

BANCA VALSABBINA - DIRECTORS' REPORT ON OPERATIONS

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015

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INTRODUCTION

Dear shareholders, more than seven years have passed since 15 September 2008 that, with the insolvency of Lehman Brothers, marked the beginning of the most serious economic crisis since WWII.

Finally, after having awaited it for so long, recovery has started: It is still in its infancy, is less sound than expected, but it is not unrealistic to think that it may gradually strengthen to restore a little serenity and confidence to many who have suffered.

The recovery will without doubt be slow and long timescales will be needed to recover almost ten points of GDP that Italy lost during the crisis years in terms of production and corresponding wealth. But in the meanwhile the environment has changed due to the improved climate of confidence of households, and, albeit to a lesser extent, businesses, with a view to greater stability and a rediscovered equilibrium.

And still, whilst during the year the improvements of the economic situations were appreciated, other types of crises – geopolitical, social, financial – disturbed the picture: 2015, packed with unforeseeable events on all these fronts, foretold a season of worrying new questions for 2016.

The November crisis of four banks – which ended up at the centre of the news, criticism and unanimous disapproval – the anticipated “experimentation” of the bail-in, the price of oil paradoxically too low, the slowdown of the Chinese economy, the dramas and the threats of international terrorism are the main factors which “contributed” to the collapse of the stock markets which was to take place at the beginning of the year, with heavy repercussions on bank stocks, especially Italian.

The negative and unprecedented scenario produced serious consequences indeed. It first of all altered the new positive perception which was taking shape. It re-shaped the economic results of all Italian banks due to the absorption of the losses of the four banks in financial difficulties: Popolare dell'Etruria, Banca Marche, Cassa di Risparmio di Ferrara and Cassa di Risparmio di Chieti. It demolished – maybe the most damaging aspect – the confidence of the savers in the sound banking system in Italy.

So as to remain in line with events pertinent to us, the financial statements which we present today for your approval, essentially in line with the positive results of the previous year up until November, report extraordinary expenses of nearly Euro 5 million, by way of the obligatory contribution within the sphere of the rescue procedures for the aforementioned four banks.

But we have not lost heart. First and foremost because of the closeness and confidence of our shareholders and our customers. In this Valsabbina shows itself as always the same: that it has remained the only one in the area which supports the vocation and the enormous responsibility of being a “co-operative” bank. And, if the vocation is an almost instinctive attribute, responsibility — above all else social — is sought-after; it implies reasoning and the commitment to identify paths and objectives in relation to a profit which cannot only be quantitative.

The years to come reveal the prospect of difficulties with regard to the profitability of banks, weighed down by the significant stock of non-performing positions and squeezes in the restrictions of a market with rates close to zero. Our Bank is certainly no exception and responsibly deals, directing energies towards crucial changes, with the critical aspect of the increasing riskiness of borrowers and the low profitability of brokerage activities; but we are confident in our result-achieving abilities.

We dedicate the final paragraph of this introduction to an important venture within the commercial sphere. The recent opening of a branch in Monza – a decision made with long-term entrepreneurial vision – projects Valsabbina into the heart of Lombardy, assigning it an exacting role in a moment when, increasingly belonging to the area, it is preparing to become the only “co-operative” bank in the region; a circumstance which, far from making us feel “alone”, leaves us with the sense and the pride of being “unique” in the tradition of belonging and loyalty to co-operative lending.

For this reason we are certain that we will not disappoint the expectations of those who contact the Bank.

On conclusion of this introduction, the Board of Directors now provides an analytical account of the operating results for the 118th financial year, the evolution of which has without doubt been influenced by the many events which we have outlined above and by the profound transformations which have taken place in the domestic and international environments.

1 INTERNATIONAL ECONOMIC AND FINANCIAL SITUATION

The elevated presence of Italian companies oriented towards export in the same area where our Bank operates, companies whose contribution is a decisive component of the performance of the Italian economy, requires us to analyse the trend of the international economic cycle, whose 2015 final balances present results differentiated by geographic area and whose growth prospects for the year underway were recently revised downwards by international agencies.

The Central European Bank offers, as is usual, an effective summary on the evolution of the economies of the context outside the Euro Zone: global growth was contained (+3.1%, down slightly with respect to 2014) and inconsistent with a pick-up in world trade which followed, albeit at a slow rate. The inflationary pressure was low during the whole of 2015 and will be curbed further having taken into account the recent additional decreases in the price of oil, frequently dropping under 30 US dollars a barrel, and for other raw materials.

The United States reported a trend in the growth rate which was partly mitigated in the fourth quarter of 2015, despite the presence of sound fundamentals and a growth rate of the GDP on an annual basis of 2.1%. The economy maintains its underlying vigour, as indicated by the on-going improvements in the employment market, and the weakness of internal demand in the latter period should be limited and temporary. The United States continue to benefit, like other industrialised countries, from the sudden drop in the price of oil and the related impact on the income and consumption prospects of the Americans.

In the United Kingdom, GDP continued to grow, albeit at a more moderate rate. Economic expansion was ensured by the trend in household consumption, pushed along by the increase in real income thanks to the favourable dynamics of energy costs. Unemployment was also down confirming favourable growth prospects.

By contrast, in Japan the economic growth rate was relatively contained, at just 0.6% of GDP. Toward year end, despite exports continuing to recover, retail sales and industrial production were down, indicating a weak trend in internal dynamics.

The evolution of the emerging economies during 2015 presents more shadows than light, with growth which in perspective remains weak and varied from country to country. The GDP trend in China was 6.9%, more or less in line with the objectives of the Government, in a scenario however indicating an economic slowdown, which appeared significant in relation to the vigour of the previous years, and progressive rebalancing of the same towards services and consumption, in the presence of more contained industrial production.

The dynamics of the main countries importing raw materials was also favourable, especially India, despite decisive signs of slowdown in the exporting countries and in particular the Brazilian economy (-3.8% of GDP in 2015) due to the joint effect of the internal factors and the drop in prices of raw materials. The Russian economy (-3.7% of GDP in 2015), which depends heavily on oil, despite certain timid signs, presents unfavourable short-term prospects, conditioned by a possible additional drop in the price of crude.

The European Central Bank also offers an effective summary on the trend of the economies inside the Euro Zone (+1.5% of GDP in 2015 in the presence of +0.9% last year and a forecast of 1.7% for 2016), whose recovery is continuing the favourable path registered in the last two and a half years. Private consumption is also benefiting from the increase in available income of households which reflects the drop in oil prices, down during the year by more than 35%, and the gradual rise in employment, up 1% on an annual basis. Again with reference to 2015, the growth rates among the countries in the area present different dynamics: in Spain, for example, GDP rose 3.2%, in Germany 1.5%, in France 1.1% and in Italy 0.8%.

2 PERFORMANCE OF THE MONETARY AND FINANCIAL MARKETS

The change in international, European and Italian financial markets was, in the first few months of 2016, strongly oriented downwards, as well as characterised by high volatility, with a drop in the reference stock market indexes of the main European markets extremely significant, involving a decrease at the end of February of around 20% in Milan, 13% in Frankfurt and 8% in Paris.

The analysis relating to the causes of these phenomena is not consistent; on the one hand, in respect to the performance of the global economy, on the other hand, uncertain decisions of the monetary authorities, speculative attitudes and profit-taking.

The extent of the most recent stock market changes still appears more significant if one compares the above figures with those relating to the whole of 2015, a period in which the Milan stock market was up 12.7% (+42% in the last 4 years), followed by Frankfurt with +9.56%, Paris with +9.46%, while Madrid (-6.2%) and London (-4.5%) closed in the red.

The most significant drops were securities of the banking sector at a European level, but at least at national level, important initiatives have been launched, which run alongside those already undertaken at the beginning of 2015 regarding the reform of co-operative banks, approved in the first 10 days of February 2016 by the Cabinet.

Specifically, a decree law was approved which contains the reform of the Co-operative Lending Banks (BCC) aimed at overcoming the critical aspects and the weaknesses of the reduced size of the individual banks with the obligation of the same to join a co-operative banking group whose group parent is a joint-stock company with equity of no less than Euro 1 billion. At the same time, the value of the co-operative model for the banking sector was confirmed and the principle of the per head vote remains.

The same measure envisaged the assimilation in the legislation of the agreement reached with the European Commission on the guarantee scheme for divesting non-performing loans. The purpose of the measure is to encourage the development of the Italian market for non-performing loans, facilitating the access of investors with a medium/long-term timescale and contributing towards reducing the price spread between who sells and who buys impaired loans/receivables, which represents the main obstacle to market growth.

3 ITALIAN ECONOMIC SITUATION

In the report accompanying the previous year's financial statements, closing this section, we recapped the prospects for a gradual return to growth for our country, estimated by the Bank of Italy as +0.4% in 2015 and a more steadfast expansion of the GDP in 2016 (+1.2%), despite an inconsistent scenario at geographic level. The 2015 figure confirms and improves on these forecasts with +0.8% in GDP for 2015 and a prospect of +1.3% for 2016.

The Bank of Italy analysis indicates that in Italy the economic pick-up continues gradually, with a re-composition of the elements which push this growth along, from exports, which in the last four years have supported the economic activities, to internal demand. Household consumption rose 0.4% (on a quarterly basis) sustained by a low level of prices and in the presence of a rediscovered climate of confidence.

The pick-up, albeit weak, of the Italian economy benefited from a favourable external context and a budget policy which aims to avail itself of the margins of flexibility permitted by European legislation, with the objective of progressive recovery in the debt-GDP ratio as well.

At economic sector level, a recovery was seen in manufacturing, expansion in services and stabilisation in construction, after a considerable and prolonged drop,

The employment market is also improving slowly. The unemployment rate dropped to around 11.4%, the lowest level since the end of 2012, also due to the reduction in youth unemployment, which however remains at all-time high levels close to 38%. The expectations of the companies referring to the employment situation are cautiously optimistic, so far linked above all else to new measures introduced by the Jobs Act and the possibility of minor contributions associated with new contracts.

The monetary policy decisions adopted by the ECB pursued the objective of fighting the risk that persistent downwards pressure in prices, triggered off also by the drop in raw material prices, should have effects on the more long-term inflation expectations, emphasising deflationary risks. Inflation in Italy, measured by the change over the twelve months, dropped in December to 0.1 percent.

During 2015, the growth in loans to the non-financial private sector progressively strengthened, with a cost of the loans granted to households and business at historically very contained levels, thanks to the expansive measures adopted by the ECB.

Despite the significant efforts which the Italian banks have had to make with regard to the capital increases so as to observe the parameters envisaged by EU legislation, during the year an improvement in credit was registered in the manufacturing sector, and, to a minor extent, in the service sector, with the exception of the construction industry where significant difficulties remain.

On a consistent basis with their vocation, the support which the Co-operative Banks offered to local economies in 2015 did not waiver, with the disbursement of new loans to SMEs for around Euro 29 billion, of which nearly 45% destined for smaller-sized businesses, the main cornerstone of the Italian manufacturing system.

With regard to non-performing loans, which at the end of 2015 almost reached Euro 200 billion gross, the portion attributable to the Co-operative Banking system amounted to Euro 41 billion (21.3% of the total): a portion decidedly lower than that of the loans of the system. The improved awareness of the client base throughout the reference area in fact made it possible for the Co-operative Banks to register lower riskiness than the Italian banking system.

On the basis of the year end situation, the context in which the Italian banks project their operations in 2016 however remains uncertain due to various factors:

- the pick-up in demand for credit from customers still remains very gradual and converges slowly towards the GDP growth rate, with a greater increase for credit to households, supported by the progressive recovery of disbursement of mortgages;
- the growth rate of non-performing positions should decrease in 2016, and then stop during 2017/2018 in correlation with the improvement in the general economic cycle, therefore leading to an initial decrease in provisions already in the current year; the cost of credit will therefore still absorb 70% of the gross operating result (with respect to an incidence of 25% before the start of the crisis).

4 THE ECONOMY IN OUR MARKET

Each time we use the expression “community bank” we are fully aware of the meaning of these two words: we have been a bank since 1898 and community is the scope, not only geographic, in which our activities extend. It is a space easily recognisable because it is made up of economic initiatives, human and work relationships, of places with boundaries getting larger in which the Bank is rooted, growing therein in complete harmony.

It is not however thus taken for granted that we know our area well, because its context is undergoing continual evolution and the deep crisis of the last few years has changed its traits considerably: in daily activities, together with traditional operations, we therefore feel responsibility to dedicate time to these changes so as not to lose sensitivity and ability to relate to our communities.

Even more than the international events and those of the global market, which also explain the repercussions on the economies in our area, we therefore considered it right and respectful to reserve a more extensive and detailed examination of the economic situations in our historic Brescia area and the more recently entered province of Verona, where our market shares, just a few seasons from our entry into the market, achieved 0.87% of bank loans to the provincial economy.

The market share on loans in the province of Brescia by contrast reached 4.30%: an extent by no means negligible if compared with the significant concentration of banks and financial brokers which crowd Brescia's economic area: the richest and most diversified region after Milan.

And the close integration between the economies of the Lombard provinces suggests to us a regional economy, the most important in the country.

Confindustria's economic cycle survey on a representative sample of manufacturing business reveals that in Lombardy during 2015 production rose on average by 1.5% for industry and 1.3% for cottage industries, with a particularly appreciable increase in turnover (+3.3%), as well as orders both internal (+1%) and abroad (+2.8%): favourable dynamics which have had positive repercussions on employment and, in general, on a greater operational stability of the companies. The number of bankruptcies, an important indicator of the state of the economy, with Lombardy in first place among all the Italian regions, reported significant decreases everywhere.

The only discordant note revealed in the last quarter of the year concerns exports, in which the orders were down slightly (-0.3%), with respect to the previous quarter.

With regard to the regional industry, 2015 closed with overall positive results and signs, such that the Chairman of the Lombardy young entrepreneurs stated that *“the quarter closing 2015 was, for the Lombard economy, a quarter of rediscovered solidity.”*

It is therefore a pleasure to establish how, within that broader and integrated context, we have found confirmation of the auspice expressed at the start of last year when we wrote that we wished to *“embrace with serene realism those*

signs which seem to indicate to us that this long period - which since the start of 2008 to-date has drastically reduced industrial activity in Brescia by nearly a third – might be coming to an end.”

THE ECONOMY IN THE BRESCIA REGION

Also according to the market surveys of the Brescia Industrial Association, the evolution of the manufacturing sector was favourable overall and in tune with the positive tone which characterised the trend regionally.

In the provincial area, in fact, production activities of the manufacturing area reported an annual average increase of 1.6%; a figure slightly higher than the regional one.

The same Association highlighted that *“the production activities of manufacturing companies in the Brescia area experienced a new increase in the fourth quarter of 2015, which falls within a domestic scenario characterised by a gradual, albeit moderate, pick up.”* This growth came to 3.8%, compared with the corresponding period in 2014, the highest value registered since the end of 2010.

The satisfactory performance also reported in the last quarter by industrial production, plant usage rate was reported at 71%, and saw appreciable growth rates for the rubber and plastics sectors (+ 11%), the wood-furniture sector (+ 6.5%), the food industry (+ 5.2%), textiles (+ 4.5%) and iron and steel industry (+ 2.4%).

The sales were drawn along by internal demand, even though non-EU countries had slowed down due to the lower demand originating from emerging countries. At year end, forecasts for the coming months are more optimistic overall.

The evolution of production activities of the manufacturing small business segment was also favourable and which, albeit at rates slightly lower, closed the year with a positive result of 1.3%, mainly due to the contribution from the paper-publishing sector (+ 17%), clothing (+ 9.2%) and wood-furniture (+ 6.7%). And the orders in the last quarter – up 0.8% with respect to the corresponding period in 2014 – justify the expectations of a favourable consolidation of the sales revenues during 2016 even if four sectors in the manufacturing area, out of eleven, still disclose negative changes: textiles, mechanical engineering, foodstuffs and sundry industries.

In any case with regard to the small business sector *“it will be necessary to await the coming quarters in order to assess the solidity of the recovery since the gap between the current levels and those pre-crisis are still considerable,”* according to the Brescia Industrial Association.

It should be noted that in Italy the number of small business has overall gradually fallen over the years: between 2009 and 2015 their number fell 7.9% at national level (- 1.6% in 2015 alone) and the trend affected, albeit with less intensity, Lombardy as well which reported a drop of 5.6% (- 1.2% in 2015 alone). And similarly to that which occurred in the rest of the country, also the province of Brescia, which has 36 thousand businesses out of 256 thousand in the entire Lombardy region (14%), has a predominance of small business, nearly 92% of the total have less than 9 employees; although they are proportionally richer than that of the medium and medium-large sized companies. Local businesses represent 2.2% overall of the national total, companies with 10-49 employees 3.1% and those with 50-249 employees 3.4%.

The outlined scenario has the peculiar characteristics of an apportioned production structure featuring considerable harmony with traditional production models, but also completely open to change, able to face the crises, to evolve so as to keep up with the times and to gradually consolidate income performance and operational factors.

In comparison to the past, the production levels of Brescia industry still remain considerably down with respect to the numbers achieved in the years before the crisis: at the end of 2015, the production index of the manufacturing companies came to 77% of that reported at the end of 2005, while for the small manufacturing businesses it just about exceeded 70%.

This situation, despite the context of a more favourable market evolution, does well to comprehend just how wide the spaces still are for recovering those conditions of productivity and wealth seen in periods of better economic growth.

On the other hand, the figures of the Cassa Integrazione Guadagni (unemployment benefits fund) also confirmed the widespread, albeit moderate, signs of recovery of the local economy: the hours authorised in 2015 in fact fell to 9.8 million, the lowest figure registered since 2009, when the figure stabilised at around 36.5 million, the highest of the past decade.

With regard to commerce, the market survey of the Brescia Chamber of Commerce reveals how 2015 ended with a new positive result which consolidated the satisfactory tone from the start of the year. From a sectorial standpoint, the best performances were achieved by the non-foodstuffs segment (+ 4.8%), followed by the foodstuffs segment (+ 2.6%), while employment levels stood at values just about positive (+ 0.3%) compared to regional levels (+ 0.8%).

Analysed in their entirety, the indicators commented on so far express an overall reassuring picture of the provincial economic trend, also because they are positively supported by a feeling of confidence.

This is confirmed by the determination of the operators in the agricultural sector and the agro-foodstuffs industry in seizing the opportunities offered by Expo 2015, putting themselves forward, as we illustrated last year, *"for the attention of economic operators from around the world" ... "so as to provide additional fuel to the signs of recovery which loom for 2015."*

Confirming the traditional and recognised local industriousness, it is thus entirely appropriate to disclose at this point the construction of the Tree of Life which, the idea of the Artistic Director of the Italy Pavilion and destined to capture the imagination of the visitor, undertook the value of the genuine symbol of Expo Milan 2015.

With its 35 metre height, the work of art, which represents the future, innovation and technology, was in fact achieved in 150 days of exacting work by Consorzio Orgoglio in Brescia.

Even though the stability of the global economy is still afflicted by uncertainties caused by the slowdown of the emerging markets, we can't ignore the conviction and the hope that "the pride" of the entire community has achieved combining innovation with tradition.

This drive shows itself in all the occasions in which it is necessary to protect or support the singular values of the entrepreneurial class of our three valleys, as occurred for example recently in the meeting in the city between the Minister for Defence Pinotti and the Council of the Brescia Industrial Association, during which particular attention was paid to the aspects linked to the sector of defence and the security segment, of undoubted importance for the local district.

Moreover, the candidature last February to the chair of Confindustria of Mr. Bonometti – third generation entrepreneur heading up an international group with headquarters in Brescia, as well as Chairman of the same AIB – confirms the commitment and the value of the entrepreneurial class in our area.

The success, also in terms of solid supply opportunities, in some aspects even unexpected, obtained last February is an excellent omen, achieved as a result of three days of trade talks organised in Brescia between four US giants of industry, users of component engineering for the vehicle industry, and the local network of small- and medium-sized manufacturing businesses in the sector.

In conclusion, we would like to mention the difficult performance of the construction sector, whose conditions of weakness and uncertainty have repercussions on a plurality of parties, production segments and service activities. And among the latter, the role performed by the banks in the delicate process of funding the vast type of customers assisted is by no means extraneous. And insofar as it may appear tedious to repeat, the hope for a return to normalisation of the property market is deeply felt; small signs of improvement have already what is more made themselves known during the year, to a certain extent driven by the boost given to the construction sector by the tourism industry which in the province of Brescia registered nearly 9 million visitors in accommodation facilities out of 33 million in the entire region.

THE ECONOMY IN THE VERONA REGION

Similar to the matters highlighted for the Brescia area, we make reference to the Confindustria survey on the assessments expressed by a representative sample of local businesses.

Since the beginning of 2015, the economy in the Verona area, above almost all areas in the country, reported important progress. During the first quarter of the year, the growth in production came to 2.75%, 2.35% in the second quarter and 2.56% in the third, with the forecast of additional, albeit marginal, improvements in the latter part of the year. Exports were confirmed as the dominant factor of the positive trend in the economy, with decidedly favourable dynamics compared to 2014.

The Verona area is the traditional leader in beverage exports (mainly wine), with a share which in September came to 12.1%. The destination markets for are mainly European, while growth internally has turned out to be slower.

The final figures of the most important Italian trade fair in the agri-foodstuff sector in this first part of 2016 were very positive and suggest furthermore during the year. The biennial international Fieragricola event in Verona at the

beginning of February had more than one thousand operators, 15% of which from abroad, including Cuba, attend the important event.

Overall, the operators from abroad increased 5% when compared with 2014, while the total number of visitors (130,000) was lower than previously, benefiting however from a greater and more selected participation of professional figures and qualified operators.

The event was increasingly complete and innovative and this year, maybe also due to the carry-over effect produced by Expo 2015, covered all the aspects of agricultural activities, from mechanical engineering to animal husbandry, renewable energies, agri-pharmaceuticals and new production technologies.

In line with the aforementioned strong export orientation of Verona, the new president declared that *“aware that the competition also in the primary segment is played out globally, we have staked much on the development of Fieragricola as an instrument for the internationalisation of businesses.”*

On a parallel with the favourable economic conditions more or less in all economic segments, also employment levels reported constant growth on a quarterly basis, albeit with more contained values with respect to the national average and also the regional one. The recruitment rate in the province of Verona came to 6.6% in 2013 and 7.2% in 2014, while in 2015 it stood at 8.4%, a percentage higher than both the regional and the national level. According to the Unioncamere figures, the number of production units present in companies increased, even if the provincial growth rate, paused at 0.20%, remains lower than the regional average (0.31%) and the national one (0.75%). The increase concerned joint-stock companies (2.48%), while sole trader businesses and partnerships, which together represent a share of around 74% of the total, reported a slight decrease (-0.62%).

In the latter period of the year, the opinion of the local entrepreneurs confirmed the confidence, above all else vis-à-vis the international markets, while the expectations with regard to the national markets and the local one still remain insufficient.

Also the service sector, in conclusion, maintained a positive and constant trend, attributed in particular to the tourism industry, supported by the many attractions in Scaligera city and Lake Garda following targeted promotional policies implemented at all levels, both public and private. In this sector as well, the opinion of the entrepreneurs on the economic progress for 2016 is overall optimistic.

