

BANCA VALSABBINA - DIRECTORS' REPORT ON OPERATIONS
FINANCIAL STATEMENTS AS AT 31.12.2018
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Preamble

Dear Shareholders,

The annual shareholders' meeting has always represented an opportunity to draw to the attention to the facts that have predominantly characterised the year just ended and, at the same time, turn our thoughts and minds to the future that awaits.

In 2018, the Bank concluded its 121st financial year with positive results despite the complexity of the business management environment; the economic climate at international, European and Italian levels - albeit with some signs of recovery, which lessened in the latter part of the year and in this first phase of 2019 - this did not in fact favour a return to satisfactory conditions of stability and growth for banks.

The financial markets, following the trend in the underlying economy, have been affected by this uncertain situation, with levels of rates remaining low in absolute value, but subject to sudden fluctuations which have produced destabilising effects in equity and bond markets.

This economic climate has strengthened the conviction - although apparently obvious - that only a reasoned and tenacious management strategy can deliver the company goals of efficiency, productivity and profitability overseen by effective control systems.

And this is the Bank has also done in the course of 2018, updating the three-year Strategic Plan 2017-2019 to focus on major current and prospective issues.

First of all the improvement of credit quality, for which a specific long-term plan for the reduction of the problem loans has been prepared that has already seen a decline to 7.33% in the incidence of net impaired loans as a proportion of the total aggregate during the course of the year.

There has been an overall increase of the effectiveness of commercial action, through the revision of the branches policy, together with the impact of "BancaOnline" solutions, so as to reach major goals of acquiring new customers, volume and concentration on operational relations.

Finally, the growth of profitability profiles and efficiency of resource allocation, through development of trading volumes and of commission earnings, especially in wide segments of the investment services and in those of payment, to offset the increase in operating costs, which cannot be decreased in smaller banks as they are necessary for the growth of the business.

Results achieved at the current state of progress of the plan have proved to be broadly positive not only as to the simple question of numbers, as we shall see further on in our report, but also as to the adequacy of its institutional make-up and size of Valsabbina which, in the annual ranking of the 450 Italian banks published by the MF daily newspaper with data up to 2017, is positioned amongst the first 50 in terms of deposits and loans and at 73th place for assets administered.

Taking a long-term view, the implementation of the Strategic Plan reinforces the intention to keep its special identity as a "local bank ", both in its traditional markets and those in which it recently employed the same sensitive approach and procedures toward its customers thanks to outstanding innovative tools and technologies. Strengthened in its ability to form alliances with specialized operators in various sectors of activity, Valsabbina is able to offer its clients products and services of a high degree of complexity. In this way, it is able to remain "small" in terms of being close to local communities and its ability to understand their requirements, but at the same time to be "great" in terms of quality and breadth of the range, having refined the organizational structure, established the necessary professional skills, planned initiatives and investments in support of an autonomous corporate development attuned to safeguarding the purposes and the values unique to the Credito Popolare.

With this practical approach its intention to maintain an adequate network of conventional branches is wholly logical, since it is clear that closeness to the customer leads to perceptions of good faith and reinforces brand identity; at the end of 2018, the regional network comprised 70 branches, all with characteristics specifically adapted to the needs of local conditions since these branches, as we have repeatedly said, are the roots that

anchor us to the region and allow us to offer to the economy of markets they serve the financial resources necessary for their development.

Thanks to the guidelines and the management philosophy that we have just commented on, the net profit for the financial year 2018 exceeds €15 million; an appreciable result about which we cannot be complacent, since, as for all banks, restoring the quality of assets and a return to more favourable conditions of profitability under normal operations is still far off. Nevertheless, we cannot be silent about the progress made which give confidence for the year in course and those to come of being able to envisage rates of improvement to the and immediate benefit also of share prices on the Hi MTF market , still subject to downward pressure in the weekly auction sites.

We finally outline how the regulatory and standards framework will develop that may influence management content and behaviour in credit providers and, specifically, the popular banks.

On the one hand, the period of crisis that has prevailed in the sector has led to the supervisory authorities intervening to support companies in difficulties that have led to consequences also for banks not directly affected by these situations. A greater systemic joint action – a matter of wide general interest - was proposed in some initiatives, and others under discussion in present weeks, which could lead to individual companies making notable sacrifices in terms of income.

On the other hand, there has been a quest for synergies and economies of scale that involves considering partnership initiatives in some strategic sectors (manufacture, services, IT services) and, in some cases, real and individual possibilities of merging of enterprises.

In this context, your Bank gives its full and careful attention to trends and initiatives that are emerging, aware of his own limitations in terms of size but equally proud of being able in all humility and with the steadfastness which characterises us, to proclaim its independence and its capacity to provide what shareholders, customers and the market expect from us.

1. THE INTERNATIONAL FINANCIAL ECONOMIC SITUATION

The contribution of domestic exporter firms to the economic growth of our country and the major presence of such undertakings in the same regions where our Bank operates means that we need to pay attention to trends in the international economic cycle whose figures show, as is to be expected, differentiated results by geographical area.

The speed of change as a result of globalisation speeds up, in turn, the dynamics of cycles and reveals situations requiring continual adjustments to policies of governments and regulators. So, from one season to another the economy changes aspect the economy of 2018 confirms this: after the great momentum in the first part of the year, signs of cyclic decline in many advanced and emerging economies escalated. The uncertainties in cyclical terms had an effect on international financial markets with a decline in long-term yields and a fall in share prices. On the global stage risks related to a negative outcome of the negotiations between the United States and China, the sharpening of political and financial tensions in emerging countries, uncertainties on the price of oil, the way in which Brexit will take place, became apparent.

Most recently policies of duties and barriers between the major economic areas materialised: trade slowed and business operators' uncertainties increased, who now are less willing to take initiatives towards internationalisation. The slower pace, in different parts of the world, is the effect of diminished optimism about economic outcomes. The idea of open spaces to trade and business partnerships aimed at the preservation and development of wealth is in danger of weakening.

Mainly developments in China, which for the first time showed more restricted growth rates as compared the past and with a greater restraint in the forecasts of its central authorities, are under scrutiny. Not everything can be blamed on the dispute on duties started by the United States. Companies are heavily indebted, many banks are undercapitalised and raising capital in the market was more exacting when the main Stock Exchange indicator, the Shenzhen Composite Index, fell in 12 months by 33%. Larger firms, faced by a reduction of financing, are inclined to reduce investment. In this context, economic growth was restricted to 6.4%: this is an enviable figure for economies like ours, but is still far from the double figure increases of past years. Among the various sectors, the car market in China is the best indicator of value. It is the first in the world and the major manufacturers operate profitably. According to official data in 2018 vehicle registrations reached 28 million, showing a decline of 2.8%, which is also the first since 1990. It is inescapable to think that as with the auto industry, both in China, and in the rest of the world, the future of large and small businesses scattered everywhere is linked: some businesses are also present in our areas of operation, in Lombardy, in Veneto, Emilia. And - singular fact - a regular train service precisely from Lombardy, from Melzo, commenced that carries in 18 days 40 containers along the ten thousand kilometres that separate Italy from China.

Also, in the euro area, growth, which, at the beginning of 2018 was at a record high, slowed. Industrial production at the end of the year lost force in Germany, in France and in Italy. Inflation, whilst remaining at positive values, dropped due to the effect of a slowdown in demand, but also of a fall in the price of petroleum products. The greatest variable for medium term development of the economy of the European Union is, however, that linked to Brexit.

Without a definitive agreement between Europe and the United Kingdom, the consequences for exchange rates, trade, and the stability of markets could be serious. The risk that London-EU trade may halve appears realistic, as does the erection of new barriers, which may generate additional costs on goods and services of the tens of billions of euros. In the interchange, Germany could suffer significant consequences, being the main trading partner of London and the largest industrial power of the old continent: albeit to a different extent also the other partners of the EU, including Italy, would be forced to re-plan the rate and direction of commercial policies. A sign of this uncertain situation has been the rise in the price of gold: in the last quarter of the year the demand by institutional investors, central banks and private grew by 16%, compared with 4% over the entire 2018.

With regard to the United States, 2018 - albeit with some slight weakening in the latter part - ended very well with regard to rates of economic growth and of almost all the main indicators. GDP grew, pushed by industrial production, unemployment decreased, investment confidence increased: the overall situation – even during the abovementioned downturn - proved to be the best of the last ten years.

The performance of the primary world power as benefited from vigorous tax reform, which reduced corporate taxes from 35% to 21% and by an increase in public spending which gave a firm boost to demand. This took place at the cost of a record federal deficit, a historic characteristic of American economic policy and seen in normal contraposition to its austerity policies: Alan Greenspan, number one of the FED until 2005, stated that "the United States can pay any debt that we owe because we can always print money for any requirement. Our risk of insolvency is equal to zero."

Even if, in 2019, the American economy were to continue its growth, albeit at lower rates than 2018, but still higher than those of the other world powers - the United States would record the longest period of expansion since 1857.

With regard to Japan, whose economy is third in the world after the US and China, 2018 ended with a good 1.4% of GDP growth and with an unemployment rate of only 2.8%; notable results, favoured by considerable internal consumption, by decisive government investments, by cutting edge infrastructure and by wholehearted opening up to foreign investment. But even in the case of this rich nation the beginnings of a slowdown of the cycle can be detected, in line with trends in the major world economies.

2. THE PERFORMANCE OF MONETARY AND FINANCIAL MARKETS

For investors in the stock markets, 2018 proved to be a problematic year and the downturn in indices and listings has partly affected also the bond sector. The state of uncertainty is so widespread, not experienced since 2008, reinforcing the general nervousness about the slowdown in the world economy. In all, two figures help to understand the entity of the reduction of capital contributions: the MSCI World global index lost 10% and the Dax in Frankfurt reduced by 18.3%, because it is more exposed to the slowdown in global trade. The latter is a phenomenon that seems to concern the markets also in the early months of 2019.

The Italian official list ended with a negative balance of 16.2%, with a decline not dissimilar to that of stock indices in the more developed countries. Business capitalisation dropped to 543 billion compared with 644 billion at the end of 2017, with a marked reduction of its impact on GDP (33.5% compared to 37.8% in the previous year). Share sales remained substantially stable at a daily average of equivalent of €2.5 billion but with a drop in average value of individual shares. The amount of money available in the market also decreased significantly.

There were 31 IPOs (Initial Public Offerings) for an amount of approximately 2 billion. Another 2,2 billion was invested in 22 capital operations, versus 21 billion signed in 2017, signalling a market sentiment not particularly attracted to new investments in company equity. In the meantime, outstanding business brands left the Milan Stock Exchange, by transfer to new owners or permanently leaving the stock exchange: There were 80 in the last five years, many of them in the Made in Italy sector.

There is no lack of new listings, albeit in weak circumstances. The expectations for a recovery of trust depend partly on proper tax collection to be paid in the coming weeks, also on individual and institutional investors tending to have preferred the low-risk securities and those with greater capitalisation.

As for Italian banks, these have suffered in their turn from the fluctuations in the value of public debt securities held in its portfolio. The extension of the differential with similar German securities has substantially stopped but not so as to allow a greater recovery in the stock exchange. Especially in the

second half spread movements have accentuated the volatility of the sector which, as stated, represents over 17% of the capitalisation of the listings.

The banking industry, even where management acts with great prudence, has not abandoned its indispensable role of support to the economy, in the conviction and confidence that the productive fabric of the second largest European manufacturer can progressively benefit from an improvement in the economic situation.

Similar trends have been experienced in the business environment in Europe and in the whole stock market capitalisation of the Euro area has fallen by 12.8% on an annual basis, for a total value of over €6 thousand billion. In the Eurozone, Italy's equity capitalisation is equal to 8.9% of the total, that of France is 32.5% and that of Germany is 26.4%. At the end of 2007, said values were respectively equal to 12%, 22.4% and 28.9%, signalling the fact that our economy, of which capitalisation represents a trend indicator, was among those least able to emerge from the significant crisis over 10 years ago.

As has not happened for a long time - and we stated this at the very beginning of this paragraph - bond markets, usually showing a counter-tendency, have in part followed the downtrend of equities. From October, the conviction has grown that rates will move upwards even during the economic slowdown. In Italy, precisely because of market uncertainty and price trends, managed savings deposits have suffered a substantial fall. At the end of December, the total of assets had fallen to 2 trillion, decreasing from 2,020 at the end of November compared to the historic and versus a record value of approximately 2,090 billion at the end of 2017.

The framework outlined by Assogestioni - the association of fund managers – comes to the conclusion retail investors has partly lost its interest in mutual common funds, asset management and bonds.

The government bonds auctions, in conjunction with the negotiations with the EU designed to set limits on public debt in 2019, were resultantly even more uncertain, so that it caused an event unprecedented in the auction schedule: in November, while an investment of 8/10 billion was expected, investors could come up with subscriptions of little more than 2 billion. Fortunately, in subsequent auctions, the reduction of the spread and the less tense climate favoured the subscription of securities on offer and in particular an issuance in January of Btp 15 years collected €35 billion.

3. THE NATIONAL ECONOMIC SITUATION

After the third quarter of 2018, in the middle of a storm in global markets, there was a decline, as mentioned, in the estimates of the growth of the Italian economy which was restricted by an exponential growth in public debt. The slowdown took place in an international climate even more difficult, which weakens our country's role of, albeit mitigated by the vitality of many companies in different sectors, as can also be seen in our region. The growth estimates for 2019 have thus been the subject of a lively debate that is still in progress.

The Government, which has started a number of initiatives to stimulate the economy, for the current year expectations are for more than the 0.6% annual growth of GDP predicted by the most authoritative institutional bodies, from Banca d'Italia to the International Monetary Fund. The growth objective thus remains fixed at 1% and no corrective measure is currently provided for. The executive initiatives to promote an increase in employment and thus counter, the OECD's low figure for the third quarter of 2018: this figure that considers Italy - with respect to the other countries of the eurozone – as less capable of ensuring an increase in employment

In December, inflation fell to 1.2%, mainly due to slowing down in prices of energy products. The dynamic of this basic component remained weak, whilst there was a slight downward revision in business expectations for price trends.

At the end of the year, in conjunction with a fall in GDP, there was also a reduction in consumer confidence, the index of which dropped from 114.7 to 113.1. Also, the composite business confidence index is showing a negative trend, although this was already observable since last July but was limited

to manufacturing, construction and services, falling from 101 to 99.8. In contrast, the index however shows significant upward movement in the retail sector.

Banca d'Italia, in its first Bulletin of 2019, noted that "in autumn industrial production showed contraction. Investments, after having fallen in the third quarter, on the other hand showed an increase. According to assessments by enterprises, investment will grow in the course of 2019, but lower than in 2018. Businesses are less optimistic about their own demand and the general economic situation compared to the surveys conducted in September...".

In different productive sectors there is pause to reassess, although small and medium-sized enterprises remain competitive in the markets with a surprising resilience as shown in the past. The commencement of the major infrastructural works – the subject of lively debate - could indeed contribute to recovery and growth in employment.

All financial activities - banking, insurance and investment - remain under the scrutiny of national and international regulator in the light of the central role they play in the development of the economy. As in previous financial years, the strength, the stability and the efficiency of banks are assessed from different points of view beginning with the degree of their capitalisation.

