and credit positions in the various settlement, payment and clearing systems the Bank takes part in;
- the management of the operating liquidity, or rather the management of the most volatile events that impact the Bank's liquidity position over a period between 1 day and up to 6 months, with the primary objective of maintaining the Bank's ability to meet its ordinary and extraordinary payment commitments, minimising the related costs. In this context, the recognition of imbalances between incoming and outgoing sources and the related system of supervisory limits and thresholds, focus in particular on the maturities up to six months;
- the management of the structural liquidity, or rather the management of all the events of the bank book which impact the Bank's overall liquidity position in the period beyond 6 months, with the primary objective of maintaining a balanced dynamic ratio between medium/long-term assets and liabilities.

The model adopted by the Bank for the management and monitoring of the liquidity risk is based on the construction of the maturity ladder and on the allocation of certain and estimated flows on its various time brackets, for the purpose of proceeding with the calculation of the cumulative gap for each maturity bracket.

The Bank established a number of operating limits for the management of the liquidity in both spheres: operational and structural. In particular, with regard to the management of the operational liquidity, the limits are defined in terms of absolute value of the cumulative GAPs, on the various maturities, while with regard to the management of the structural liquidity the limit adopted is defined in terms of ratio between the assets and liabilities with a maturity of more than one year.

To monitor the liquidity risk, the Bank 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.

The bank has also prepared a "Contingency Funding Plan", as an instrument for mitigating the liquidity risk which indicates, in detail, the individuals and the units responsible - if necessary - for the implementation of the extraordinary funding policies, as well as the actions to be adopted to remedy the same, in accordance with the regulatory requirements envisaged by the new regulations under examination.

During 2014, the Bank implemented the measurement of the "Liquidity Coverage Ratio" (LCR) and "Net Stable Funding Ratio" (NSFR) indicators envisaged by the Basel III Framework. In particular, the calculation of the LCR indicator was further implemented on the basis of the Delegated Regulation of 10 October 2014 supplementing EU Regulation No. 575 of 26 June 2013 of the European Parliament (CRR Regulations), while the NSFR indicator was defined on the basis of the document of the Basel Committee of January 2014.

### **Risk of excessive leverage**

It is not superfluous to state that the Bank pursues sustainable growth policies limiting the use of leverage. The Risk Management, Planning & Control Service monitors the risk of excessive leverage also on the basis of the related indicator, calculated on a quarterly basis and subject to specific reporting to the Supervisory Authority.

In particular, the measurement of the indicator aims at identifying the risk aspects that are not included in the measurement of the regulatory capital ratios.

### **Strategic risk**

The strategic risk is the current or future risk of drop in profits or capital of the Bank arising from changes in the operating context or from wrong company decisions, inadequate decision implementation, as well as poor responsiveness to changes in the competitive context.

The Bank adopted a mitigation policy for the strategic risk that is mainly based on the formalisation of an analytical, prudent and shared decision-making process. Decision making is based on the careful and constant observation of the reference market, on the gradual activation of new services and/or products, on a formalised operational and strategic planning process and on a constant measurement and monitoring of company performance and related deviations from previously established targets.

### **Reputational risk**

The reputational risk is the current or future risk of drop in profits or capital arising from the negative perception of the image of the Bank by the customers, counterparts, shareholders, investors or supervisory authorities. The reputational risk is triggered off by original factors attributable, mainly, to the operational risk; the losses associated with reputational risk may be higher than those attributable to the original risk event.

By means of interviews with the heads of the departments involved in the management of risks and processes, the Bank carries out a self-diagnostic assessment of the perspective exposure to reputational risk, with the intention of monitoring the areas of operations most exposed to this risk and raising the awareness of the main players involved.

## **14 COMMERCIAL ACTIVITIES**

If there is one factor that differentiates and characterises the profile of the banks - beyond their size, specific management policies or extent of the areas served - this is certainly to be found in the approach and relations with customers: i.e. in the way of "banking" according to specific patterns of behaviour.

And the model in which we recognise ourselves - which is also a way of thinking - is that of the bank of the territory: attachment to the values of work and savings; the conscious responsibility of being an integral part of the local communities; the willingness to contribute to their economic and social development carrying out our task at best and in conditions of efficiency. The strength of these convictions, which are the same of 1898, includes the commercial policies that are constantly changing to adapt to the development of the external environment and, in compliance with the rules, to the changing market requirements.

Now we will report, through the components describing it, the breakdown of the commercial activities as it has developed in the last financial year.

## **The commercial policies and network**

Albeit with the strict limits imposed by the risk profiles and a decrease in demand for credit, the company management focused also in 2014 on lending activities, whose proper requirement is adequate capitalisation and whose landing points are households and small and medium sized enterprises.

We gave a lot of space at the beginning of this report to the salient features of the core business - the one that consists in savings deposits and exercising of credit facilities - emphasising that the commitment of all the commercial structure was focused on the typical mission of the co-operative bank: to be up to the confidence of the depositors and provide credit to those who deserve trust.

But a similar commitment, in addition to the traditional deposits and loans and within an approach conceptually distant from the logics of high finance, was reserved in 2014 to the development of the entire area of services, increasingly important component in the formation of the net interest and other banking income. Through a careful selection of specialised counterparts, specific agreements for the distribution of third party products - especially with regard to insurance products and those related to investment services - were executed, in line with the guidelines of the Strategic Plan.

The coordination of all the commercial activities is carried out by the Market Division, which uses the "strategic, marketing and product planning" function - which has the task of updating and developing the structure of the "price list", seeing to the advertising campaigns and supervising the budgeting system - and the Commercial Sector, which has the task of coordinating the six territorial areas to which the 61 branches of the Bank refer.

The commercial network, divided into the "North West", "North East", "South West", "Brescia Premises", "Valsabbia" and "Verona" Areas, saw during the year the closing of the branch of Ponte Caffaro, located in the Valsabbia Area, with the transfer of the relations - by safeguarding continuity and ease of service - to the adjacent branch of Lodrone. At the same time, the third branch in the city of Verona was opened in Corso Milano, in order to increase the market shares in the chief town and take more advantage of the considerable potentials of the square. The opening - with the Credito Veronese signs, trademark with which the Bank is present in the territory of Verona - indicates the confidence and willingness of the Bank to grow and strengthen its presence in the territory at a time of market in which the closing of bank branches is ever increasing.

While the product catalogue continues to be re-examined, aimed at ensuring modern and competitive instruments within the offer system, also through new commercial partnerships, a parallel development activity of the image and repute of the company trademark is increasing thanks to appropriate promotional and communication initiatives. In this sense, considering also that the participation in trade exhibition and cultural events in the territory is a powerful moment of communication for the Bank, 2014 has been a particularly "eloquent" year; in addition to the traditional presence at the agricultural fair of Montichiari in February, at the real estate meeting of Brescia in March and at the exhibition of Gavardo in May, the presence at Vinitaly in Verona in March and at the "Sportshow" of May in Brescia was successful, thanks also to the enthusiastic contribution of the employees.