We conclude this quick overview of the economic report on Verona province by reporting an apparently marginal figure, but which emblematically recounts, especially in periods of widespread uncertainty on the solidity of contractual regulations, a case of good administration. In the list of the 300 best Italian paying authorities, the Municipal Authority of Verona is placed in 9th position, confirming the commitment of the local authority to activate the services provided to the community and, specifically, its economic and production sectors, in genuinely efficient forms.

5 ECONOMIC AND FINANCIAL OUTLOOK

The prospects for the global economy, according to the most recent forecasts of the International Monetary Fund indicate a scenario of growth for 2015 of around 3.1% which should, in the two-year period 2016-17, come respectively to 3.4% and 3.6%, with a however downwards estimate with respect to the forecasts of last October due to the presence of various factors of uncertainty at global level. With regard to the individual economies, the United States should grow by 2.6%, Japan by 1%, the UK and Germany by 1.7%, Spain 2.3%, and France and Italy by 1.3%.

The main macro-economic risks are linked to the slowdown in the growth rates of the emerging countries, the containment of the prices of raw materials, particularly sensitive with reference to the prices of oil, the US monetary policies, oriented towards a gradual squeeze (during the December meeting, the FED decided to increase the reference rate by a quarter of a point, the first for seven years).

The international geo-political picture, what is more, remains full of tension, despite the significant changes registered in 2015, especially with reference to the positive evolution of the Iranian crisis. The escalation of the situations of conflict in the various geographic area represents a troubling element on the performance of global trade, financial flows and tourists. Also within the European Union, the internal level of political tension has risen significantly, in the presence of high migratory flows from Syria and other unstable countries in North Africa and the Middle East, the initiatives already underway for the closure of the borders and suspension of the free circulation of individuals deriving from the Schengen agreements, as well as the imminent referendum (Brexit) in the UK to decide whether its leave the EU.

In this context, the monetary policies in the industrialised countries, with the exception of the USA, remain accommodating, in the presence of an inflation rate lower than that pursued by monetary authorities. To date, imminent decisions are awaited from the European Central Bank, whose monetary policy could envisage a further boost for the economy.

The 2016 forecasts of the International Monetary Fund relating to Italy indicate growth in GDP of 1.3%, with a deficit/GDP ratio which should be within 2.6% and a public debt/GDP ratio down from 133% to 132%. The rate of inflation is estimated as 0.6%, lower than the European average, while the unemployment rate is envisaged as 11.4%, higher than the other leading countries in the Euro Zone (Germany 6.4%, France 10%).

With reference to the Italian banking system, the slight increase in the available income of households and the improvement in the unemployment rate should encourage an increase in deposits, within the area of which the preference of customers for deposit and savings accounts will be confirmed.

The impacts with regard to the income statement for 2016 are an improvement in the interest margin, up by 1.4% (+2.3% for Co-operative Banks). The margin from services is also envisaged to gradually increase, while a drastic drop in the contribution from the finance segment is envisaged, having significantly supported the income statement of Italian banks in the last three-year period.

The average cost/income will be close to the threshold of 55%, due more to the effect of the growth in net interest and other banking income rather than the additional containment of the operating and payroll and related costs.

The increase in the gross operating result is estimated at around 11.1% (+ 12.7% for Co-operative Banks) while the average system ROE is expected to be 1.8% for 2016 and 2.7% for 2017, far removed from the pre-crisis levels, but in any event capable of permitting a payout in line with the current alternative investment returns and providing a contribution to the needs to enhance equity.

6

SHAREHOLDING STRUCTURE AND SHARE TRENDS

Those who study economic history will remember 2015 as a year of great transformations and changes for the banking system. After decades of debate and contested legislative initiatives aimed at a systematic reform project, the co-operative banks were affected by a governmental ruling which modified the status quo, but which also produced important repercussions for the entire banking industry.

On 25 March 2015, amongst lively controversy not yet fully extinguished, Italian Law No. 33 converting Italian Decree Law dated 20 January 2015 published in the Italian Official Gazette, which made, together with other minor provisions regarding the portability of current accounts and new funding mechanisms for export loans, changes of great importance to the Banking Consolidation Act.

At the beginning of our report last year, we made initial comments in this regard, emphasising the push of the supervisory authorities towards measures in the name of the long-term staying power of the banks in the market and their equity enhancement.

As a result of the new rules, those Co-operative banks with assets of more than Euro 8 billion will have to transform into joint-stock companies (Spa), thereby giving up the co-operative form and the *per head* vote.

With respect to the version drawn up by the Cabinet on 20 January, the possibility has been introduced in the final provision for shareholders' meetings called to transform into a joint-stock company to establish, with a majority lower than that currently envisaged by the Italian Civil Code, a ceiling of 5% of the voting rights for a maximum period of 24 months. The objective was clear and declared: to avoid hostile take-overs, perhaps from abroad, by contrast furthering domestic combinations and mergers.

In June, the Bank of Italy issued measures implementing the new law, thus foreseeing that the first 11 co-operative banks in terms of size of assets would have had 18 months to call the shareholders' meeting to transform into a joint-stock company.

A year has passed: two of the 11 co-operative banks affected by the measures have already changed their corporate status to joint-stock. Others are preparing to do so and day after day a scenario of transformations and mergers/combinations is being defined or, rather, of a search for stability, while the difficult contest engaged on the alleged situations of conflict with the Constitution, which sanctions the recognition of the "social function of the co-operative" has not yet concluded.

After having been discussed for the whole of 2015, in this initial part of the year Italian Decree Law No. 18 dated 14 February 2016 finally saw the light, reforming co-operative lending societies which, together with co-operative banks which will remain as such, maintain, albeit with different connotations, co-operative profiles and principles.

This is a truly epoch-making reform, as already mentioned previously.

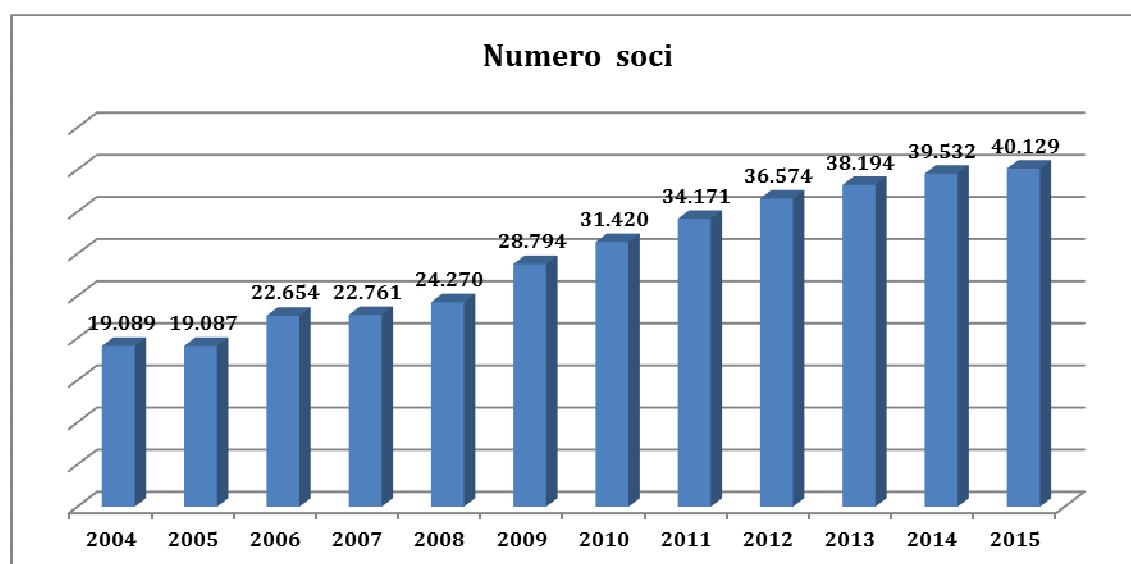
The turmoil that hit the listings of bank securities at the start of the year, whose warning signs were noted already towards the end of 2015, confirms how the banking system has truly changed. We do not yet recognise the features of the new one due to the profound changes still underway, certainly not extraneous to our area.

Valsabbina has not been directly involved in the large reform projects. Due to its dimensions, it maintains the precious legal status of a co-operative bank and therefore remains fortunately and firmly based on the traditional model of co-operative bank with a strong territorial presence and purpose. After almost 120 years, borrowing a literary expression, we can state that 'the culture of memory generates the future'.

In this direction, the Bank deals with the responsibility of being, before long, the only co-operative bank not only in the province of Brescia, but in the entire Lombardy region. It is a considerable responsibility because it is supported by our 40 thousand Shareholders: all central figures because each of them is a small owner of the business.

The co-operative bank, mainly addressing the Shareholder-Customer and the area in which it operates, gives prime importance to people rather than to capital, supporting the development of individuals and communities and in this manner activating a virtuous circle which develops social relationships with equal attention and intensity to the economic and commercial ones.

The stability and the continuity of the relationship with Shareholders is confirmed by the growth trend in their number, rising from 36,574 at the end of 2012 to 38,194 in 2013, 39,532 in 2014 and 40,129 last December.



Nearly 600 individuals joined in 2015, which characterises Valsabbina as one of the most invested in entities among co-operative banks, including those destined to become joint-stock and one of the largest, in size of assets, among those which will retain the status of co-operative bank.

The valuation of the tangible additional benefits reserved for Shareholders in core operations continues to attract subscribers and the Shareholder & Customer agreement will be dealt with in more details in the sections dedicated to commercial policies.

With regard to shares, during the year around 524 billion shares were traded on the trading system managed by Istituto Centrale delle Banche Popolari Italiane at a price of Euro 18 per share.

In the same period, the Bank purchased 81,600 shares, at the same price of Euro 18, for a total of Euro 1,463,000 by virtue of the shareholders' authorisation and that of the Bank of Italy, pursuant to the CRR regulation, mainly further to executive action. Own shares in the portfolio therefore rose from 410,187 for an equivalent value of Euro 7,393,000 as of 31 December 2014 to 491,787 for an equivalent value of Euro 8,855,000 as of 31 December 2015.

In truth, there was no lack of pressure on our shares during the year, due to the market situation, which at times led Shareholders to dispose shareholdings so as to cover commitments and deadlines of various kinds; a subject which was discussed greatly also within the Board meetings within the context of a financial market which spoiled the values of the bank stock listings, in particular those of the banks not listed on organised markets.

For this reason, on conclusion of the review dedicated to our stock, we can disclose that, in compliance with the introduction of the new EU regulations (in force, subject to postponements, as from 2017) the Bank will list on a multilateral trading system, like the banks affected by the reform, the financial instruments it issues, thereby improving the degree of liquidity and standardising the operating flows regarding their trading in this way.

7

CAPITAL AND CAPITAL RATIOS

Directive 2013/36/EU, known as of the “CRD IV” and Regulation (EU) No. 575, known as the “CRR”, which in the European Union transpose the standards defined by the Basel Committee for banking supervision, have been acknowledged, at national level, by means of the following applicative circulars:

- ✓ Bank of Italy Circular No. 285; Supervisory regulations for Banks;
- ✓ Bank of Italy Circular No. 286; Instructions for the compilation of the prudent reporting for Banks and Stock-broking Firms;
- ✓ Update of the Bank of Italy Circular No. 154; Supervisory reporting of Lending and Financial Institutions; Measurement formats and instructions for the forwarding of information flows.

The new legislative digest envisages that Own Funds (former Regulatory Capital) be made up of the following levels of capital:

- ✓ Tier 1 Capital, in turn made up of:
 - Common Equity Tier 1 - CET1;
 - Additional Tier 1 - AT1;
- ✓ Tier 2 Capital - T2.

Tier 1 is mainly made up of Common Equity: ordinary shares net of the authorised purchase of own shares, capital reserves, profit reserves, valuation reserves, elements in deduction such as goodwill, other intangible assets, prepaid tax assets (DTA) associated with future profitability.

The capital instruments issued, so as to be reckoned in Common Equity, must ensure the absorption of the so-called “ongoing concern” losses by means of the observance of the following conditions: maximum level of subordination; possibility of suspension of the acknowledgement of the dividends/coupons at the total discretion of the issuer and in a non-cumulative manner; irredeemability; absence of incentives for redemption.

By means of the application of the new rules, the own funds amount as of 31 December 2015, without the allocation of the profit for the year, to Euro 409,836,000 made up of Euro 374,836,000 of Common Equity Tier 1 (CET 1) and Euro 35,000,000 of Tier 2 Capital, the latter comprising a subordinated loan issued in 2015 and with the appropriate features.

With risk assets amounting to Euro 2,509,013,000 the Tier 1 capital ratio, determined by the ratio between the Tier 1 capital and the risk weighted assets, comes to 14.94% as against 14.72% in December 2014, while the Total capital ratio, which expresses the ratio between total own funds and risk weighted assets stands at 16.33% compared with 14.75%.

Both the ratios are higher than the minimum requirements, respectively 9% and 12%. These limits are inclusive of the conservation buffer envisaged by Basel II equal to 2.5%, as well as, as from December 2015, the additional requirements envisaged by the Bank of Italy vis-à-vis our Bank within the sphere of the SREP process. The additional ratios are equal to an increase of 0.5% for Tier1 and 1.5% for the Total capital ratio.

In the calculation of its own funds, as already occurred in the past, the Bank exercised the option currently allowed by the CRR Regulations, which permits, for the sole purposes of calculating said regulatory capital and limited to the securities issued by European Union nations, the neutralisation of capital losses relating to securities falling within the portfolio of available-for-sale financial assets (“AFS”).

For greater disclosure regarding the evolution of the aggregates which make up our own funds, please see section F of the explanatory notes.

The change in the main capitalisation ratios presents the following trend:

	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013
shareholders' equity / customer deposits	12.55%	12.13%	11.98%
shareholders' equity/amounts due from customers	14.11%	13.34%	12.80%
shareholders' equity/total assets	9.30%	8.98%	9.00%
net impaired loans/own funds	94.83%	103.80%	* 108.29%
net non-performing loans/own funds	46.24%	43.89%	* 45.02%
total capital ratio	16.33%	14.75%	14.58%
tier one capital ratio	14.94%	14.72%	13.63%

*net of the subordinated loans reckoned in 2013.

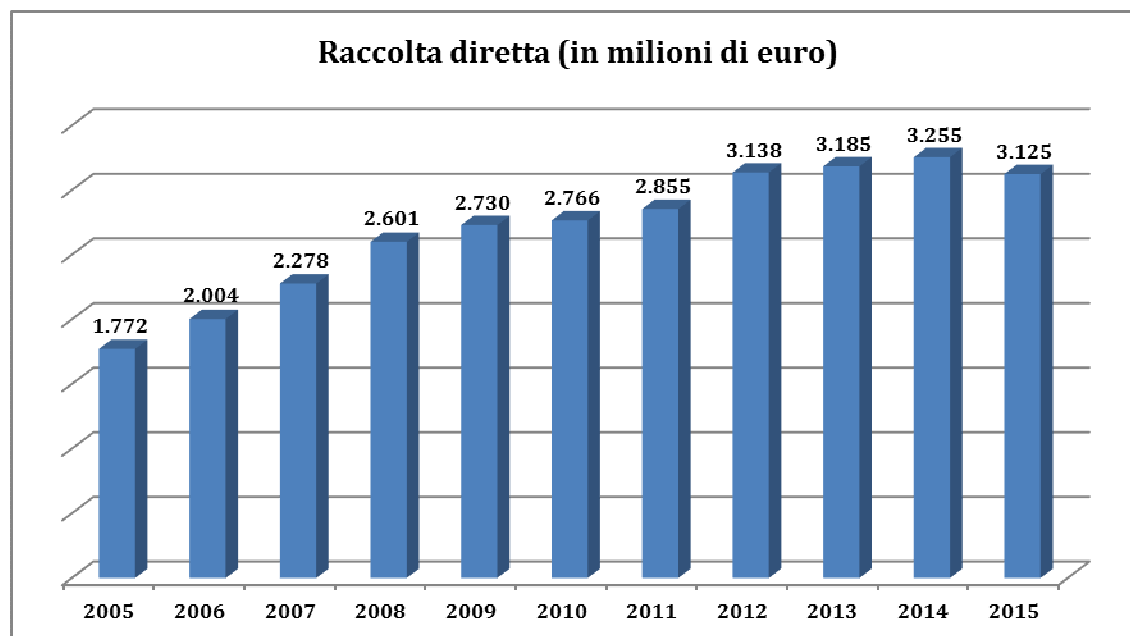
The equity of the entity and the ample surplus of the capital ratios with respect to the minimums required, together with the forecasts of growth in the risk-weighted assets being more contained than in the more recent past, due to the minor demand for credit caused by the continuation of the economic crisis, make it possible to plan harmonious growth in the dimensions of the business operations, without scheduling extraordinary capital enhancement action.

8

DEPOSITS

As an examination of the trend in deposits, first of all it should be emphasised that the bank adopted a more selective strategy in 2015 in terms of so-called pricing for direct deposits, whose performance was not aided by the general economic situation, which has not yet permitted the hoped for recovery in available income for households, and an even greater focus on the development of indirect deposits, with particular reference to the managed component.

The total volume of direct deposits thus decreased, with respect to the previous year, by 3.99%; the evolution of the aggregate over the last few years follows:



Within the area of direct deposits, a strategy was pursued for re-composition in favour of more traditional technical forms, complying with the current preference of customers for on-demand products, short-term ones and deliberately reducing the incidence of bonds issues, which are more onerous for the Bank's income statement.

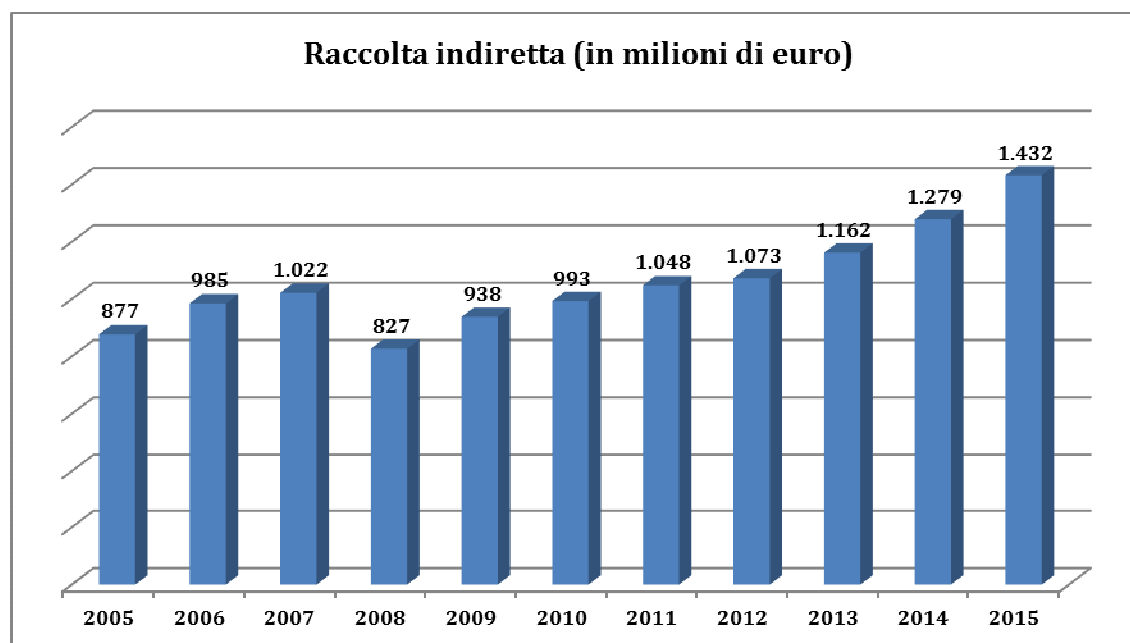
With a view to this, significant growth was achieved in current accounts, rising to Euro 1.906 million, with an increase of 13%, which led to an overall increase of 6.18% in the item Amounts due to customers, which also includes savings

deposits and time deposits. In relation to the more onerous forms of funding, by contrast, a progressive decrease was seen during the year for bonds, falling at year end to Euro 954 million (-20.15%), which led to a similar decrease in the deposits represented by Securities issued, which also include certificates of deposit.

Changes relating to 2014 are shown in the following table.

Customer deposits	31 Dec. 2015	31 Dec. 2014	Change	
<i>(amounts in €/000s)</i>			Amount	%
Savings deposits	38,058	39,473	(1,415)	3.58%
Current accounts	1,905,617	1,686,749	218,868	12.98%
Time deposits	214,775	246,492	(31,717)	12.87%
Other funding	895	978	(83)	(8.49%)
Deposits from institutional investors	-	60,003	(60,003)	NS
Amounts due to customers	2,159,345	2,033,695	125,650	6.18%
Bonds	953,836	1,194,540	(240,704)	(20.15%)
Certificates of deposit	11,725	26,507	(14,782)	(55.77%)
Securities issued	965,561	1,221,047	(255,486)	(20.92%)
Total direct funding	3,124,906	3,254,742	(129,836)	(3.99%)

The greater focus on the development of managed deposits, suitably supported by the constant streamlining of the product range, by the planning of effective commercial ventures and by systematic training measures addressing branch staff, has made it possible to achieve growth in indirect deposits of 12%.



The increase in mutual funds was also considerable (up to Euro 391 million, +55%) and the growth in life policies was very high, amounting at year end to Euro 271 million (+32.8%). The managed component as a percentage of total indirect funding therefore reported significant progress, moving from 35.7% at the end of 2014 to 46.2%. Shifting the Bank considerably closer to the system indicators entirely to the benefit of the expansion in net revenues from services, the priority objective of the business.