The considerable stocks of impaired loans, certainly not unconnected with capital ratio levels, have forced banks into adopting rapidly and costly policies of de-risking. The effort has however not been without results: in the first nine months of 2018, according to Banca d'Italia data, the amount of gross impaired loans fell from 259 to 216 billion and, net, from 129 to 99.

The overall impact on total loans was reduced, on a net basis, from 6.1 to 4.8 per cent; the hedging rate grew nearly four points, to 54%.

At the same time, the supervisory authorities issued an invitation to draw up business models that can recreate conditions of non-contingent, but stable and continuous profitability. These models should ensure that digitisation is not solely aimed at cost reduction, but also at an overall comprehensive satisfaction of needs of different target markets.

To the physical channel of the network of branches, which still remains of prime importance, must be added operational partnerships, often also shareholdings, which can, in time, create and establish new profiles and stimulate operational flexibility in basic and advanced services. Major attention is therefore given to the whole so-called Fintech world, to enhance technological innovation in the various operational processes in offers of financial products.

The section below concerning trade policies describes and comments on the initiatives carried out by our Bank in this specific field.

Given the importance of the banking system in the national economy, it seems useful to conclude this paragraph by remarking, on a positive note, on the consolidation of credit and the positive effects on the income statements.

In his declaration to Forex on 2 February Governor Visco noted that "in the first nine months of 2018, return on capital, expressed on an annual basis, rose for Italian banks overall to 6 per cent, from 4 recorded in the same period of 2017. The portion of earnings taken up in operating costs, amounting on average to 65%, is still too high, in particular for smaller banks (where the average level is equal to 74%). During the period considered the latter have recorded a growth in costs compared to their reduction for larger groups; the big difference can be assigned to the Personnel costs component".

Regarding our particular category of bank, the National Association for the popular banks confirms that there is an encouraging return to positive activities in the provision and the growth of lending. As regards the results of the income statement, the note concludes that "The interest margin should grow by 1.5 % this year and in 2019, with other expected increase in earnings on average by almost 5% in 2018 and 3.5% next year, leading to an expected increase of the intermediation margin of 3.2 % and

2.6 % in the two years. Operating costs should fall by 1.8% and 1.6% this year and next year and those of the staff of 1.2 % in the current year and 1% in 2019, resulting in performance growing by 12.4% in 2018 and by more than 9% in the next year, values in line with the national average. For the current year a decline of provisions (-3.2%) and a recovery in 2019 (+3.6%) leading to a positive value of net profit of about 0.30% of total assets already commencing this year".

4. THE ECONOMY OF OUR REGIONS

As regards our area of operations which we have progressively developed through our branches, we cannot but firstly give our attention to the Lombardy region, where our bank is present as well as to the founding province of Brescia, the most industrial of all Italian provinces, also Milan, Monza and Brianza, Bergamo and Mantua.

We will linger therefore more extensively on the discussion of the Lombardy area, which boasts of its primary economic significance, hosting productive zones, industrial districts, agricultural production sectors, handicraft and service districts, institutional offices and administrative posts being amongst the most dynamic at national and European level.

LOMBARDY AND THE PROVINCE OF BRESCIA

As a sign of the importance of our region it suffices to consider that from the time of the crisis of 2007 the percentage of national GDP generated in Lombardy rose from 20.6% to 21.8%, the highest rate of increase of all Italian regions.

Various companies of all sizes and sectors collaborate with the most creative small businesses, services and professional firms, to which were added more recently start-ups in digital business. About a quarter of the companies created from Italian innovative ideas are based in the region, where lenders find the best talent from universities.

During 2018, the period of expansion for Lombardy industry continued although with signs of some slowdown in the final part. Manufacturing production grew by 3.4% in average data for the first nine months of the year compared to the same period of 2017. The production index, estimated net of seasonality, grew in a sustained manner in the first quarter and decreased in the second and third. Production levels achieved from June to September remained slightly lower than the peak pre-crisis dating back to the second part of 2007. The increase in production was positive and almost uniform among all size categories of enterprise.

Among the sectors with the highest productive specialisation, the mechanical industry particularly has undergone a continuous increase. In the fashion sector, production of footwear and clothing set the pace, while the textile industry grew, albeit modestly.

The international and domestic demand continued to expand. Orders coming from abroad increased by current rates of 5.5% in the first nine months of the year over the past corresponding period; internal orders grew by 2.9%. The positive trend in demand was accompanied by a reduction in stocks of finished products, which remained below the levels deemed appropriate for normal production processes.

The degree of plant utilisation rose to 76.2% on average in the first three quarters of the year, continuing the recovery beginning in 2014.

Compared to ten years ago, the number of employees is up (82 thousand workers more, equal to +1.9%); the employment rate stood at 67.1%, higher than the previous year, but still slightly lower than the pre-crisis figure.

After outlining the features of the regional economy, we wish to comment on our chosen community, noting that, albeit with different intensity, the province of Brescia was also struck by the notable change in the economic cycle.

In the first part of the year, all the data showed there was growth, except - fortunately - in the unemployment rate, fixed at 6.2%, well below the average for Lombardy: this is a sign that is undoubtedly positive, as the president of the Industrial Association Pasini explained in the session of November "The enterprises of Brescia that are most state of the art contribute in a decisive way to general economic development, as they guarantee employment to 45,000 people, support labour costs of 2.2 billion and choose to invest the sum of 785 million, almost 20% of the added value laying solid foundations for the future. There is also a growth in net income amounting to €679 million (+24.6%), while ROE has reached the significant level of 8.6%, compared to 7.4% in 2016. Financial indebtedness also remained low: the index of financial independence, which measures own funds for subsidies and measures the entire capital invested, reached 46% in 2017 the. No particular problems in terms of liquidity".

In the period between January and September 2018, compared with the first nine months of 2017, the positive export trend was even more marked (+8.2%), higher than that recorded both in Lombardy and at national level. The report by the President of industrial associations showed that, as between the productive sectors, , the most dynamic sectors were electrical appliances, wood and wood products, paper and printing, computers, electronic and optical devices, base metals and metal products, chemical products and compounds, pharmaceuticals, medicinal and botanical chemicals. "It is therefore growth across the board ", as reported mid-year, - "that allows us to hope that the trend will continue in the medium and long term, beyond fluctuations that may involve one or other productive sector".

As from the third quarter, however, the "Lioness's" vigorous growth stalled.

The alarm on GDP at zero was raised by most authoritative source which has always been the Industrial Association. " Industry in Brescia is stalling. Three years of growth has come to an end and then the shock: in the third quarter of the year the manufacturing sector of our province which is the third most specialised in Europe is showing a lacklustre growth of + 0.1%".

The downward trend from June onwards, Pasini continued, was quite marked. "The figure is consistent with the slowdown in GDP, but there is great concern among entrepreneurs, not only entrepreneurs of Brescia. What is happening here in one of the Italian powerhouses, precedes what will be seen in the rest of the country. The abrupt slowdown affects substantially all sectors of our industry which, a survey conducted in 2017 on the prime 90 groups in Brescia shows, generated revenues of €14 billion, provided added value of four billion, new investments of €800 million and exports up 60%". To give a sense of the impact of the slowdown in the economy the following data will suffice: metallurgy and steel, the two bastions of the Brescian industry lost 4.6%, the traditional mechanical sector 4.4% and the signs for even the most technically advanced sectors are not good.

Less discouraging signs come from the agro-alimentary and dairy sector which showed a drop of only 0.3%, where Brescia remains in the ninth spot in Europe. Also, in the same period, the productive capacity utilisation rate at 75% both decreased from 77% of the previous detection and from 76% recorded in September of the year before. The turning point in the economic cycle appears, in short, even more significant if one considers that from the low point reached in the third quarter of 2013, the recovery in production value in the following 20 positive quarters uninterruptedly, was 14%.

Also, the province of Brescia and then, as Italy and the whole of Europe, are wondering about the type of adjective should qualify the word "recession": the coming months will tell us whether it will be "light", "technical" or more simply and gravely "recession".

VENETO REGION

Even in the brief review on the economy of our regions, the bordering region of Veneto and its development cannot fail to be analysed because, together with Lombardy, it attracts more than 95% of shares and the revenues of the Bank.

An effective and accurate summary on cyclical profiles of Veneto was published in the November issue of "The economy of the Italian regions" an authoritative periodical issued by Banca d'Italia to which we refer by including the full text of the publication.

During 2018, "the expansion in activity levels in all productive sectors continued, although signs emerged of its weakening.

In the manufacturing industry, production continued to grow in the first part of the year, albeit at a lower rate than the 2017, reflecting the slowdown in foreign demand and especially, that coming from economies outside the European Union. According to the information from the investigation of Banca d'Italia, orders are expected to continue to increase at least until the spring of 2019. The lively expansion phase of investments, underway since 2014 will weaken this year and even expansion plans for 2019 should be approached with caution.

In the first three quarters of the year the economic climate in the field of non-financial private service was generally favourable, but available indicators show that the growth in activity levels would slow compared to last year. The expectations on the developments in demand in the short term are considered as still positive. Production in the construction sector, albeit showing slight signs of recovery, is still affected by the weakness of public demand. For the second part of the year, operators expect a substantial stabilisation of production levels.

The expansion of economic activity is associated with a further improvement of the conditions of the labour market, with an increase in the number of employed persons, especially employees with fixed-term contracts, which already last year had dropped to pre-crisis levels. The increased participation in the labour market has slowed the drop in the unemployment rate. The recourse to social benefits has decreased further.

In the first half of 2018, the moderate growth in loans to the non-financial private sector continued. Along with the expansion of lending to households, for support of both the purchase of consumer durables and houses, there was a parallel stagnation of loans to businesses. For the latter, acquisition of loans was influenced by a policy of greater caution in offering loans to a more risky clientèle and by a modest increase in credit applications, also by the effect of wider liquidity earned in corporate budgets thanks to improvement in profitability. The positive cyclical phase favoured the improvement in credit quality: the increase in new impaired loans has further diminished".

The profile of the economic development of the region of Veneto examined in the publication of the Banca d'Italia certainly reveals the affinity and the strong complementarity between the economies of the two regions in question. This gives confirmation to the fact that the development project and the regional expansion of Banca Valsabbina which commenced in 2012 was strategically justified.

We place similar confidence in the most recent development policies in the provinces of the other neighbouring region: the rich and industrious Emilia where we opened important branches in Bologna, Modena and Reggio Emilia.

5. FORECASTS ON TRENDS IN THE ECONOMIC AND FINANCIAL SCENARIO

We focus, in this chapter, on certain themes that, in the forecasts made at the beginning of the year, may provide us with a way to analyse the current financial year. Unanimously, 2019 it is believed, requires a cautious approach according to all major observers. The slow growth hypothesis prevails, as we reported in previous chapters, and there is no lack of cases of stagnation or temporary recession. Europe, Brexit apart, is under observation, as are emerging countries. Everyone is waiting for the Chinese colossus, once its duties conundrum has been solved, to return to stimulate export-oriented economies. Various markets and countries, raw material producers and others are currently suffering

the effects of this. The USA is managing a good pace of growth. As regards Italy, our companies confirm their presence in production and trade in all continents: they are supported by effective information flows provided by the statistical bodies and research, but also by the great talent of our entrepreneurial class.

We should be conscious of the latest forecasts published in the first months of 2019 and the context in which businessmen and, by extension, your bank, are to operate. At the Davos Summit in mid-January, the International Monetary Fund outlined an overall slowdown. The message to Europe is clear: in the Eurozone estimated growth drops from 1.9 to 1.6% with Germany dropping from 1.9 to 1.3%. For Italy, the estimates are similar to those by Banca d'Italia and predicts a drop in GDP 2019 from 1% to a weak 0.6%. American growth is estimated at 2.5% and Japanese growth, after the 1.4% of 2018, is expected to drop to 1.1%.

The Government maintained its position set at the beginning of the year: "The target deficit/GDP of 2% will be respected", Minister Tria affirmed in January "there is a commitment by the government based on an agreement with the European Commission to respect the deficit at a structural level, irrespective of the cycle's movements. This means that if there is a slowdown stronger than what we expect, we will retain the objective of structural deficit, as the nominal deficit".

As regards the monetary and financial dynamics, the rates policy for the next few months was reiterated at the press conference on 24 January last year by the President of the ECB Mario Draghi: "We continue to expect that the rates remain at levels equal to those at present at least until the summer of 2019 and in any case as long as it is necessary to ensure that inflation continues to drop to lower levels but close to 2% in the medium term". The forecasters consulted have lowered the expectations on GDP growth in the eurozone on average at 1.5% for 2019 and 1.5% for 2020.

In 2021, the estimation of the Central Bank is 1.4%. Inflation is also expected to decrease, forecast at 1.5% in 2019 (-0.2 points compared with the previous forecast) and at 1.6 % in 2020 (-0.1 points). For 2021, the forecast is 1.7%. Europe, however, is integral in this common objective and indispensable for strengthening growth with the concomitant advantage of greater employment.

Everything is dependent on the effects of Brexit, as they are to define the reciprocal relationship between London and the European Union both in finance both in trade relations. The entire chapter on Brexit is in examination phase and, while our annual report is being issued, options all appear open. The Europe in its entirety must take account of the forthcoming elections at the end of May that will result, depending on the outcome, in a redefinition of the balance between the main political forces. Also, in the same week, elections in Spain and Belgium will take place, whilst in October will be those in Portugal and Greece.

The political climate is already overheating: the vote at the end of May in fact has not a few unknowns concerning future arrangements of Europe. Not in question is the single currency, whose usefulness, at first, had been put in doubt by the eurosceptic forces: the EU Commission intends to further enhance it as the leading trade currency in. Practical signs of c are not lacking. In January, in fact, various consultations were launched precisely in order to increase the international role of the euro in some specific areas: trade in agricultural raw materials and foodstuffs, metals and minerals, production of aircraft, ships and rail transport. Consultations for the energy and financial sectors will follow. A final report is expected by the summer.

The euro, on the other hand, is now the second most important currency used to the world, to which 60 countries link in one way or another its own currency. Every day, 340 million Europeans use banknotes and coins in the 19 Member States. The euro represents about 20% of the international reserves of foreign central banks and, in 2017, 36% of international operations in terms of value was invoiced or regulated in this currency.

With conditions of such weight, the process towards cohesion in the Old Continent can continue its path and may be desirably strengthened by concrete advancement of bank unity. According to Draghi "Banking is now much more solid than at the beginning of the crisis" and will be able to provide loans to support the economy.

According to the encouraging and authoritative opinion of President Draghi, we close this first part of the report to concentrate on an analytical commentary of the management and organisation profiles of our Bank in its 121st year.

6. THE EVOLUTION OF THE SHAREHOLDING STRUCTURE AND SHARES

The shares of Banca Valsabbina, officially registered as "BANCA VALSABBINA - ISIN IT0000220449", are available since 18 July 2016 on the HI-MTF market operated by HI-MTF Sim SpA, in the Order Driven shareholder webpage, an external platform established in accordance with the MIFID Directive and recognised by Consob. The transition - in view of the entry into force from 2018 of new legislation - to the trading of the security on said market was a major step forward in order to foster their sales, with the aim of improving the liquidity of the security itself.

That market is an MTF cd (MTF) alternative and complementary to the regulated markets, to which access is reserved to investment firms, banks and operators of regulated markets authorised and supervised by Consob. A security listed therein can be purchased and sold on the market also through other banks or intermediaries under circumstances they have provided for.