## **The offer dedicated to Shareholders**

The general state of concern that characterised the reasons of the customers in allocating their savings was characterised also in 2014 by the confidence towards the Bank and its fundamentals, which was expressed, together with the expansion of operations in traditional working relations, in the constant development of the shareholding structure. We dwelt upon the outlines of this development in a previous similar chapter.



In the past financial year, the offer dedicated to the Shareholders - the most important given the cooperative nature of the Bank - was completely re-outlined, reserving new and significant advantages to the holders of at least 500 shares and to "business partners" holding at least 1,000 shares. The new agreements envisage, in addition to significant insurance coverage and interesting discounts for a number of relations, really competitive interest rates for the different technical forms of deposits and loans, for the purchase of the first home, in particular. Currently, almost 21,000 people benefit from the agreements.

### **Current account agreements**

Thanks to the support of targeted initiatives and for the agreed terms, the offer of current account agreements that expand the traditional scope of banking services to facilities in other areas, such as Conto Rosa and Conto Evergreen, continued. The number of users of the first one, dedicated to women, increased from 2,368 to 3,200, the number of users of the second one, dedicated to pensioners and to people over 65 nearly doubled, increasing from 593 to over 1,000 members.

"Conto Giovani", for the under 30s, was a great success: its formula was revised and enriched at the beginning of 2014; in addition to benefits and discounts with authorised shopkeepers for all account holders, a nice and appreciated prize competition was organised for all the new participants. The owners of the agreement increased from 2,440 to 3,874.

Always with the purpose of furthering the acquisition of new customers, the Bank then organised a new initiative via the competition known as "Vieni, Vedi e Vinci", with the collaboration of a specialised company. The competition envisaged two lucky possibilities: the first, which is an "instant-type win", made it possible to compete for prizes directly in the branch via scratch and win cards. The second envisaged the final extraction from among all the participants of 50 TOP Star prizes comprising useful and valuables: ranging from cameras to LCD TVs. In October, the prize-giving ceremony of the winners of the competition was held. The final numbers reported a successful initiative, which involved about 700 people, including old and new customers. The number of new customers reached 400. The initiative was created to reward the positive "word of mouth" among customers satisfied with the products and services offered by Bank Valsabbina: customers who communicate every day their positive experiences to friends and family, contributing in this way to the constant growth in time of the number of account holders of the Bank.

The prize-giving ceremony was a particularly intense moment in terms of relationships, due to the pleasant meeting between a high number of customers, the Bank's Management and the large group of employees who oversaw the initiative.

By way of confirmation of the appreciation of the quality of the services offered and of the supporting promotional ventures, current accounts reported a significant increase in number from 68,483 to 70,523, with annual growth of 3%.

The success of the package current accounts designed for specific types of customers furthers the profiles of the offer: new debuts are expected also during 2015, starting from a new and structured current account agreement designed for specific requirements of a demanding target: that of professionals.

### **Loans and leases**

Despite a year which saw a drop in the overall volume of the loans due to the minor demand for credit, - as we have already reported in the previous pages - the Bank's vicinity to the area was not lacking, complying with the requests of the customers deserving support, albeit using selective criteria also with regard to the technical forms.

The trend of the medium term component was positive, with new disbursements of approximately Euro 335 million, of which 120 related to more than 700 loans to SMEs,

80% guaranteed by the guarantee fund of Medio Credito Centrale. In November, a new plafond of Euro 50 million was made available for 18 months, authorised previously by the Central Guarantee Fund, to be used in favour of Businesses in our territory that do not reach, according to the current regulations, the minimum budget criteria for accessing the guarantee fund. The initiative allows to aggregate to this interesting business method more than 4,000 new companies that would otherwise have been excluded from this favourable opportunity of access to credit.

During 2014, as part of medium/long-term loans, 375 new mortgage loans were granted to households for the purchase of their first home, for a total of Euro 45 million.

The awareness that the investment in the purchase of the home is essential for households and that the concrete support of the Bank creates conditions for long-term trust relations are behind the decision to review the offer - marked by even more favourable and competitive conditions - specifically in the sector of mortgages for the purchase of first homes. In fact, the proposal of the Bank envisaged the possibility of accessing a loan at an interest rate equal to Euribor 3 months plus a spread of 1.95%, for mortgages that can reach 60% of the property value. The product catalogue includes different types of loans according to different customer requirements: for example, with profiles of increasing instalment repayment for young couples; or with constant payment plans or previously established maximum interest rates, for those who want to protect themselves from future increases in market interest rates.

In relation to the peculiarities of the economic fabric of the market of choice, a close attention was also given to the development of services for businesses, in particular in the sectors of operations with foreign countries and of access to capital markets. A partnership was signed with a leading service company in order to assist the companies with important development plans for issuing the so-called “minibonds”, introduced by “Destinazione Italia” decree.

With regard to the lease sector, where the Bank’s operations use the effective and well-established partnership with the group SG, during the year 186 contracts were finalised for an equivalent value of Euro 19 million.

## **Deposits**

Another chapter of significant interest for the development of the commercial policies was that of the financial products intended for savers. Amongst these products, bonds issued by the Bank, representing a traditional and stable source of direct deposits largely appreciated by customers due to the simplicity and linear nature of their technical and trading structure, are worth reporting.

The overall stock of bonds reached Euro one billion and two hundred million, despite the important maturities during the year of more than Euro 300 million, almost fully replaced by new placements, exclusively at fixed rate.

The “time deposit” formula, an instrument that allows a return on deposits higher than the one on current accounts for on-demand deposits, confirmed all its relevance to the present within the valid product lines for savings customers: at the end of the year, it amounted to Euro 246 million.

Indirect deposits stood at Euro 1,279 million, up by 10.1% compared to the previous financial year, thanks to the positive trend of mutual funds (+ 49.3%) and of insurance deposits (+ 21.2%). So the asset management amounted to Euro 456 million (+ 35.2%), increasing from 29% to 36% of total indirect deposits.

## **Asset management**

As part of the asset management, collaboration was intensified with qualified brokers in the sector, aimed at enriching the range of products at the disposal of customers. The Bank

has agreements with Arca sgr, Azimut sgr, Eurizon sgr, Templeton, Anima sgr, Aletti Gestielle, Amundi funds, Fortis&Parvest Sicav, Generali Sicav, Nordea funds, Raiffeisen funds, Pictet Sicav and DWS: all leading brands of the financial market specialised in offering - structured among numerous lines - investment funds; the stock at the end of 2014 exceeded Euro 250 million.