Indirect customer deposits	31 Dec. 2015	31 Dec. 2014	Change	
<i>(amounts in €/000s)</i>			Amount	%
Government securities (BOT)	336,353	358,449	(22,096)	(6.16%)

Italian and foreign shares	268,472	283,317	(14,845)	(5.24%)
Corporate and foreign bonds	165,785	181,023	(15,238)	(8.42%)
Mutual funds and management schemes	390,775	252,148	138,627	54.98%
Zurigo / Arca vita	271,003	204,150	66,853	32.75%
Total indirect funding	1,432,388	1,279,087	153,301	11.99%

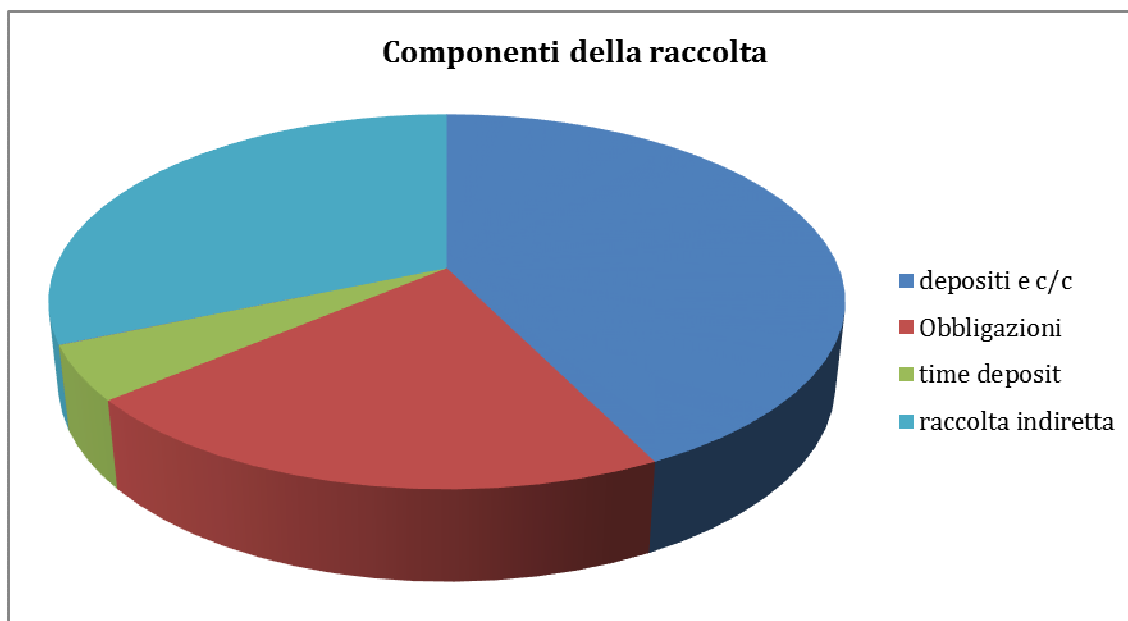
As a result of the significant growth in indirect funding, the balance of total deposits came to Euro 4,557 million, with an increase of 0.52% when compared with 31 December 2014 (Euro 4,534 million).



In conclusion, during the first half of the year a subordinated bond was issued for a nominal Euro 35 million, maturing on 10 February 2021, at a fixed rate of 4.5% with six-monthly coupons; this issue complies with the requirements requested by supervisory legislation for the purpose of calculating the own funds and will shortly be listed on the MTF market.

In conclusion, during the year steps were taken to partly repurchase subordinated bonds not reckoned in circulation for Euro 31.6 million.

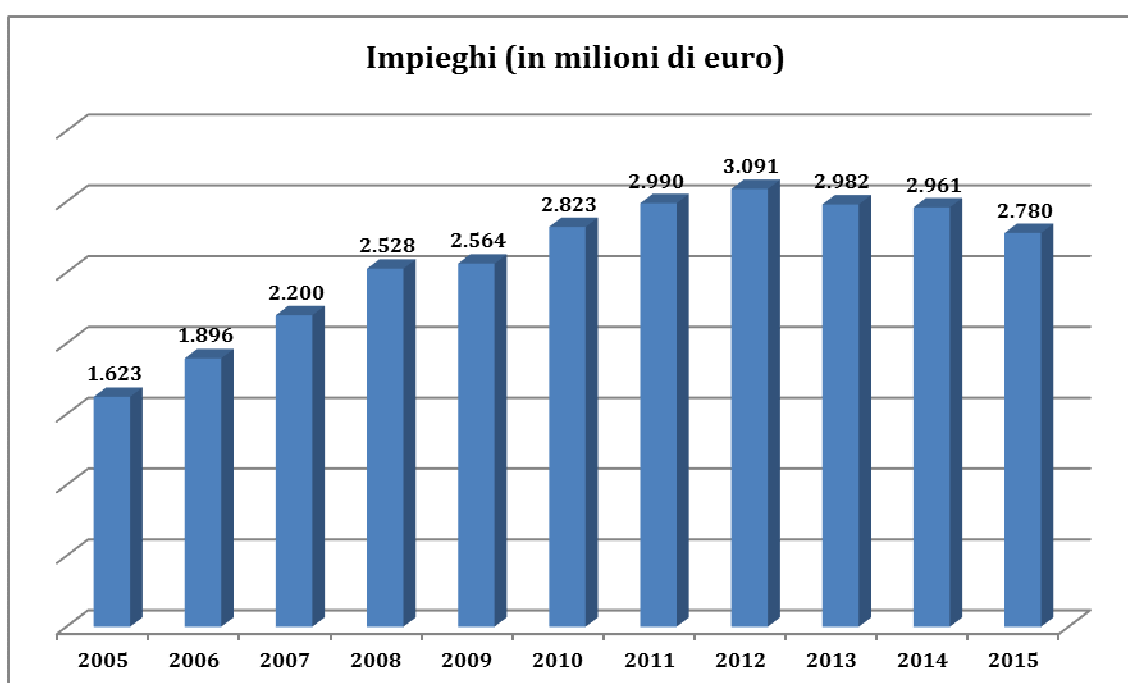
The overall breakdown of the deposits is shown in the diagram below:



9 LOANS

With regard to loans, the Bank was also affected by the negative developments which for years have characterised the dynamics of the aggregate at system level. In absolute value, loans to customers went from Euro 2,961 million in 2014 to Euro 2,780 million in 2015, a decrease of 6%.

From the start of the crisis, the loans granted by the banking system to customers fell as a consequence of the decrease in investments made by the manufacturing sector and the drop in sales revenues. On the basis of the statistics provided by the Bank of Italy, from the end of 2010 to the end of 2014 loans to customers in the province of Brescia decreased by Euro 3.569 billion, or 6.4%, while the decrease was just 2.1% for the Bank.

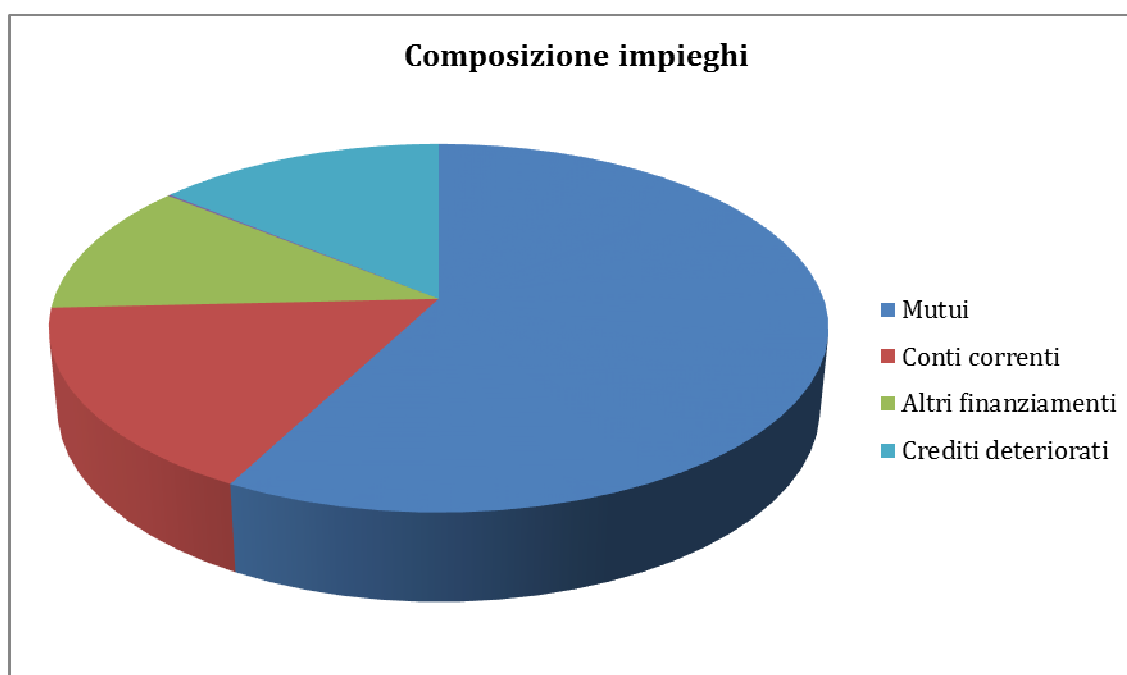


Even if demand for credit was still weak for part of 2015, except for fragmented inversions in trend, Banca Valsabbina, especially in moments of acknowledged “credit squeeze”, remained faithful to its commitment to support the manufacturing system. It has done so by paying attention to the needs of the businesses in one of the areas with the greatest entrepreneurship in the country and therefore with the most intense demand for credit and lending services. And it has done so 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 legislative procedures, the Bank has accepted further applications from businesses in temporary difficulty within the moratorium of debts of small and medium-sized companies furthered by ABI (Italian Banking Association), 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 it is responsible for, access to regulated procedures which permit them to overcome the state of crisis: unconditional arrangement with creditors (Art. 161 of the It. Bankruptcy Law), debt restructuring agreements as per Article 182 *bis* of the It. Bankruptcy Law and arrangement with businesses of growing-concern (Art. 186 *bis* of the It. Bankruptcy Law) as well as the turnaround plans (Art. 67 of the It. Bankruptcy Law).

The change in the composition of loans by technical form in 2015, compared with 2014, is presented as follows:

Loans to customers	31 Dec. 2015	31 Dec. 2014	Change	
(Euro 000s)			Amount	%
Current accounts	459,295	544,851	(85,556)	(15.70%)
Mortgage loans	1,604,258	1,641,173	(36,915)	(2.25%)
Personal loans	3,529	2,893	636	21.98%
Other loans	324,722	388,224	(63,502)	(16.36%)
Impaired loans	388,627	383,437	5,190	1.35%
Total loans to customers	2,780,431	2,960,578	(180,147)	(6.08%)



The analysis of the dynamics of the technical forms reveals a decrease mainly in the item current accounts (which includes “overdrafts” and “advances subject to collection”), a sign unfortunately symbolic of the drop in sales revenues in the manufacturing sector.

The effective initiative continued again in 2015 in the specific sector of microcredit addressing business in the Brescia and Verona areas who are not customers, which have sales revenues of no more than Euro 2 million and a maximum of nine employees. By means of this initiative, 344 transactions were finalised for a total of Euro 18.9 million, for unit amounts ranging between Euro 20 thousand and Euro 100 thousand, backed, via Mediocredito Centrale, by government guarantees up to 80% of the amount.

The loans granted with government guarantees amounted during 2015 to a total of 714, for an amount of Euro 135.2 million compared with Euro 119.9 in the year before (+ 12.7%).

Credit support for households also continued at notable levels under the form of mortgage loans granted for the purpose of the first home; in 2015, they were 462 in number for a total of Euro 55 million.

MEDIUM/LONG-TERM DISBURSEMENTS (amounts in Euro 000s)	2015		2014	
	Trans. No.	Amount	Trans. No.	Amount
A) Directly using funds of the Bank				
Loans with Mediocredito Centrale backing made available by Italian Law No. 662/1996	714	135,205	772	119,942
Artisan loans backed by surety of the Credit Guarantee Consortiums making reference to the various Trade Associations	96	4,269	145	8,112
Ordinary mortgage, building and land loans	667	124,463	630	132,353
Loans and mortgages to Shareholders of the Bank	671	9,155	742	10,415
Mortgage-secured current accounts	7	1,620	4	6,740
B) Indirectly as intermediary of specialised Institutes				
Leasing transactions	238	24,362	186	18,946

The breakdown of customers granted credit by category of credit facility confirms the strategy adopted by the Bank of achieving a suitable fractioning of the loan portfolio and preferring credit to households and small-to-medium-sized companies.

Number of customers granted credit facilities broken down by credit facility category						
	2015	% of total credit	2014	% of total credit	2013	% of total credit
Up to Euro 40,000	14,312	4.5	14,025	4.1	13,939	4.0
Between Euro 40,001 and	6,107	13.7	6,070	12.9	5,743	11.8
Between Euro 125,001 and	2,707	13.4	2,887	13.6	2,950	13.6
Between Euro 250,001 and	1,184	12.0	1,237	11.8	1,310	12.2
Between Euro 500,001 and	647	13.1	714	13.6	722	13.2
Between Euro 1,000,001 And Euro 5,000,000	492	27.4	528	27.5	559	27.9
Over Euro 5,000,001	57	15.9	64	16.5	67	17.3
Total	25,506	100.0	25,525	100.0	25,290	100.0

The numbers shown in the table are the result of the lending policy pursued and implemented during the year under review, aimed at the expansion of the customer base and the reduction of the risk concentration. The credit facilities granted to Customers under the threshold of Euro 500 thousand concerned 43.6% of the total, while those with facilities higher than one million came to 43.3%.

The performance of the two aggregates had a diametrically opposed evolution over the last few years: between 2013 and 2014 the incidence of the unit credit facilities over Euro 1 million decreased from 45.2% to 44%, while that of the credit facilities under Euro 500 thousand increased from 41.6% to 42.4%.

And also the incidence of credit facilities for less than Euro 250 thousand rose constantly in the period under review, passing from 29.4% (2013) to 30.6% (2014) and then 31.6% (2015).

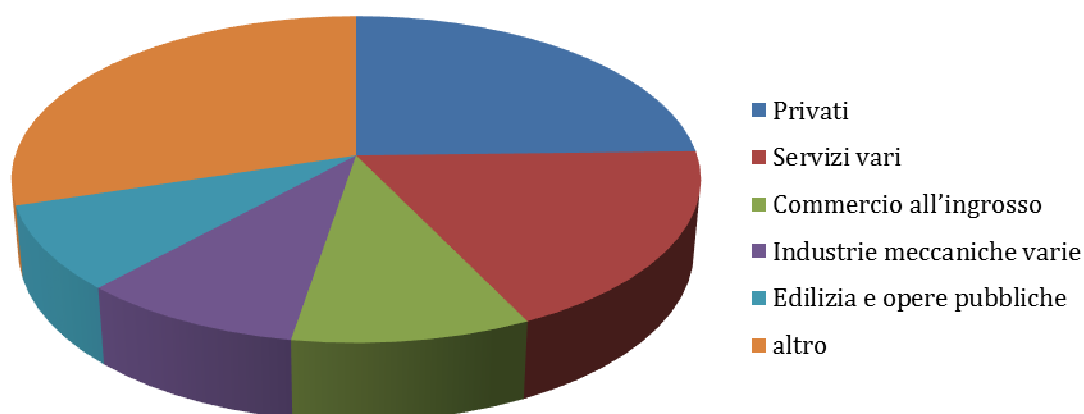
This business policy, aimed at supporting the smaller sized economic players - which represent the nucleus of the local manufacturing and social fabric - is without doubt rewarding from the point of view of the services provided to the community and the splitting of the risk by the Bank, but necessarily requires a slower rises of the overall volume of the credit granted.

The breakdown of the aggregate by business sector appears balanced, having as reference both the average system figures relating to the area in which the Bank is present and the trend of the various segments of the economy in the Brescia and Verona area which we have dealt with in the specific section of this report.

The figures presented confirm the constant attention reserved for households which, within the sphere of the various sectors, are first place in the various years, with stable percentage values, up 0.60% between 2014 and 2015.

	Sectors of business activities	2015	2014	2013	2012	2011
1	Private use	23.05	22.45	23.30	22.64	22.29
2	Other services	17.10	16.76	18.07	17.91	19.41
3	Wholesale commerce	9.18	9.37	9.11	8.90	8.67
4	Sundry engineering services	8.58	8.63	10.25	10.73	11.26
5	Construction and public works	7.86	8.05	8.72	9.16	9.79
6	Financial companies	6.24	6.58	2.56	2.23	0.44
7	Retail commerce and public service	4.73	4.78	4.99	4.92	4.81
8	Agriculture, forestry and fishing	2.48	2.53	2.57	2.57	2.38
9	Agricultural and industrial machinery	2.34	2.49	2.17	2.05	2.30
10	Foodstuffs and beverages	2.22	2.26	2.42	2.62	2.19
11	Iron and steel industries	2.13	2.36	1.44	1.30	1.53
12	Wood, furniture and other industrial	1.84	1.80	1.83	1.91	2.06
13	Textile products and clothing	1.68	1.75	1.88	2.08	2.10
14	Electricity, energy and chemical products	1.66	1.59	1.40	1.60	1.33
15	Construction materials	1.65	1.49	1.73	1.57	1.69
16	Transport services	1.38	1.34	1.51	1.52	1.33
17	Electrical supplies and materials	1.19	1.16	1.13	1.18	1.02
18	Rubber and plastic products	1.01	1.13	1.39	1.45	1.55
19	Paper and publishing	0.78	0.68	0.55	0.63	0.52
20	Vehicle repairs and sundry articles	0.75	0.70	0.72	0.68	0.68
21	Public administration authorities	0.69	0.70	0.75	0.75	0.92
22	Glass and ceramic industries	0.61	0.62	0.60	0.60	0.69
23	Means of transport	0.40	0.36	0.44	0.49	0.62
24	Non-ferrous metal industries	0.29	0.26	0.32	0.34	0.25
25	Fine and precision engineering	0.16	0.16	0.15	0.17	0.17
		100.00	100.00	100.00	100.00	100.00

Ripartizione per rami di attività economica



On a consistent basis with the operating logics of the last few years, the policies for selecting and handling the credit facilities were appropriately reviewed and streamlined so as to deal with the generalised quality decline in the portfolio, caused by the considerable deterioration of the economic operating context, especially in those sectors to which 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 safeguards on the facilities granted. Despite this, the continuation of the crisis led to the further weakening of the traditional solidity of the fabric of small-to-medium-sized businesses - in particular in the construction sector and related side-lines, the engineering and transformer machinery sectors - with inevitable repercussions on the risk profiles of the bank assets.

However, in as much as the flow of new impaired loans has registered a slowdown with respect to the three-year period 2011-2013, the mitigation of the deterioration of the quality of the credit is finding difficulty in consolidating itself especially in relation to the still modest intensity of the economic pick-up. Gross impaired loans, for an overall amount of Euro 598.5 million (Euro 553.1 million in 2014), as a result of the painstaking provision policy amounting to Euro 209.9 million, are recorded in the financial statements for Euro 388.6 million compared with Euro 383.4 million last year (+1.3%).

At year end, the overall incidence of the net impaired loans as a percentage of total net loans came to 13.98% compared with 12.95% last year. Net non-performing loans amounted to Euro 189.5 million, compared with Euro 162.1 million and represent 6.8% of net loans.

The probable defaults (new definition envisaged by the Bank of Italy legislation for “exposures in relation to which the Bank deems it improbable that, without recourse to action such as enforcement of guarantees, the debtor fully meets their credit obligations”, and aggregate which for simplification of comparison can be assimilated to previous concepts of “watchlist” and “restructured exposures”) amount to Euro 169.5 million and have decreased with respect to Euro 193.4 million in 2014.

Past due loans amount to Euro 29.6 million, a value not far removed from that of the previous year (Euro 27.9 million). The following table shows the loans and receivables classified by quality class, with the related provisions, formed in previous years and the current one with booking to the income statement, both for 2015 and 2014.

31 December 2015

Type of exposure/values (amounts in Euro 000s)	Gross exposure	Specific adjustments	Forfeit adjustments	Net exposure	% of total net exposure
a) Non-performing	358,175	168,675	-	189,500	6.81%
b) Probable defaults	208,368	38,877	-	169,491	6.10%
c) Past due loans	31,995	2,359	-	29,636	1.07%
Total impaired loans	598,538	209,911	-	388,627	13.98%
d) Performing loans	2,408,405	-	16,601	2,391,804	86.02%
Total	3,006,943	209,911	16,601	2,780,431	100.00%

31 December 2014

Type of exposure/values (amounts in Euro 000s)	Gross exposure	Specific adjustments	Forfeit adjustments	Net exposure	% of total net exposure
a) Non-performing	292,825	130,703	-	162,122	5.48%
b) Watchlist	211,120	35,474	-	175,646	5.93%
c) Restructured exposures	19,404	1,680	-	17,724	0.60%
d) Past due exposures	29,773	1,829	-	27,944	0.94%

Total impaired loans	553,122	169,686	-	383,436	12.95%
e) Performing loans	2,595,104	-	17,962	2,577,142	87.05%
Total	3,148,226	169,686	17,962	2,960,578	100.00%

With regard to the coverage, the Board of Directors has reviewed the stringent internal regulations approved in 2014, introducing additional prudent criteria in the examination of the positions with an anomalous performance with reference to the valuation of the guarantees and the determination of the recovery value and the periodic review timescales for the counterparties in default.

The impact on the income statement of the adjustments to loans - also having considered the overall negative result of Euro 1.1 million suffered with the transfer of Euro 7 million in gross non-performing positions - amounts in total to Euro 47.2 million, down considerably with respect to the Euro 71.3 million in 2014. The amount includes both the adjustments made to the new positions classified as non-performing and the new entries under default and past due, as well as the adjustment of the same on the receivables already classified under impaired loans in previous years, further to the deterioration of the opinion on the possibility of collection and on the assessment of the assets provided as collateral, net of the write-down value for additional recoveries realised in relation to the estimate or for an improved assessment of the assets provided as collateral.

Write-downs for Euro 1.4 million emerged on performing loans, with an adjustment of Euro 2 million in 2014. The improvement was due to the decrease in loans, and the improvement in the rating of the performing positions.

The cost of credit, represented by the percentage-based incidence of the losses and the value adjustments on loans and receivables with respect to the amount of the net loans and receivables recorded in the financial statements, comes to 1.70%, compared with 2.41% in 2014.

The percentage of coverage of the non-performing positions, which increased from 44.6% in 2014 to 47.1% in 2015, rose to 52.32%, including both the written off amounts which the Bank is still the holder of as of 31 December 2015 and the default interest.

Likewise, the percentage of coverage of the probable defaults increased, passing from 16.12% to 18.66% and that of the past due loans, from 6.14% to 7.37%.

In overall terms, the percentage of coverage of the impaired loans increased from 30.68% to 35.07% and became 39.06% including, as mentioned, the written off amounts and the default interest on non-performing positions.

For the majority of these amounts due, the coverage reflects the presence of suitable secured guarantees, valued in relation to the consistency and quality of the underlying assets and the related estimated realisable value. Gross non-performing loans, backed by secured guarantee and by government guarantee via Mediocredito Centrale, represent 55.87% of the aggregate. In this way, the coverage of the non-performing positions is ensured for 47.1% by value adjustments and 55.87% by loans with secured guarantees or government backed.

The percentage of coverage of the performing loans - calculated using the new evolved model made available by Cedacri - comes to 0.69% of the loans, unchanged with respect to that for the previous year.