During 2018, on this market 370,511 shares were traded for a countervalue of 1,880 million at an average price of €5.075, in a range between a maximum of €5.16 at the beginning of 2018 and €4.75 in the final auctions of the year.

The choice of the listing, made by the Bank in order to provide additional liquidity and transparency to the corporate security in the interests of their shareholder base, is consistent with the recommendations of Consob and the provisions of the so-called MIFID Directive II, subsumed by Regulation MIFIR in force from 1 January 2018.

In accord with what we stated in reports of recent years and with the foregoing, it is necessary to reiterate the distinction between the intrinsic value of the share (represented by a net equity of over €9.5 per share, by the soundness of the capital ratios and profitability over time) and the current price of the share itself, influenced by various cyclical factors. In other words, regardless of the level recorded in the listing of the security, the assets of the Bank and its performance potential and creation of value over time are not affected.

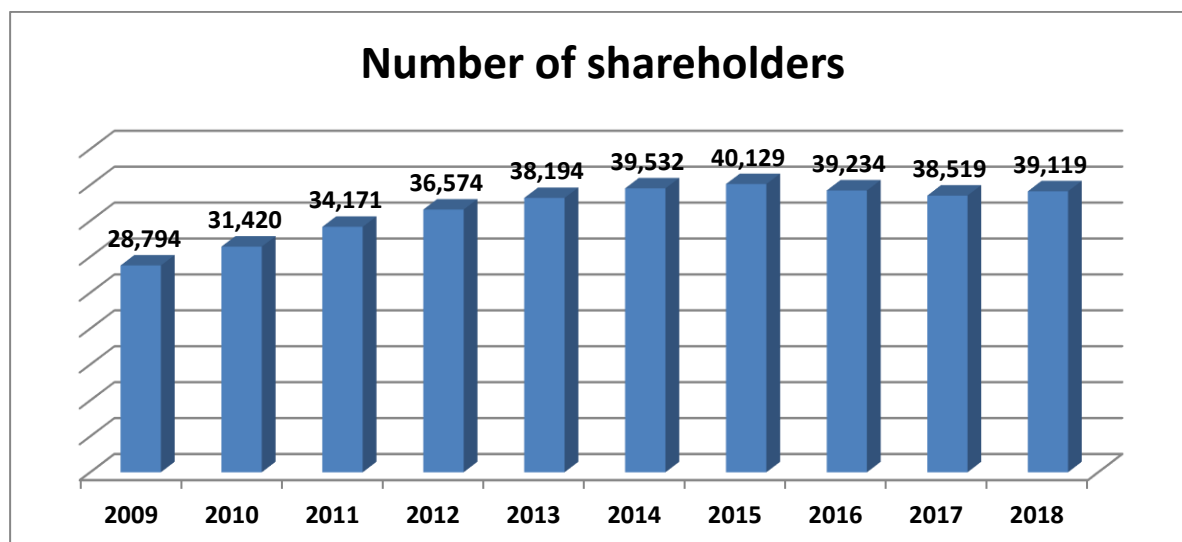
During the year, the Bank intervened in trades with the relevant Fund, to support the liquidity of the security in accordance with authorisation of Banca d'Italia, under the CRR rules and those of shareholders' meetings that provide for interventions at the price recorded in the last previous auction. 72,610 shares were thus purchased for a countervalue of €371.5 thousand.

As per authorisation of past meetings, the Fund was also used to purchase the shares of the bank offered for sale as a result of executive procedures or bankruptcy or seizure by third parties notified to the Bank, as well as for the purchases provided for by the Articles of Association in cases of exclusion from membership. Overall, during financial year 2018, the Fund was used for the purchase of 128,599 shares with a countervalue of €655 thousand.

As at 31 December, the shares in the portfolio amounted to 1,090,154 for a countervalue of €8.840 million; there were 961,555, for a countervalue of €8.185 million as at 31 December 2017.

Despite the complex economic situation of banks, reflected in listing values, the shareholding structure has not recorded significant changes in numbers with respect to the previous year.

At the end of 2018, the number of members was equal to 39,119 (at the end of 2017), in addition to 1,860 shareholders (1,730 at the end of 2017), including holders with less than 100 shares. The number of those who hold shares of the Bank - members and shareholders - is therefore equal to a total of 40,979 units (40,249 at the end of the previous year).



7. CAPITAL AND CAPITAL RATIOS

The regulatory environment consists of EU Regulation No. 575/2013 (Capital Requirements Regulation, i.e. CRR) and by Directive 2013/36/EU (Capital Requirements Directive, i.e. CRD IV), which comprise, in the European Union, the standards defined by the Basle Committee for Banking Supervision (so-called framework Basel 3).

The regulatory compendium provides that the "own funds" (former Supervisory Capital) are constituted by the capital of Tier 1 (Tier 1 Capital), which in turn is composed of primary capital of Tier 1 (Common Equity Tier 1 - CET1), by additional capital of Tier 1 (Additional Tier 1 - AT1) and of the capital of Tier 2 (Tier 2 - T2).

Tier 1 mainly consists of Common Equity: ordinary shares net of authorised purchase of treasury shares, capital reserves, profit reserves, revaluation reserves, elements in deduction such as goodwill, other intangible assets, deferred tax assets (DTA) related to future profitability.

Equity instruments issued, to be included in Common Equity, must cover losses in so-called "on-going concerns", through compliance with the following conditions: maximum level of subordination; capacity to suspend the granting of dividends/coupons at the complete discretion of the issuer and in a non-cumulative manner; unredeemability; absence of incentives for reimbursement.

Tier 2 is in turn constituted by other financial assets such as subordinated loans.

The application of Basel 3 rules is subject to a transitional regime during which the same will be observed - in most cases - in increasing proportion up to 2019, when it will have full application. In the meantime, equity instruments no longer complying with the rules will be phased out by 2021 from the profit consolidated for supervisory purposes.

The minimum regulatory standards provided for 2018 require that the tier 1 primary capital (Common Equity Tier 1) is at least equal to 4.5% RWA (Risk Weighted Assets Total); of tier 1 capital (Tier 1) is at least equal to 6% of the total RWA and own funds (sum of Tier 1 and Tier 2) should be at least equal to 8% of the total RWA.

In addition, banks have the obligation to hold a conservation reserve of capital (capital conservation buffer) that, on the basis of the legislation of the Banca d'Italia, was for 2018 equal to 1.875% compared to the 2.5% provided for, a policy in force with effect from 01/01/2019.

At the conclusion of the process of supervisory review for the year 2016, in a letter of 22/8/2017 the Banca d'Italia laid down the following capital requirements for our bank:

- ratio of primary of Tier 1 capital (CET 1 Ratio) equal to 6.925%, of which 4.5% for minimum requirement to regulate, 0.55% for additional requirement SREP and 1.875% by way of conservation reserve of capital;
- ratio of Tier 1 capital (Tier 1 ratio) amounting to 8.625%, of which 6% for minimum requirement to regulate, 0.75% for additional requirement SREP and 1.875% by way of conservation reserve of capital;
- ratio of total capital (Total Capital Ratio) equal to 10.875%, of which 8% for minimum regulatory requirements, 1% for additional SREP requirements and 1.875% by way of conservation reserve of capital.

It should be noted that on 19/02/2019 Banca d'Italia announced the launch of a new process for SREP supervisory review, a process which to be concluded within 90 days from the date of notification; new provisional ratios to be applied were then communicated which will become permanent only at the end of the process.

The own funds regulations amounted, as at 31/12/2018, to €387.006 million (€408.945 million at the end of 2017), comprising €362.047 million of primary Tier 1 capital (CET 1) and €24.959 million of Tier 2 capital, consisting mainly of subordinated loans having the characteristics of eligible capital; it is noted that the portion of the operating result meant for provision reserves will be entered in the calculation of own funds and the relevant ratios only after a shareholders' resolution and therefore does not contribute to the values indicated above.

With risk weighted assets equal to €2.459 billion, the Tier 1 capital ratio, determined by the ratio between the core capital and risk-weighted assets of risk, is equal to 14.72% ('phased-in" ratio) against the 15.17% at December 2017, whilst the total capital ratio, which expresses the ratio between the total of own funds and risk-weighted assets of risk, stands at 15.73% ("phased-in") versus 16.6%.

Both ratios are therefore significantly higher than the minimum requirements for 2018, as will be recalled respectively at 8.625% and 10.875%.

The increase in assets compared with 31/12/2017, equal to approximately €600 million (€4,907 million versus €4,301), did not result in particular constraints in terms of solvency ratios, especially in terms of Tier1, because it is restricted by portfolio regulations relative to capital absorption, such exposures secured by real estate or State instruments under Act 662/96, such as securitisation of loans to public administration or investments in Government Bonds. The reduction of impaired loans fell from €319 million to 225, has provided a positive contribution to solvency ratios.

The evolution of the main indices of capitalisation shows the following trends:

	31-12-2018	31-12-2017	31-12-2016	31-12-2015
Equity/customer deposits	10.20%	12.08%	12.34%	12.55%
Equity/funding towards customers	10.78%	12.97%	14.09%	14.11%
Equity/total assets	6.74%	8.88%	8.83%	9.30%
Net impaired loans/own funds	58.08%	78.09%	90.84%	94.83%
Net bad debts/own funds	31.76%	44.42%	46.92%	46.24%
total capital ratio phased in/fully phased	15.73%/13,74%	16.60%	16.83%	16.33%
tier one capital ratio phased in/fully phased	14.72%/12,69%	15.17%	15.11%	14.94%

With the entry into force of IFRS9 standard - CRR was introduced in EU regulation 575/2013, a transitional regulation (Art. 473 *bis*) that extends the impact on own funds resulting from the application of the new model of impairment over time. The above framework provides, prior to applying the option communicated to the supervisory body on 01/02/2018, of possible inclusion in the primary capital of tier 1, a temporary positive component equal to a portion of the increase, subjected to credit write-downs, entered in the financial statements as a result of the first application of IFRS9 principle; this portion will decrease over a time span of five years: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. In addition to the possibility of delaying the impact resulting from the first application of the accounting principle, the transitional arrangement provides the ability to mitigate any impacts that the application of the new model of impairment will produce until the year 2022 limited to the value of performing loans.

In essence, if shareholders' equity, with the adoption of IFRS9, as set out described in the special section of the Explanatory Notes to the Financial Statements, recorded a decrease of €61.5 million (equity book value as at 31/12/2017 of €382 million, as at 01/01/2018, €320.5 million), from a prudential point of view, part of this effect will be eliminated progressively over a time span of five years until the end of the transitional regime; from 01/01/2023, value adjustments caused by IFRS9 will be fully entered under own funds.

In the absence of transitional arrangements for total capital and Tier1 capital ratios would be equivalent respectively to 13.74% and 12.69% ("fully phased" ratios).

The amount of equity and the capital ratios higher than the regulatory minimum required, together with the transitional arrangements provided for by Article 473-*bis* of EU Regulation 575/2013 noted above, allow the planning of the development actions contemplated by the strategic plan since capital needs are fully covered meaning there is no necessity to have recourse to extraordinary shares for strengthening its own means.

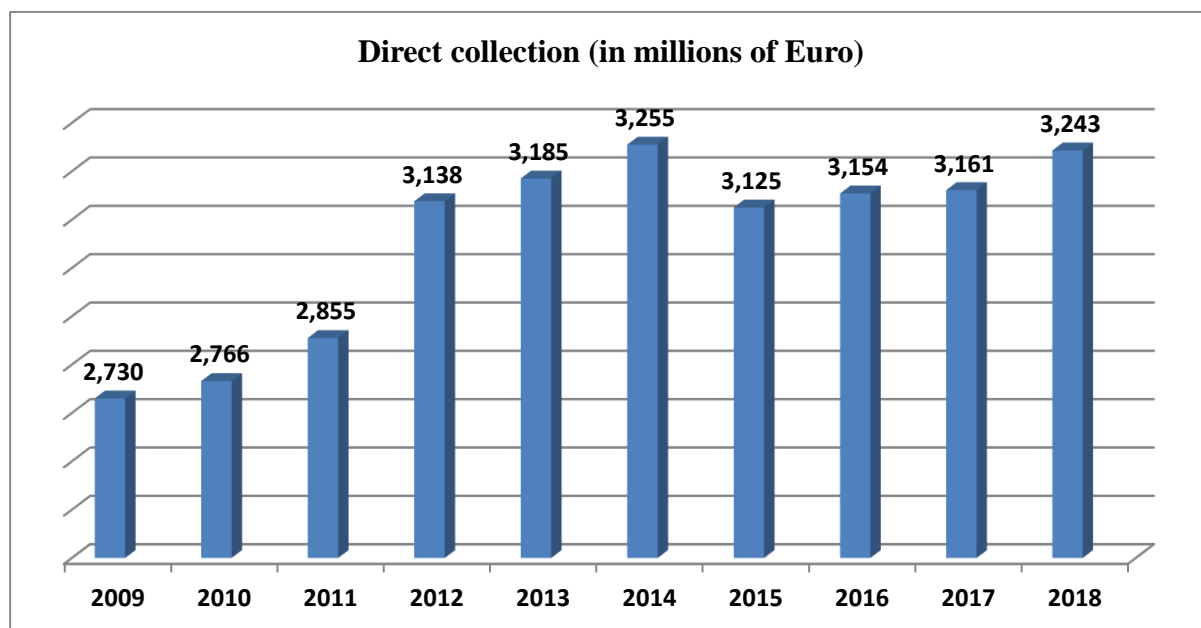
Even as regards liquidity, the position of the Bank is well above the minimum ratios. The regulatory instrument provided is the LCR coefficient (Liquidity Coverage Ratio) figure by the ratio between the reserve of liquid assets and the net outflow of liquidity provided in the arc of a stressful period of 30 days that a scheme (i.e. from 01/01/2018) must be higher than 100%. This indicator has the function of ensuring that the banks have available liquid reserves of high quality (non-captive) sufficient in a stressful situation of 30 days.

At the end of December, the LCR coefficient of the Bank is at 173%, equal to the ratio between the buffer of liquidity of €429.9 million and the net outflow expected (30 days) of €247.9 million (net liquidity out flow).

8. DEPOSITS FROM CUSTOMERS

As early as in its report last year it was anticipated that, on 1 January 2018, obligatory international accounting standard IFRS 9 approved by the European Commission since the end of November 2016 would enter into force. This new standard supersedes IAS 39 and introduces changes in the classification and valuation of financial instruments in the financial statements, i.e. financial assets and liabilities.

As a result of the application of the new accounting standard, direct deposits from customers are thus represented in item 10 of the liability "financial liabilities valued at amortised cost" from under items b) payables to customers and c) securities. The direct collection, thus combined into its two items, amounted, as at December 2018, to €3 billion and €243 million, an increase of 3% compared with €3 billion and €161 million in December 2017.



The result, even more positive if it is considered that at the end of the previous year the consolidation also included deposits from institutional investors for €120 million, is attributable mainly to the stepping up of trade policies and the boost given by the opening of new branches. The sense of confidence of savers inspired by Valsabbina is not to be underestimated in the dynamic growth of deposits - monitored by balancing growth objectives and cost schedules.