In order to reinforce further the range of products offered as part of the asset management, the Bank concluded during the year an important agreement with Banca Patrimoni Sella for the placement of asset management. These are tested forms of investment that allow the saver to entrust, by mandate, the investment of its assets to a qualified and supervised operator. The business proposal is divided into five lines previously established depending on the customer's risk appetite: the somewhat limited access thresholds - expecting minimum amounts of Euro 20 thousand only - and the wide diversification of the offer, allow to participate in highly specialised investment forms, profitable and consistent with the income-based and time-based objectives of each type of customer.

### **Insurance policies and solutions**

Thanks to the consolidated partnership with the Zurich Group, started back in 2001, it is possible to take out in all the branches of Banca Valsabbina, on favourable and transparent terms, insurance policies and schemes designed to protect the person, but also designed for saving and investments.

The collaboration relationship with above-mentioned Insurance Company, tried and test over many years of operational agreement, envisaged the distribution of standardised policies and otherwise, as well as exclusive coverage - collective policies - which ensure the customers the maximum insurance protection while reducing the costs to a minimum. At year end, the stock of Zurich products for savings purposes placed with our customers amounted to Euro 202 million, with a growth of approximately Euro 40 million compared with last year. Besides the placement of traditional separate products, the Z-Platform product was particularly successful: a full life unit-linked type product that allows the customer to choose from among the best mutual investment funds, selected by the insurance company and issued by leading market players, normally not accessible to retail customers. The contract is based on two fundamental services; one insurance-related, in the event of demise of the insured party, and one financial, linked to the performance of the mutual funds chosen in the validity period of the policy.

Already anticipated in last year's report, at the end of 2014 an interesting and awaited new coverage called "Tutti protetti" came into operation. The new policy is designed not only for individuals but also for corporate customers interested in insuring the key men/women operating within its structure: the scheme provides insurance cover against accident and permanent disability due to illness, but also the reimbursement - according to previously established amounts - of hospital medical expenses.

The placement of life insurance and non-life insurance products already in the catalogue was very positive during the year (including term assurance, fire and explosion, accident and health), thanks to competitive premiums, clear and complete coverage and simple contracts. The "Vita Privata" policy - which covers the civil liability of the householder - was also widely appreciated by customers.

Thanks to Zurich's recognised experience in the specific area, non-life products offered to businesses (Business Protection and D&O) are among the most popular and competitive on the market with regard to the quality of the coverage provided.

## Debit and credit cards

A mention is also due to the somewhat fast growth in payment instruments represented by credit and debit cards. The following table provides an account of the trend in POS and automatic teller machine points, the number of transactions and the balances involved:

	2010	2011	2012	2013	2014
<b>ATM points</b>	<b>60</b>	<b>60</b>	<b>68</b>	<b>66</b>	<b>66</b>
Number of transactions carried out	786,021	807,558	862,254	875,207	896,746
Amounts transacted (in millions of Euro)	125	133	148	153	159
<b>POS</b>	<b>1,343</b>	<b>1,484</b>	<b>1,937</b>	<b>1,799</b>	<b>2,008</b>
Number of transactions carried out	1,133,437	1,321,361	1,645,407	1,867,782	2,198,200
Amounts transacted (in millions of Euro)	89	108	133	140	159

By examining the figures indicated in the table, we immediately note that the payment systems will take on increasing strategic importance in the banking economy. The acceleration trends of the payment instruments, linked in part to the shift in consumer habits and in part to regulations on restricting the use of cash, are already evident and will further develop.

These circumstances are also confirmed by our observatory: as regards the use of the POS, the number of 2,000 was exceeded in 2014, with the significant increase by 11.6% compared to the previous year, also thanks to the impulse given by the introduction of Pos Mobile, in collaboration with CartaSì.

The distribution of credit cards and related transactions confirmed the unstoppable trend in the payments replacing cash: by way of integration of the figures shown in the table, we point out that the stock debit, credit and prepaid cards in circulation at the end of the year exceeded 77 thousand units; the increase in credit cards issued during 2014 was approximately 3,000, including 1,992 through CartaSì (Istituto Centrale delle Banche Popolari Italiane) and 1,003 through American Express.

## Digitalisation of banking services

As technology advances by opening opportunities unimaginable a few years ago, Valsabbina is interested in virtual bank applications to expand the scope of services accessible by customers through the web: aware of the rapid changes taking place in the digitalisation of banking services, Valsabbina is following in the front row, in collaboration with its IT outsourcer Cedacri, the innovations that can allow to use the services of the Bank with economic ease from anywhere. Emblematic in this regard is the creation of “La ValsabbinApp” in 2014 - the software application of the Bank, downloadable and accessible from smart-phones and tablets to access home banking services.

In keeping with the development of technological applications, the new company web site appeared last June: revised with precision to facilitate surfing its extended contents in terms of devices and IT. At the end of 2014, the users of “Banca Virtuale” services - called “Valsabbina on-line” and “Valsabbina corporate” - numbered in total 26,569, compared to 23,844 at the end of 2013. The conspicuous increase by 11% was achieved thanks also to the boost that the Bank wished to give in terms of divulgation and promotion, but always with a view to considering this type of service in terms of integration and complementarity with regard to the personal and direct relation that takes place within the organisation of the branches.

## 15 HUMAN RESOURCES

The fact that in the banking business - typically service activities based on the relation of trust with customers - the human resource has a major and decisive role in the achievement of the objectives and in the success of an image that is perceived by the market as a distinctive feature of the company is a widely shared opinion, always reaffirmed within our relations.

The quality of the results derive from the commitment of our collaborators, their professional skills, their sense of belonging and identification with the Bank, and the values that enrich the reputational profile of the Bank derive from their daily behaviour; the reputational profile is an intangible but far from invisible component, especially in a very crowded competitive context within which cultures, habits, styles of relations between people are so different as to allow a comparison.

The best attentions have always been dedicated to the management and development policies of human resources within Valsabbina with the specific aim of bringing out very special skills and values from this comparison. It seems that efforts in this direction have been rewarded when considering that our collaborators are characterised mainly by professionalism, way of dealing and the ability to listen.

The preliminary comment on the human resources of Valsabbina, far from appearing an act of vanity, is indeed a recognition that is also confirmed by the high rate of labour productivity: there are certainly not many banks that with the same workforce produce the economic value that our report is highlighting in detail.

The graph shown above gives an account of the quantities: as at 31 December 2014 the personnel increased by 12 with respect to the previous financial year, as a result to 21 new hires and 9 terminations. The increase was mainly determined by the same factors pointed out in the previous financial year: the development of the volumes of activities on the network, characterised by an increasing technical and operational complexity, and the measures for the enhancement of the central structures that mainly concerned the control units and the commercial and loans sectors.

The heavy workload required by adjustments to the continuous development of the regulatory framework in the light not only of the single European supervisor is important in determining labour requirements.