The change in the last three years with regard to the balances of the various categories of loans at risk, the related indicators and the respective degrees of coverage, is presented below:

Net exposure (amounts in Euro 000s)	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013	31 Dec. 2012
Non-performing loans	189,500	162,122	167,765	146,198
Probable defaults	169,491	193,370	179,135	177,481
Past due loans	29,636	27,944	56,627	40,132
Total impaired loans	388,627	383,436	403,527	363,811
Performing loans	2,391,804	2,577,142	2,578,643	2,727,010
Total net loans	2,780,431	2,960,578	2,982,170	3,090,821

LOAN QUALITY RATIOS	31 Dec. 2015	31 Dec. 2014	31 Dec. 2013	31 Dec. 2012
on gross loans				
% of non-performing positions out of total gross loans	11.91%	9.30%	8.28%	7.65%
% of probable defaults out of total gross loans	6.93%	7.32%	6.39%	6.06%
% of past due loans out of total gross loans	1.06%	0.95%	1.89%	1.27%
% of impaired loans out of total gross loans	19.90%	17.57%	16.56%	14.99%

coverage percentages				
Non-performing loans	*52.32% 47.09%	*52.3% 44.64%	34.87%**	40.76%
Probable defaults	18.66%	16.12%	9.80%	9.24%
Past due loans	7.37%	6.14%	3.70%	1.94%
Total out of impaired loans	*39.06% 35.07%	*36.10% 30.68%	21.64%**	24.72%
Performing loans	0.69%	0.69%	0.61%	0.54%
* also including the loans/receivables written off which the Bank still holds and the default interest				
** reduction to be ascribed to the disposal of more than Euro 65 million in gross non-performing loans with more or less complete coverage				
percentages on net loans				
% of non-performing positions out of total net loans	6.82%	5.48%	5.62%	4.73%
% of probable defaults out of total net loans	6.10%	6.53%	6.01%	5.74%
% of past due loans out of total net loans	1.06%	0.94%	1.90%	1.30%
% of impaired loans out of total net loans	13.98%	12.95%	13.53%	11.77%

10 FINANCIAL ASSETS AND EQUITY INVESTMENTS

The financial assets and liabilities remained more or less stable with respect to 2014 (Euro 1,278 million, -1.2%) and were made up as follows:

Financial assets and liabilities (amounts in €/000s)	31 Dec. 2015	31 Dec. 2014
20. Financial assets held for trading	109	181
40. Available-for-sale financial assets	1,141,089	1,183,203
60. Amounts due from banks	135,021	108,266
100. Equity investments	1,375	1,375
Total	1,277,594	1,293,025
10. Amounts due to banks	(621,160)	(652,260)

Within this category, available-for-sale financial assets (AFS) represent the predominant component and amounts to Euro 1,141 million, down Euro 42.1 million with respect to the previous year; they comprise:

Available-for-sale financial assets (amounts in €/000s)	31 Dec. 2015	% of portfolio	31 Dec. 2014	% of portfolio
Italian government securities	807,704	70.78%	984,439	83.20%
Government securities of other EU countries	98,145	8.60%	58,102	4.91%
Units of mutual investment funds	218,603	19.16%	126,874	10.72%
Equities	16,637	1.46%	13,788	1.17%
Total	1,141,089	100.00%	1,183,203	100.00%

The Bank, in the wake of the programme for the purchase of securities launched by the ECB, took steps in the first part of the year to make significant investments in Government securities being able to count on a sound liquidity situation, partly thanks to the abundant availability of eligible securities, including those deriving from the securitisation of mortgage loans. During the second part of the year, however, the portfolio was progressively reduced, having considered the volatility of the markets.

Due to the evolution of the financial markets situation, the Board of Directors resolved to continue with the measures for diversification of the securities portfolio, also by means of appropriate investments in units of mutual equity funds carried out via two important sector operators, who were provided with limitations as to composition of the investment lines.

In detail, the change in the balance of the available-for-sale financial assets at year end (Euro 1,141 million, -3.5%) was caused by the decrease in Italian government securities in the portfolio (which amounted to Euro 808 million, down Euro 177 million), partly counterbalanced by the rise in units of mutual investment funds, up Euro 127 million to Euro 219 million, with an increase of Euro 92 million, within which the units of mutual equity funds came to Euro 192 million and those of closed-end real estate alternative investment funds totalled Euro 27 million (Euro 5.1 million in 2014). The units of real estate funds comprise funds set up by the investee company Polis Fondi sgr for Euro 19.2 million, by the Finint Fenice fund of Fenice Investments sgr for Euro 7.1 million and by Fondo Leopardi for Euro 0.6 million, originating from the restructuring of Aedes. The units in real estate funds increased following new subscriptions and recalls carried out also via the contribution of real estate property assets recognised by the subsidiary Valsabbina Real Estate to support the debt collection activities.

The gain generated by operations in the finance segment during the year, inclusive of the capital gains of Euro 1,451,000 achieved on the disposal of the holding in Istituto Centrale Banche Popolari, came to Euro 38.6 million.

With regard to the risk profiles, the bond portfolio at year end was made up of long-term treasury bonds (BTP) for Euro 205 million (equal to 22.7% of the total), treasury certificates of credit (CCT) for Euro 603 million (66.5%) and fixed-rate Government securities of other EU countries for Euro 98 million (10.8%).

In relation to the related maturity, these securities are divided up as follows (amounts in €/000s):

Duration	31 Dec. 2015	% of aggregate	31 Dec. 2014	% of aggregate
up to one year	30,104	3.32%	122,344	12.22%
between 1 and 2 years	324,379	35.81%	187,095	19.00%
between 2 and 3 years	145,636	16.08%	257,737	23.95%

between 3 and 5 years	86,975	9.60%	287,512	25.75%
between 6 and 10 years	211,892	23.39%	187,853	19.08%
beyond 10 years	106,863	11.80%	-	-
Total	905,849	100.00%	1,042,541	100.00%

The average duration of the bond portfolio at the end of 2015, considering the expected cash flows, was 2.7 years (1.8 as of 31 December 2014).

Further to the application of the procedure for checking the impairment losses on the assets recorded in the financial statements envisaged by the international accounting standards, decreases emerged in the value of the assets held for Euro 2,989,000 booked to item 130 in the income statement. These refer to the write-off of Carife for Euro 1,490,000 the decrease in the value of Ubi Leasing for Euro 53 thousand, of Banca Popolare di Vicenza for Euro 496 thousand, of Banca Popolare di Cividale for Euro 414 thousand (minor value already registered as of 31 December 2014 in the valuation reserves) and of units of real estate mutual funds for Euro 536 thousand.

The process for the valuation of the securities portfolio at year end also revealed other capital losses and gains, booked with matching balance in the equity reserves; the equity reserves deriving from the valuation of securities present in the AFS portfolio, net of taxation, were negative overall for Euro 4,438,000: Euro -3,409,000 referring to debt securities, Euro +4,682,000 referring to equities and Euro -5,711,000 relating to UCIT units.

The breakdown of equities held as of 31 December 2015 for long-term investment purposes, amounting to Euro 16.6 million, is shown in the following table, in which evidence is provided of the changes which have taken place with respect to the previous year. The most significant changes, besides those already illustrated, concern the purchase of 165,442 Arca AGR shares for Euro 1,588,000 and the consequent valuation of the entire holding held in the Company on the basis of the last transactions carried out, which led to an higher value of Euro 3,854,000. The related valuation reserve, net of the tax effect, amounted to Euro 4,695,000.

Description (amounts in €/000s)	Balance as at 31 Dec. 2014	Purchases	Sales	Impairment to income statement	Change to shareholders'	Balance as at 31 Dec. 2015	No. of shares or holdings	% Holding
Arca Sgr Spa	1,810	1,588	-	-	3,854	7,252	755,442	1.51%
Cedacri Spa	3,601	-	-	-	-	3,601	390	3.09%
UBI Leasing SpA	2,026	-	-	(53)	-	1,973	405,550	0.38%
B.ca Pop. Vicenza	2,374	97	-	(496)	(25)	1,950	40,634	NS
B.ca Pop. Cividale	1,656	-	-	(414)	-	1,656	84,500	0.50%
Aedes	160	-	-	-	(14)	146	279,950	NS
Unione Fiduciaria SpA	28	-	-	-	-	28	4,320	0.40%
Consulting SpA	24	-	-	-	-	24	22,500	15.00%
Pieffe assicurazioni srl	3	-	-	-	-	3	1	15.00%
Gr. Azione Locale Scrl	1	-	-	-	-	1	1	1.53%
Swift SC	1	-	-	-	-	1	2	NS
SSB SpA	1	-	-	-	-	1	8,147	NS
Carife	1,490	-	-	(1,490)	-	-	-	-
ICBPI SpA	613	-	(613)	-	-	-	-	-
TOTAL SHARES	13,788	1,685	(613)	(2,453)	3,815	16,636	-	-

The equity investments remained unchanged (Euro 1.4 million in total) and are made up of the subsidiary Valsabbina Real Estate S.r.l. - on which detailed comments are made below - for Euro 171,000 and the equity investment of 9.8% in Polis Fondi Immobiliari di Banche popolari SGR p.A. for Euro 1,205,000.

equity investment in Valsabbina Real Estate

As of 31 December 2015, the sixth financial year of the subsidiary Valsabbina Real Estate. During the year, the company took part in 2 auctions (one in January and one in February) and 9 transfer decrees relating to adjudications in 2014.

As of 31 December 2015, it owned 12 properties for residential use recorded at cost Euro 1,997,000 an amount which also includes related charges for taxes and notarial fees as well as the costs incurred.

Receivables are also recorded in the financial statements for Euro 311 thousand, of which Euro 246 thousand relating to sales with a lien agreement, Euro 10 thousand for the guarantee deposit relating to an adjudication not yet finalised, Euro 2 thousand for accrued income and prepaid expenses, Euro 1 thousand for the VAT credit, Euro 18 thousand for prepaid taxes, and Euro 34 thousand of credit for taxes to be reimbursed via the tax consolidation system.

The Bank has made a credit facility of Euro 15 million available to the subsidiary at market rates, a facility for the purpose of supporting the purchase of properties; as of 31 December 2015 the credit facility was used for Euro 2,143,000.

The change in the properties account, during the year, was as follows (disposals net of net proceed):

Description (amounts in €/000s)	Amount
Opening balances as of 31 December 2014 (12 property units)	7,544
Acts of assignment (9 property units)	2,173
Expenditure relating to properties	77
Net capital gains generated (gross gains Euro 1,360; gross losses Euro 1,262)	98
Sales:	
- disposal, with lien agreement, of one property unit	(105)
- transfer to Polis FAB IV fund (3 property units)	(5,550)
- contribution to Fenice fund (3 property units)	(1,900)
- transfer to private parties (2 property units)	(340)
= Closing balances as of 31 December 2015 (12 property units)	1,997

In regards to the income statement, the value of production amounted to Euro 7,906,000 of which Euro 7,895,000 for the sale of properties and Euro 11 thousand for leasing fees.

2015 closed with a loss of Euro 117 thousand as per the income statement presented below, on a comparative basis with that of the previous year:

(amounts in Euro 000s)	31 Dec. 2015	31 Dec. 2014
Value of production	7,906	3,266
Costs for services	(118)	(85)
Operating expense	(35)	(52)
Difference between costs for purchases of properties and the change in inventories	(7,797)	(2,977)
Total net of interest and taxes	(44)	152
Interest expense	(85)	(171)
Taxation	12	(18)
Total	(117)	(37)

The book value of the properties is lower than that emerging from auction appraisals.

The shareholders' equity, inclusive of the loss, amounts to Euro 107 thousand.

In December, the Parent Company - on the basis of the accounts at the end of November, took steps to make a payment to cover losses for Euro 129,760, for the purpose of re-establishing the entire equity.

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

The financial statements as of 31 December 2015 are drawn up in an abridged format 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 balances of the subsidiary with respect to those of the Parent Company Banca Valsabbina, as emerges from the "Systematic framework for the preparation and presentation of the financial statements", which represents the conceptual model underlying the IAS standards. The financial statement total of the company (Euro 2.3 million) is also lower than the

limits envisaged by the Supervisory Instructions for consolidated reporting (financial statement assets less than Euro 10 million).

11 BUSINESS STRATEGIES

The Bank's Board of Directors approved, in April 2015, a review of the 2014-2016 Business Plan, made necessary by the change in the operating and legislative context for the banking system and in particular for co-operative banks.

In this context, the project for a gradual geographic expansion by internal lines takes on specific importance, by means of the opening of new branches, both east and west of Brescia, exporting the current business model of the Bank in this way into new and tangentially neighbouring areas.

The objectives of this growth in size are aimed at improving the profitability profiles of the Bank, required to deal with higher overheads so as to ensure full compliance with the new regulatory and supervisory system: costs to be balanced with a prospect of greater revenues associated with growth in volumes brokered furthered by a more extensive geographic network.

The 2014-2016 Strategic Plan also contains an important confirmation. The Board of Directors decided to keep the Bank's mission unchanged, a co-operative, local and independent bank.

Banca Valsabbina, since it is not obliged to, has decided at the moment not to participate in the transformation process in which co-operative banks with assets over Euro 8 billion and which - further to the reform approved in 2015 - must in fact transform themselves into joint-stock companies.

On completion of this process, envisaged for the end of 2016, the Bank will therefore remain - as already mentioned - the only independent "co-operative" with headquarters in the province of Brescia and the only one in Lombardy, focused in traditional loan brokering, with great focus on innovation and services, with a wide shareholding base, of more than 40,000 Shareholders, and a loyalty retainer, with more than 90,000 Customers.

The merger processes which will concern some of the competitors in the co-operative bank industry will be accompanied by the foreseeable changes of the co-operative lending banks (BCC), whose reform, contained in the recent Italian Decree Law No. 18 dated 14 February 2016, is, at the time of drafting of this report, being approved by the Houses, and whose developments are still to be fully evaluated.

The reform proposes to mitigate the structural weaknesses deriving from the model of activities, particularly exposed to the trend of the economy in the reference area, together with the reduced dimensional and organisational set-ups. At the same time, the value of the co-operative model for the banking sector was confirmed and the principle of the *per head* vote remains.

The scenario described previously, both with reference to the co-operative world and with reference to that of BCCs, may present new commercial and business opportunities for the Bank, in the presence of reorganisation processes for the competitors which could lead to lesser attention to the singular needs of our target customers. In the face of said scenario, the risks which could derive from the growth in size of said competitors should however be considered, in the presence of the foreseeable merger processes or federal agreements between the same, with a potential improved balance between costs and revenues.

In the aforementioned scenario, Banca Valsabbina's choice to confirm its positioning as an autonomous co-operative bank, endowed with streamlined decision-making processes and by a considerable vicinity to the area, represents an important commitment for all the stakeholders: from the Shareholders to the Customers, management, employees and suppliers.

An autonomous process, such as that decided by the Bank, is however compatible only with a scenario of strong equity solidity, capable of suitably protecting the intermediary in the event of risks to which the same is exposed during its core activities. The equity solidity of Banca Valsabbina is high, with a CET 1 ratio of 14.9%, abundantly higher, as we have already said, than the minimum limits envisaged by supervisory legislation and the most recent indications of the Bank of Italy.

This solidity has made it possible, also in the most acute phase of the crisis, to keep support for households and SMEs in the area unchanged.

The equity solidity must then be supported by means of a satisfactory level of profitability deriving from the core business, also so as to meet the new liabilities imposed by the European regulatory system in the event of crisis of the intermediaries. This context includes the introduction of new funds for the sorting out of the banking crises, established using the resources of the banks. With regard to 2015, the overall outlay amounted to Euro 4.2 million, including the extraordinary contribution for the rescue of Banca Etruria, Banca Marche, CariFerrara and CariChieti, an event which significantly affected the income statement for the period, in addition to 0.6 million destined for the depositors' guarantee fund, held by the Interbank Guarantee Fund.

There are various measures already underway to improve the profitability profiles of the Bank, also in light of the gradually improving economic context. The commercial policies confirm households and SMEs in the area are the target with the aim of consolidating the market shares in the area of traditional presence and extending them significantly to those recently entered. The action planned for improving the profitability is based on the success of the commercial policies, as well as on the introduction of new businesses and on the optimisation of the stock of impaired loans.

The operational action undertaken with regard to the latter point, in particular, has been considerable. The administrative activities preparatory for entrusting part of the non-performing loans under management to a specialised servicer, have come to an end.

Activities for promoting real estate auctions will be tried and tested shortly; these involve properties guaranteeing the Bank's loans. These activities may make it possible to reduce the informative gap for non-professional customers, which sometimes characterises real estate auctions. The Bank has invested in a new real estate Fund, entitled FAB VI, promoted by Polis Fondi SGR, an investee company of the Bank. With a view to diversifying the managers of the real estate funds, collaboration also commenced with Finanziaria Internazionale (Fondo Fenice). These ventures make it possible to safeguard the properties guaranteeing the bank's loans from speculative write-downs, by means of professional management, as well as to divest impaired positions.

A multioriginator securitisation transaction has been finalised for non-performing loans, for a total of around Euro 5.8 million in gross loans. The transaction, the first of its kind, has permitted the internal resources to acquire important industrial know-how in this field. The structure of the transaction may envisage future disposals and issues. Still, the Bank could assess with growing attention to prospects associated with the assimilation within Italian legislation of the agreement reached with the European Commission on the guarantee scheme for facilitating the banks when divesting of non-performing loans, by means of similar transactions.

With reference to the more specific objective of encouraging debt collection, the Bank also favourably assesses the recent measure introduced by the Government which facilitates the sale of properties on the conclusion of executive procedures, envisaging a new reduction in the registration tax which must be paid to the fixed extent of Euro 200 (rather than 9% of the assignment value). This concession, which can only be used provided that the property is resold within the following two years, could benefit the subsidiary Valsabbina Real Estate.

Said measure, aimed at furthering debt collection, falls within a wider logic which could lead to an overall reformulation of bankruptcy law, to which an initial and important contribution was provided by Italian Law No. 132/2015, especially with regard to prior arrangement with creditors, aimed essentially at rebalancing the contractual relationship between debtor and creditors, eliminating the undue benefits for the entrepreneur-debtor noted in practice, in the effective use of this instrument for sorting out the business crisis. Specifically, the streamlining of the procedures and the reduction of the timescales for closure of the same (which in Italy are more than double with respect to other EU countries) may permit a more rapid "exit" of the impaired loans from the financial statements of the banks and a better price in the event in disposal transactions.

With regard to liquidity, the Bank has confirmed that it wishes to follow a prudent profile. Within a future prospective, given the impact on the funding policies of the "bail-in" legislation, the Bank is equipping itself so as to sustain minor demand for bonds from retail customers, replacing part of this form of medium-term funding with a time deposit line (falling up to Euro 100 thousand under "protected deposits") with longer maturities (up to 60 months, already available from December 2015).

The evolution of direct deposits is essentially in line with the targets set and has not been affected, partly thanks to the training and disclosure measures put together by the Bank for its employees and Customers, by the enforcement of the new European rules (so-called bail-in), on the basis of which the cost of a possible banking crisis is primarily supported within said bank. The most recent system data provided by ABI (Italian Banking Association) confirms that between November and January, the deposits of the Italian banks increased Euro 18 billion and that no flight of deposits was reported in concurrence with the enforcement of the rules on the bail-in, with the exception of cases attributable to specific problematic situations.

Again with reference to the objective of maintaining a prudent liquidity profile, at the beginning of 2015 an innovative measure was finalised for the "re-opening" of the securitisation transaction on residential mortgage loans concluded in 2012. Further to the measures, the residual amount of the senior securities rose to Euro 256.7 million (+ 157 million), with a considerable saving in timescales and costs, also achieving an improvement in the rating. The senior securities are currently used to guarantee refinancing transactions with the ECB, but could be placed on the market, given the great request already received from numerous institutional investors. Further tranches of transactions with the same content could be established during 2016.

A clear and timely identification of the risks which the Bank is potentially exposed to is an indispensable condition for the informed undertaking and accurate valuation of said risks, implemented by means of the use of effective instruments and appropriate techniques for gauging, mitigation and handling. Once again in 2015, 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 staff.

Within this fundamental assumption, the array of business risks is overseen according to a model which acknowledges the Supervisory indications (lastly the recent Circular No. 285/2013, which will be discussed in the section on legislative and regulatory innovations), and which uses methods and procedures aimed at ensuring the efficacy and efficiency of the operating processes, guaranteeing the reliability and integrity of the information and checking the observance of legislation in recurrent operations.

The Banca Valsabbina Group is made up of the group parent 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 group parent.

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 standards compliance department (known as the Compliance Service);
- the risk management department (known as the Risk Management Service); and
- 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 It. leg. 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 - which has the aim of mitigating all the risks which the Bank is exposed to - is of strategic importance and encourages the sound and prudent management of the bank, protecting the stability over the long-term. It is based on the interaction between the Board of Statutory Auditors, the control units and the entire business organisation.

The architecture of the internal controls system envisaged following the indications of the supervisory legislation is divided up into three levels.

The first level is represented by the control delegated to the operating structures of branches or central headquarters which aim to ensure the correct performance of the transactions.

Typically, the line safeguards are active at the first level, making it possible to intercept the anomalies at the very moment the same occur.

The second level controls have the aim of ensuring the correct implementation of the risk management process, the observance of the operating limits assigned to the various divisions and the compliance of the business operations with standards, including those concerning self-regulation.

In detail, the risk management department collaborates for the definition and implementation of the RAF and the related risk governance policies, by means of a suitable risk management process.

Within the sphere of the second level controls, the standards compliance department has the task of assessing the compliance of the new projects in advance, foreseeing any risks deriving from violations of internal and external legislation.

The anti-money laundering department, again with a view to the second level controls, complies with the need for a progressive specialisation of the safeguards for preventing reputational and fine-related risks associated with involvement, including unwitting, in money laundering and international terrorism funding.

In conclusion, the third level is represented by the internal audit department, which is delegated the task of checking the regular performance of the operations and the evolution of the risks and assessing the completeness, adequacy, functioning and reliability of the components of the internal controls system.

In relation to the activities carried out by the control departments, Compliance oversees, according to a risk-based approach, the management of the risk of non-compliance with regard to all the company activities, checking that the internal procedures are suitable for preventing this risk. In this connection, the indications of the Bank of Italy specify that "with reference to other legislation in relation to which specific forms of specialised safeguard are already envisaged" ... "the bank, on the basis of an assessment of the adequacy of the specialist control to handle the non-compliance risk profiles, can graduate the tasks of the Compliance unit, which is in any event responsible, in collaboration with the specialist departments appointed, at least for the definition of the methods of valuation of the

risk of non-compliance and the identification of the related procedures, and proceed with the checking of the suitability of the same procedures for preventing the non-compliance risk.”

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 which came into force during the year.

The risk control department, known as Risk Management, is by contrast the unit responsible for the assessment and gauging of the risks.

In particular, it is involved in the definition of the RAF, the risk governance policies and the various phases which make up the related management process as well as the determination of the limits to the undertaking of the various types of risk. It also checks the suitability of the RAF, the risk management process and the operating limits, monitoring the effective risk undertaken by the Banks and reporting to the Board of Directors. Furthermore, the activities of the unit within the sphere of the ICAAP process, are aimed at the determination of the overall internal capital in the presence of the risks undertaken and the assessment of the adequacy of the Bank’s capital endowment. Within this area of responsibility, the unit streamlines and implements the methods and the instruments supporting the monitoring of the risks undertaken, on the basis of the indications of the Supervisory Authority and the Corporate Bodies.

The activities carried out by Risk Management within the context of the discipline of the internal controls system will find accurate representation in the following section reserved for risk management.

During 2015, the Anti-money Laundering unit, required to prevent the risk of the Bank’s involvement in money laundering and/or international terrorism funding activities, focused its attention on the implementation of the new supervisory provisions regarding suitable checking of customers, by means of the adoption of the required IT and organisational measures. A significant endeavour was made with reference to making the network aware in relation to the evolution of laundering techniques and the rising importance of certain offences, such as tax evasion and corruption.