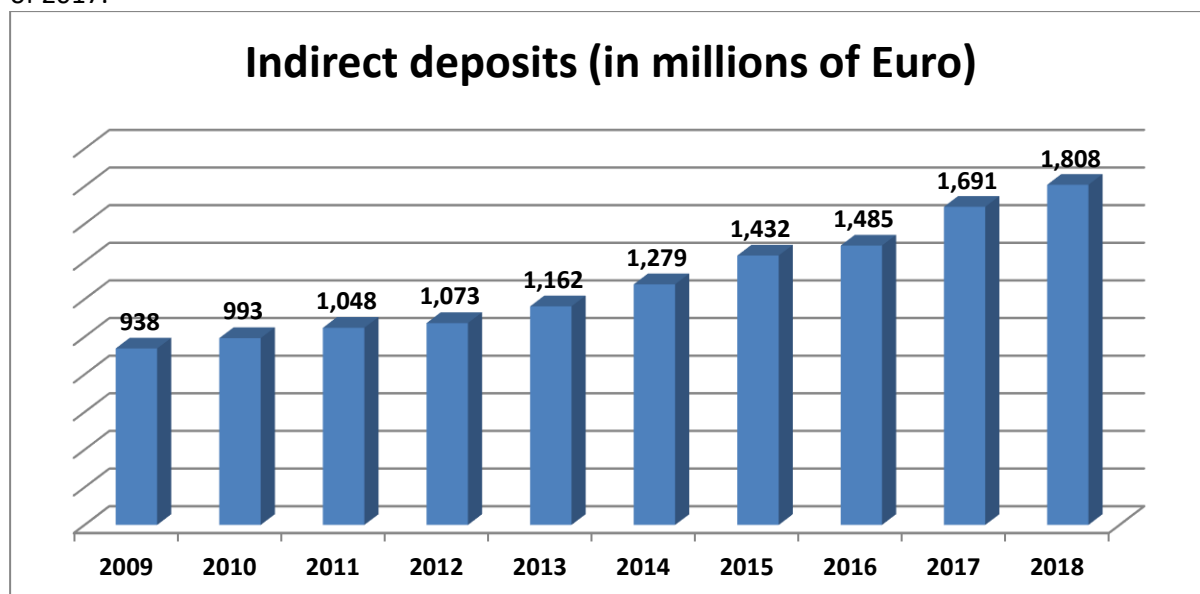
The bonds issued during the year, not covered by the guarantee fund for the protection of deposits, were lower than those reaching maturity. Instead of the collection tool mentioned above, other forms of constrained deposits were given priority such as time deposits with differing dates of maturity; of the latter, those with a residual maturity of more than 18 months and valid at the end of the year amounted to €78.685 million.

Deposits from customers	31-12-2018	31-12-2017	Change	
(amounts in 1000/€)			Absolute	%
Savings deposits	29,692	34,274	(4,582)	(13.37%)
Current accounts	2,247,613	2,132,303	115,310	5.41%
Time deposit	668,927	322,934	345,993	107.14%
Other Deposits	463	450	13	2.89%
Deposit for Invest.	-	119,994	(119,994)	(100.00%)
b) Payables to customers	2,946,695	2,609,955	336,740	12.90%
Bonds	212,579	446,070	(233,491)	(52.34%)
Subordinated bonds	61,222	65,782	(4,560)	(6.93%)
Deposit certificates	22,582	38,951	(16,369)	(42.02%)
c) Outstanding securities	296,383	550,803	(254,420)	(46.19%)
Total direct deposits	3,243,078	3,160,758	82,320	2.60%
Indirect	1,807,788	1,691,115	116,673	6.90%
Total Deposits	5,050,866	4,851,873	198,993	4.10%

The detail above shows how "payables to customers" rose from 2,610 million as at 31 December 2017 to 2,947 million as at 31 December 2018. At the same time, securities in circulation decreased from 551 million to 296 million, a result of the commercial policy pursued with the entry into force of the rules on bail-in and aimed at facilitating substitution of maturing bonds with other forms of constrained deposits such as fixed-term deposits.

The subordinated bonds in circulation amounted to 61.2 million, of which 50 million of nominal value having the requisites for computability into own means (balance sheet value equal to 50.7 million).

Indirect deposits stood at 1 billion and 808 million compared with 1 billion and 691 million at the end of 2017.



Particular emphasis was placed on indirect deposits, in particular to those managed, for which a dedicated organisational unit was created, with the objective of reconverting both the dossiers under simple administration and maturing non-renewable bond loans.

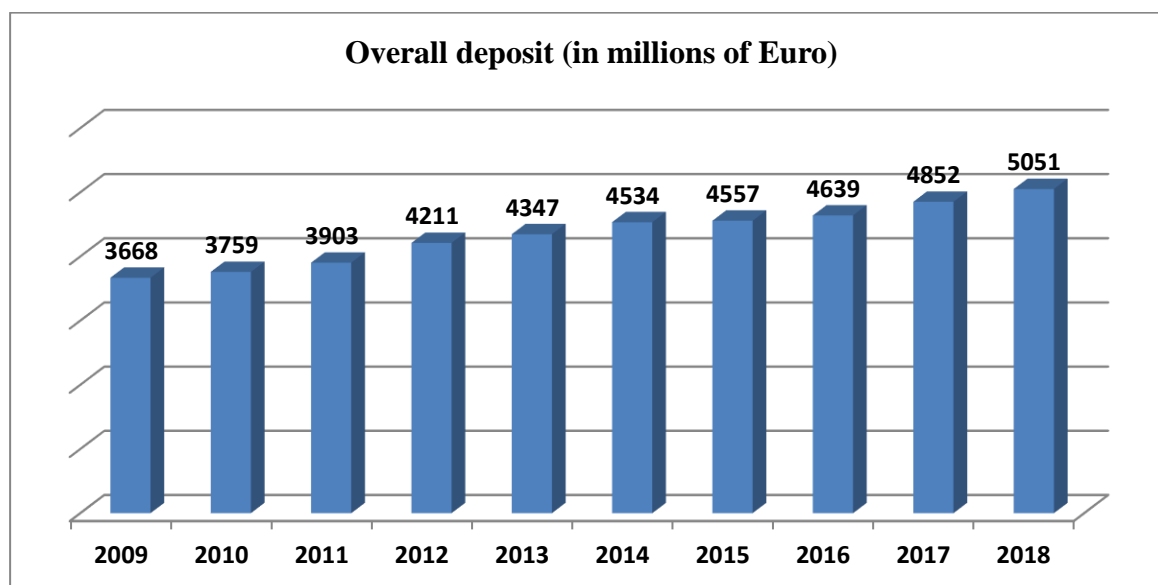
Significant increases have been attained in equities, common funds and insurance policies, as can be seen from the table below.

Deposits from customers	31-12-2018	31-12-2017	Change	
(amounts in 1000/Euro)			Absolute	%
Government securities	307,748	292,299	15,449	5.29%
Italian and foreign shares	293,486	270,080	23,406	8.67%
Corporate and foreign bonds	137,082	146,389	-9,307	(6.36%)
Mutual funds	634,378	579,447	54,931	9.48%
Insurance policies	435,094	402,900	32,194	7.99%
	1,807,788	1,691,115	116,673	6.90%

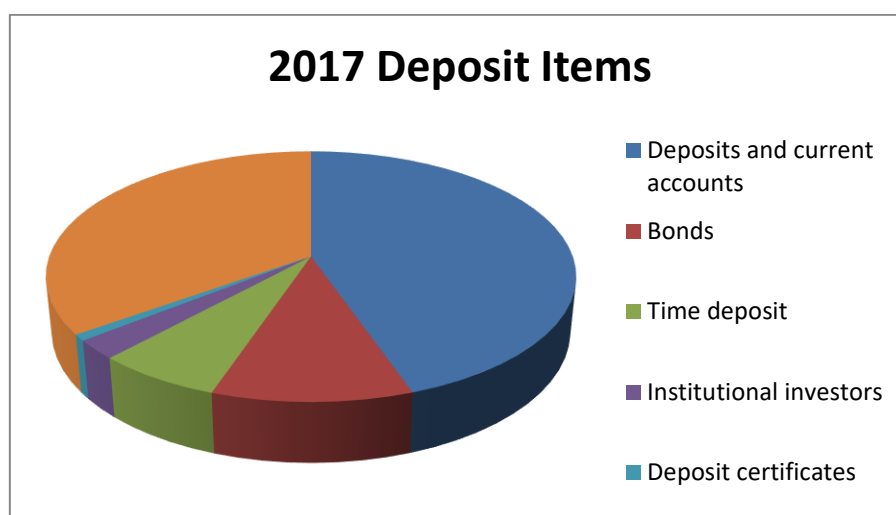
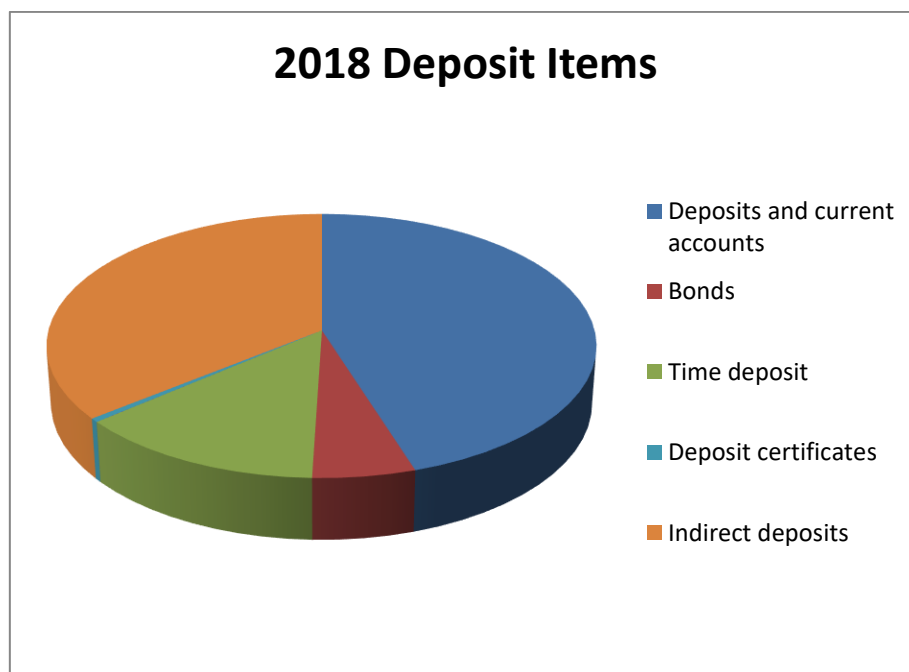
As to product types, indirect deposits show how mutual funds and insurance policies amounted, as at 31 December 2018, to 59% of the total, all to the benefit of expansion of net earnings from services, which was the priority objective of the corporate strategies.

Indirect Deposit percentage	31-12-2018	31-12-2017
Government securities	17.03%	17.29%
Italian and foreign shares	16.23%	15.97%
Corporate and foreign bonds	7.58%	8.66%
Mutual funds	35.09%	34.26%
Insurance policies	24.07%	23.82%
	100.00%	100.00%

The overall deposit therefore exceeds the notable amount of €5 billion: more exactly €5 billion and €51 million versus €4 billion and €852 million last December (+4.10%).



The breakdown of the components of deposits for this and the previous year are highlighted in the graphs below:



9. LOANS

With the application of international accounting standard IFRS 9 loans to clients are entered under item 40.b) Financial Assets at Amortised Cost - Receivables from customers.

The item also includes debt securities issued by non-banking counterparties (including government bonds), which will be described later in the commentary on "financial assets"; it is to be noted that the tables below do not include the values relating to what is entered under the item debt securities, but only under the Loans item.

After years of grave and universal economic crisis we have recently experienced a lessening of critical factors, the improvement of the situation and an economic revival. This positive trend, in parallel with the extension of the distribution network, has resulted in an increased demand for credit to which the Bank has responded with a number of financial instruments and with the usual sensitivity to borrower needs.

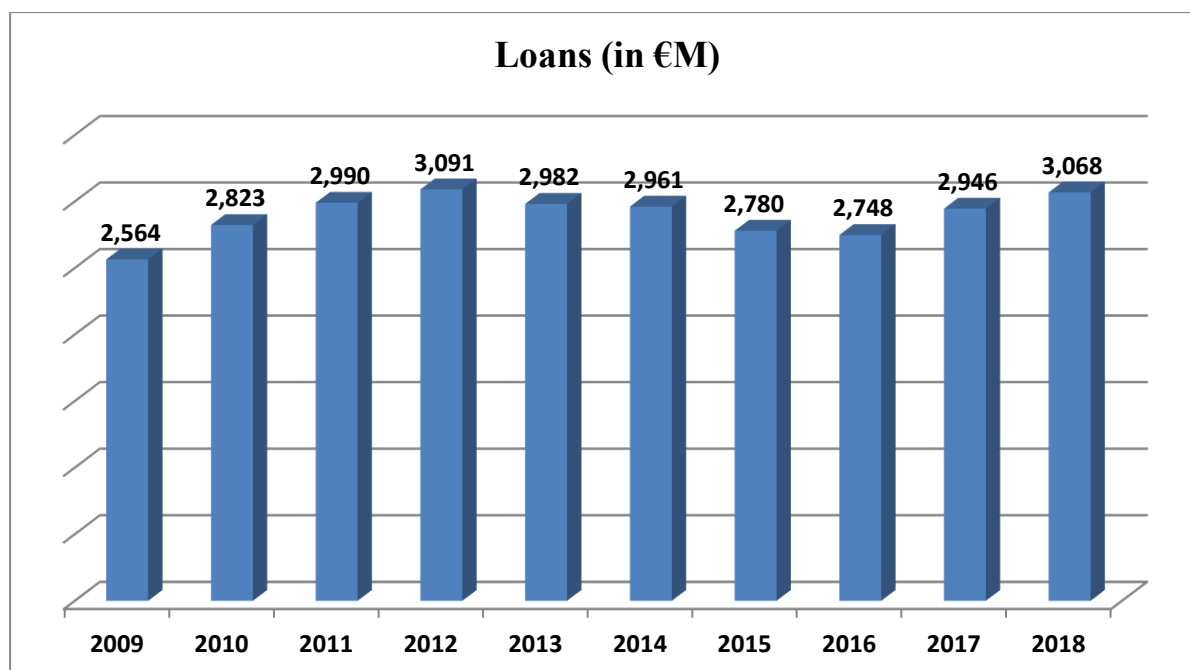
At the end of the year, the item receivables from customers – financing, registered an amount of €3,068 million, with a significant growth of €122 million, equivalent to 4.14%, over the previous year. In the current economic climate, employment policies have accorded with new commercial strategies made possible by an increase in market operations. While priority attention has intensified to families and the operators in the chosen region, more initiatives have been taken to expand the Bank's presence into new operational areas, with due caution regarding the competition by means of spreading risk. By the same token, the enhancement of the structure's potential and the quality of service, also the most suitable tools have been employed, such as financing under Act 662/1996 or by guarantees from the European Investment Fund (EIF).

Constant and careful attention has been paid to credit quality. The results obtained are positive: the results of the initiatives undertaken and the expectations of those under development allow us to face the future with measured optimism.

The growth of loans in our assets definitely shows, partly due to legislative measures - such as those commonly known under the name of Business Plan 4.0 - that, especially in our province of Brescia which is highly entrepreneurial, they are of undoubted effectiveness.

As in past years, the comment in the chapter on credit includes a brief overview of the various technical forms, a summary of medium and long term loans as well as the distribution of loans per sector of economic activity and per borrower range and, finally, a specific discussion on qualitative profiles.