The growth targets planned in the three-year Strategic Plan, ambitious and challenging, will certainly have repercussions and fallouts in the Personnel management policies with regard to organisation of the work, production processes, training and, naturally, also costs. All issues that, when writing this report, are inserted as important variables both in the negotiations for the renewal of the national labour contract and in the Job Act being approved. And if it is true that the personnel are the most important resource of the company, it is also true and normal that it also represents the greater item of expenditure. This awareness has always encouraged to look for the best balance between the quality and quantity component of the personnel, with a view to cost containment; and it seems that this balance is reflected today in the appropriate configuration of the hierarchical and functional profiles of the structure.

The figure that summarises the profile of personnel management policies is the average cost per employee of Euro 69 thousand compared to Euro 75 thousand at the system level. The comparison makes any further comment unnecessary.

The table below describes the distribution of the personnel by grade.

### Distribution of the personnel by grade

	2014	%	2013	%	2012	%
Executives	9	1.9%	9	1.9%	9	2.0%
3rd and 4th level middle	103	21.2%	100	21.1%	96	20.7%
1st and 2nd level middle	76	15.7%	69	14.6%	63	13.6%
Remaining personnel	297	61.2%	295	62.4%	295	63.7%
of which:						
professional training	1	0.2%	-	-	1	0.2%
under staff leasing	2	0.4%	5	1.1%	4	0.9%
<b>TOTAL</b>	<b>485</b>	<b>100.0%</b>	<b>473</b>	<b>100.0%</b>	<b>463</b>	<b>100.0%</b>

Of the 485 staff in the workforce at year end, 152 carry out their activities at the head offices and 333 operate in the sales network, made up of 61 branches distributed throughout the provinces of Brescia, Trento, Verona and Mantua. The personnel who operate on the market come to around 70% of the entire workforce. The figure points out the favourable conditions of operating efficiency achieved by the effective management of two fundamental processes: the management of internal mobility to bring about the progress towards positions with increasing professional contents and responsibility roles and the planning of training activities to meet the needs of skills consistent with the expectations and with business guidelines.

The female component continues to represent almost one third of the workforce, since it consists of 152 collaborators, involved in roles of responsibility both in the network and in the central functions: the female component includes all 16 figures working part-time.

With regard to the registry aspects, Valsabbina is a relatively young bank: at the end of the year, the overall average age was 40.5 (38.8 for just the female component) and the length of service was 11.6 years (11.9 years for just the female component).

### Distribution of the personnel by age, length of service and gender

	2014	2013	2012	2011	2010
average age	40.5	40	39.1	38.3	37.7
length of service	11.6	11.2	10.8	10.8	10.25
males	333	322	313	283	282
females	152	151	150	132	131
total	485	473	463	415	413

The level of education within Banca Valsabbina is very high: the employees in possession of a degree in fact come to 45.8%, while the average system figure stops at 35.8%, and those with a high school leaving diploma come to 52.2%. The female component in turn

discloses a comparatively high level of education, with a portion of graduates equal to 50%, while those with a high school leaving diploma come to 49.3%.

The training activities focused primarily, according to a business philosophy based on common sense, on job training by means of shadowing with qualified personnel and job rotation. The traditional training activities complement and support this practice, in part with compulsory contents, aimed at increasing technical and managerial skills of the collaborators.

The structure of the plans involved during the year a good 438 individuals, corresponding to more than 90% of the entire internal population, with the disbursement of 21,361 hours in total, corresponding to an average of more than 44 hours of training per head. In the previous year, the beneficiaries of at least one training course came to 434 (91%), with more than 39 hours of training per head.

The project called "The commercial excellence", method of job shadowing by a work psychologist in support of some branch managers in the management of the branch, must be pointed out due to its innovative nature. Specifically, the two-day job shadowing was started for nine persons in charge, whereas the one started in 2013 always for nine persons came to an end, with a revision day to check after one year any problems found in making the factors of change sought after.

The project is still in progress and shows a widespread consensus.

A good number of hours was dedicated to the issues of commercial development with foreign countries both in regulatory and operating/procedural terms, and to those of the legal area that allowed insights on issues relating to insolvency proceedings, successions, business law issues.

Credit management was also the subject matter of training events with classroom days, both for internal analysts and for branch employees, on financial statements analysis, credit monitoring, management of performing loans.

The same attention was paid to the strengthening of business relations with customers through specific training courses for colleagues in charge of sales: the privileged contents were those on products and services in the price list, sales and customer approach techniques and time management.

Much space was given to training that, by specific contractual provision, is qualified as mandatory: regulations on bancassurance, anti-money laundering, safety in the workplace and privacy. Teaching was often ensured with the help of internal personnel who are the most effective and credible vehicles for conveying information and training to be sensible in everyday behaviour.

The planning of training activities, on an annual basis, took advantage of all the instruments available: classroom meetings, job shadowing at the different sectors / services, video conferencing and online self-training. As with previous years, in 2014 as well, the Bank was able to benefit from the funds made available by Fondo Banche Assicurazioni on the basis of agreements and protocols that require the involvement of the trade-union component.

## **16 LEGISLATIVE AND REGULATORY INNOVATIONS**

The regulatory production that involved the banking system in 2014 was extremely extensive, complex and pervasive; our daily work was subject to a regulatory framework in continuous and complex development: the adaptation to this framework involved an absorbent commitment due to the obligations related to the many provisions issued in different subjects and disciplines.

It would not be realistic or useful to list here the new regulations that gradually occurred during the year, but among the many it seems necessary to dwell on at least two measures of the Bank of Italy - circulars 285 and 263, and updates - that had a significant impact on the internal organisation, work processes and professional skills of many roles involved.

The Bank of Italy published at the end of 2013 Circular no. 285/2013 containing the new supervisory provisions for banks, effective as from 1 January 2014. This circular implements the regulatory package of the European Union called "CRD IV Package", aimed at creating a set of binding and uniform rules. The Bank of Italy took the opportunity of the issuance of this circular to carry out a substantial review and an editorial coordination of the entire supervisory regulations in order to ensure and maintain over time their organic unity.

The substantial goals of the new prudential supervisory rules, in order to take account of the lessons of the financial crisis, are to strengthen the banks' ability to absorb shocks arising from financial and economic stresses, improve risk management and governance and strengthen transparency and disclosure of intermediaries.

The growing importance attached to corporate governance structures and to the control systems of banks led to a revision of the internal regulations: from the update of the Corporate Governance Project, to the setting up of the Risk Committee, to the accurate regulations on the methods of operation of the corporate bodies, to regular self-assessment on their qualitative and quantitative composition, to the adoption of more stringent rules on remuneration and incentive practices and policies.

In this context, the Bank decided that the traditional administration and control model, based on the Board of Directors and the Board of Statutory Auditors, adopted always, was the most appropriate and functional to ensure management efficiency and effectiveness of controls, in that it promotes a more streamlined decision-making process and a clearer division of the management and control tasks among the corporate bodies, allowing to better understand and translate the main principles of a cooperative and a more appropriate balance of powers.

The Board of Directors decided to create an internal Risk Committee, in line with the requirements of Circular 285, acting on a consultancy and proposal basis on risks and internal control systems, with a special attention to the determination of the Risk Appetite Framework (RAF) and its regulating policies, support in defining the guidelines of the internal control system.