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

During 2015, the controls carried out on the central units were mainly concentrated on the loan sector, on the administration sector, on the commercial sector, making it possible to carry out checking measures inherent to specific operating processes; also checking, amongst other aspects, the adequacy and efficacy of the anti-money laundering safeguards. With 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.

The controls *in situ* on the distribution network carried out during the year concerned 31 branches. On the basis of the results of the checks carried out, the Internal Audit Service 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 2015, remote controls continued, appropriately structured to identify and look in-depth at the operations of specific management spheres exposed to elevated risk profiles, both effective and potential. The related activities availed themselves of the help of a specific IT application supplied by Cedacri which guarantees high flexibility in the performance of certain controls and makes it possible to obtain prompt reports on the operations carried out which exceed the pre-established attention thresholds; the versatility of the instruments in conclusion facilitates the identification of the necessary corrective measures and the prompt adoption of the appropriate measures.

The results of the checks carried out by the control units - which directly report to the corporate bodies - have been analysed in-depth using the internal apparatus concerned and subsequently submitted to 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.

13 THE RISK MANAGEMENT SYSTEM

The risk management system adopted by the Bank reflects the structure required by the supervisory instructions for banks, implemented in the last two years in order to assimilate the provisions originally introduced by the 15th update of Circular No. 263/2006, recently incorporated in the Bank of Italy Circular No. 285/2013.

Said update had 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 supervisory instructions confirmed how the system of internal controls 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 which describes the internal Risk Appetite Framework was initially adopted by the Bank in June 2014, with the definition of the metrics for the quantification of the Bank's risk position, the objectives in terms of desired risk profile (risk appetite), the tolerance to risk (understood as the absolute deviance from the established objectives) and the operating limits to be monitoring on an on-going basis for the individual types of risk. The document was updated by the Board of Directors in April 2015 for the purpose of redefining the risk objectives on the basis of the indications contained in the review of the 2015-2016 Strategic Plan.

The structures of the Prudential supervision for Banks, also further to the recent EU legislative up-dates, remains structured on "three pillars" introduced by the Basel Committee.

The first pillar identifies the capital requirements necessary from dealing with the credit, counterparty, market and operating risks typical of banking activities. The adoption of the Basel III framework envisaged the introduction of additional safeguards aimed at containing the financial leverage, at monitoring and at supervision of the liquidity risk.

The second pillar by contrast requires the banks to endow themselves with a strategy and a process for controlling the capital adequacy, current and forecast, observing the central nature of the corporate governance set-ups and the internal controls system.

In conclusion, the third pillar lays down public disclosure obligations on the capital adequacy, on the exposure to the risks and on the general characteristics of the related management and control systems, for the purpose of furthering the market discipline.

The structure of the risk management and control process envisages prompt and constant reporting of the risk measurements made and of the activities carried out by the corporate bodies, ensuring the on-going monitoring of the risks undertaken and the assessment of the consistency with respect to the objectives defined.

By contrast, below reference is made - albeit in summary form - to the measurement, management and mitigation methods of the various types of the risk identified as significant in light of the business model adopted and the current operations of the Bank. Section E of the Explanatory Notes "Information on the risks and the related hedging policies" provides additional information of a qualitative and quantitative nature on the 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 undertakes particular importance in light of the business model adopted by the Bank, focused principally on traditional loan broking.

The analysis of the credit risk has the aim of assessing the ability of the Bank to suitably select its customers and the economic initiatives which are creditworthy, as well as the efficacy of the disbursement, handling, monitoring and trend control process for the loans.

In quantitative terms, the credit risk represents the most significant risk, in light of the elevated incidence of loans to customers with respect to total balance sheet assets.

The Bank gauges the capital requirement relating to the credit risk using the standardised method envisaged by the supervisory instructions, which envisages the application of different weighting ratios for the portfolio loans according to the segment the counterparty granted credit belongs to, the credit worthiness and the type of guarantees possibly acquired.

For the analysis and accurate and constant monitoring of the credit risk, the Bank avails itself of a management system for internal use, known as "Credit Rating System - CRS", which classifies the customers on the basis of credit worthiness, via a scoring system. The system comprises a statistical-type insolvency risk gauging model which, by means of an analysis of the economic - financial indicators of the counterparty, the trend in the relationship with the Bank as well as with other Institutes (Credit Reference Agency) makes it possible to estimate the Probability of Default (PD) of the Customer with the consequent assignment of the rating class. The Rating System assigned by the CRS model, together with the estimate of potential loss in the event of default (LGD -Loss Given Default), also represents the reference basis for the calculation of the estimated loss used for the quantification of the adjustments (forfeit write-down) of performing loans.

The Bank also uses the "Collateral" procedure for the purpose of checking the conditions of general and specific admissibility of the mortgage guarantees - as defined by supervisory legislation - so as to benefit from a minor capital absorption in the presence of credit risk and also avail of a system for managing and monitoring the mortgage

guarantees. This procedure makes it possible to safeguard the residual risk, or the risk that a minor amount than that envisaged is obtained from the enforcement of a guarantee.

The monitoring process for poor quality loans is entrusted respectively to the “Performance Monitoring Service”, which sees to the handling of the performing positions presenting anomalies and the “past due” positions, and to the Pre-litigation Service, which sees by contrast to position subject to probable default.

The loan monitoring activities are then supported by the “Quality Credit Management” application which makes it possible to promptly identify the counterparties with anomalies, divide the customers up into monitoring sub-portfolios according to the Bank’s strategic guidelines, and customise the process chosen in terms of players involved and action to be undertaken, storing the recovery activities carried out.

The management activities for the loans classified as non-performing are by contrast carried out by the Legal and Disputes Service with the support of outside professionals.

Specific interpretations of the credit risk are also represented by the concentration risk per individual borrower and the concentration risk vis-à-vis counterparties belonging to the same business sector or the same geographic area (geo-sectoral concentration).

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 gauging 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 gauging of the geo-sectoral concentration risk, the Bank uses the methods defined by ABI.

The Bank also avails itself of the procedure known as C.C.M. (Credit Capital Management), with the aim of providing support for the calculation of the prudent requirements (First Pillar), the prudent control process (Second Pillar) and the drafting of reports for public disclosure (Third Pillar).

Each year, the Board of Directors defines the lending policies overseeing the quality of the loans both at the time for initial resolution and opening of the report, and in the subsequent management of the relationship, taking into due consideration the Bank’s economic/equity balances and the related economic context. The policies in the last few years have seen the splitting of the credit risk, the undertaking of suitable guarantees and the adequate remuneration of the risk undertaken as the prevailing strategic approach.

Market risk

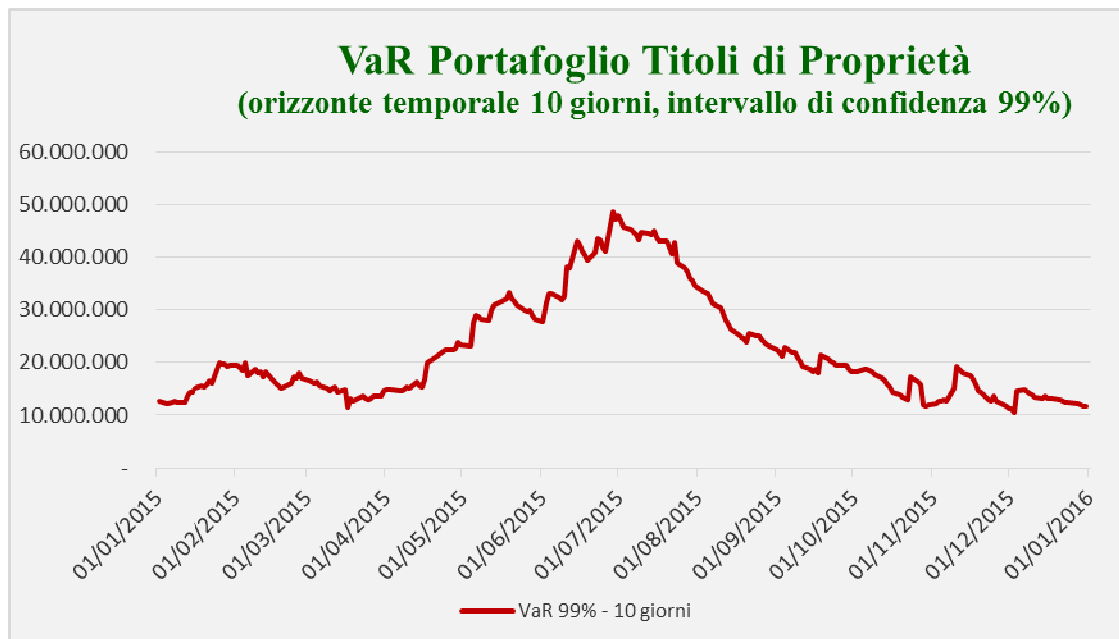
The Bank has developed methods for the detection of market risks which include price, interest and exchange risk on a consistent basis with the strategies adopted and with the features of the financial assets held.

In 2015, the Bank confirmed the pre-existing strategies of prudent management of the financial portfolio, aimed at optimising the handling of the company’s liquidity, directing the investment choices mainly to the Government bond market in the Euro Zone. In order to increase the investment opportunities in sectors of particular specialisation, within a logic of risk diversification, two management agreements were entered into in 2014 with two important asset management operators. The portfolio entrusted under management amounted as of 31 December 2015 to Euro 192 million and was invested in UCIT units. The management mandate envisages precise risk limits and predefined investment composition layouts.

With regard to the gauging of the price risk on the securities portfolio, a management model is used based in the Value at Risk (VaR), capable of summarily expressing the maximum probable loss of a static portfolio in monetary terms, with reference to a specific timescale and a specific confidence level.

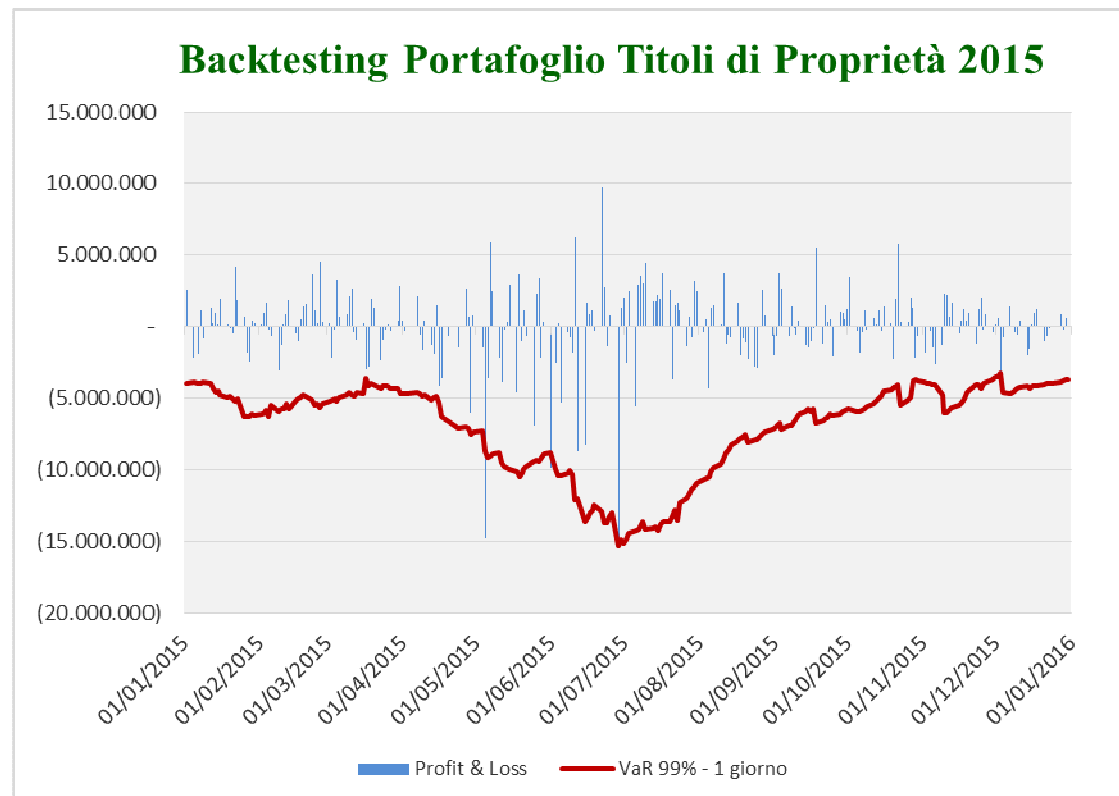
For the calculation of the VaR, the Risk Management, Planning and Control Service uses the ERMAS application. The financial information necessary for the determination of the VaR (volatility, correlations, forward structure of the interest rates, exchange rates, shares indexes and benchmark indices) are provided by the Risk Size product. The VaR model adopted is parametric in type and uses a confidence interval of 99% and a timescale of 10 days. The VaR is calculated daily both on the securities portfolio directly handled by the Bank, and on the portfolio entrusted to outside operators.

The performance of the VaR of the Bank’s bond portfolio during the year was as follows:

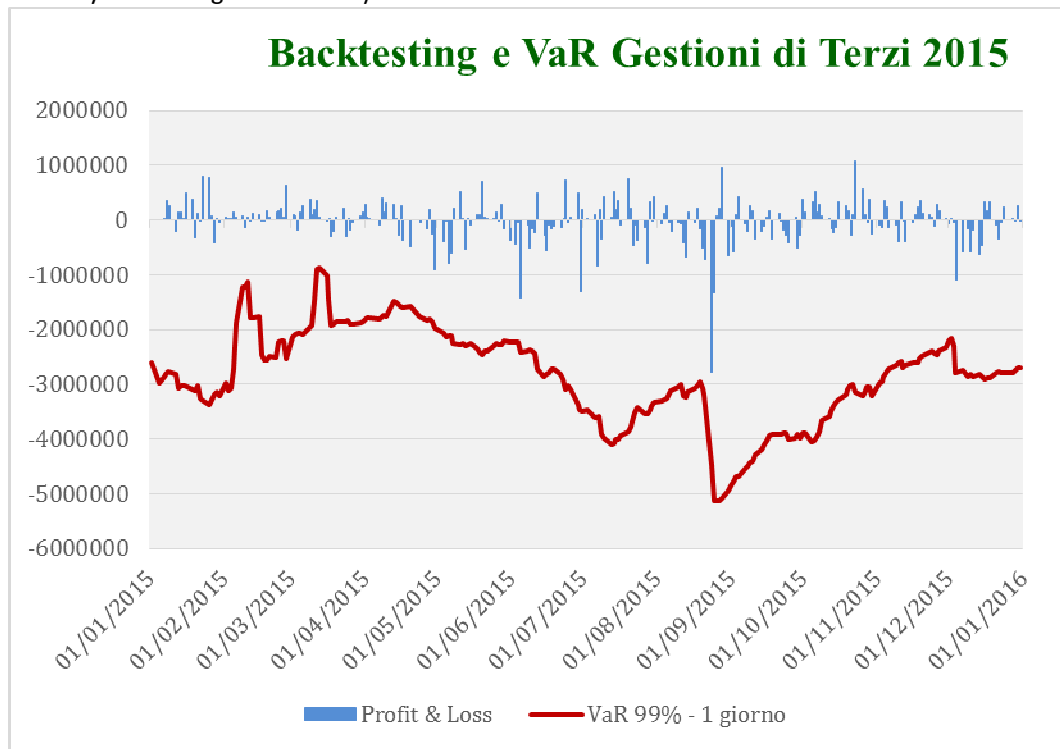


The VaR trend, from the moment that the securities portfolio is mainly made up of Italian government securities, has aligned itself with the fluctuations and the volatility registered on the related markets. The diagram shows the rising trend as from March and April, with the maximum levels achieved in June and July followed by significant tension in the Euro Zone mainly due to the Greek crisis. In the latter months of the 2015, the VaR constantly decreased until it returned to the values at the start of the year, mainly due to the progressive stabilisation of the financial markets. The duration of the portfolio fell progressively in the latter quarter of the year until it stood at a value of 2.7 years.

The backtesting analysis carried out in 2015, as can be seen from the diagram, revealed just 3 cases of exceeding of the VaR, registered respectively in May and June, in correspondence with the disclosure on the markets of negative news mainly due to the Greek crisis and, in December, further to monetary policy announcements not consistent with the expectations of the operators and such as to generate instability.



Also for the purpose of monitoring the riskiness of the portfolio entrusted to outside operators, steps were taken to calculate the VaR daily on this portfolio as well, subjecting the same to the related backtesting. The diagram presented shows the 1-day VaR trend and the backtesting analysis; the latter, in particular, did not reveal any cases of exceeding of the VaR thereby confirming the reliability of the measurement made.



Operational risk

Operational risk is represented by the possibility of suffering losses due to inadequacy or failures of procedures, human resources and internal systems, or as a result of external events.

The Bank sees to the determination of 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 significant indicator” for the last three years, calculated in accordance with 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 periodic adequacy checks on the system of controls.

The first safeguard for operational risk comprises the internal legislative framework adopted by the Bank, functional for guiding the conduct and the execution of the processes.

The Bank has defined a series of organisational processes for the supervision and handling of the types of operational risk, within the sphere of which it avails itself - together with the competent Risk Management unit - of the Internal Audit and Compliance units and the Supervisory Authority set up in accordance with Italian Legislative Decree No. 231/2001. In order to contain the negative consequences, in economic and reputational terms, deriving from the occurrence of types of operational risk, the Bank has also adopted the Operational Continuity Plan, aimed at safeguarding the Bank in the presence of critical events which may invalidate full operations and has also carried out the mapping of the main operating processes.

For the purpose of improving the operational risk management process, the Bank then adopted an integrated detection, assessment, monitoring, mitigation and control system for the same risks. In this connection, a system has been created for the collation and conservation of the data relating to operational events and losses, which permits the creation of a historical database. Cedacri’s LDC (Loss Data Collection) procedure has been adopted to support this system, making it possible to gather together the data relating specific cases, classifying them according the logics envisaged by legislation. The collation of the events which have led to operational losses permits the Bank to identify the reiteration of negative events or conduct, thus encouraging appropriate corrective measures.

During 2015, for the purpose of supplementing the operations which are already carried out afterwards with the collation of the operating losses, implementation of a self-assessment process was concluded functional for estimating - on a forecast basis - the Bank’s exposure to the operating risk (“Risk Self Assessment”). Specifically, this

involves an estimation self-diagnostic process which sets out to assess the degree of the exposure to the risk by means of a combination of opinions expressed in terms of impact, probability of occurrence, efficacy of the controls.

Within the sphere of the operational risk, the supervisory legislation placed particular emphasis on the IT risk, assigning the internal controls units the task of assessing the reliability and security of the company information and the IT procedures. The Bank has formalised the “Method for the analysis and handling of the IT risks” on the basis of which the “Summary report on the IT risk situation” has been drawn up. In detail, the “critical” processes were therefore recognised, the IT and associated operating continuity risks identified, and consequently the “Plan for the handling of the emergencies and the operating continuity” up-dated. The up-date of the analysis carried out in 2015 was performed with particular reference also to the valuations of the IT outsourcers, and confirmed a low risk exposure, consistent with the Bank’s risk propensity.

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 legislation. The mitigation of the interest rate risk takes place by means of the integrated handling of the bank assets and liabilities, aimed at stabilisation of the interest margin and the safeguarding of the economic value of the bank book.

The gauging of the interest rate risk is carried out by the Risk Management, Planning & Control Service.

The gauging of the interest rate risk in terms of second pillar logic takes place on the basis of the standard algorithm envisaged by the Bank of Italy Circular No. 285 dated 2013, by means of the creation of a summary index which expresses the ratio between the change in the net value of the bank book in the presence of a rate shock (200 base points) and the “own funds”. The Bank has always maintained the risk index at a level lower than the attention threshold established by legislation (20%). The change in the economic value of the bank book is also calculated in the presence of negative and positive rate shocks corresponding respectively to the 1st percentile and 99th percentile of the changes in the market rates registered in the last 6 years.

The regulatory measurement is also supplemented by monthly operational analysis, where 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 effects, balance sheet and income statement in type, induced by hypothetical shocks of the market rates.

For the purpose of gauging the variability of the interest margin, determined by positive and negative changes in the rates over a time period of 365 days, monitoring of the differences between asset and liability items of the financial statements is carried out, grouped according to the maturity or rate redefinition date; the method used is “gap analysis”, via several approaches which make it possible to achieve increasingly accurate estimates. The rate risk gauging techniques also include the estimate of the effect linked to the core component of the on demand items in the registrations.

The gauging 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.

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 compromising its ordinary operations and its financial equilibrium.

The overall model adopted by the bank for the handling and monitoring of the liquidity risk is divided up into three distinct areas according to scope, timescale and frequency analysis:

- the management of intraday liquidity, or rather the management of the daily settlements of the debit and credit positions in the various settlement, payment and clearing systems which the Bank takes part in;
- the management of operating liquidity, or rather the management of the most volatile events which 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. Within this sphere, the registrations of the 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; and
- the management of 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- to 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 the certain and estimated flows to the various time brackets of the same, for the purpose of proceeding with the calculation of the cumulative gap for each maturity bracket.

The Bank has established a number of operating limits for the management of the liquidity in both areas: 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.

Safeguarding the liquidity risk, the Bank continually monitors the value of the Counterbalancing Capacity (CBC), understood as the availability of assets which can be promptly reimbursed, sold or used in refinancing transactions with the interbank system and which therefore make it possible to generate liquidity rapidly and efficiently.

The Bank also has a "Contingency Funding Plan", as an instrument for mitigating liquidity risk which indicates, in detail, the individuals and the units responsible - in the event of need - for the implementation of extraordinary funding policies, as well as the action to be adopted to remedy the same, in accordance with the legislative requirements envisaged by the new regulations on the subject.

During 2015, the Bank streamlined the measurement of the liquidity indicator, "Liquidity Coverage ratio" (LCR) on the basis of the matters envisaged by the EU Delegated Regulation 2015/61 issued to supplement EU Regulation No. 575 dated 26 June 2013 of the European Parliament (CRR Regulations), as well as the additional indications and recommendations of the European Banking Authority on the subject. With regard to the "Net Stable Funding Ratio" (NSFR) indicator, the Bank has implemented a operational-type measurement on the basis of the matters envisaged by the Basel III Framework.

Risk of excessive financial leverage

The bank pursues sustainable growth policies containing recourse to financial leverage. The Risk Management Planning & Control Service monitors the excessive financial leverage risk also on the basis of the related indicator, calculated quarterly and subject to specific reporting to the Supervisory Authority.

This gauging of the excessive financial leverage risk aims in particular to identify the risk aspects which are not included in the gauging of the Supervisory capital ratios.

Strategic risk

The strategic risk is represented by the risk, both current and forecast, of coming across a drop in the profits or the capital of the Bank deriving from changes in the operating context or from erroneous business decisions, the unsuitable implementation of decisions, as well as the scant reactivity to changes in the competitive context.

The Bank has adopted a mitigation policy for the strategic risk which is mainly based on the formalisation of an analytical, prudent and shared decision-making process. The decision-making choices are 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 constant detection and monitoring activities for the company performance and the related differences with regard to the pre-established objectives.