The trend in loans – financing for clients in the last decade is summarised in the graph:



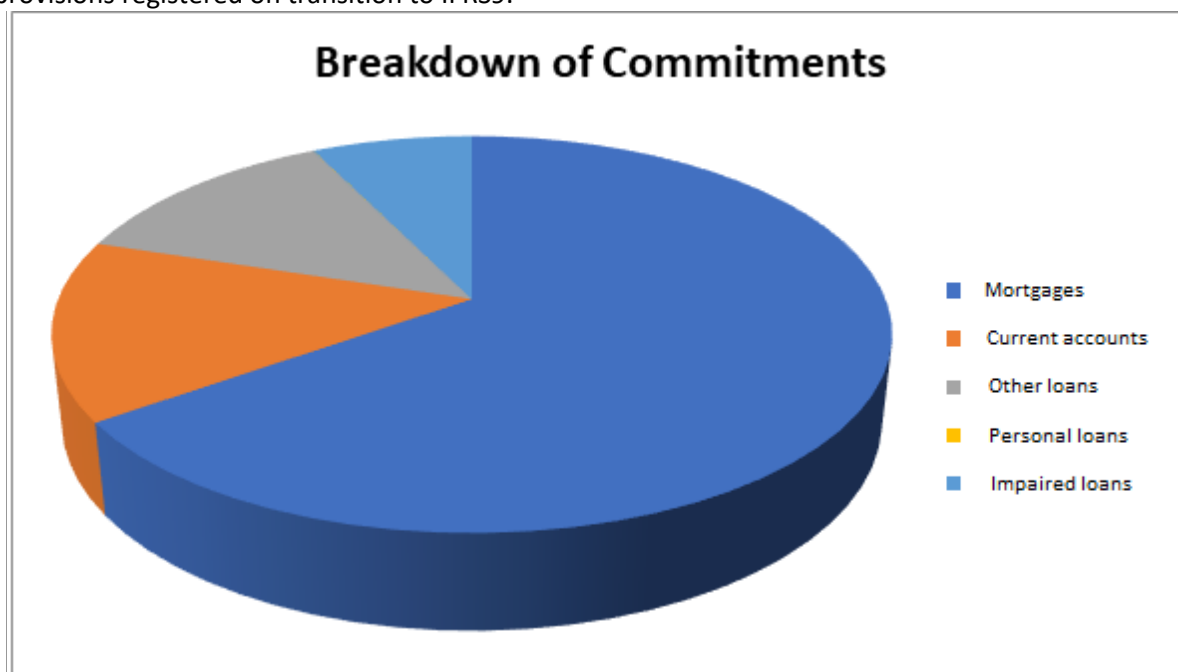
The evolution of the breakdown of commitments for the technical form in 2018, compared with 2017, is as follows:

Financial assets AC - Customers	31-12-2018	31-12-2017	Change	
(thousands of euros)			Absolute	%
Current accounts	451,197	408,887	42,310	10.35%

Mortgage loans	2,000,518	1,843,064	157,454	8.54%
Personal Loans	311	830	(519)	NS
Other loans	391,340	373,964	17,376	4.65%
Impaired Loans	224,761	319,355	(94,594)	(29.62%)
Loans	3,068,127	2,946,100	122,027	4.14%
Debt instruments	890,347	158,692	731,655	NS
Total Financial Assets AC - Customers	3,958,474	3,104,792	853,682	NS

The most significant increase in absolute terms, concerns the mortgages item. In addition to traditional mortgage loans for the purchase of real estate, the item includes all instalment payments, including financing under State guarantee.

The significant decrease in impaired loans, discussed hereafter, is attributable to the combined effect of the operations for sales of receivables that occurred during the year and major depreciation provisions registered on transition to IFRS9.



During the financial year, the effective and proven initiative of secured loans also continued, up to 80 % of the total, by State guarantee through Mediocredito Centrale. The facilities granted by this technical means, including those falling under the microcredit segment - aimed at companies that employ a maximum of 9 employees and that declare a turnover not exceeding €2 million - numbered overall 1,412, for a total value of more than €265 million.

For house purchases about 650 financing transactions were concluded for the total amount of over €86 million; mortgage rates, building and ordinary mortgages generally granted numbered 1,061 for an amount of €201 million compared with 1,428 for €254 million in 2017.

Also, leasing operations, intermediated through the partner companies SG Leasing and Sella Leasing, have recorded good results: there were 341 contracts concluded for €49 million compared with 313 for €38 million in 2017.

The new product of "Personal Loans" offered by Cofidis through the Bank network has achieved remarkable results, as evidenced by the table below.

M/L-TERM FUNDING (amounts in euro/1000)	31-12-2018		31-12-2017		% Change	
	Transaction No.	Amount	Transaction No.	Amount	Transaction No.	Amount
A) Directly with Bank funds						
Financing with Mediocredito Centrale guarantee under Act 662/1996	1,412	265,047	1,040	220,696	35.77%	20.10%.
Small business loans backed by Confidi guarantee for sundry Trade Associations	112	6,263	113	5,279	(0.88%)	18.64%.
Land mortgages, buildings and ordinary mortgage	1,061	201,281	1,428	254,387	(25.70%)	(20.88%)
Secured and unsecured loans to Bank shareholders	214	14,298	1,120	33,445	(80.89%)	(57.26%)
Mortgage current accounts	2	620	7	1,797	NS	NS
B) Indirectly as intermediary of specialised institutes						
Leasing transactions	341	48,929	313	38,406	8.95%	27.40%.
Personal loans - Cofidis	1,940	32,557	60	737	NS	NS
Salary-backed loan	105	1,604	50	755	110.00%	112.45%.

The allocation of customers by range of security confirms what has previously been said with respect to the objectives of the credit policy pursued in recent years, namely enlargement of the customer base - in parallel with the mitigation of risks through a suitable division by class of portfolio - and a scrupulous attention to household and small and medium-sized enterprises' needs, which have always been the customer type for our model of Banca Popolare. The number of subject borrowers at the end of the financial year is similar to last year; borrowers of an amount exceeding €1 million decrease in percentage of the total of borrowers from 40.6% to 40.4%. Also, borrowings of an amount lower than €500 thousand drop from 46.2% to 45.7%.

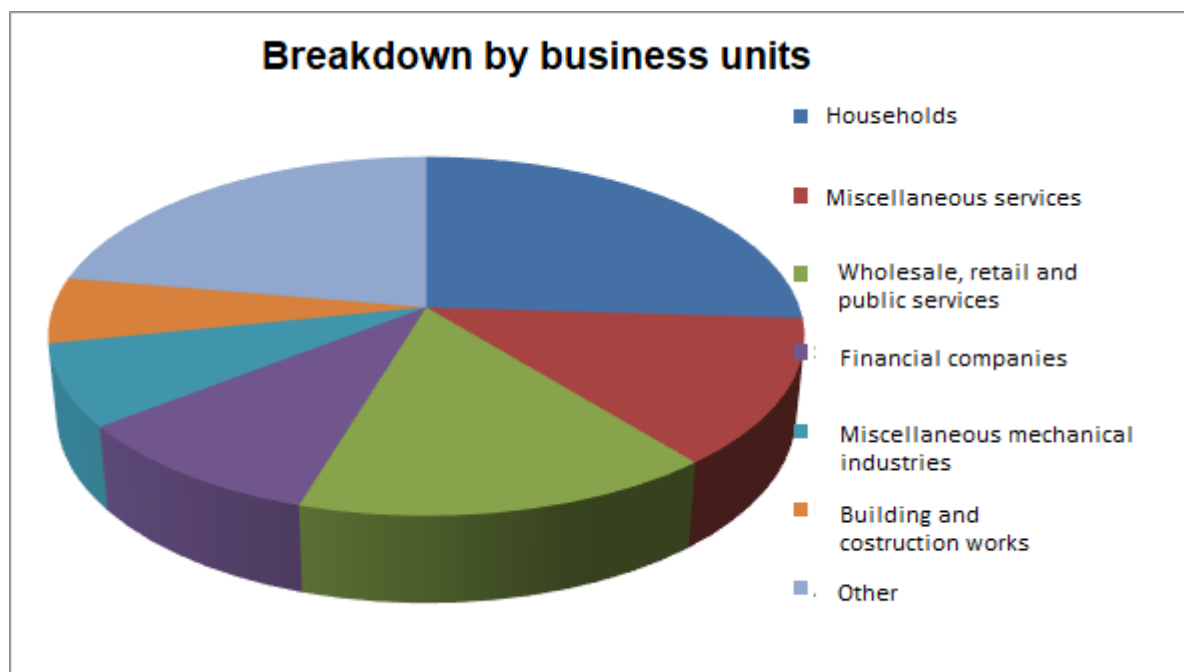
Number of customer borrowers broken down by range of credit						
	31-12-2018	% of total credit	31-12-2017	% of total credit	31-12-2016	% of total credit
Up to €40,000	14,035	4.1%	14,944	4.6%	14,434	4.7%
From €40,001 €125,000	7,538	14.7%	7,228	15.0%	6,222	14.3%

From €125,001 €250,000	3,132	13.7%	2,987	13.9%	2,699	13.8%
From €250,001 €500,000	1,494	13.2%	1,350	12.7%	1,176	12.3%
From €500,001 to €1,000,000	796	13.9%	702	13.2%	633	13.1%
From €1,000,001 €5,000,000	540	25.8%	527	26.9%	486	27.7%
Over €5,000,001	53	14.6%	52	13.7%	47	14.1%
Totals	27,588	100.0%	27,790	100.0%	25,697	100.0%

The breakdown of the total by sector of activity is balanced, both regarding the average data in the system in the areas where the bank operates, and the evolution of the different economic sectors in the region serviced.

The data reported in the table below shows constant attention to families that, in the different sectors, have always been first in line throughout the years of reporting, with a percentage tending upwards. At the end of the financial year 2018 credit granted to "family consumers" is equal to 25.96 % of the whole, an increase of half a percentage point compared to 2017.

Economic activity sectors	2018	2017	2016	2015
Consumer families	25.96	25.48	23.81	23.05
Miscellaneous services	13.19	15.56	16.76	17.10
Wholesale	10.45	10.56	9.70	9.18
Finance companies	9.77	7.06	8.04	6.24
Various mechanical industries	7.35	7.55	8.00	8.58
Building and construction works	5.94	7.27	7.34	7.86
Retail and public works	5.06	5.13	4.60	4.73
Food and beverages	2.42	2.15	2.21	2.22
Agricultural and industrial machinery	2.39	2.18	2.10	2.34
Building materials, glass and ceramics	2.35	2.20	2.20	2.26
Agriculture, Forestry and Fishing	2.02	2.04	2.23	2.48
Steel and non-ferrous metal industries	1.72	1.95	2.14	2.42
Wood, furniture and other industrial products	1.71	1.76	1.86	1.84
Transport services	1.57	1.51	1.36	1.38
Textiles and Clothing	1.53	1.70	1.69	1.68
Energy and chemical products	1.31	1.17	1.24	1.66
Rubber and plastic products	1.12	1.00	0.99	1.01
Materials and electrical supplies	1.10	1.17	1.20	1.19
Repair of motor vehicles and various articles	0.84	0.74	0.68	0.75
Paper and publishing	0.62	0.57	0.60	0.78
Public Administrations	0.60	0.60	0.65	0.69
Transport vehicles	0.52	0.40	0.43	0.40
Fine and precision mechanics	0.46	0.25	0.17	0.16
Total	100.00	100.00	100.00	100.00



Also in 2018, the process of refinement of the policies for the selection and management of borrowings continued, in order to avoid the risk of deterioration in the quality of the portfolio. There were numerous and significant procedural and organisational interventions suitable to enhance the effectiveness of monitoring and the accuracy of control over the facilities granted.

Because of the effects of the economic crisis on the make-up of the portfolio, the management and evaluation of impaired loans has been intensified with the aim of safeguarding the quality of the credit assets, but also to take account of the strict ruling that the ECB is preparing for the valuation to be applied to the same impaired loans. For this operational and management reason the Board of Directors periodically updates the evaluation criteria for all categories falling within the definition of impaired credit: bad debts, probability of defaults and overdue credit; corporate policies provide detailed prudent criteria to be used in the assessment of each loan, referring to the evaluation and updating of the guarantees for determining the value of recovery and the period for reviewing counterparties in default.

Under policies of de-risking, aimed at restricting the number of gravely impaired loans as well as net containment thereof, operations for disposal of bad debts in an amount of over 120 million gross credits, distributed over about a thousand bad debt borrowings, were drawn up and implemented.

Also to be noted are the earnings derived from property sold in execution and payments in settlement of claims, as well as the growing interest of third parties in the auctions which the subsidiary Valsabbina Real Estate held.

The programme for the disposal of stocks of impaired loans will continue also during 2019; already in the first quarter of the year a transfer operation for about 53 million bad debts is planned, in respect of about 400 borrowings.

The gross amount of impaired loans thus decreased by €163 million, dropping to a significant extent from €593 million to €430 million in 2017. As a result of the aforementioned disposals, gross bad debts decreased by 124.3 million, whilst defaults and overdue credits decreased respectively by 34.6 million and 4.0 million.

The amount of performing loans subject to easing (forborne in bonis) - i.e. measures that change contractual conditions to the benefit of the client such as moratorium, the extension of deadlines and the rescheduling of instalments - at the end of 2018 was equal to €83.9 million, down from €94.1 million in the same period of the previous year.

The amount of the value adjustments on loans to customers entered in the income statement for 2018 net of recoveries was €12.7 million; disposals of credits, which set off minus and plus, resulted in total losses of €2 million.

If the change in gross loans is attributable mainly to disposals and the positive movement in earnings, the substantial change in the value of net loans is thanks also to the first application of IFRS9 leading to increased depreciations; changes in accounting amounts produced by the adoption of the new principle are described, together with the accounting rules, in the relevant part of the Explanatory notes to the accounts and register regarding receivables from customers, more provisions for impaired loans at €45.4 million and for performing loans at €15.1 million.

The hedging percentages highlighted below are the result of all the above elements; the rate of hedging of impaired loans rose from 46.14% to 47.74%. More specifically, that for bad debts is equal to 57.19% versus 55.84% of the previous year; that for defaults is equal to 31.97% versus 26.93 % and that of overdue receivables is equal to 11.61% versus 7.94%.

As a result of the aforementioned initiatives of de-risking - through recovery, disposals and additional provisions to the income statement - Net impaired loans were down from 319.4 to 224.8 million, with a reduction of 94.6 million, equivalent to almost 30%. Their incidence on the total net loans is equal to 7.33% with respect to the 10.84% of 2017.

More particularly net bad debts amounted to 122.9 million with a decrease of at least 58.8 million and representing 4.01% of net loans (6.17% in 2017). Defaults declined from 113.5 million to 82.1 million, dropping from 3.85 % of credits to 2.68%. Overdue receivables, which fell from 24.2 million to 19.7 million, representing 0.64% of net loans, decreased with respect to 0.82% of 2017.

The Texas Ratio, i.e. the ratio between the net impaired loans and equity deducted from main activities, proves to be equal to 69.94% against the 85.81% of the end of the previous year.

In the following tables are shown the extent of impaired loans, classified in terms of the applicable legislation, together with the related adjustments in absolute terms.