Together with the issuance of the aforesaid circular and of its subsequent updates, a significant impact on the organisation and operation of the internal control system of the Bank is represented by the coming into force - as from 1 July 2014 - of the fifteenth update of Bank of Italy Circular no. 263/2006.

As regards new taxes, it should be noted that Italian Law Decree no. 66 of 24 April 2014, converted to Italian law no. 89 of 23 June 2014, established the increase in the tax rate of financial income.

As from 1 July 2014, the tax rate of financial income - capital income and sundry income - was increased. In general, the tax rate increased from 20% to 26%, without prejudice to the rate of 12.50% for the income from Government securities and similar.

Italian Law no. 186 of 15 December 2014 (Voluntary Disclosure) allows taxpayers, in particular natural persons holding assets abroad, to regularise, with procedure to be activated no later than 30 September 2015, their tax position also with regard to previous years. Unlike previous operations known as "tax shield", the obligation to fully pay taxes omitted each time is expected but with a significant reduction of the penalties applicable normally and the non-application of penalties in criminal matters.



A similar right to regularise is granted to subjects other than natural persons if they have carried out tax or social security irregularities for assets held also in Italy. The procedure under examination must necessarily take place with the help of professionals, involving the financial intermediaries only upon completion of the procedure. The anti-money laundering effects are of particular importance.

Italian Law no. 190 of 23 December 2014 (Stability Law for 2015) envisaged, among other things,

- the deductibility for IRAP purposes as from 2015 of the costs for permanent employment (net of the deductions already currently recognised) and the repeal of the reduction of the IRAP basic rate already expected by Italian Law Decree no. 66/2014;
- the increase from 11% to 17% of the substitute tax due on the annual revaluations of the post-employment benefits as from 2015;
- the possibility for employees to receive in the payroll, as a supplementary part of the remuneration, accrued monthly instalments of the post-employment benefits;
- the extension of the field of application of the VAT mechanism called "Reverse Charge", as well as the establishing of the obligation for the Public Administration authorities to withhold and pay directly to the Tax Authorities the VAT on goods and services purchased by the suppliers (Split Payment);
- the increase in the withholding tax applied by banks on credit transfers that entitle to tax deductions (e.g. credit transfers related to works with the right to deductions for the so-called energy saving).

## **17 RELATED PARTY TRANSACTIONS**

Related-party transactions are disciplined 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, published on the Bank's website as required by legislation:

- regulate the identification, approval and execution of the transactions entered into by the Bank with related parties and parties associated with it;
- establish suitable rules for ensuring the transparency and essential and procedural correctness of the transactions;
- define the operating procedures regarding the monitoring and handling of the transactions with related parties and regulates the checks and the reports required by the new supervisory instructions.

It is specified that all the transactions with related parties and parties associated with the same 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 the other parties, these being understood to be transactions that, due to significance and/or importance, nature of the counterparts, 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 conclusion, no transactions with related parties and/or parties associated with the same significantly influenced the balance sheet or the Bank's results, nor have there been any changes to or developments of transactions with these counterparts that could have a significant effect in this sense.

With regard to the data and information relating to:

- remuneration paid to members of General Management and the Executives with strategic responsibilities;
- relations with Group companies;
- subjects associated with related parties;

please see Section H - Related-party transactions in the Explanatory Notes.

## **18 SUPERVISORY BODY**

The Supervisory Body, established in accordance with Article 6 of Italian Legislative Decree No. 231/2001 (hereinafter for the sake of brevity also the “231 Body”), was appointed by the Board of Directors on 24 March 2004. The Supervisory Body has the task of assessing the correct functioning of the organisational safeguards adopted by the Bank so as to avoid involvement in events that could be subject to sanction pursuant to and for the purposes of Italian Law No. 231 of 2001. As established by the Organisational Model, it periodically reports to the Bank’s Board of Directors.

During 2014, the composition of the Body was not changed and, therefore, it is still made up of an external professional of proven experience who covers the role of Chairman, by the Chairman of the Board of Statutory Auditors, by the Head of the Internal Audit Service, by the Head of the Anti-money Laundering Service, by the Head of the Compliance Service, by the Head of the Risk Management, Planning and Control Service and by the Head of the Environmental Monitoring Service.

The presence of the company's different control functions provides assurance of the necessary link between the Body and the internal structures of the Bank and more fully complies with the necessary exchange of information flows envisaged by Bank of Italy regulations contained in circular 263, as amended and supplemented in July 2013.

During 2014, the activities of the Supervisory Body focused on the one hand on the checking and up-dating of the Organisational Model the Bank has endowed itself with in accordance with the aforementioned Law 231 and with the most recent regulatory innovations introduced, as well as the new guidelines issued by Confindustria, and on the other hand on the verification of the existence of the necessary organisational and/or control safeguards. During 2015, the Organisational Model is expected to be updated in order to consider the inclusion of the new offence of self-anti-money laundering.

During the six meetings held during the year, the Body was in a position to then stop and look at, with greater attention, the adoption by the Bank of the necessary organisational measures advised by the Bank of Italy and in particular those associated with the application of the regulations contrasting money laundering and the funding of international terrorism.

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

Copies of the reports of the Body, which are recorded in the specific stamped and dated book, are sent to the Chairman of the Board of Directors and the Chairman of the Board of Statutory Auditors.

Also during 2014, no reports were received on the special e-mail that the Body set up to ensure everyone the opportunity to highlight any relevant facts under the law 231/01.

You are hereby reminded that the company website, regulated disclosures section, contains all the information regarding the Organisational Model adopted by the Bank as well as the composition of the Supervisory Body.

## 19 ECONOMIC PERFORMANCE

The income statement of the 2014 financial year was characterised by some unpredictable and extraordinary trends: the contribution of financial management and impairment losses on loans and receivables, in a difficult context, which made the banking management extremely sensitive to external factors.

With the careful management of net interest income, with a particular contribution of net fee and commission income, with the control of general expenses, the net profit increased to Euro 14 million compared to Euro 7.7 million of 2013.

<b>RECLASSIFIED INCOME STATEMENT</b> (amounts in Euro 000)	<b>2014</b>	<b>2013</b>	<b>% change</b>
Net interest income	60,536	65,468	(7.5%)
Net fee and commission income	23,733	21,516	10.3%
Dividends, trading and other income	69,036	24,981	176.4%
Net interest and other banking income	<b>153,305</b>	<b>111,965</b>	36.9%
Net impairment losses on loans and receivables and held-for-sale financial assets	(76,409)	(50,075)	52.6%
Net profit (loss) from financial operations	76,896	61,890	24.2%
Labour costs	(33,370)	(32,201)	3.6%
Other administrative expenses	(30,284)	(26,940)	12.4%
Net accruals to provisions for risks and	(562)	(284)	97.9%
Depreciation/amortisation and net	(2,514)	(2,564)	(2.0%)
Other operating income/expense / profits or	13,756	11,410	20.6%
Operating costs	(52,974)	(50,579)	4.7%
Profit from continuing operations gross of	23,922	11,311	111.5%
Income tax for the year	(9,915)	(3,626)	173.4%
<b>Profit for the year</b>	<b>14,007</b>	<b>7,685</b>	82.3%

*In the table, the dividends also include those that in the income statement are classified under item 210 "Net gains (losses) on equity investments".*

### Net interest income

Net interest income decreased from Euro 65.4 million to Euro 60.5 million, down by Euro 4.9 million due to a drop in interest income greater than that in interest expense.