Reputational risk

The reputational risk is represented by the risk, current and forecast, of a drop in the profits or the capital deriving from a negative perception of the Bank's image by customers, counterparts, shareholders, investors or the Supervisory Authority. It represents the "secondary" risk, or rather it is triggered off by original risk factors ascribable essentially to the operating risk (in particular attributable to the legal and standards non-compliance risk) and strategic risk. Despite being a "secondary" risk, the losses associated with the reputational risk may be much higher than those attributable to the original risk event.

In light of the difficulties associated with the quantification and the measurement of the related risk, a self-assessment process has been implemented aimed at obtaining, on a forecast basis, a qualitative assessment of the exposure to reputational risk.

This process has the purpose of monitoring the areas of operations most exposed to this risk, of raising the awareness of the main players involved and assessing any mitigation action.

For the mitigation of reputational risk, the Bank has implemented safeguards aimed at reducing the possibilities of occurrence of internal fraud or involvement - also unwitting - in money laundering. With regard to the first point, steps were also taken to activate internal reporting systems for the violations (so-called whistleblowing), identifying the party which will receive the same in a confidential manner.

14 COMMERCIAL ACTIVITIES

The pages in this section expand - in descriptive terms - on many of the aspects contained in other parts of the report. Thus it becomes almost impossible to avoid repetitions which we will in any event try to limit, however safeguarding the necessary comprehensive disclosure.

The Bank's sales policy has developed, also during the year under review, in the wake of those human, social and traditional values which are recognised in a cultural mode by now acquired as a distinctive component of the business. In fact, year after year Valsabbina turns the pages of its past with a respectful sense of tradition, but with vigilant attention to the innovation which advances, with confidence in the individuals and in their projects, but also with the caution which is required from those who administer third party resources.

This is the typical model of the local bank, tied to its area of presence, aware of being a fundamental component of the community, of wanting to decisively contribute to the economic and civil development, turning all this into a recognisable "entrepreneurial culture" and a style of management consistent with the founding principles of said bank.

Thanks to this cultural resource, Valsabbina knows that it has become a preferential point of contact for households and SMEs also when, within the sphere of a consistent growth policy, it extends its commercial presence towards new areas and different local situations. Thus in relation to the fact that by means of this approach the branch managers, as well as all the resources who place themselves at the service of the customer, are not mere operatives of senior management, but are interpreters of that model which incorporates the values mentioned above.

Staff training commitments continue to grow; in 2015 staff were involved on average in training activities for more than 6 working days so as to acquire both the knowledge and skills linked to a market increasingly governed by regulations, procedures, guarantees to be requested and provided, but also to streamline that conduct and those customs which the customers know they can find in the daily work-related dealings in all the branches.

Hereunder, we will look through the breakdown of the most significant commercial initiatives, all developed according to a logical structure which takes into account minor interest margins, minor net interest and other banking income and less operating profit: a proven business model.

The sales network and policies

It does not appear redundant to us to briefly mention the organisation of the sales division before commenting on the activities carried out, because in the economy of any business it is the organisation of the production factors which decides the various degrees of operating efficiency, productivity, operational cost-effectiveness and, therefore, profitability. Resources being equal, a good organisation based on a strong and respected discipline of governance, may encourage better results: thanks to clear rules, formalised processes, procedures and up-to-date communication. If we agree on these simple principles, in our opinion we have provided the Bank with valid commercial and distribution structures.

The organisational model adopted in fact entrusts the Market Division with the supervision of all the area of the business by means of the "Commercial Sector" which co-ordinates the network of branches - up from 61 to 62 units - and by means of the "Strategic Planning, Marketing and Products" unit which governs the supply of products, the sales agreements, the advertising communication, accurately checking the correspondence between the end performances and the budget forecasts.

The six original Sales Areas which the agencies are divided up into (North West, North East, South West, Brescia HQ, Valsabbina, Verona) have recently been joined by the newly established "Monza Brianza" Area which represents the outpost of the planned expansion of the Bank into West Lombardy.

For now, the Area comprises just the Monza branch, opened on 29 February last in Via Alessandro Manzoni, a short distance from the city centre and the Cathedral, in a dynamic residential district rich in commercial and service activities.

In a period in which it is by no means infrequent that bank branches are closed down, the Bank's development plan represents a sign of confidence in the pick-up and of rational certainty in our strategic positioning, competitive strengthening and growth projects.

In this sense, it is entirely obvious how the identity and recognisability are for a bank, especially if accompanied by a sound reputation, an important distinguishing component of success. Name, signs and unequivocal communication help to improve the perception by the customers, the shareholders, the media and public opinion in general.

It is for this reason that we have proposed to convey our brand and our company mission, very well-known in the province of Brescia, also in areas of more recent presence: therefore, almost three years on from the incorporation of Credito Veronese, the decision was made to progressively abandon the use of the Scaligero trademark. During 2016, the replacement of the signs will take place in eight branches in the province of Verona.

A similar initiative was implemented last year for the "Banca di Storo" trademark - a branch incorporated in 1999 - without the Customer and the local communities even minimally perceiving a minor attention of the service spirit.

Also for the whole of 2015, the Bank wished to bear witness to its sharing and support of the most significant moments of the economic and cultural life of the various areas of operations, thereby enhancing the visibility and notoriety of its "brand".

Thus, attendance of the Lonato trade fair in January, the agricultural one in Montichiari in February, the Brescia real estate meeting in March, Vinitaly in Verona in April and the Gavardo trade fair in May was confirmed.

During the Christmas holidays, the Bank was the main sponsor of the first International Museum of Sweets, set up in the city centre of Brescia.

Valsabbina was also one of the main partners of the first edition of "BeTalent - La notte dei talenti", held in Brescia in Piazza della Loggia on the evening of 4 September, associating its name with a winning, active, young format, which communicates dynamism and social relations. The talent in our area, assessed by a jury of professionals and important professions from the Brescia area, was in conclusion rewarded by senior company management.

Banca Valsabbina also renewed its sponsorship of the football almanacs, edited by BresciaOggi and Giornale di Brescia, also for the 2015-2016 season, made available free-of-charge care of our branches. Hundreds of pages, full of information, photographs and anecdotes, as add-ons to two leading local daily newspapers. The Bank believes in the values which sport manages to convey simply, involving youngsters and the not so young, families and children.

But vicinity to the area also means effective solidarity vis-à-vis the so-called "non profit" entities which in society carry out valuable work to support weaker and more needy sections of the population with dedication and, almost always, scant resources.

On a consistent basis with the provisions of our Articles of Association, which envisage that part of the profit be assigned to "charitable, assistance-related and public interest" purposes, the Board also resolved a plan of charitable initiatives reserved for certain well-deserving entities in the area. A contribution of around Euro 100,000 was donated to certain Care Homes, active in the social work sector and to the newly established Consorzio RSA Scarl, a consortium company set up to encourage the creation of a group for purchasing goods and services and at the same time a work group, participated in by several shareholders, to co-ordinate and plan the action of the Nursing/Care homes which are members of the same.

Having considered the optimum collaboration established, an *ad hoc* agreement will shortly be created for the Care Homes joining the new entity and for the related employees.

In conclusion, the Bank has collaborated, together with the Negri Foundation, with regard to the very recent publication "Brescia alle origini dell'industria Agroalimentare" dedicated to aspects of EXPO which recently came to an end. Also the night-time illumination project for the Cathedral of Salò was supported by the Bank with conviction, by means of a contribution of Euro 20,000 handed over to the Parish of Santa Maria Annunziata.

We have mentioned these spontaneous and moderate initiatives not so as to gain consensus, but more simply to provide account of the effectiveness of the vicinity of the Bank to its communities.

The proposal dedicated to the Shareholders

The satisfaction of its Shareholders-Customers cannot fail to be a constant and priority undertaking for a co-operative bank such as ours.

Appreciation for the benefits which are reserved for the Shareholders in terms of current account conditions, rates, both on loans and on deposits and soft pricing for the main services was once again confirmed in 2015.

More than 20,000 Shareholders availed of these concessions in 2015, which - you are reminded - benefit the "private" holders of at least 200 / 500 shares and "businesses" which possess at least 1,000.

The current account agreements

With satisfaction we also report important growth in the array of current account customers. Current accounts grew on an annual basis by 2.7%, passing from 70,523 to 72,394. This confirms the relational ability and solidity with the market and the general appreciation for the service policies, with reference to the investment ones and the payment ones. The proposal of accounts dedicated to specific segments continued successfully. The "Conto Rosa", created for

female customers, rose from 3,200 to 3,800. The "Conto Evergreen", conceived and created for the needs of the over 65s and pensioners, exceeded the quota of 1,300 compared with 1,000 at the end of 2014. Both the products come with a Card free-of-charge by means of which it is possible to obtain discounts and concessions for leisure time, events, shows, holidays and also home security equipment.

The "Conto Giovani", reserved for the under 30s, also met with great success, today used by 5,000 young Customers compared with 3,800 in 2014: the product has shown itself to be particularly interesting, so much so that it makes it possible to capture "new Customers" at the time they are choosing their "first bank". Appreciation for the formula is justified first and foremost by the low cost conditions and secondarily by the effective use of the associated services, all consistent with the income and spending profile of this type of account holder.

The proposal list was enhanced in 2015 by the "Conto 44 Gatti", reserved for children between the ages of 0 and 11, the result of the partnership with CoBaPo - Consorzio tra banche popolari - which Valsabbina joined in 2014. The educational content is seen to by Istituto Antoniano di Bologna and opening an account leads to numerous non-banking benefits including entry free-of charge to some of the most well-known amusement parks in Italy.

Customer interest for package accounts showed itself to be high once again, featuring contained and all-inclusive costs, access to basic services together with interesting discounts and concessions.

An innovative co-marketing agreement, entered into with an important company in the area, made it possible to offer all the new Customers of the company who are also current account holders of the Bank two months free subscription for using the fibre optic connection.

Loans and leasing

As we reported in the section specifically dedicated to loans, credit demand was still weak and the widespread situations of problematic issues in the economic and production context led to a drop in the stock of the aggregate also in 2015. This certainly did not mean a disengagement of the Bank in terms of the support of business and household activities.

In order to support the investment choices, medium-term loans in fact increased significantly. More than 700 businesses availed of loans granted under Italian Law No. 662/96 and 80% backed by Mediocredito Centrale for a total of Euro 135 million (+ 13% on 2014). Micro-credit transactions addressing businesses with no more than 9 employees and reduced sales revenues also continued in the same form. In line with the positive inversion in the trend of demand for mortgage loans requested by households - thanks to the low level of the rates and the improvement in the climate of confidence which corroborated the traditional interest of households for the real estate sector - the Bank disbursed 462 new "first home" loans in the year (+ 23% on 2014) for a total of Euro 55 million. Effectively perceiving the vicinity of one's bank during very important times in life such as those linked to the purchase of one's home contributes towards making the relation with Shareholders and Customers solid and long-lasting.

For this reason, in 2015, the range of mortgage loans was further enhanced with the precise aim of extending the options in terms of duration, rate, formulas and repayment formalities. Alongside the range of floating-rate mortgage loans with a spread of 1.45%, 2.50% fixed rate solutions with a 20-year duration, plans with rising instalments for young couples and floating-rate mortgage loans, but with a maximum rate cap have been envisaged for those who wish to avoid the effects of future sharp rises in market rates.

Also the disbursement of personal loans increased considerably: +22% with respect to 2014.

As already announced a year ago, a service accompanying the mini-bond issue was made available to the businesses which need to access the capital market, provided by means of the partnership with a leading specialised operator. The Board of Directors has set aside Euro 30 million for the investment in bonds; priority is given to businesses in our areas with which it will be possible to operate also via commercial lines or other business channels.

Dealings with the Confidi (credit guarantee consortiums) in the area also continued positively: the agreement with Cooperativa Agraria di Garanzia di Brescia was renewed, setting aside a plafond of Euro 10 million to be assigned to the disbursement - under truly favourable conditions - of loans 50% guaranteed by said Co-operative. A similar plafond of Euro 5 million was assigned to the associates Artfidi Lombardia. The Bank also reserved particularly advantageous current account agreements for the members of both associations.

An efficient collaboration formula was also finalised by means of an operational agreement with a leading service company, which makes it possible to provide advice to the network and to the loans analysts so as to support the technical valuations regarding the reliability profile in very specialised business segments of the agricultural and import-export activities. Important growth was also seen on the leasing sector, overseen by the tried & tested and qualified partnership with the SG Group: the contracts initiated came to 248 for an equivalent value of Euro 25 million, compared with 19 last year.

Deposits

During 2015 the Bank issued and placed - albeit with reduced volumes compared to last year - its bond issues, always exclusively at fixed rate, as per consolidated practice on the market. The combination between funding policies aimed at containing the cost and improving the profitability of the bank, together with a preference of the savers for liquidity, led to a natural decrease in the outstanding stock. The current account deposit component by contrast rose nearly 13% and the appreciation of the customers for the time deposit formula remained high, a formula which guarantees higher remuneration. Accordingly, towards the end of the year, with the aim of enhancing the range of products reserved for savers and of providing a valid alternative to the medium-term investments previously used, a new line of time deposits was created which envisaged the payment of the interest accrued via a periodic flow, rather than a single payment on maturity. The formula is currently meeting with well-deserved success. Indirect deposits confirm the excellent performance, amounting to Euro 1,432 million, with overall growth YoY of 12%, drawn along by the positive performance of the “managed” component. Deposits in Funds increased by 47.5% and insurance funding by 33%.

Solutions for savings

Overall, managed savings increased by 45% with respect to 2014, which had also reported very important growth, thus reaching almost half the total of indirect transactions. This result confirms the validity of the collaboration which for years the Bank has established with qualified intermediaries, for the purpose of providing its customers with the most efficient solutions. In this connection, we make reference to the successful partnerships with financial operators capable of proposing Mutual Funds structured on numerous investment lines: Arca Sgr, Azimut Sgr, Franklin Templeton, Anima Sgr, Aletti Gestielle, Amundi, Nordea Funds, Raiffeisen funds, Pictet Sicav, DWS.

Last year, the proposal was further enhanced by virtue of the new commercial agreements entered into with Oddo, Vontobel and Rothschild. In total, the stock of Funds exceeded Euro 372 million.

The agreement entered into with Banca Patrimoni Sella for the placement of asset management schemes at the end of December produced a stock which verged on Euro 20 million: the technical formula of the propose permits the customers to participate in highly specialised forms of investment, consistent with the objectives of each type of investor, being able to choose from between five pre-defined lines in relation to the risk propensity and the contained access thresholds. The minimum amount is in fact Euro 20,000.

In the on-going search for innovative, and high quality products, the Bank then entered into an agreement with Diamond Private Investment SpA (DPI), a company which carries out brokerage activities for the purchase and sale of investment diamonds. Diamond Private Investment has been operating for 10 years throughout Italy by means of partnerships with leading banks and stockbroking firms. Investment in diamonds reveals itself to be an interesting solution for whomever wishes to acquire an “investment asset”, demonstrating itself to be a complementary asset with respect to the traditional medium/long-term financial products. DPI also offers the service for the resale of the asset; both the divestment and the purchases take place on the basis of the listed prices periodically published in “Il Sole 24 Ore”. The minimum investment is around Euro 4,000.

Completing the information provided on the proposal of investment services and products, we hereby disclose that in collaboration with Azimut, a new service, “Punto Pensione”, was launched last December dedicated to the aspects of welfare and pensions. The service makes it possible to propose the best solutions relating to supplementary welfare and pensions. “Punto Pensione” also provides advisory-related added value, permitting the Customer to receive clear and immediate information which offers certainties with regard to their welfare/pension fate. In a few simple steps, by means of the applications which support the service, it is possible to avail of the list of the contributions paid over, calculate the start date of the right and the extent of the related benefits, view the retirement date and estimate the economic value of the pension which may be received.

Insurance policies and solutions

With regard to “bank-assurance” services, the efficient and long-term partnership with the Zurich Group continued, aimed at the placement of financial/insurance products. The collaboration relationship, tried and tested over years of industrious and loyal synergy, makes it possible to offer care of all the branches, together with a selected list of insurance products aimed at protecting the individual and households, advanced commercial formulas regarding savings and investment. The Valsabbina proposal in this specific sphere is characterised by the qualification of the products, the competitiveness from a price-related standpoint and the expertise of the staff tasked with handling the related services. The growth in volumes of Zurich products intended for savings purposes came during the year to around Euro 70 million - nearly double compared to the previous year - with an overall stock which verged on Euro 270 million.

The new “Multinvest” product met with great appreciation, subscribed by customers for amounts equal to Euro 37 million. These are life insurance policies which ensure stable returns over time by means of insurance components

linked to a Segregated Management scheme, at the same time exploiting the growth opportunities of the markets by means of the financial components formed by investment Funds. The Multinvest returns are in fact linked to the Zurich TREND segregated management scheme and the performance of pre-defined lines of mutual funds.

The demand of the Customers for the "Z-Platform" is again high, a unit-linked product which makes it possible to choose between the best funds issued by leading players selected by the insurance company with a contract based on insurance-type benefits in the event of demise and financial-type benefits, linked to the performances of the chosen funds. In the "non-life sphere", the "Tutti Protetti" policy met with appreciation, launched in 2014 and conceived not only for individuals, but also for business customers who intend to insure the key figures of their structure against accident, injury, disability and for the reimbursement of healthcare and hospitalisation costs.

The catalogue of the insurance coverage, all characterised by contractual simplicity, is completed by the accident, injury and health policies: those protecting the home, the "Vita Privata" product covering the civil liability of the head of the household and - for companies - the "Tutela Aziende e D&O" policy.

Completing the already abundant list of catalogue products, in conclusion last Summer the "Amieasy" policy was launched, Filo Diretto's travel insurance, which can also be taken out on-line via the Bank's website: the policy, which envisage a series of guarantees which can be modelled directly on the application on the basis of the specific needs of the Customer, is distributed under genuinely favourable conditions.

E-money services

The evolution of the payment habits of the consumers and the collection formalities applied by retailers, together with the growing favour which on-line purchases enjoy in all segments of the population, are at the basis of the positive dynamics summarised in the following table:

	2010	2011	2012	2013	2014	2015
ATM points	60	60	68	66	66	66
Number of transactions carried out	786,021	807,558	862,254	875,207	896,746	928,223
Amounts transacted (in millions of Euro)	125	133	148	153	159	167
POS	1,343	1,484	1,937	1,799	2,008	2,127
Number of transactions carried out	1,133,437	1,321,361	1,645,407	1,867,782	2,198,200	2,340,510
Amounts transacted (in millions of Euro)	89	108	133	140	159	167

The number of POS installed - partly thanks to the "mobile PoS" solution which transforms the smartphone into an instrument for accepting card payments - grew in parallel with the increase of 5% in volumes transacted. The stock of payment cards, including prepaid, debt and credit card, also increased significantly to almost 85,000 units with respect to the figure of 77,000 in 2014. The proposal is complete and such as to satisfy all types of needs: from prepaid cards with IBAN, suitable for all the requirements of initial extension of banking facilities - especially to younger and new residents - to the Gold products of the CartaSi range and the American Express cards for those who want products of a higher standing in the presence of higher expenditure habits.

During the year, the Bank's "credit card" portfolio increased further by more than 2,400 units, of which 1,189 CartaSi and 1,230 American Express.

The Customers who wish to "protect" their payment instruments, can subscribe to CPP services offered by the specialised company Card Protection Plan under agreement with the Bank. By means of this formula, in the event of theft or loss of the cards, making a simple telephone call the Customer will obtain the immediate block of all the mediums, manifold insurance coverage and accessory protection and security services.

Digitalisation of the banking services

At the end of 2015, users of the "virtual bank" services, known as "Valsabbina on-line" and "Valsabbina corporate", numbered in total around 29,105, compared with 26,569 at the end of 2014. The considerable increase of 9.5% was achieved partly thanks to the boost which the Bank wanted to provide in disclosure and promotional terms, always considering this service as an integration and supplement to the direct and personal relationship which is achieved within the branches.

The security safeguard of the operative functions has been enhanced for both services, envisaging the obligatory nature of the token which generates temporary OTP codes ("one-time passwords") or the use of the SECURE CALL system, which makes it possible to authorise the transactions thanks to telephone contact with the dedicated free-phone number. By means of the registration of one mobile phone and exclusively using this device, one can complete, under total security, payment instructions.

2015 also saw the circulation care of the Customers enabled to use "Valsabbina Online" of the Bank's new app which makes it possible to use the home banking service in mobile mode via a smartphone which operates with the most common IOS and Android systems.

Smartphones and tablets are by now increasingly more common instruments used by all generations in daily life. Checking balances and transactions, paying bills, making credit transfers and recharges, checking one's securities position has never been simpler. Via "ValsabbinaApp" the main banking services are always usable, at any time and in any context. By means of "ValsabbinaApp" it is also possible to pay car property tax (road tax) in the majority of Italian regions and provinces.

With regard to the Customers who use Valsabbina Online who do not have credit cards or who believe they do not require them for e-commerce transactions, the Bank has made the "MyBank" solution available, a European level system service which makes it possible to pay on the websites with agreements generating a "SEPA credit transfer" from their home banking in favour of the seller, simply and entirely safely.

In order to ensure the business customers a series of value added services, the Bank has in conclusion entered into an agreement with Ribes SpA (Ricerche e Informazioni per Banche e Società). Ribes is a specialised company which for more than twenty years has been the leader in Italy for the supply to banks and service companies of real estate and commercial information for the handling of credit risk.

Since May 2015, the Ribes services can be used via the web platform of the Bank. By means of simple registration, the Customer has the following information at their disposal:

- commercial information, available in real-time, collate in a single document all the data of any Italian company thanks to the integration of the official data referring to the company history, that of its Shareholders, the associated companies and to the control of the negative events;
- real estate information for gaining awareness of the detailed list of the properties registered in the name of an individual or corporate body.

By means of the connection with "Valsabbina Corporate Plus", the Customer can also request the credit reports with greater added value for assessing the solvency of a new Customer, a new supplier or a business partner.

15 HUMAN RESOURCES

It is by no means rhetorical to acknowledge and confirm in our dealings that the individual is the true driving force of the business: and it is not even entirely obvious how this could appear. Banks are similar in many aspects, but mainly differentiate - beyond the dimensions and the apparatus - with regard to the attitudes, conduct and countenances of their collaborators: in a word, in the culture which the company has been in a position to transmit to them also by virtue of the examples of exactitude, dedication, and sobriety of the Senior Management.

The Bank can consider itself to be fortunate in having surrounded itself with high quality resources, but can also maintain that it has always dedicated attention and energy so that this takes place. Among the production factors, the human resource is that which is the most costly and it is entirely normal that the HR development and management policies are targeted at the highest return in terms of productivity, results and commitment to the task.