31-12-2018 Types exposure/values (amounts in millions of Euro)	Gross exposure	Specific adjustments	Flat-rate adjustments	Net exposure	% of total net exposure
A) Bad debts	287,066	164,160	-	122,906	4.01%
b) Probability of defaults	120,702	38,594	-	82,108	2.68%
c) Overdue loans	22,342	2,595	-	19,747	0.64%
Total impaired loans	430,110	205,349	-	224,761	7.33%
d) Performing Loans	2,870,121	-	26,755	2,843,366	92.67%
Total lending	3,300,2311	205,349	26,755	3,068,127	100.00%

31-12-2017 Types exposure/values (amounts in millions of Euro)	Gross exposure	Specific adjustments	Flat-rate adjustments	Net exposure	% of total net exposure
a) Bad debts	411,342	229,674	-	181,668	6.17%
b) Probability of defaults	155,286	41,825	-	113,461	3.85%
c) Overdue loans	26,315	2,089	-	24,226	0.82%
Total impaired loans	592,943	273,588	-	319,355	10.84%
d) Performing Loans	2,639,010	-	12,265	2,626,745	89.16%
Total lending	3,231,953	273,588	12,265	2,946,100	100.00%

The cost of credit, represented by the percentage incidence of losses from the sale and value adjustments on loans with respect to the amount of the net loans entered in the financial statement, is equal to 0.48%. The percentage of hedging of performing loans - calculated using the model provided by the IT outsourcer Cedacri - is equal to 0.93% of the loans.

The movement of stocks of different categories of loans at risk, of relevant indicators and their respective degrees of hedging in the last five years showed the following trends:

Net exposure (amounts in millions of Euro)	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014
Bad debts	122,906	181,668	195,606	189,500	162,122
Probability of defaults	82,108	113,461	153,523	169,491	193,370
Overdue loans	19,747	24,226	29,554	29,636	27,944
Total impaired loans	224,761	319,355	378,683	388,627	383,436
Performing Loans	2,843,366	2,626,745	2,369,343	2,391,804	2,577,142
Total net loans	3,068,127	2,946,100	2,748,026	2,780,431	2,960,578

CREDIT QUALITY INDICES	31-12-2018	31-12-2017	31-12-2016	31-12-2015	31-12-2014
on Gross Receivables					
% Bad debts on total gross receivables	8.70%	12.73%	13.41%	11.91%	9.30%
% Probability of defaults on total gross receivables	3.66%	4.80%	6.18%	6.93%	7.32%
% Overdue loans on total gross receivables	0.68%	0.81%	1.07%	1.06%	0.95%
% Total impaired loans on total gross receivables	13.03%	18.35%	20.65%	19.91%	17.57%

Hedging percentage					
Bad debts	57.19%	55.84%	51.40%	47.09%	44.64%
Probability of defaults	31.97%	26.93%	17.20%	18.66%	16.12%
Overdue loans	11.61%	7.94%	8.10%	7.37%	6.14%
Total impaired receivables	47.74%	46.14%	38.92%	35.07%	30.68%
Performing Loans	0.93%	0.46%	0.54%	0.69%	0.69%
Percentages on net loans					
% Bad debts on total net loans	4.01%	6.17%	7.12%	6.82%	5.48%
% Probability of defaults on total net loans	2.68%	3.85%	5.59%	6.10%	6.53%
% Overdue Receivables on total net loans	0.64%	0.82%	1.08%	1.07%	0.94%
% Total impaired loans on total net receivables	7.33%	10.84%	13.78%	13.98%	12.95%

10. FINANCIAL ACTIVITIES AND INVESTMENTS

With the application of international accounting standard IFRS 9 Financial activities in the following items are set out.

20. Financial assets valued at fair value with impact on the income statement.

- a) financial assets held for trading;
- b) financial assets designated at fair value;
- c) financial assets compulsorily valued at fair value.

30. Financial assets valued at fair value with impact on overall profitability

40. Financial assets valued at amortised cost

- a) loans and receivables from banks:
 - of which debt instruments;
 - of which loans.
- b) loans and receivables from customers:
 - of which debt instruments.

70. Equity investments

Financial Liabilities to banks exposed in the item

10. Financial liabilities valued at amortised cost

- a) payables to banks.

The comparison between financial assets and liabilities between the current year and the previous is summarised in the following table.

Financing activity	31-12-2018	31-12-2017
20. Financial assets valued at fair value having impact on the income statement.	281,244	247,163
a) financial assets held for trading	75	173
b) financial assets designated at fair value	9,577	9,380
c) financial assets compulsorily valued at fair value	271,592	237,610
30. Financial assets valued at fair value with impact on overall profitability	298,198	651,922
40. Financial assets valued at amortised cost	1,097,745	272,979
a) loans and receivables from banks	207,398	114,287
- of which debt instruments	3,647	4,420
- of which loans	203,751	109,867
b) Loans from customers for debt securities	890,347	158,692
70. Equity investments	1,251	1,121
Total	1,687,438	1,173,185
of which:		
Loans and receivables from banks for funding	203,751	109,867
Government bonds	1,062,127	724,636
Other bonds	301,371	155,457
Mutual investment funds	67,905	144,166
Equity instruments and investment fund units	33,632	29,506
Insurance policies	9,577	9,380
Derivative contracts	75	173
	1,687,438	1,173,185

Financial liabilities		31-12-2018	31-12-2017
10. Financial liabilities valued at amortised cost	a) payables to banks	1,241,118	687,269
	Total	1,241,118	687,269

Average term of the securities portfolio

The average duration total of the securities portfolio, including external management, as at 31 December 2018 is 2.83 years, compared to 1.98 years of 2017, falling within the limits set by the Board of Directors.

Receivables from - Payables to banks

Receivables from banks amounted to €207.4 million, comprising a debt security issued by a Bank Institute for €3.7 million. The aggregate amount shows an increase compared to €114.3 million

recorded as at 31/12/2017 thanks to the greater number of term deposits made, almost all maturing in the first quarter of 2019.

In terms of Liabilities to banks the amount as at 31/12/2018 is equivalent to 1,241.1 million compared to the balance of 687.3 million registered at the end of the last financial year.

The aggregate is composed of debts toward the ECB for a nominal €690 million for the TLTRO II programme; such operations, already recorded in the aggregate for the last financial year, show loans maturing in June 2020 for 250 million, December 2020 for 150 million and March 2021 for 290 million. Against these financial liabilities, the bank receives interest income of 0.40%, the rate applicable until maturity.

Compared with 31/12/2017, there are also repurchase agreements (PCT) for an amount of €400 million, agreements concluded with primary banking counterparties and with maximum maturity in February 2019. Finally, financing by the ECB for €150 million, which already matured in the first part of January of the current year, should be noted.

Financial assets valued at fair value with a corresponding asset item in the income statement.

	31-12-2018	% on Portfolio	31-12-2017	% on Portfolio
Other bonds other than government bonds	193,583	68.83%	89,437	36.19%
Other bonds other than government bonds	193,583	68.83%	89,437	36.19%
Securities CIUs shares	23,417	8.33%	96,718	39.13%
Real estate CIUs shares	44,488	15.82%	47,449	19.20%
Equity securities	10,104	3.59%	4,006	1.62%
Total CIUs and equity securities	78,009	27.74%	148,173	59.95%
Derivative contracts	75	0.03%	173	0.07%
Insurance policies	9,577	3.41%	9,380	3.80%
Other	9,652	3.43%	9,553	3.87%
Total	281,244	100.00%	247,163	100.00%

In absolute terms, the net financial assets valued at fair value with impact on the income statement as at December 2018 show an increase of 13.78% compared to December 2017. This trend was caused mainly by the substantial subscription to debenture loans, issued by securitisation vehicles, and from disposal of CIUS share securities; this type of security has recorded a decrease from €96.7 to €23.4 million.

The shares of closed-end reserved real estate alternative investment funds are recorded at €44.5 million (-2.9 million compared to 2017) and are composed of the funds set up by the investee Polis Fondi Sgr for 18.3 million, the fund Finint Fenice Fenice Investments SGR for 20.3 million, the Leopardi fund for 0.1 million, from the restructuring of Aedes and from the Namira fund for 5.7 million. The variation was due for €0.4 million to new subscriptions and for €3.3 million to write-downs made using the NAV provided by issuers. Investments are mainly affected with the contribution of immovable property earnings by the subsidiary Valsabbina Real Estate for activities of credit recovery or with the subscription of the shares in funds from auctions or the purchase of impaired mortgage loans.

The item "other liabilities" covers mainly €148,562 million the shareholding of "Valsabbina Investments", a debenture loan subscribed in full by the Institute and issued by a vehicle company in securitisation of loans toward the Public Administration. Apart from Operation "Valsabbina

Investments" launched in 2016, which resulted in the course of the entire duration of the operation to the purchase of credits to a total amount of more than €300 million, a residual amount registered, as previously mentioned, as at 31/12/2018 for the value of the corresponding security equal to 148 million, other sundry operations were initiated to purchase other credits, by the use, in terms of Act 130, of vehicles set up ad hoc for the aforementioned operation. These other operations (named respectively Castore, Polluce, Atlas) are recorded in the financial statements for about €40.7 million. Banca Valsabbina has subscribed to Senior bonds (where structuring provided for a trenching of securities) issued in each of these operations, further diversifying its loans with reduced capital absorption thanks to the application of the so-called look through method for the purposes of calculation of the RWA.

In addition to these last operations, the Bank has also subscribed to an ABS bond for €3.3 million (issued by the vehicle Eridano II) with collateral loans deriving from the disposal of salary-backed loans (CQS) granted by ViviBanca S.p.A. The entry into this segment represents an important step for our Institute, because this asset class leads to a reduced risk of insolvency with sound returns.

The heading "Equity" covers mainly the shareholding in Cedacri for €3.9 million with a participatory share equal to 1.05% and new equity holding in Satispay and Vivibanca.

The total value of the transaction in Satispay is equal to €2 million, equivalent to a market share of 1.7% of the share capital of the same: the acquisition took place with the purchase of 71,820 shares at a price of €27.82. The equity interest existing in ViviBanca as at 31/12/2018 is equal to 3.01% of its capital: the participatory investment was concluded through the purchase of 1 million shares at a price of €1.65 each, for a total amount of €1,650,000.

Banca Valsabbina will however in the early months of 2019 initiate the acquisition of a further stake in ViviBanca reaching a total contribution equivalent to about 8.3% of the share capital of the same. This portfolio also includes 2 insurance policies for capitalisation issued by two major operators.

Financial assets valued at fair value with impact on overall profitability

	31-12-2018	% on Portfolio	31-12-2017	% on Portfolio
Italian Government bonds (BTPS, CCTS)	185,029	72.39%	573,204	87.93%
Other bonds	90,892	20.14%	54,338	8.34%
Total bonds and government bonds	275,921	92.53%	627,542	96.26%
Equity securities	22,277	7.47%	24,380	3.74%
Total	298,198	100.00%	651,922	100.00%

In absolute terms the financial assets at fair value with impact on overall profitability were contracting in December 2018 by 54.25% vs. December 2017. This trend was determined mainly by the substantial disposal from the portfolio of Italian Government Bonds. In the course of the financial year 2018 newly acquired State securities were entered predominantly in the portfolio at amortised cost following procedures described later. In addition to state bonds, bonds issued by national and international, both financial and industrial, primary companies are included.

Distribution of debt securities per maturity				
Duration	31-12-2018	% On combination	31-12-2017	% On aggregation
Up to one year	3,285	8.57%	5,126	0.82%
from 1 to 2	73,229	24.56%	18,976	3.02%
from 2 to 3	91,311	30.62%	83,834	13.36%
From 3 to 5	63,445	21.28%	212,774	33.91%
From 5 to 10	42,949	14.40%	305,605	48.70%
more than 10	1,702	0.57%	1,227	0.20%
Total	275,921	100.00%	627,542	100.00%

The breakdown of the equity securities as at 31 December 2018 is shown in the following table.

Description	Value as at 31.- 2017	Purch ases	Sale	Gains- Losses	Change SE	Value as at 31.- 2018	No. of stocks or shares	%
(amounts in millions of euro)								Interest without
Banca d'Italia	15,000	-	-	-	-	15,000	600	0.20%
Arca Sgr Spa	8,307	-	-	-	(1,917)	6,390	755,442	1.51%
B.Pop. Cividale	1,014	-	-	-	(355)	659	84,500	0.50%
Luigi Luzzatti	-	170	-	-	-	170	17,000	9.58%
Union Fiduciaria SpA	28	-	-	-	-	28	4,320	0.40%
Consulting SpA	24	-	-	-	-	24	22,500	15.00%
Other	5	-	-	-	-	5	NS	NS
Total	24,378	170	-	-	(2,272)	22,277	-	-

During the year as shown in the previous table, was acquired a shareholding in the company "Luigi Luzzatti SpA.", formed by the cooperative of popular banks and having, as its name, the name of the founder of the co-operative popular movement. Through this corporate vehicle the National Association of Popular Banks intends to establish itself as a reference point in its sector for a whole series of project initiatives and activities that can promote the development of associates in the new market circumstances, and also to combine in facing the demands made by Supervisory Authorities by integrated management of a series of activities for efficiency and cost savings.

Financial assets valued at amortised cost - Debt securities

	31-12-2018	% on Portfolio	31-12-2017	% on Portfolio
Italian Government bonds (BTP, CCT)	877,098	98.11%	151,431	92.84%
Other bonds	16,896	1.89%	11,681	7.16%
Total bonds and government bonds	893,994	100.00%	163,112	100.00%

In absolute terms, financial assets valued at amortised cost - debt securities have markedly increased compared with December 2017 because during financial year 2018 newly purchased government bonds were classified predominantly in the portfolio at amortised cost.

The bond securities portfolio at the end of the year is made up of government bonds for 877 million - of which BTP amounted to 481.8 million and CCT to 395.2 million - and of corporate bonds for 17 million, with an average duration of 2.7 years versus 2 years the previous year.

In the Item Other Debt Securities are included debt securities issued by banks for €3.6 million.

Distribution of debt securities by maturity				
Term	31-12-2018	% On combination	31-12-2017	% On combination
Up to one year	-	-	-	0.00%
from 1 to 2	-	-	-	0.00%
from 2 to 3	249	0.03%	-	0.00%
From 3 to 5	146,864	16.43%	23,558	14.44%
From 5 to 10	741,242	82.91%	133,130	81.62%
More than 10	5,639	0.63%	6,424	3.94%
Total	893,994	100.00%	163,112	100.00%

Equity investments

Equity investments were registered for €1.251 million and comprise 9.8% of the capital of Polis Real Estate Funds of Banche Popolari SGR p.A. for €1.014 million and 100% of the subsidiary Valsabbina Real Estate Srl registered for €237 thousand.

For the capitalisation of the latter, the Bank paid in the year €470 thousand to the loss hedging fund. Because of its results, equity investments was therefore depreciated by €340 thousand.

Valsabbina Real Estate

On 31/12/2018, Valsabbina Real Estate closed its ninth financial year, in the course of which the company continued its institutional activities of participation in judicial auctions.

The number of auctions decreased with respect to 2017, falling from 13 to 3, as a result also of a changed disposal strategy by the NPL put in place during the year by the Parent Company. The experimental sales the company participated in in the course of the year all led to sales to third parties, always at higher values than the minimum intervention prices. The operations of Real Estate therefore became a stimulus for third party bidding because of the usefulness of having at disposal an operational instrument that can issue credits for mortgages through direct participation in auctions: This practice in fact facilitates conditions for transparent competitiveness throughout the relevant procedural steps.