This was affected by the lower contribution of the securities portfolio, attributable to sales and hedging recorded by the segment and the solidity of the cost of bond issues, a consequence of fixed-rate issues made in the previous two years in order to stabilise the funding; these securities will expire mainly in 2015.

Interest income consequently fell from Euro 148.6 million to Euro 132.7 million, while interest expense fell from Euro 83.2 million to Euro 72.2 million. The comparison of the separated data relating to the contribution provided to the net interest income of the various components with respect to 2013 bears witness to said trends. The due to customer aggregate also includes interests on fixed-term deposits, which decreased from Euro 14.6 million to Euro 7.2 million.

<b>NET INTEREST INCOME (amounts in Euro 000)</b>	<b>2014</b>	<b>2013</b>	<b>change %</b>
<b>Interest income and similar revenues</b>	<b>132,701</b>	<b>148,660</b>	(10.7%)
- on financial assets	16,343	25,559	(36.1%)
- on loans and receivables with banks	889	1,130	(21.3%)
- on loans and receivables with customers	116,023	122,604	(5.4%)
- on FV adjustment to loans and receivables	(554)	(633)	(12.5%)
<b>Interest expense</b>	<b>(72,165)</b>	<b>(83,192)</b>	(13.3%)
- on due to banks	(1,051)	(2,688)	(60.9%)
- on due to customers	(26,006)	(35,496)	(26.7%)
- on securities issued	(45,108)	(45,008)	0.2%
<b>Net interest income</b>	<b>60,536</b>	<b>65,468</b>	(7.5%)

### Service margin

Net fee and commission income recorded a significant growth from Euro 21.5 million to Euro 23.7 million (+Euro 2.2 million equal to 10.3%).

Fee and commission income increased from Euro 25.3 million to Euro 27.1 million. Commissions on the placement of mutual funds and insurance products developed particularly. In detail, commissions on the placement of mutual funds reached a total Euro 2.7 million (+ Euro 0.6 million), while commissions on the distribution of third party services - which exclusively comprise the commissions relating to insurance policies - amount to Euro 3.7 million, compared with Euro 3.3 million in 2013.

Commissions on traditional services also contributed to the development of the sector.

Commissions on collection and payment services amounted to Euro 5.9 million (+5.7%), commissions on keeping and management of accounts amounted to Euro 8.6 million (+4.4%), commissions related to other services were basically stable at Euro 3 million.

Fee and commission expense decreased from Euro 3.7 million to Euro 3.4 million (-9.9%). Commissions on guarantees given decreased from Euro 1.6 million to Euro 0.9 million due to the early redemption of three-year bonds issued with state guarantee in February 2012. Commissions related to management and trading services increased from Euro 120 thousand to Euro 401 thousand, security custody services in particular, also of customers, and for services related to mutual investment funds.

<b>NET FEES AND COMMISSIONS FROM SERVICES (amounts in Euro 000)</b>	<b>2014</b>	<b>2013</b>	<b>% change</b>
<b>FEE AND COMMISSION INCOME</b>			
Guarantees given	1,190	1,174	1.4%
Management and trading services:	8,335	7,145	16.7%
- <i>currency trading</i>	326	301	8.3%
- <i>custody and administration of securities</i>	97	94	3.2%
- <i>placement of securities</i>	2,737	2,098	30.5%
- <i>orders collection</i>	1,442	1,329	8.5%
- <i>distribution of third party services</i>	3,733	3,323	12.3%
Collection and payment services	5,866	5,549	5.7%
Servicing for securitisation transactions	116	130	(10.8%)
Account keeping and management	8,625	8,265	4.4%
Other Services	2,972	2,993	(0.7%)
<b>Total</b>	<b>27,10</b>	<b>25,25</b>	<b>7.3%</b>
<b>FEE AND COMMISSION EXPENSE</b>			

Guarantees given	(907)	(1,580)	(42.6%)
Management and trading services	(401)	(120)	234.2%
Collection and payment services	(1,360)	(1,443)	(5.8%)
Other Services	(703)	(597)	17.8%
<b>Total</b>	<b>(3,371)</b>	<b>(3,740)</b>	<b>(9.9%)</b>
<b>TOTAL NET FEE AND COMMISSION INCOME</b>	<b>23,73</b>	<b>21,51</b>	<b>10.3%</b>

### Net interest and other banking income

Besides the net interest income and net fee and commission income, the following contribute towards the formation of the net interest and other banking income:

- dividends of Euro 777 thousand (compared with Euro 179 thousand). They include Euro 571 thousand of dividends received on UCIT units and Euro 60 thousand paid by the equity investment in Polis Fondi Immobiliari sgr;
- net profit (loss) from trading activities of Euro 629 thousand (compared with Euro 347 thousand), almost entirely made up of the profit in foreign currency;
- gains on available-for-sale financial assets of Euro 69,339 thousand (compared with Euro 26,423 thousand);
- losses on the repurchase on Bank bonds of Euro 1,709 thousand (compared to a gain of Euro 469 thousand).

Overall, the net interest and other banking income amounted to Euro 153.3 million, compared to Euro 112 million last year, which also included Euro 2.4 million of losses from the sale of loans and receivables.

### Impairment losses

Impairment losses, net of reversals of impairment losses, totalled Euro 76,409 thousand compared to Euro 50,075 thousand in 2013: they refer to loans and receivables with customers of Euro 71,346 thousand, available-for-sale financial assets of Euro 3,211 thousand and adjustments on unsecured loans of Euro 1,852 thousand.

The economic crisis, which we talked about so much and whose consequences are still impacting our everyday life, affected considerably the financial statements of banks, without exception.

The awareness of these persisting difficult conditions required a special attention from the system in the evaluation of credit assets: an attention that resulted concretely in the application of adequate policies and in the adoption of an operational and managerial behaviour consistent also with the all-new European supervisory regulations.

Our Bank has certainly not shrunk the responsibilities for this cultural and management change: impairment losses on balance-sheet loans, net of reversals of impairment losses, totalling Euro 71.3 million, actually express the result of ordinary activities of evaluation and of the application, regarding creditworthiness, of restrictive criteria formalised in a specific policy approved by the Board of Directors.