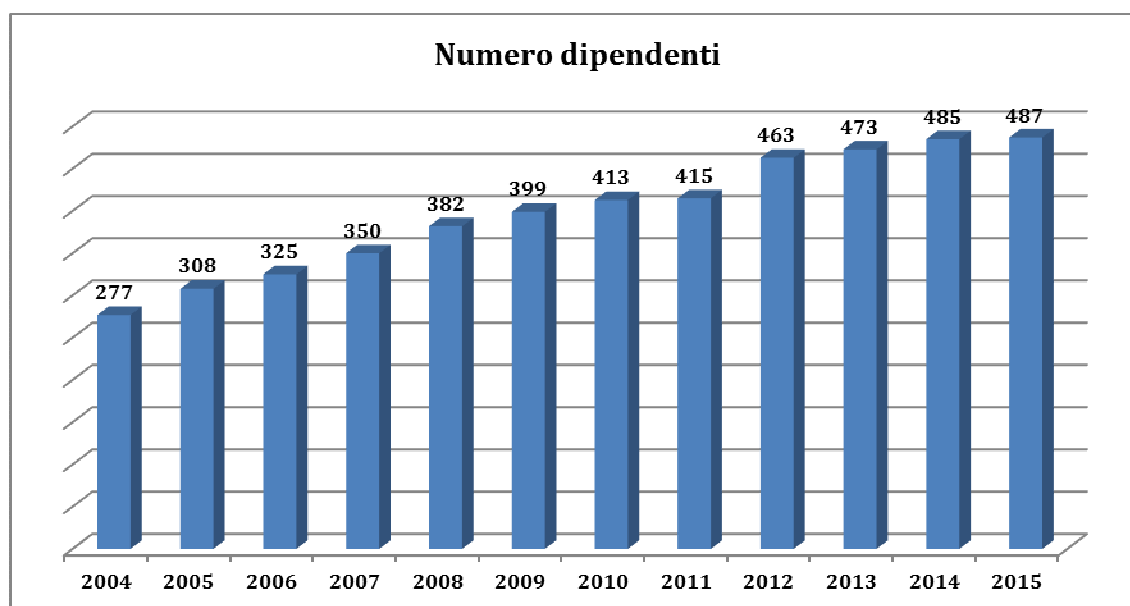
With regard to this aspect, 2015 provides effective proof of the value of our co-workers: in total, they number 487 and the precision of the results in this report are due to them.

The distribution of the workforce according to the contractual staff level profiles is presented in the following table in relation to last year:

	2015	%	2014	%	2013	%	2012	%
Executives	9	1.85%	9	1.90%	9	1.90%	9	2.00%
3rd and 4th level middle management	104	21.35%	103	21.20%	100	21.10%	96	20.70%
1st and 2nd level middle management	78	16.02%	76	15.70%	69	14.60%	63	13.60%
Remaining staff	296	60.78%	297	61.20%	295	62.40%	295	63.70%

of which:								
professional training apprenticeships	-	-	1	0.20%	-	-	1	0.20%
under staff leasing	1	0.21%	2	0.40%	5	1.10%	4	0.90%
TOTAL	487	100.00%	485	100.0%	473	100.00%	463	100.00%

Compared with 2014, the headcount increased by two units - as the difference between 14 new co-workers employed and 12 who have left service - while the structure of the staff levels remained more or less unchanged, going against the trend of the system dynamics which see the polarisation of the staff towards higher classes of pertinence. A structure which, compared with the data published by the Italian Banking Association in the 2015 Report on the employment market in the lending sector, highlights amongst other aspects within the Bank the minor incidence of the executive positions - 1.85% compared with 2.2% and of the middle management - 37.7% compared with 41% - and a consequent additional percentage based weight of the white-collars allocated in the various professional areas: 61% compared with 56% for the system. This configuration, which is the result of a harmonious balance of the equilibriums in the internal roles and the career developments, identifies that mark of sobriety which connotes all the aspects of business management, determining among other things positive repercussions on the component of the payroll and related costs.



The average age of our 487 workers is 41.1, while the figure referring to the system is 45.7 years. The average length of service is by contrast 12.1 years increasing progressively on a parallel with that which occurred in the system dynamics due to the lengthening of the pension requirements for permanence in service. 46.4% of the workforce is aged between 30 and 40. Despite having reached the 118th financial year, it can be said that ours is anything but an old bank, a creature of habit, also due to the vivacity of the policies aimed at the rotation and alternation of the roles for the purposes of growing the professional qualities.

The distribution of our staff between the central headquarters offices and the sales network is confirmed again at the end of 2015 on the values of the past: of the 487 individuals which make up the company headcount, 152 operate centrally, while 335 are distributed throughout the 61 branches operating in the provinces of Brescia, Trento, Verona and Mantua. In percentage terms, 69% of the resources are permanently employed on the market: which immediately explains the high and consolidated level of productivity achieved in the governance of the human resources. A rate difficult to achieve in the context of small and medium-sized banks; it should in fact be considered that the dimensional growth and the needs to adapt to the incessant legislative and regulatory changes leads to the need to continually reinforce the central apparatus, that serving the satisfactory functioning of the governance: in particular, the control units, the staff roles to the corporate bodies, but also the co-ordination and support units to the production sectors which are responsible for commercial development, credit, and finance.

With regard to the characteristics of the headcount in terms of gender, an essential stability in the distribution between men and women emerges, with a termination rate which obviously affects the former to a greater extent. The female component is made up of 149 workers - 15 of which part-time - with an average age of 39, compared with 42 for the men. Even if the female component within the Bank is more contained with respect to the average system

data, the contribution of the female staff remains significant, in the on-going adaptations of the organisational and distribution set ups, who are increasingly present in roles of responsibility both within the branches and the central structures.

The level of education of our staff thus remains high, and even improves further to the recruits taken on during the year: nearly half of the workers, precisely 46.4% of the total, compared with 37% of the entire banking population, is in possession of a degree, mainly in economic or legal disciplines, or in any event subjects consistent with the sector operations.

The qualification of the training process achieved in university studies has not emerged as extraneous to the more rapid attainment of sensitivity and awareness demonstrated by the staff, especially when we observe the dedication, the ability to learn and the versatility in the dealings with the customers: and it is precisely the Customers who recognise, in comparison with other intermediaries, the positivity of the approaches and the proud sense of identification with their own Bank.

It is for this reason that senior bank management has always sought to give continuity to the method acquired in the classroom or in university lecture halls, so as to strengthen - by means of less formal but highly effective rules in its "school" - the specialist technical expertise and skills which are required of the banking operator. We have always said, and it is never futile to repeat, that training, formation and updating of the human resources are strategic investments: they cost, but reward over time because they return a real competitive advantage.

If employing staff responsibly is fundamental, training, supporting, handling and motivating them is critical, which require constant boosts in furthering the evolution of a management based on IT systems and procedures. Two fundamental processes are in fact achieved in this way: a more efficient internal mobility which appeases the emancipation of the roles and a more accurate planning of the training measures to speed up the development of the skills required from each worker.

Again in 2015, the training agenda has therefore been particularly intense and observant of appropriate processes for detecting the needs of each operating unit. The hours dedicated to learning in the various realisation methods - classroom, event participation, video conference, e-learning - totalled 23,433, nearly 10% more than in 2014. In the presence of this programme, those attending at least one training course numbered 452. But that which provides greater account of the project-related and organisational commitment of the competent units is the number of total days: a good 3,124. This means, given that the employees are 487 in total, that each of them has taken part on average in 6.4 training days during the year.

The theme-based areas which affected the annual plan the most were those of a commercial content due to the need to oversee the operational and procedural aspects of the many products and services which we have just commented on in the previous section; then those referring to credit - broken down into the various phases of its processes and its life cycle in a period in which the management of the assets has turned out to be complex and critical but tried and tested in the past; and then those concerning the investment services, characterised by extensive legislation, undergoing continual evolution and highly complex due to the implications regarding the obligations to protect the savers.

Adequate space has then been dedicated to training on the subject of money laundering due to the delicate consequences which the legislation, itself subject to on-going evolution, reveals in the recurrent branch operations and, on a more general note, to the vast aspect of regulatory compliance with a view to prevention of the various types of risk associated with the activities of financial intermediaries.

Alongside the programme of training support reserved for specialist roles on the subjects of disclosure and regulatory supervision, a packed teaching and training calendar has been activated on the aspects subject to mandatory training. The need to ensure diligent and responsible supervision of the aspects of Bank-assurance, privacy, health and safety in the workplace and fulfilments which the "Safety Executives" are responsible for, has certainly not escaped us.

A large part of the annual plan has been absorbed by the recurrent and systematic up-dating and training meetings surrounding the new IT and organisational procedures, the evolution of which opens up new and unimaginable frontiers in the provision of services to the customers by means of sophisticated supports made available by unstoppable technological progress.

The traditional classroom training - often provided or in any event supplemented by expert collaborators for the purpose of developing a recognised and appreciated visibility of the "internal school" - efficiently flanked the remote learning instrument (e-learning) which ensures good learning results especially on theme-based areas with a highly popular nature.

Once again during 2015, the engagement with the trade union component, qualified and consulted stakeholder in moments of discussion on the processes and the spheres of training for staff, was carried out in a climate of intelligent and industrious collaboration, observantly safeguarding the institutional and role-related prerogatives between the

parties. It is by no means irrelevant to consider in this connection the support agreed by the unions in the presentation to the Insurance Banks Fund of the requests for finance for the training plans planned in accordance with said unions.

16 LEGISLATIVE AND REGULATORY CHANGES

The European legislative context in the banking/financial and investment services sphere is in continual evolution. The repercussions of this developmental process on Italian legislation are direct and often immediate.

We believe it is useful and appropriate to refer hereunder to the underlying logics and the dynamics in the main spheres in which the legislation is evolving, without any claim to wish to provide a complete picture of all the innovations which have already taken place or are still underway.

The cornerstones of the European legislation in the banking sphere are contained in Directive 2013/36/EU (so-called Capital Requirements Directive IV - CRD IV) and in (EU) Regulation No. 575/2013 (so-called Capital Requirements Regulation - CRR), provisions which have introduced new standards of prudent supervision on the subject of access to banking activities, right of establishment of banks and freedom to provide their services, prudent control, capital reserves and own funds, corporate governance and disclosure to the general public.

At an Italian level, regulations in the banking sphere are the Banking Consolidation Act, as well as by the related supervisory instructions (contained in the Bank of Italy Circular No. 285/2013). The Bank of Italy seized the opportunity of the issuance of said circular to proceed with an essential review and the editorial co-ordination of the complete supervisory legislation for the purpose of ensuring and maintaining over time the coherence of the same.

Specifically, during 2015 the Bank of Italy essentially included in Circular 285/2013 the regulations concerning the system of internal controls, information systems, operating continuity and governance and the handling of liquidity risk. The greatest innovations are contained in the section relating to the "System of internal controls", which has been amended to: i) discipline the internal reporting systems for internal violations (so-called whistleblowing); ii) introduce specific safeguards for the risks associated with the restricted portion of assets of the banks (so-called asset encumbrance); iii) clarify a number of interpretational doubts relating to the possibility of outsourcing second- and third-level functions to a same party.

In November 2015, the acknowledgement of Directive 2014/59/EU took place in Italy (Bank Recovery and Resolution Directive, "BRRD"), which establishes and disciplines the framework for the recovery and sorting out of the banks, harmonising the procedures and instruments for the sorting out and handling of banking crises at European level.

The BRRD in particular introduced, under the responsibility of each intermediary, the obligation to draw up the so-called "Recovery Plan") in which to envisage the adoption of measures aimed at rebalancing one's balance sheet and financial position, in the event of its significant deterioration; this plan must be submitted for the assessment of the Bank of Italy. The legislation has also laid down the drafting, by the Italian resolution Authorities, of "Resolution Plans", which describe the action to be adopted in the event of crisis of the Bank indicating the related measures.

In the event that the situation of the intermediary effectively begins to deteriorate, it is envisaged that the Authorities follow up the matters contained in the recovery and resolution plans, imposing the related intervention measures on the banks.

The BRRD in conclusion assigned the competent Italian Authorities, if the bank is essentially in difficulty or at risk of difficulties, with the power to apply the so-called "Resolution of the Crisis" or "Resolution" in the strictest sense of the word. The "Resolution" measures available to the Authorities are:

- the transfer of assets and legal relationships to a third party;
- the transfer of assets and legal relationships to a bridging body;
- the transfer of assets and legal relationships to a vehicle company for the management of the activities
- the Bail-In".

In detail, the "bail-in" (literally "internal rescue"), is an instrument which permits the Resolution Authorities to avail, in the event of the serious crisis of a bank, of the reduction of the value of the shares and certain debts or their conversion into shares to absorb the losses and recapitalise the same to an adequate extent, maintaining market confidence. The "bail-in" is applied in particular following a hierarchy whose logic envisages that whomever invests in more risky financial instruments bears any losses or the conversion into shares before the others. Only after having used up all the resources of the more risky category, is the next category passed on to. The new provisions aim in particular to reduce the risks of bankruptcy of the banks (enhancing the equity, the management of the risks, the supervisory and control activities, etc.) seeking to therefore reduce the probability of public rescues.

The cornerstones of European legislation on the subject of investment services and market protection are represented by contrast by the Mifid directive (directive 2004/39/EC) and the directive on market abuses (directive 2003/6/EC), as well as the related execution measures. At Italian level, the reference regulations are represented by the Finance Consolidation Act, as well as by the related implementing provisions, firstly the Consob regulations (intermediaries, markets and issuers).

Again with regard to investment services, a new block of rules has already been approved, but is not yet in force, made up of the directive No. 2014/65/EU dated 15 May 2014 and Regulation No. 600/2014 dated 15 May 2014 (replacing the Mifid directive) as well as by EU Regulation No. 596/2014 and the directive 2014/57/EU (replacing the current European provision on market abuse), a block whose assimilation process in Italy is still underway.

By means of the adoption of Directive 2015/849 dated 20 May 2015, steps were in conclusion taken to adapt the EU legislation on the prevention of the risk of use of the financial system for money laundering or terrorism funding purposes to the 2012 GAFI agreement, with the repeal - as from 26 June 2017 - of the current directive 2005/60/EU. The assimilation process in Italy has already been launched and is still underway.

The essential objectives of the new provisions, previously referred to, are to strengthen the ability of the banks to absorb shocks deriving from financial and economic tensions, to improve the handling of all the risks, including therein laundering, as well as to enhance the governance, transparency and disclosure to the general public.

The regulations which have already affected or which will shortly affect the banking system are therefore extremely extensive, complex and pervasive; our daily work activities have thus been subject, again in 2015, to a regulatory framework undergoing continual and complex evolution, adaptation to which has led to an absorbing commitment for the fulfilments associated with many provisions issued in the various subjects and disciplines.

The Bank is in fact taking steps, as and when, to assimilate the new legal and supervisory provisions referred to previously in internal legislation, from governance, to the risk management system, the system of internal controls, the commercial system, the organisational set ups and the information system.

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 dated 12 March 2010 and subsequent amendments and additions 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:

- ✓ discipline the identification, resolution-making process and execution of the transactions entered into by the Bank with related parties and parties associated with the same;
- ✓ 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 the discipline of the checks and the reports required by the supervisory instructions.

It is hereby specified that all the transactions with related parties and parties associated with the same have been performed 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 the best customers; furthermore, it is hereby specified that no atypical and/or unusual transactions have been concluded either with related parties or with the other parties, these being understood to be transactions which 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.

The independent directors have unanimously expressed their favourable opinion on all the transactions which required their prior, justified and non-binding opinion.

In conclusion, no transaction 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 parties which could have a significant effect in this sense.

With regard to the data and information relating to:

- ✓ remuneration paid to the Executives with strategic responsibilities;
- ✓ dealings with Group companies; and

✓ parties associated with the related parties

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

18 SUPERVISORY BODY PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 231/2001

The Supervisory Body, established in accordance with Article 6 of Italian Legislative Decree No. 231/2001, 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 which could be subject to sanctions pursuant to and for the purposes of Italian Law No. 231 dated 2001. As established by the Organisational Model, it periodically reports to the Bank's Board of Directors.

During 2015, the composition of the Body was unchanged and therefore the same 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 various company control units ensures the necessary link between the Body and the internal units of the Bank and more fully complies with the necessary exchange of information flows envisaged by Bank of Italy legislation.

Activities concluded during 2015 for the review of the Organisational model and the Code of Ethics adopted by the Bank, with the aim of up-dating the contents in light of the introduction into the Italian legal system of the money-laundering offence.

During the five meetings held in the year, the Body was in a position to then stop and look at, with greater attention, the adoption of the necessary organisational safeguards envisaged by the new legislation of the Bank of Italy and in particular those associated with the application of the legislation contrasting money laundering and the funding of international terrorism. These activities were carried out by means of the examination of the documentation provided by the Bank and via interviews with the heads of the various operating units concerned. The Body checked the adoption, by the deadlines envisaged by the new Bank of Italy legislation, of specific internal alert procedures (so-called Whistleblowing), aimed - if the employee becomes aware of an offence or an irregularity in the workplace - at reporting the same by means of the use of protected and specifically dedicated channels.

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

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

Once again in 2015, no reports were received in the specific e-mail account which

the Body set up so as to ensure anybody the possibility of highlighting possible significant events as per Italian Law No. 231/01.

In conclusion, you are hereby reminded that the company website, regulated disclosure 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 2015 income statement is still characterised by the economic-financial dynamics of the previous years: the squeeze on the rates spread, the positive commission-related contribution, the steady administrative expenses, what is more influenced by the payments to the funds for the resolution of banking crises, the favourable contribution of the gains on securities, consistent value adjustment on loans.

The net profit amounted to Euro 8.1 million, compared with Euro 14 million last year, after having made payments to the deposit guarantee and resolution funds for Euro 4.8 million.

RECLASSIFIED INCOME STATEMENT (amounts in Euro 000s)	2015	2014	Change	% change
Interest margin	54,711	60,536	(5,825)	(9.6%)

Net commission	26,779	23,733	3,046	12.8%
Dividends, trading and other income	38,877	69,036	(30,159)	(43.7%)
Net interest and other banking income	120,367	153,305	(32,938)	(21.5%)
Net value adjustments on loans and held-for-sale financial assets and other financial transactions	(49,259)	(76,409)	(27,150)	(35.5%)
Net profit (loss) from financial operations	71,108	76,896	(5,788)	(7.5%)
Payroll and related costs	(34,295)	(33,370)	925	2.8%
Other administrative expenses	(35,609)	(30,284)	5,325	17.6%
Net allocations to provisions for risks and charges	(928)	(562)	366	65.1%
Net value adjustments on tangible and intangible assets	(2,357)	(2,514)	(157)	(6.2%)
Other operating income/expense / gains or losses	13,184	13,748	(564)	(4.1%)
Operating costs	(60,005)	(52,982)	7,023	13.3%
Losses on equity investments and gain on disposal of fixed assets	(118)	8	126	NS
Profit before tax from continuing operations	10,985	23,922	(12,937)	(54.1%)
Income tax for the year	(2,923)	(9,915)	(6,992)	(70.5%)
Profit for the year	8,062	14,007	(5,945)	(42.4%)

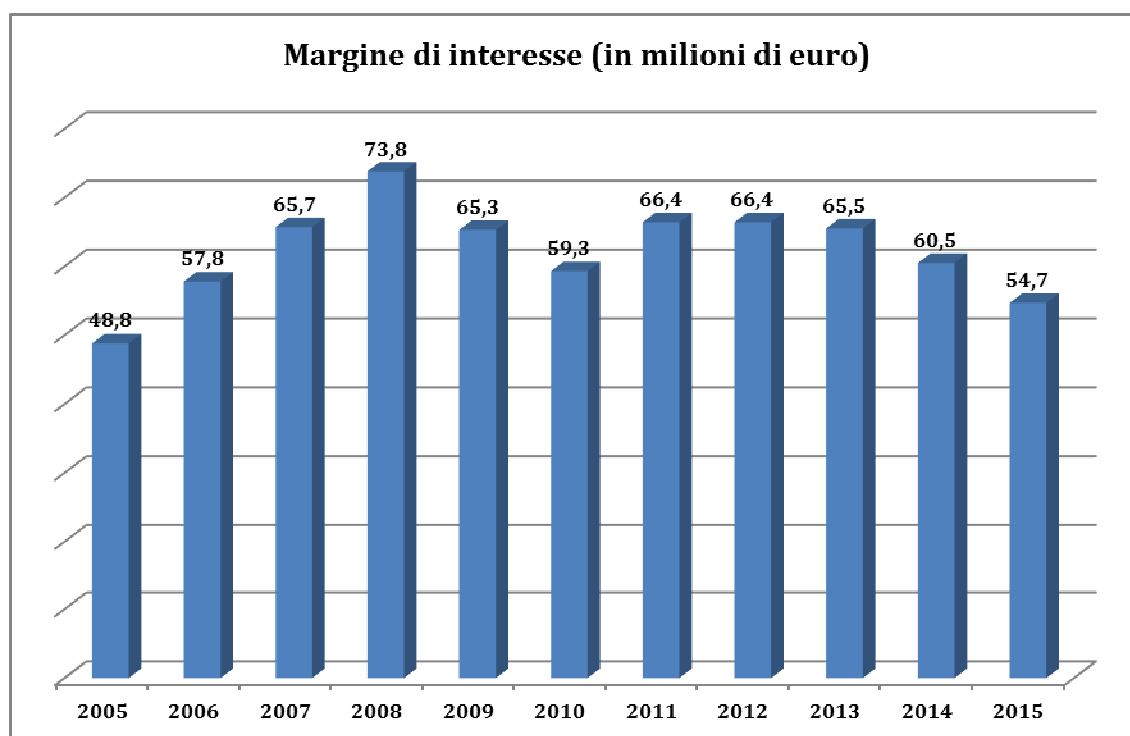
The interest margin

The interest margin dropped from Euro 60.5 million to Euro 54.7 million (- Euro 5.8 million or -9.6%).

Separating the figures, it can be observed how a decrease of Euro 17 million in interest income from customers corresponds to a similar decrease in interest expense payable to customers (Euro 10.1 million) and on own securities issued (Euro 7.2 million) for a total of Euro 17.3 million. This result is due to the careful commercial policy aimed at maintaining the margins also in an unfavourable market situation.

The interest on the financial assets by contrast decreased by Euro 6.7 million due to the decline and the flattening out of the rates curve consequent to the monetary policy decisions of the ECB; the decrease in interest expense with banks came to Euro 0.6 million.

INTEREST MARGIN (amounts in Euro 000s)	2015	2014	Change	% change
Interest income and similar revenues	108,968	132,701	(23,733)	(17.9%)
- on financial assets	9,615	16,343	(6,728)	(41.2%)
- on amounts due from banks	895	889	6	0.7%
- on amounts due from customers	98,945	116,021	(17,077)	(14.7%)
- on FV adjustment of receivables	(541)	(554)	13	(2.3%)
- on other assets	54	1	53	NS
Interest expense	(54,257)	(72,165)	(17,908)	(24.8%)
- on amounts due to banks	(425)	(1,051)	(626)	(59.6%)
- on amounts due to customers	(15,910)	(25,989)	(10,079)	(38.8%)
- on securities issued	(37,901)	(45,108)	(7,207)	(16.0%)
- on other liabilities and provisions	(21)	(17)	4	(23.5%)
Interest margin	54,711	60,536	(5,825)	(9.6%)



Margins from services

Net commission had a significant increase from Euro 23.7 million to Euro 26.8 million (+ Euro 3 million or 12.8%).