As at 31 December, the company owned 30 buildings, of which 27 residential, a shop, a restaurant and a warehouse, an inventory recorded at €4.798 million, before expenses for acquisition, including tax. In the course of the year the disposal of real estate assets continued, also augmented through partnerships with some regional real estate agencies: 8 sales were concluded in respect of 9 assets representing overall net loss of €78 thousand, resulting from the difference between gains for €55 thousand and losses for €133 thousand.

Also during the year, the company acquired the ownership of 3 assets simultaneously through the issuance of transfer deeds by the Court of Brescia: these buildings were awarded in the course of 2017. Receivables from customers for sales are also entered assets for conditional sales for €171 thousand, receivables due from the tax authorities for €21 thousand and receivables from the parent company for consolidation tax for €160 thousand.

Recorded under liabilities is the debt to the bank for the credit line received of €4.843 million gross of interest for €66 thousand which will be debited in 2019, in addition to debts toward suppliers for €3 thousand and tax and social security debits for 12 thousand.

The production value amounted to €952 thousand, of which 941 thousand for sales and 11 thousand for other revenues.

The financial year 2018 closed with a loss of €342 thousand, as shown in the reclassified income statement below, compared with that of the previous year:

(Amounts in thousands of euro)	31-12-2018	31-12-2017
Production value	952	1,157
Purchase of services	(135)	(120)
Costs for use of third-party goods	(3)	(3)
Miscellaneous operating costs	(61)	(33)
Difference between costs for real estate purchases and the	(1,100)	(1,283)
Total Net of Interest and Tax	(347)	(282)
Interest expense	(66)	(69)
Tax	71	60
Loss	(342)	(291)

The capital subscribed and paid, amounted to €100 thousand and, as said, is wholly owned by Banca Valsabbina SCPA

Net assets, including the loss for the financial year amounted to €242 thousand. In the course of the year the parent company Bank has made 2 payments into the capital account and to cover losses for a total of €470 thousand.

The financial statements as at 31/12/2018 - with existing assumptions - is drawn up in abridged form in terms of Article 2435-bis of the Italian Civil Code; the consolidated financial statements were not drawn up due to the low significance and size of the values of the subsidiary as opposed to those of

the Parent Company, Banca Valsabbina, as is clear from the "Framework for the preparation and presentation of the financial statements" (so-called Framework), which constitutes the conceptual model on the basis of IAS principles. The total result for the financial statements of the company (€5.153 million) is also lower than the limits envisaged by the Supervisory instructions for reporting on a consolidated basis (balance sheet surplus less than €10 million).

11. CORPORATE STRATEGIES

Corporate Strategies for the year 2018, set out in the guidelines of the Strategic Plan 2017-2019, were focused primarily on issues of major current and future developments: from the improvement of credit quality - for which a specific multiannual plan was drafted for the management of non-performing loans - to the overall increased effectiveness of commercial action and resultant impacts on profitability. In the light of the contents of the NPL Plan, the Bank also updated the resulting economic-financial forecasts overall by adopting a series of additional actions up to 2021 called from the beginning the Strategic Business Plan.

Below are some aspects of in-depth information on these topics.

Credit quality improvement

The Bank some time ago began a series of initiatives aimed at improving the quality of credit. In particular, the technical procedures used were those for the divestment of bad debts, the outsourcing of activities for recovery of bad debts of lesser amounts, interventions in auctions, disposals in real estate funds as well as phone collection programmes for performing loans.

With the publication of "Guidelines for smaller banks in Italy for the management of impaired loans", the Banca d'Italia requested the supervised banks to adopt a formalised strategy aimed at optimising the management of impaired loans (Non-performing loans N.P.L.), maximising the actual value of recoveries and the effectiveness of measures for granting loans, by intervening for the classification of debts in order to ensure a proper identification and delineation of risks and formalising policies for the evaluation of credits and guarantees as comprehensively as possible, ensuring the consistency of the criteria applied.

In implementing these guidelines, in the month of September 2018 Banca Valsabbina submitted to the Supervisory Organ its non-performing loan plan (Piano NPL), for temporary application 2018-2021, setting out the underlying programme aimed at achieving targets in the reduction of impaired loans. The Plan, as set out, provides for a reduction in the order of 312 million Gross NPL (about 53% less with respect to the stock of 2017) over the four year period 2018-2021, leveraging on the strengthening of the model of internal management and on a plane of disposals of bad debts for about €260 million gross.

As a result of said activity, the indicator NPL ratio gross is expected at the percentage value of 8.5% in 2021 (with a reduction of almost 10 percentage points compared to 2017), following a reduction in the Gross NPL from 593 to 281 million. The Plan also provides for a reform of the NPL portfolio during its validity with a reduction in the size of the unsecured component (mostly covered) by 50% of the 2017 figure to 30% in 2021, accompanied by a decrease in the incidence of bad debts from 70% to 50%, mainly due to the effect of the aforementioned provisions.

The main actions identified in the NPL Plan for the achievement of the objectives of restricting impaired loans will take form partially in the revision of the management model, providing for separate management and more specialised personnel for reforming the portfolio and to improve efficiency in recovery. The warning system (Early Warning) will also be reinforced through the rationalisation of key indicators, in order proactively to be alerted to performing loans at higher risk. Programmes for the disposal of bad debts will round off the Plan as well as full outsourcing business for impairments, and also the commencement of phone-collection initiatives for irregular performing loans.

In summary, the Plan provides for a significant reduction of NPL currently in the portfolio, assisted by consistent performance programs to be carried out both through the activation of more focused internal recovery policies and through a flexible plan for disposals. The Plan provides for parallel structural measures to be applied during the different procedures for granting credit: from the phase of inquiries to that of the management and monitoring right up to appropriate remediation and adjustment for loans showing problematic aspects.

Increase in commercial effectiveness and related impacts on profitability

The main factors which in the course of 2018 contributed to the achievement of significant economic results by the Bank are attributable to the reinforcement/rationalisation of network planning, implementing planning recorded in the business plan; to restricting the collection costs; to growth of lending, also by means of the purchase of the credits offered to enterprises by the public administration and the granting of new loans with guarantee 662; to the increase in net commissions.

Accurate analyses have also been made so as to initiate updated trade policies, as described analytically in the relevant paragraph of this report.

A targeted action of reinforcing and streamlining the regional network continued, since it is believed that physical presence in the operational areas, also with measures promoting efficiency and cost restriction, still make up the essential means of optimising the way for offering products, services and consulting activities for customers.

Significant increases in the number of business reports were observed, as well as an expansion of the assets administered both on the asset and the liability side of the balance sheet.

More careful selection was made in the structure of instruments used (products, durations, yields) to produce a better balance between performing assets and onerous debts.

Concerning loans, techniques were promoted to ensure their states of liquidity or being under state guarantees. Also recent financing arrangements such as those for consumer credit and salary-backed loans through agreements with third parties were encouraged, a way of allowing the bank to give customers financial support for the purchase of durable goods.

In light of this twofold action, the results of financial intermediation itself proved satisfactory in the course of the financial year, although unstable rates prevailed.

A net improvement in net commission levels is to be noted which will play an increasingly important role in contributing to companies' income statements for credit providers in the coming years.

In conjunction with this it can be stated that initiating strategies for management and commercial operations will attain full effect in future years, being an essential element in ensuring the Bank's sound and profitable role in this specific market.

Business Strategies for the medium term

In light of the NPL Plan referred to above and related economic impacts assessments the Bank started and completed the task of updating the economic-financial forecasts in its own strategic plan up to 31/12/2021, and refined it in accordance with market trends, but following the same approach as the previous plan which give Valsabbina, the only popular bank of the Lombardy region, the responsibility of better interpreting the cooperative model, by opening up the opportunity to apply efficiently and timeously development policies for the changing needs of its customers.

The reduction of the level of exposure to credit risk, previously described, represents one of the fundamental components for the success of the new Strategic Plan, an action that is accompanied by other strategic initiatives intended to have a positive effect on the aggregate balance sheet and on profit. In particular, the Bank intends to achieve the results summarised below.

Commercial effectiveness

The bank intends to continue its consolidation policy of being present in the historical areas and qualitative/quantitative development in those regions served by new branches, so as to reach important goals of attracting new customers, assets and profit, with the aim of fully integrating new branches its distribution network. The ensemble will bring about cost restrictions by rationalising its use of resources, together with the reinforcing of central staff structures, rather than deploying them to new branches. In order to improve trading effectiveness increased attention will be given to the management of savings and to further developments in services of the bank - insurance. The enhancement of offers of products and investment services, supported also by the dedicated team of private bankers, will ensure growth in the commissions business. As regards the commissions margin, a significant contribution will be provided by the distribution of the consumer credit products (personal loans with Cofidis, CQS and TFS with Vivibanca) and from Bancassicurazione, thanks also to a new commercial agreement for "corporate" policies.

Evolution of deposits

The deposit policy will comply with criteria of prudent management of liquidity risk, through a consolidation of the component for sight deposits and specific actions in the network aimed at transforming debenture loans and maturing time-deposit into new time-deposits. For this the use of online platforms to increase deposits is proposed, as well as the launch of the online deposit account "Conto Twist" from 2019, practical for attracting new customers throughout Italy. The Bank also intend promoting deposits through the issuance of bonds and subordinated bond loans also with innovative solutions such as those using the basket bond mechanism. A "repricing" of the component of unsecured loans and mortgages will be promoted, to further align the Bank with the average profitability in the market, since the Institute to date has imposed the lowest rates compared to its main competitors. In addition to this aspect, an increase in loan assets concomitant with an improvement in market rates will rebalance the profitability of the aggregate. In this context, the Bank will fill the funding gap through funding through interbank channels mainly availing itself of the funding provided by New Mic at increasing rates during the time period of the plan. As regards financing transactions with the ECB (TLTRO), currently maturing these will be replaced by other auctions, as well as with the issue of repos of longer periods of maturing. In order to preserve the soundness of structural liquidity the placement on the market of ABS securities deriving from the operations of auto-securitisation currently in place, will be evaluated. The Bank then envisages actions to increase the volumes of indirect deposits, answering thus families' demands, increasingly oriented to tools that allow greater diversification of sources of investment and of risk profile, with particular focus on products of mutual funds and insurance.

Evolution of loans

The process of granting of credit would not be possible without particular attention being paid to the quality of the target customers that will continue to be families and small- and medium-sized enterprises. The increase of assets will be pursued with the aim of spreading risk in terms of individual counterparties, of sector and of geographical area; the policy of developing the channel for financial assistance from the Medio-Credito Centrale and from the European Investment Fund especially in regard to businesses as well as that of home loans for families. In order to further assist corporate customers, the Bank is committing itself in the field of investment banking, mainly through the purchase of Minibond, but also by developing new services such as support in securitisation transactions and assistance to small and medium-sized enterprises (SMES) in the capital market. Operations for purchase of credits of enterprises to the Public Administration will be pursued.

Evolution of the statements of assets and liabilities and income statement

Concerning the statements of assets and liabilities, the Bank expects to achieve, in the period defined in the Strategic Plan, balanced growth. This objective will be attained mainly through the growth of

lending, including unsecured loans, securities from securitisation and minibonds. As regards liabilities, the growth is mainly driven by customer deposits, which results in a lesser recourse to bond loans by the conversion of securities maturing in time-deposit. From an economic point of view, the Bank foresees, finally, increasing growth; growth will be sustained by an increase of marginality in intermediation activities that compensates for the increase in operating costs, which are necessary for the development of the business.

In summary, from the effectiveness of the plan will dictate the Bank's ability to continue to perform its function of assistance and support for the regional economy where it operates. The achievement of these objectives is, therefore, the main commitment of the Board of Directors for the foreseeable future.

12. THE INTERNAL AUDIT SYSTEM

The internal control system is the set of rules, procedures and business functions to achieve effectiveness and efficiency in business procedures, ensure the reliability and integrity of accounting and operational information, ensure regulatory compliance and risk management.

The system of internal controls is the Bank's main internal support system for identify the source and the significance of the risks to which the same is exposed in the development of its business (e.g. credit risk, reputational damage and penalties, money-laundering, etc.), to assess the adequacy and effectiveness of the rules adopted for reducing/restricting their impact, measure the level of risk that cannot be mitigated.

The system of controls can also be considered as the "critical conscience" of the Bank, which constrains it to lessen shortcomings and to implement the remedial measures. The fundamental prerequisite for the proper operation of the system of internal controls is in fact governed by the ethics and the legality of the behaviour of the individual and of the Bank in its entirety, embodied in the concepts of correctness, transparency, diligence and discretion, on which the confidence of customers is based. The effectiveness of the system depends, therefore, on the adherence to the Bank's values which must be constantly engaged in inculcating in each employee and collaborator awareness of their role, their motivation in their work and a sense of belonging.

Also, during 2018, the Bank continued its activities to raise staff awareness in identifying more effectively the risks to which it is exposed, especially in customer relations. In this context, the ability of staff in direct contact with the clients to shape a whole client economic profile, client assets and income, customer profile, so as to analyse his/her needs, promote the solutions proposed by the Bank, measure the risk exposure, is highly relevant. The questionnaires through which the Bank acquires information from the customer (from adequate verification at the time and in the course of the relationship, to the questionnaire for profiling tolerance to financial risk, to the flow of information for assessment of creditworthiness) are - ideally - an integrated system on which the Bank must draw to measure its proposals and its controls, following a risk-based approach.

The reference scope of the system of controls in the Banca Valsabbina S.C. S.p.A., structured on three levels, is constituted by the parent company and the subsidiary Valsabbina Real Estate S.r.l., a company active in the real estate sector.

The first level comprises the checks delegated to the operational structures of branch, or headquarters, aimed at ensuring the proper conduct of banking transactions. Typically, at the first level there are rules that allow the identification of anomalies at the same moment in which they occur. The checks delegated to the structures of the network are also aimed at ensuring the proper conduct of operations for offering banking and financial services, payment and investment. The first control level also includes so-called "Second instance" oversight, aimed at ensuring that the operational flow for the provision of individual services is properly carried out and the supporting documentation is properly signed, collected and archived.

The second-level checks have the objective of ensuring and verifying the proper implementation of the risk management process, respecting the limits assigned to the various functions and conformity to operational business rules, including those of self-regulation. The aforesaid second-level checks, specified for risk case by case, are broken down into the following dedicated business functions:

- The department for conformity to standards (known as the Compliance Department), which has the task of preventing any risks arising from breaches of standards both internal and external. Compliance also performs an important function in assisting in the interpretive phase prior of the adjustment of the internal regulations to new legislation;
- The department of risk control (called Service Risk Management), which collaborates in framing and monitoring of Risk Appetite Framework (RAF), interpreting the policies of the government on the risks and on the various phases constituting the relative process management, as well as in the determination of the limits to assumption of the various types of risk. The department is also involved in the internal processes for the determination of capital adequacy (ICAAP) and of the adequacy of the system of regulating and managing liquidity risk (ILAAP). The department is lastly involved in the drafting of the recovery plan, as required by European Regulation No. 2016/1075, which provides the process of detecting any possible corporate crisis situations, as well as the related administrative actions aimed at redressing the economic and financial situation;
- The department responsible for preventing reputational risk and penalties for the involvement, even unknowingly, in money-laundering and the financing of international terrorism (called anti-money laundering service), has the task of instituting suitable rules for the mitigation of the risks described above and monitoring the proper use under operating guidelines. The person responsible for the anti-money laundering service is also allocated the position of "Delegate pursuant to Article 36 of Legislative Decree No. 231/2007" in relation to reports of suspicious transactions as well as responsible for overall signalling of anti-money-laundering (S.AR.a.).