The provisions emerged as required both with regard to the new non-performing loans emerging during the year - especially due to the decreased ability to reimburse by debtors - and with regard to the negative performance of the listings of the real estate property sector: this last circumstance has in fact triggered a decline in the value of the assets pledged as guarantees of credit positions.

Impairment losses on loans and receivables include both the specific adjustment on impaired loans and the losses indicated on positions that are subject to bankruptcy

proceedings. Euro 2,045 thousand were set aside on performing loans, compared to Euro 1,183 of the previous year.

The cost of credit, represented by the percentage-based incidence of the losses and impairments on loans and receivables with respect to the amount of the net loans and receivables recorded in the financial statements, amounts to 2.41%, compared with 1.53% in 2013.

For the purpose of mitigating the credit risk as far as possible, the Bank reinforced the supervisory and control measures on the performance of the aggregate in every direction, resorting to the various possible instruments including the subsidiary Valsabbina Real Estate that, intensifying the effectiveness of its role, took part in several property auctions, backed both by CTU (court-appointed expert) appraisals sufficient as a guarantee and by appraisals updated by the professionals of Polis Fondi Immobiliari sgr.

In conclusion, impairment losses also concerned the available-for-sale financial assets (Euro 3.2 million compared to Euro 6.7 million for 2013), mainly referring to the impairment of the investment in Cassa di Risparmio di Ferrara. It is broken down in the previous section dedicated to “financial assets”.

As a result of the described entries, the net result from financial operations amounted to Euro 76.9 million, compared with Euro 61.9 million in the previous year.

### Operating costs

Operating costs amounted to Euro 53 million compared to Euro 50.6 million of the previous year, broken down in the following table.

<b>Breakdown (amounts in Euro 000)</b>	<b>31/12/2014</b>	<b>31/12/2013</b>	<b>% change</b>
Labour costs	(33,370)	(32,201)	3.6%
Other administrative expenses	(30,284)	(26,940)	12.4%
Net accruals to provisions for risks and charges	(562)	(284)	97.9%
Depreciation and net impairment losses on tangible	(1,697)	(1,700)	(0.2%)
Amortisation and net impairment losses on intangible	(817)	(864)	(5.4%)
Other operating income/expense	13,748	11,427	20.3%
Net gains (losses) on sales of investments	8	(17)	NS
<b>Total operating costs</b>	<b>(52,974)</b>	<b>(50,579)</b>	<b>4.8%</b>

The containment strategy of operating costs - which has always been a distinctive feature of the company's management policies - continued also in 2014. The increases are attributable to the need to respond to the needs of expansion of some operating structures, but also to resort to external contributions due to the demanding adjustments required by the deep changes in the regulatory framework, in addition to the burdensome organisation required by credit recovery.

Labour costs amount to Euro 33.4 million, compared with Euro 32.2 million in 2013 (+ Euro 1.2 million or 3.6%), above all else due to the increase in the number of employees from 473 to 485. The item also includes the remuneration paid, under the form of fees, to the members of the Board of Directors and the Board of Statutory Auditors.

Other administrative expenses rose during the year from Euro 27 million to Euro 30.3 million, disclosing an increase of Euro 3.3 million or 12.4%. The increase should be read bearing in mind that some significant charges, such as stamp duty, insurance premiums relating to customers, the direct expenses of credit recovery are recharged to customers

and recorded as other operating income/expense, which in turn grew from Euro 11.4 million to Euro 13.7 million (+ 2.3 million or 20.3%)

Also note that the increase in VAT from 21% to 22%, effective as from 1 October 2013, - that for the tax system applied to banks constitutes an additional cost component, - affected the entire 2014, compared to only three months last year.

Higher expenses refer to specific projects, approved by the Board of Directors, of consultancy in the preparation of corporate policies, mandated by the regulations contained in Circular no. 263 of the Bank of Italy and by the obligations related to the entry into force of "Basel 3" regulations, to some advertising campaigns, to the service centre and to third party processing.

Refer to the explanatory notes for a breakdown of administrative expenses.

The operating costs also include: impairment losses on tangible and intangible assets - totalling Euro 1,697 thousand (-0.2%) and Euro 817 thousand (+5.4%), respectively - and net accruals to provisions for risks and charges, amounting to Euro 562 thousand (Euro 284 thousand in 2013), posted to cover typical banking disputes.

Finally, the positive balance of other operating income/expense increased from Euro 11.4 million to Euro 13.7 million. The amount of income of Euro 14,170 thousand is formed by the recovery of stamp duty of Euro 8,096 thousand (Euro 7,318 thousand in 2013), by the fast-track loan approval process commissions of Euro 3,016 thousand, by the recovery of insurance premiums of Euro 1,052 thousand, by the recovery of legal costs of Euro 1,502 thousand and by other income and contingencies of Euro 504 thousand.

Other operating expense of Euro 422 thousand (Euro 1,342 thousand in 2013) consists of the annual portion of costs associated with improvements made to leased properties of Euro 150 thousand (Euro 212 thousand in 2013) and of other expenses and contingent liabilities of Euro 272 thousand. The amount of last year included the amount requested by the Interbank Deposit Protection Fund for the measure in favour of banks in difficulty of Euro 576 thousand.

Further to the described performances, the cost/income ratio - which expresses the ratio between operating costs and net interest and other banking income - was confirmed as highly performing, also affected by the financial component of net interest and other banking income of 34.6% (45.2% in 2013).

## **Income results**

With the performance of the income margins commented on above, profit from operations gross of taxation came to Euro 23.9 million, compared with Euro 11.3 million in 2013.

The tax burden amounted to Euro 9.9 million, with a tax rate of 41.4%. Last year, it was 32.1%, financial year that benefited from the reversal to the income statement of Euro 885 thousand in deferred taxes already recorded in the financial statements further to the exemption of the difference between the book value of the tax value formed with the valuation of the property during the first-time application of the IAS and of Euro 376 thousand deriving from the adjustment to the declarations submitted for the sheltering of goodwill and other intangible assets recorded in previous years.

Net profit amounts to Euro 14 million.

The ROE, which expresses the remuneration of the invested capital, stood at 3.66% (2.02% in 2013) and should be considered to be positive in the light of the reference context.

## Financial statement ratios

Closing and completing the analytical examination of the income statement items, the main structural, productivity, efficiency and profitability ratios are presented below, in accordance with Article 2428 of the Italian Civil Code.