Commission income rose from Euro 27.1 million to Euro 30.2 million (+ Euro 3.1 million or 11.3%).

A particular contribution to the growth of the segment was provided by the placement commission for mutual funds for Euro 4.3 million (Euro 2.7 million in 2014) and placement commission for insurance products for Euro 4.8 million (Euro 3.7 million in 2014).

The commission relating to traditional services also contributed to the development of the segment. Commission for other services rose from Euro 3 million to Euro 3.7 million due to the contribution from credit cards, lease brokering, loans and micro-credit loans backed by government guarantees.

The servicing commission acknowledged to the Bank for the securitisation transaction rose from Euro 116 thousand to Euro 234 thousand due to the new loans securitised in January 2015.

The commission on collection and payments services amounted to Euro 5.8 million (Euro 5.9 million in 2014), that for the keeping and handling of accounts totalled Euro 8.5 million (Euro 8.6 million in 2014).

The commission expense was essentially stable at Euro 3.4 million. However, while last year the balance included Euro 907 thousand relating to the Government guarantee, outstanding until mid-2014 and obtained on issued securities used as collateral, in 2015 it was affected, for almost the same amount, by additional charges for services received from third parties for management and trading relating to financial assets (units of mutual funds), loans and funding with Government backing.

NET COMMISSION FROM SERVICES (amounts in Euro 000s)	2015	2014	Change	% change
COMMISSION INCOME				
Guarantees given	1,126	1,190	(64)	(5.4%)
Management and trading services:	10,771	8,335	2,436	29.2%
– foreign exchange dealing	314	326	(12)	(3.7%)
– custody and administration of securities	121	97	24	24.7%
– placement of securities	4,324	2,737	1,587	57.9%
– stock market instructions	1,189	1,442	(253)	(17.5%)
– distribution of third party services	4,823	3,733	1,090	29.2%
Collection and payment services	5,774	5,866	(92)	(1.6%)
Servicer activities for securitisation transactions	233	116	117	100.9%

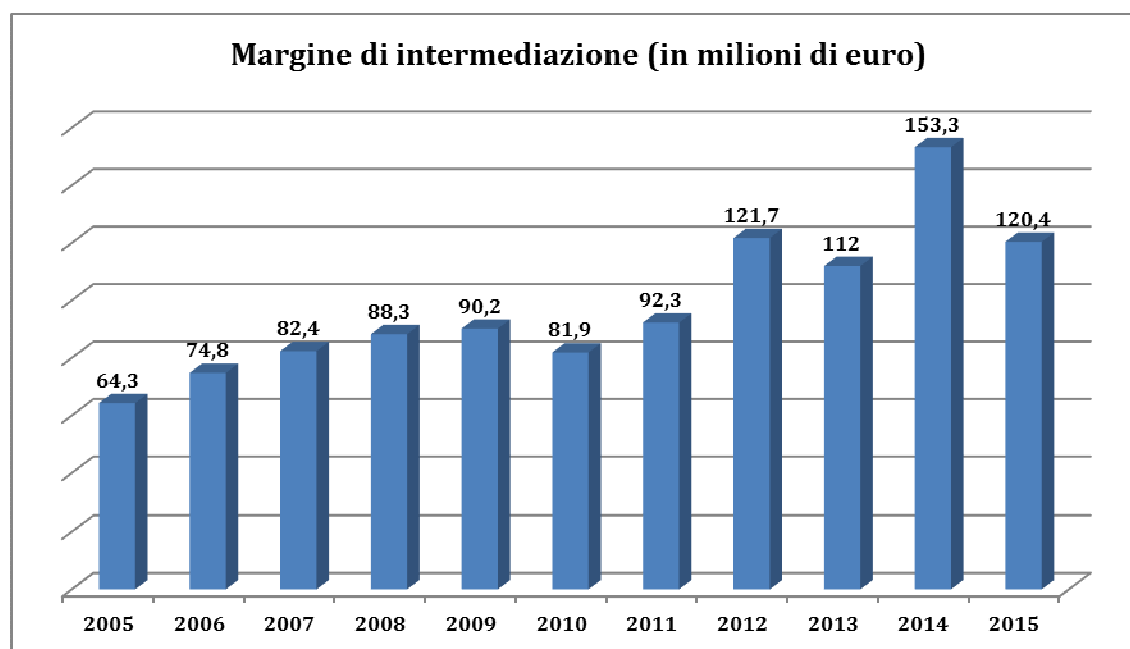
Account keeping and management	8,535	8,625	(90)	(1.0%)
Other services	3,741	2,972	769	25.9%
Total	30,180	27,104	3,076	11.3%
COMMISSION EXPENSE				
Guarantees received	-	(907)	(907)	NS
Management and trading services	(891)	(401)	490	122.2%
Collection and payment services	(1,316)	(1,360)	(44)	(3.2%)
Other services	(1,194)	(703)	491	69.8%
Total	(3,401)	(3,371)	30	0.9%
TOTAL NET COMMISSION	26,779	23,733	3,046	12.8%

Net interest and other banking income

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

- dividends for Euro 1,416,000 (compared with Euro 777 thousand in 2014). They include Euro 1,178,000 in dividends collected on UCIT units and Euro 238 thousand on other shares in the portfolio;
- the gain/loss from trading activities for Euro 541 thousand (compared with Euro 629 thousand in the previous year), of which the exchange gain of Euro 562 thousand, loss of Euro 26 thousand on the valorisation of foreign currency securities and other positive components for Euro 5 thousand;
- the overall negative result of Euro 1,066,000 deriving from the transfer of gross non-performing positions for around Euro 7 million;
- gains on available-for-sale financial assets for Euro 38,570,000 (compared with Euro 69,339,000 in 2014), inclusive of the capital gain of Euro 1,451,000 generated by means of the sale of shares of Istituto Centrale Banche Popolari Italiane;
- losses on the repurchase of Bank bonds for Euro 584 thousand, compared with a loss of Euro 1,709,000 in 2014.

Overall, net interest and other banking income presented a balance of Euro 120.4 million, compared with Euro 153.3 million last year.



Value adjustments

Value adjustments, net of write-downs, amounted in total to Euro 49.3 million compared to Euro 76.4 million in 2014, and include Euro 46.2 million relating to the item amounts due from customers, Euro 3 million for the item available-for-sale financial assets and Euro 0.1 million for adjustments on endorsement loans.

The economic crisis, which led to a decrease of 10% in the Gross Domestic Product, inevitably transferred to the banks which with the support granted to production activities and household purchases had contributed significantly to national wellbeing.

In the presence of a decreased ability of debtors to repay, the reduction and in many cases termination of production activities, the closure of commercial activities, the loss of jobs, in the presence of a negative trend in the listing of the real estate sector (which triggered off a drop in the value of the assets guaranteeing the credit positions), it became necessary to proceed with the recognition in the income statement of value adjustments on loans and receivables so as to take into account both the decreased ability of the borrowers to repay and the decreased value of the real estate guarantees.

As mentioned in the Section "Loans" also further to the losses suffered with the transfer of non-performing loans for Euro 1.1 million, the impact on the income statement of the adjustments to loans amounted to Euro 47.2 million, down with respect to the Euro 71.3 million in 2014. The amount includes the adjustments made to the new positions classified as non-performing, on new entries under probable default and past due exposures, as well as the adjustment of the same on the receivables already classified under impaired loans in previous years, further to the deterioration of the opinion on the possibility of collection and on the assessment of the assets provided as collateral, net of the value write-downs for Euro 7.5 million for additional recoveries realised with respect to the estimate or for an improved assessment of the guarantees.

Write-downs for Euro 1.4 million emerged on performing loans, against an adjustment of Euro 2 million in 2014. The improvement was due to both the decrease in loans and the improvement in the rating of the performing positions.

The cost of credit, represented by the percentage-based incidence of the losses and the value adjustments on loans and receivables with respect to the amount of the net loans and receivables recorded in the financial statements, comes to 1.70%, compared with 2.41% last year.

For the purpose of mitigating the credit risk as far as possible, the Bank thus reinforced the supervisory and safeguard measures on the dynamics of the aggregate in every direction, resorting to the various possible instruments.

Value adjustments, in conclusion, also concerned available-for-sale financial assets (Euro 3 million compared with Euro 3.2 million in 2014), analytically detailed in the previous section dedicated to "financial assets".

The valuation of endorsement loans disclosed net value adjustments for Euro 0.1 million (Euro 1.9 million in 2014) equal to the difference between the value write-downs for Euro 329 thousand and value adjustments for Euro 421 thousand.

As a result of the above described entries, the net result from financial operations amounted to Euro 71.1 million, compared with Euro 76.9 million in the previous year.

Operating costs

The operating costs amounted to Euro 60 million compared with Euro 53 million in the previous year, detailed in the following table, influenced by the classification in this item, as established by the Supervisory Body, of the amount of Euro 4.8 million in favour of the funds for the resolution of banking crises.

Breakdown (amounts in Euro 000s)	2015	2014	Change	% change
Payroll and related costs	(34,295)	(33,370)	925	2.8%
Other administrative expenses *	(35,609)	(30,284)	5,325	17.6%
Net allocations to provisions for risks and charges	(928)	(562)	366	65.1%
Net value adjustments/write-downs on tangible assets	(1,590)	(1,697)	(107)	(6.3%)
Net value adjustments/write-downs on intangible assets	(767)	(817)	(50)	(6.1%)
Other operating income/expense	13,184	13,748	(564)	(4.1%)
Total operating costs	(60,005)	(52,982)	7,023	13.3%
<i>*Other administrative expenses net of measures for the resolution funds and contributions to the depositors' guarantee fund</i>	<i>(30,802)</i>	<i>(30,284)</i>	<i>518</i>	<i>1.7%</i>

The commitment to contain the operating costs, which has always represented one of the characteristic traits of the Bank's management policies, also continued during 2015.

The increases are attributable to the need to ensure suitable standards of technological efficiency, improve the software and hardware security and the continuity of the IT services, resort to external contributions for the exacting

adaptations required by the deep-rooted changes in the regulatory framework, as well as for the onerous organisation, internal and external, required by the debt collection activities.

Payroll and related costs amount to Euro 34.3 million, compared with Euro 33.4 million in 2014 (+ Euro 0.9 million or 2.8%), above all else due to the higher average number of employees. The item also includes the remuneration acknowledged, under the form of emoluments, to the members of the Board of Directors and the Board of Statutory Auditors.

The item “other administrative expenses” increased from Euro 30.3 million to Euro 35.6 million, but this year includes the amount of Euro 4.8 million paid over to the funds for the resolution of the banking crises, of which Euro 4.2 million for the rescue of the four banks under extraordinary administration and Euro 0.6 million for the depositors’ guarantee fund. With regard to the ordinary part, these payments will in any event be mandatory also in the coming years on the basis of European legislation on this subject.

Net of these measures, the other administrative expenses would have increased by Euro 518 thousand or 1.7%.

The increase is the result of savings and additional charges, with a view to a careful handling of the costs.

The items presenting decreases include indirect taxes (- Euro 378 thousand) due to the reduction in the average balance of the bonds issued and the time deposits subject to the proportional stamp duty, the telephone and postal charges (- Euro 181 thousand); insurance premiums rose (Euro 379 thousand), as did securitisation costs (Euro 344 thousand, incurred due to extension of the scope of the transaction), and data processing costs (Euro 232 thousand).

For a breakdown of the other administrative expenses please see the explanatory notes.

The operating costs also include: value adjustments on tangible and intangible assets - respectively totalling Euro 1,590,000 (Euro 1,697,000 in 2014) and Euro 767 thousand (Euro 817 thousand in 2014) - and the net provisions to allowances for risks and charges, amounting to Euro 928 thousand (Euro 562 thousand in 2014), provided to cover disputes common to banking activities.

In conclusion, the positive balance between the other operating income /expense fell from Euro 13.7 million to Euro 13.2 million.

The balance of the income, Euro 13,616,000 (Euro 14,170,000 in 2014), is made up of: the recovery of the stamp duty for Euro 7,741,000, the rapid approval process commission for Euro 2,779,000, the recovery of insurance premiums for Euro 1,181,000, the recovery of legal costs for Euro 1,651,000 and other income and out-of-period amounts for Euro 264 thousand. The change, Euro 554 thousand, is mainly attributable to the decrease in the stamp duty components (Euro 356 thousand less recovered on financial assets, a change linked to minor costs), in the rapid approval process commission (- Euro 237 thousand), the out-of-period income (- Euro 213 thousand) and to the increases in the components of insurance premium recoveries (Euro 129 thousand) and legal costs (Euro 149 thousand).

Other operating expense, amounting to Euro 432 thousand (Euro 422 thousand in 2014), includes the annual portion of the costs associated with improvements made to leased properties for Euro 125 thousand (Euro 150 thousand in 2014) and other charges and out-of-period expense for Euro 307 thousand.

Further to the performances described above, the cost/income ratio - which expresses the ratio between the operating costs and net interest and other banking income - was confirmed as positive, equal in other words to 45.8% excluding the measures for the resolution funds.

In conclusion, the payment in favour of the subsidiary Valsabbina Real Estate to cover the losses for Euro 130 thousand (see previous section) and capital gains on the disposal of assets for Euro 12 thousand were booked to the income statement.

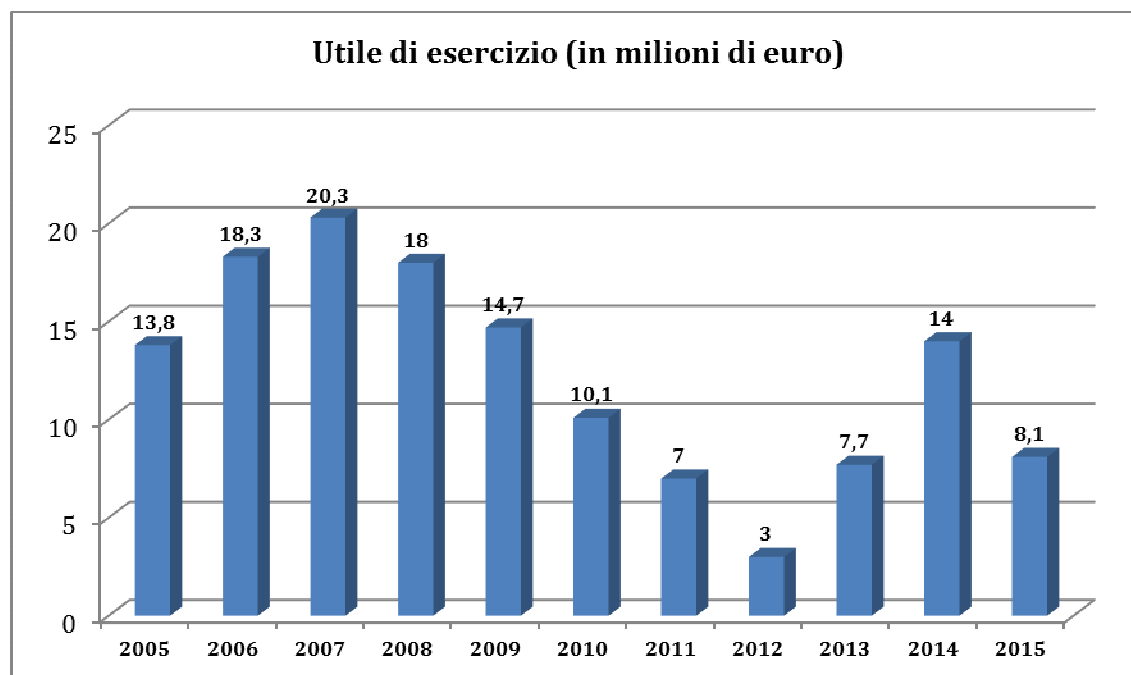
Profitability performance

With the dynamics of the profit margins previously commented on, the profit from current operations gross of tax came to Euro 11 million, compared with Euro 23.9 million in 2014.

The tax burden amounted to Euro 2.9 million, with a tax rate of 26.6%. Last year it came to 41.4%.

With respect to last year, the period benefited from the deduction, for IRAP (regional business tax) purposes, of payroll and related costs, the IRES (company earnings’ tax) exemption, envisaged by the so-called “participation exemption” regime, on 95% of the capital gain generated by the disposal of Istituto Centrale delle Banche Popolari and by a higher A.C.E. (Aiuto alla Crescita Economica, institute envisaged by the so-called 2011 Monti Law) effect.

The net profit therefore amounted to Euro 8.1 million.



The ROE, which expresses the remuneration of the invested capital, stood at around 2.1% (3.66% in 2014) and should be considered to be satisfactory in light of the reference context.

Financial statement ratios

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

FINANCIAL STATEMENT RATIOS	2015	2014
STRUCTURE RATIOS		
Loans/Tot. Assets	65.9%	67.4%
Loans /Direct deposits	89.0%	91.0%
Average employees per branch (No. employees /No. branches)	7.98	7.95
PROFITABILITY RATIOS		
Net interest and other banking income/total assets	2.9%	3.5%
Net profit/average shareholders' equity	2.10%	3.67%
Net profit/average total assets	0.19%	0.32%
Net interest and other banking income/banking product (1)	1.64%	2.04%
Value adjustments to loans/net interest and other banking	38.4%	46.6%
Tax rate	26.6%	41.4%
Earnings per share	0.23	0.39
PRODUCTIVITY RATIOS (in Euro 000s)		
Banking product per employee (average)	15,129	16,014
Loans per employee (average)	5,733	6,326
Direct deposits per employee (average)	6,443	6,955
Indirect deposits per employee (average)	2,953	2,733
Net interest and other banking income per employee (average)	248	327
EFFICIENCY RATIOS		
Admin. expenses/average total assets	1.62%	1.47%
Admin. expenses/net interest and other banking income	58.1%	41.5%
Cost/income	49.9%	34.6%
Adjusted cost/income (2)	54.1%	39.6%
Admin. expenses/banking product	0.95%	0.85%
Payroll and related costs/average number of employees (in Euro	69.99	69.43
ASSET QUALITY RATIOS		
Net impaired loans/net loans	13.98%	12.95%
Non-performing loans/net loans	6.82%	5.48%
Value adjustments and losses on loans and receivables /net	1.70%	2.41%
Adjustments on non-performing loans/gross non-performing	52.3%	52.3%
Adjustments on impaired receivables and loans/gross impaired	39.1%	36.1%
CAPITAL RATIOS		
Tier 1	14.94%	14.72%
Total capital ratio	16.33%	14.75%
1. Direct and indirect deposits from customers plus Customer loans		
2. Ratio between the item 150+170+180 and 120+190		
3 - 4 also including the loans/receivables written off which the Bank still holds and the default interest		

20 SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Pursuant to Article 3, letters d) and e) of Italian Legislative Decree No. 87 dated 27 January 1992, and in accordance with the matters laid down by legislation, we hereby specify that after the year end date and up until approval of the draft financial statements by the Board of Directors - which took place in 2 March 2016 -, no significant events took place liable to influence or affect the balance sheet or income statement of the Bank and on a more general note all the aspects which have been illustrated in this document.

21 BUSINESS OUTLOOK

The section dedicated in the first part of this report to the forecasts on the evolution of the economic and financial scenario should allow us to suggest confidence in the overall improvement of the internal and international scenario and, consequently, also with regard to the prospects for the company's growth.

Nevertheless, the proverbial prudence which has always characterised our conduct does not authorise us to profess optimism, unless in relation to the commitment which the company will make with the utmost energy to improve the conditions of efficiency of the organisational technical set ups, to contain the cost profiles everywhere and to ensure positive operating results, compatibly with the high risk of the loans and with the low profitability of the traditional intermediation activities.

In this sense, in the presence of contained growth in the margin from money management - due to the low level of the rates - and the financial profits, since the market conditions have changed, it appears realistic to foresee additional improvements in the sphere of net revenues from services.

As far as we are concerned, we will not skimp on any effort to increase the volumes traded and from this standpoint we reasonably count on the more intense presence throughout the Lombardy area and on the efficacy of the commercial policies which we dealt with in detail in the specific section.

22 PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS

With regard to the distribution of the profit for the year of Euro 8,061,835, the Board of Directors proposes to the shareholders' meeting the payment of a cash dividend of Euro 0.12 per share, according to the following allocation:

Net profit for the year		8,061,835
10% to the legal reserve	(806,184)	
15% to the extraordinary reserve	(1,209,275)	
Portion allocated to the reserves		(2,015,459)
To the shareholders to the extent of Euro 0.12 for each		(4,295,619)
To the Charity Fund		(60,000)
Additional allocation to extraordinary reserve		(1,690,757)

If this proposal is approved, the shareholders' equity will amount to Euro 387,867,703.

The proposal of a dividend per share of Euro 0.12, corresponding to a pay-out of 53.3% of the entire profit, similar to that last year (51%), is presented because it is believed that the Bank fully satisfies the Basel 3 "fully loaded" requirements (or rather in their full application, envisaged for 2019) and presents capital capable of ensuring suitable levels also in the event of further financial stress.

By means of this pay out, the amount attributable to the reserves comes to Euro 3,706,216.

By means of this proposal, the tier one capital ratio would amount to 15.09% (from 14.94%) and the total capital ratio to 16.48% (from 16.33%).

23 THANKS

Dear Shareholders,

Having reached the end of this report, by means of which we have fully represented the operating events during the year, and before submitting the 2015 financial statements for your approval, permit us to express our heartfelt thanks to all those which have supported the Bank as a result of their consensus and proximity.

First and foremost we thank all the Shareholders and Customers, who increasingly are the same person, for the confidence placed when following us and for the loyalty which has been shown for the company: values which we consider to be irremissible, to be protected and developed with effective sensitivity. We then reserve a warm welcome for the numerous Shareholders who during the year invested in our company, showing interest and the desire to be involved and participate in the corporate and economic life of Valsabbina.

At the same time, while we take our leave of the review of the operating events of this 118th financial year, we express sincere solidarity in remembering the Shareholders and Customers who have passed away: our condolences to the respective families and a cordial acknowledgement of our bond over time.

Great appreciation goes to General Management whose members have proven their great professionalism and singular dedication to the Bank: their contribution, as passionate and tireless as it is discreet in the way it is expressed, is narrated in the daily examples which are spontaneously imitated by all the co-workers. They are also ensured our consideration and admiration, formally acknowledging that their conduct turns to account the seriousness and reliability which characterises the Bank.

The Board of Statutory Auditors is always at the end of our reports, since the role of its members is persevering and precious in the performance of the important and delicate functions which the Articles of Association and the regulations assign to their responsibility. Grateful thanks to the Chairman and each of the members for the competent contribution provided in the disciplines of good governance.

In conclusion, we thank the central and peripheral Supervisory Authorities and, in particular, the Management of the Brescia branch of the Bank of Italy, Consob and all the category and associative bodies which are of essential support in the daily and onerous work activities.

To all, the hope that 2016 is a less arduous and complex year than those which we have left behind us: wishing you much fortune, serenity and health.

Brescia, Italy, 2 March 2016

THE BOARD OF DIRECTORS