<b>FINANCIAL STATEMENT RATIOS</b>	<b>2014</b>	<b>2013</b>
<b>STRUCTURAL RATIOS</b>		
Loans/Tot. assets	67.4%	70.3%
Loans /Direct deposits	91.0%	93.6%
Average employees per branch (No. of employees /No. of	7.95	7.75
<b>PROFITABILITY RATIOS</b>		
Net interest and other banking income/total assets	3.5%	2.6%
Net profit/average shareholders' equity	3.67%	2.02%
Net profit/average total assets	0.32%	0.18%
Net interest and other banking income/banking product (1)	2.04%	1.53%
Impairment losses on loans and receivables/Net interest and	46.6%	38.6%
Tax rate	41.4%	32.1%
<b>Earnings per share</b>	<b>0.39</b>	<b>0.21</b>
<b>PRODUCTIVITY RATIOS (in Euro 000)</b>		
Banking product per employee (average)	16,014	16,038
Loans per employee (average)	6,326	6,526
Direct deposits per employee (average)	6,955	6,968
Indirect deposits per employee (average)	2,733	2,544
Net interest and other banking income per employee (average)	327	245
<b>EFFICIENCY RATIOS</b>		
Admin. expenses/average total assets	1.47%	1.41%
Admin. expenses/net interest and other banking income	41.5%	52.8%
Cost/income	34.6%	45.2%
Adjusted cost/income (2)	39.6%	50.0%
Admin. expenses/banking product	0.85%	0.81%
Labour costs/average number of employees (in Euro 000)	69.43	68.55
<b>ASSET QUALITY RATIOS</b>		
Net impaired loans/net loans	12.95%	13.53%
Non-performing loans/net loans	5.48%	5.63%
Impairment losses on loans and receivables/net loans	2.41%	1.53%
Impairment losses on non-performing loans/gross non-	44.64%	34.87%
Impairment losses on impaired loans/gross impaired loans	30.68%	21.64%
<b>CAPITAL RATIOS</b>		
Tier 1	14.72%	13.63%
Total capital ratio	14.75%	14.58%
1. Direct and indirect deposits of customers plus customer loans		
2. Ratio between item 150+170+180 and 120+190		



## **20 SIGNIFICANT EVENTS OCCURRING AFTER THE END OF THE FINANCIAL PERIOD**

In accordance with the wording of the current legislation - Article 3 of Italian Legislative Decree No. 87 of 27 January 1992 - we specify that after the end of the reporting period and up until approval of the draft financial statements by the Board of Directors - on 4 March 2015 - no significant events took place capable of influencing or affecting the balance sheet or income statement and on a more general note all the aspects that have been illustrated in this document.

In order to increase the liquidity reserves, in January 2015, the size increase of the previous securitisation of January 2012 was concluded, with an additional sale of residential mortgage loans of Euro 150,869 thousand and a cash integration of Euro 5.1 million. In connection with this sale, the amount of the senior security recorded an increase of Euro 156,701 thousand. The related rating was confirmed "AAA" by the DBRS agency, whereas Moody's increased it to "AA2".

The value assigned to the junior security remained unchanged.

## **21 BUSINESS OUTLOOK**

In 2015, GDP is expected to grow - albeit moderately - in our country, with positive effects on the market of bank loans, which is expected to increase also due to incentive policies put in place by the ECB.

As regards the Bank, the reduction in interest rates can be offset with a squeeze of funding costs and an improvement in commissions. Moreover, the actions of strong discontinuity undertaken in 2014, which led to a significant strengthening of the levels of coverage of the loan portfolio, should allow an improvement in the cost of credit, which will be affected by the development of processes and instruments aimed at optimising its management and the increase in the effectiveness of the recovery activity.

This allows us to face up to 2015 with positive expectations: its macroeconomic scenario, still in a period of transition, will hopefully show a trend reversal compared to the past.

## 22 PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS

With regard to the distribution of the profit for the year of Euro 14,006,894, the Board of Directors proposes to the shareholders' meeting the payment of a cash dividend of Euro 0.2 per share (compared to Euro 0.12 of 2013), distributed as follows (amounts in Euro):

<b>Net profit for the year</b>		<b>14,006,894</b>
10% to the legal reserve	(1,400,689)	
15% to the extraordinary reserve	(2,101,034)	
Portion allocated to the reserves		(3,501,723)
to shareholders in the amount of Euro 0.20 per each of the 35,796,827 shares making up the share capital		(7,159,365)
to the charity fund		(60,000)
Additional allocation to extraordinary reserve		(3,285,806)

If this proposal is approved, the shareholders' equity will amount to Euro 391,960,003 thousand.

The proposal of a dividend per share of Euro 0.20, corresponding to a payout of 51% of the entire profit, with allocation to reserves of Euro 6,787,529, is also presented in view of the fact that the Bank meets the requirements of Basel 3 "fully loaded" (i.e. in their full implementation, expected in 2019) and has an equity that ensures adequate levels also in case of further financial stress.

In fact, Common Equity Tier 1 and Total Capital Ratio amounted to 14.7%, compared to the minimum requirements established by Basel 3 (inclusive of the "capital conservation buffer"), 7% and 10.5%, respectively, and they would be unchanged even in the absence of the option for the neutralisation of capital gains/losses on the Government securities issued by Central Governments of European countries.

### Dear Shareholders,

To conclude this report, we can state that the results achieved in 2014 are certainly appreciable, especially if compared to the persistent difficulties of this economic season.

We are particularly pleased to reaffirm, as already expressed on other occasions, that our daily commitment is supported by the various components that identify our Bank in terms of historical vocation close to the needs of the community to which it is proud to belong.

We would also like to emphasise that the Bank has continued to play a recognised role of social responsibility, carried out in different forms, ranging from the credit support of worthy initiatives, to prompt and timely response to the requests of customers and partners, to small but numerous contributions to cultural, sports and social events organised on the territory.

And the results of these activities cannot certainly be recognised in the income statement but help to enhance a reputational aspect to which the Bank attaches great importance.

Before leaving this shareholders' meeting, we heartily thank all of our Shareholders, giving a warm welcome to those recently entered in our team, and to all our customers.

We are also very grateful to the General Management for the impassioned skill with which it led and coordinated the entire structure, and our gratitude extends to all the personnel whose commitment and dedication were essential for achieving the company objectives.

Our appreciation goes also to the members of the Board of Statutory Auditors for the timely contribution offered, in the exercise of its functions, to the relations between Corporate Bodies.

We sincerely thank the central and peripheral supervisory authorities and, in particular, the Management of the Brescia branch of the Bank of Italy, Consob and category and trade association bodies, correspondent banks and other intermediaries, with the representatives of which we constantly dealt with in terms of useful collaboration.

A memory during these Shareholders' meeting of our collaborator who passed away last year: Graziano Scalmazzini working at the branches of Storo and Bondone. We extend our sympathy to his family.

The beginning of the year 2015 was characterised by major changes, starting from the reform measure of cooperative banks that, albeit limited to larger intermediaries, will have an impact on the structures of the entire credit system and, in the medium term, repercussions also on smaller cooperative banks like ours. We have the clear conscious of having understood at best the cooperative spirit of the cooperative bank and we are confident that the model will continue to be valid over time.

With these positive feelings, we make an appointment for next year fully confident of the fact that we will be able to deal with the regulatory complexities and changes in the market as we always have.

Brescia, 4 March 2015

The Board of Directors