The Bank has provided, moreover, for the appointment of a Data Protection Officer, called on to oversee the risk of breach of the provisions of Regulation (EU) 2016/679 concerning the protection of individuals regarding the processing of personal data. The Data Protection Officer provides advice on the obligations arising from the Regulation and supervises the observance of its provisions.

Lastly, the third level checks are entrusted to the internal audit department (i.e. Audit Department), which carries out the task of controlling the proper performance of the operation and of the occurrence of risks and of assessing the completeness, suitability, functionality and reliability of the components of the system of internal controls.

During 2018, the aforementioned second and third level control departments undertook the examination - on the basis of the Board of Directors work plan previously assigned to them – of the adequacy of internal rules for the mitigation of risks in their fields of competence. Special attention was paid to checking on the proper reaction of the Bank's organisational and procedural structures to the recommendations following the investigations of the Banca d'Italia held from 23/10/2017 to 17/01/2018, also following the undertakings given in Banca Valsabbina's subsequent response sent on 16/03/2018.

In examining the activities of the second and third level control departments in 2018, it should be noted that no notable weaknesses or dysfunctions came to light.

The activity of the Compliance Department focused particularly on overseeing the risk of non-compliance in regard to investment services and banking services.

The activities of the Risk Management Department will be expanded on the next chapter concerning risk management, to which reference may be made.

As regards the operation of the anti-money-laundering service, required to prevent the risk of the Bank's involvement in cases of money-laundering and/or financing of international terrorism, the latter has focused its attention on implementing the supervisory provisions for suitable checks on customers and has started adapting internal rules to the provisions of Legislative Decree No. 90 dated 25 May 2017, which subsumes Directive (EU) 2015/849 (also known as IV Anti-Money Laundering Directive). A constant effort was made to promote awareness in the network of the use of techniques for money laundering and financing of terrorism, also to assisting in deploying the Bank's training plans for employees.

As far as the programme set out in the annual and multi-year plans is concerned, Internal Audit proceeded in 2018 to carry out a broad monitoring schedule, both for distance checks and at the various operational units to examine the main centralised operation and the effectiveness of the sales network. Continuing the activities of previous years, the monitoring of central functions concentrated chiefly on credit risk, on the administrative sector, on the Commercial Sector, the Financial Sector, which opened the way for verification initiatives in specific operational procedures. Line functions controls were monitored, which are continually carried out on the statutory set-up and on new operating procedures.

The results of the checks on the second and third level control departments - which report directly to corporate bodies - have been examined in depth together with the internal structures concerned and were submitted to the Directorate General and the Board of Statutory Auditors and were reported together to the Board of Directors in terms of current regulations for information flows.

The Board of Directors in March 2019 approved the monitoring plan proposed by the corporate control departments for the new financial year.

As regards the verification activities carried out by the Supervisory Body established pursuant to Article 6 of Legislative Decree. 231/2001, reference is made to a paragraph below titled "Oversight Board pursuant to Legislative Decree 231/2001;

In order to reinforce the effectiveness of the system in 2018, joint meetings between the Board of Statutory Auditors and Managers of the control departments were held more often to promote discussion opportunities to put a spotlight on problem areas and recommendations for improvement and remedial action. The assignment to the Board of Statutory Auditors of responsibility of the Oversight Board in terms of Act No. 231/01, since November 2017, is intended also to ensure overall better risk assessment as regards to the control activities undertaken by the Oversight Board reference is made to the chapter below concerning these activities.

13. THE RISK MANAGEMENT SYSTEM

Under the risk management system the Board of Directors lays down the Institute's business model by approving the company's strategic plan and the annual budget, in order to have a full appreciation of the risks to which the Bank is potentially exposed and an understanding of the ways in which risks are identified and assessed.

The Institute is therefore engaged in a constant process of enhancing its management capacities, monitoring and measuring corporate risks, in accordance with the business model's development strategies and in taking appropriate account of trends in the market of reference, as well as of updating adjustments to the regulatory framework, and adopting best practices in the field.

The risk management system records the requirements for the supervisory provisions for banks, envisaged in Banca d'Italia's Circular 285/2013 and comprises a set of rules, procedures, resources, and processes designed to identify, measure, monitor and control risks assumed or assumable.

The supervisory provisions thus affirms itself as the system of internal controls that has to ensure the implementation of strategies and business policies, to restrict risks under the scheme for determining the Bank's Risk Appetite Framework or RAF).

The Risk Appetite Framework, or system of risk objectives, is the reference framework which defines - in accordance with the maximum risk it may assume, its business model and its strategic approach - the propensity to risk, the tolerance threshold the risk limits, government policies on risks and the guideline processes needed to define and implement them.

The document which lays down the Bank's Risk Appetite Framework was initially adopted in June 2014 setting out the template for the quantification of the Institute's risk position, the objectives in terms of the risk profile desired (appetite for risk), the risk tolerance (understood as a total deviation from the objectives set) and the operational limits constantly to be monitored for each case of risk. The RAF is revised annually in order to take account of the expected trends of the risk assumed concomitant with the provisions of the Strategic Plan, set out and updated during the budgeting process.

In accordance with Directive 2014/59/EU Bank Recovery Resolution Directive (BRRD), the Bank also has adopted in terms its framework of risk management and control, a remedy plan. This document, prepared in 2017 and updated in 2018, is the instrument for contending promptly and effectively with crisis situations, as well as adopting measures to restore the Bank's economic and asset equilibrium. The action plan sets out the warnings to monitor, during the regular analysis of its position respecting risks assumed, of the early detection of crisis situations as well as strategies and actions to be taken to avoid any problems occurring.

The system of risk management, as provided for by supervisory legislation, comprises the 'three pillars' introduced by the Basel Committee.

The "First Pillar" calls on banks to hold capital requirements specifically to cope with the typical banking and financing activity risks o (credit, counterpart, market and operational). To measure these risks alternative methodologies, exist for calculating at different levels of complexity of the measurement and control, which are adopted in accordance with the "principle of proportionality".

The "Second Pillar" requires banks to adopt a strategy and a process to control the adequacy of the current and potential financial asset situation (Internal Capital Adequacy Assessment Process - ICAAP), as well as a system of rules for and of management of liquidity risk (Internal Liquidity Adequacy Assessment Process - ILAAP). This process is drawn up annually in a special document, the "ICAAP Report - ILAAP", in which it independently provides an accurate identification of the risk to which the bank is exposed in its own operations, of strategies adopted and of the reference markets, also specifies potential stress scenarios. In such a document in addition to the risks of first pillar and liquidity risk, also other risks relevant to the Bank's size and operation should be taken into consideration.

The Supervisory Authorities have then the task in the so-called "SREP Process" (Supervisory Review and Evaluation Process) to verify the reliability and the consistency of the results of the processes adopted by the Bank to formulate an overall assessment on this financial intermediary taking, if the situation so requires, the necessary corrective measures.

The "Third Pillar" introduces the obligation of providing information to the public and the rules for the dissemination of transparent and standardised information to the market concerning the capital adequacy, exposure to risks and to the general outline of the systems for the identification, measurement and management of these risks.

The structuring of the process of risk management and control requires prompt reporting and constant measurement of risk assumed and reporting of the activities carried out to the corporate structures, ensuring the constant monitoring of the risks assumed and the evaluation of the compliance with the objectives set.

We draw attention below, albeit briefly, to the measurement processes, management and mitigation of the different types of risk identified as relevant in respect to the business model adopted and to the current operation of the Institute. In section E and of the explanatory notes to the accounts, "Information on risks and related risk management policies", further qualitative and quantitative

information risks is provided, while in the section F, "Information on the Equity" detailed information relating to own funds is given.

Credit risk

The recent updating of the strategic plan reiterated that the business model adopted by the Institute is primarily focused on brokering traditional credit, therefore the analysis of risk connected to the granting of credit remains of full importance.

Credit risk analysis is aimed at assessing the capacity of the Bank to properly choose trustworthy customers and economic initiatives, as well as ensuring effectiveness of management processes performance monitoring and checking the performance of counterparties already in receipt of loans. The Board of Directors lays down credit policies to protect the quality of loans, both at the initial stage of relations and in the subsequent management of the relationship, taking into due consideration the economic and financial soundness of the Bank and trends in the reference sector.

In particular, the credit policies set out the Institute's strategic approach in accord with the established level of risk propensity and the related objectives and risk limits system laid down in the RAF.

The Bank's business model is primarily oriented towards supporting local economies, families, entrepreneurs, professionals and small-medium-sized enterprises.

Particular attention to the maintenance of relations with the customer and his/her development, is a point of strength for the Bank since it ensures continuity in the relationship and in customer support, warranting long-term relations.

Policies of recent years have had as dominant strategic orientation the obtaining of a reasonable return on the risk assumed through a suitable valuation of creditworthiness, a spread and diversification of counterparties and the requirement of eligible collateral.

Preliminary inquiries and provision of credit, both initially at the stage of review at subsequent renewal of loans, is of fundamental importance in assuming the credit risk and are implemented using a computerised procedure that enables in a systematic manner the collection of a dossier of information from inside and outside the Institute to make a full and thorough analysis the customer. The assessment takes into account therefore both quantitative and qualitative information, investigations aimed at understanding the quality of the projects to be financed also in terms of the future to enable the persons responsible to consider suitable loans, and the amount involved under prevailing economic conditions, in full accord with the relevant internal regulatory framework.

The phase thereafter of performance control, monitoring and classification of exposures, is intended to ensure prompt interventions in the event of defaults or deterioration of the loans. These activities follow the pattern of the credit management process, which provides for the allocation of specific tasks on the basis of the types of anomalies and classifications allocated to individual loans, ensuring an adequate and systematic process of credit monitoring, with particular reference to impaired loans.

For the prompt and continuous analysis and monitoring of credit risk, the Bank also uses a management system for internal use, called "Credit Rating System - CRS" which classifies customers on the basis of the creditworthiness, through a scoring system. The system consists of a statistical type of template for measuring the risk of insolvency which, through an appropriate customer spread, an analysis of the economic markers of the financial counterpart, of the way the relationship with the Bank develops, as well as relationship with other Institutes (Central Risks), allows an estimation of the probability of default (PD - Probability of Default) of the customer with the consequent assignment of a rating class.

Following the entry into force of IFRS 9 both the method of classification of performing positions, and the mode of determining their expected loss have changed.

In particular, performing loans are divided between credit included in stage 1, for which no particular increases in credit risk cannot be detected and credit included in stage 2, in which significant deterioration of creditworthiness can be distinguished. The latter in particular is identified on the basis

of specific criteria adopted by the Institute, including the significant worsening in the rating class assigned in the CRS model.

With reference to the calculation of the expected loss for performing positions, the methodology introduced by the new principle requires evaluation of the depreciation by taking also into consideration the impact of macroeconomic trends in a *forward looking* analysis

Specifically the determination of expected loss is calculated by confining the probability of default over a year for loans in stage 1, whereas the entire residual life of credit for loans in stage 2, thus substantially more risky.

The task of monitoring receivables is also aided by the use of the app "Quality Credit Management" that allows rapid identification of counterparties with faults and the division of customers into sub-portfolios for monitoring according to the operating rules set up by the Bank and individualising the remedy sought, for the actors involved and possible actions to be undertaken, and listing the recovery activities carried out.

With the aim of reducing assumption of credit risk, the Bank shall evaluate and select the guarantees both immobile and personal to be required by customers getting loans, ensuring a constant monitoring of the value thereof.

The Institute uses, in particular, the "Collateral" procedure in order to have a system for the management and monitoring mortgage guarantees and for checking the relevant general and specific eligibility conditions to ensure a lower asset absorption for credit risk. This procedure also allows a process of statistical updating of real estate values to be employed, which is a protection for the residual risk, which consists in the risk of obtaining through sale in execution a lower amount than that expected.

The process of monitoring receivables is entrusted respectively to the "Performance Monitoring Service", which manages performing loans presenting anomalies and to the "Pre-litigation service", which deals rather with loans classified under overdue payments and probability of defaults.

The activity of management of credits classified as impaired is instead undertaken the Legal and Litigation Service which employs external professionals.

In light of the adoption in January 2018 by the Banca d'Italia of "Guidelines for Smaller Italian Banks in the management of impaired loans", the Bank has carried out specific project activities to strengthen and implement further its *framework* of own internal control of credit risk.

During 2018 the Bank established the Division for non-performing Loans to include under it the Performance Monitoring services, Pre-litigation and the Legal and Litigation services.

In addition, the loan recovery process has been further implemented, through revision of the organizational model below, as well as by laying down the operational plan for the management of non-performing loans (NPL Plan). In particular, the plan, transmitted to the Supervisory Authority, sets out, for the period 2018 - 2021, the reduction objectives for impaired loans and the related recovery strategies. There is a regular monitoring of the objectives of the plan and an annual updating thereof. The drafting of the NPL plan has as its main objective the improvement of the effectiveness and efficiency of the process of recovery and management of *non-performing loans*, also the progressive reduction and disposal of the current stock.

In terms of absorption of capital and for the purposes of the determination of capital requirements, the credit risk is for the Bank is the most important risk due to the high incidence of loans to customers compared to total assets.

The Bank measures the capital requirement for credit risk using the standardized methodology prescribed by the supervisory provisions, which provides for the application of different weighting ratios of the credits in the portfolio depending on the category of the borrower, the creditworthiness and the type of guarantees given.

Specific structures of credit risk are also constituted by the concentration o single borrowers and from the risk of concentration of counterparts belonging to the same economic sector or to the same geographical area (geo-sectoral concentration).

The risk of concentration of single borrowers is monitored by examining by specific means exposure of significant amounts for individual counterparties and juridically and/or economically linked, while the measurement of risk, for the purposes of the assessment of capital adequacy, is made by using for the entire loan portfolio a model based on the Herfindahl index, in accordance with supervisory provisions.

The assessment of the risk of geo-sectoral concentration is made by categorising the loan portfolio by economic activity sectors and their geographical areas of borrower origin. The Bank, for the purposes of the assessment of capital adequacy, uses the defined methodology and proposal by the ABI.

The measurement and monitoring operations shall be carried out periodically in order to restrict the degree of concentration to thresholds consistent with the RAF and with the credit policy and are designed to ensure an adequate diversification of risk.

The Bank in assessing capital adequacy uses, both for credit risk for both the concentration, the procedure called CCM (Credit Capital Management), to integrate the data relating to the calculation of the solvency requirements (first pillar), measured using the special app programme SDB Matrix. The CCM app is also used for functional activities in the process of prudential control (second pillar) and for the issue of reports to the disclosures to the public (third pillar).

Market risk

Investment in securities activity is carried out in accordance with the business models defined by the Board of Directors, which set out down the manner in which the Bank manages its portfolio securities in order to generate cash flows.

The activity of investment in securities is carried out alternately considering only collection of cash flows of the contract, in line with the "held to collect" (HTC) business model, or in a jointly to collect contractual flows and possible realisation of capital gains deriving from the sale, in line with the "held to collect and sell" business model. The Bank does not hold financial instruments with the purpose of trading.

The Bank has developed methodologies for the detection of market risks that comprise price risk, interest-rate and currency risks consistent with the strategies and with the characteristics of financial assets held.

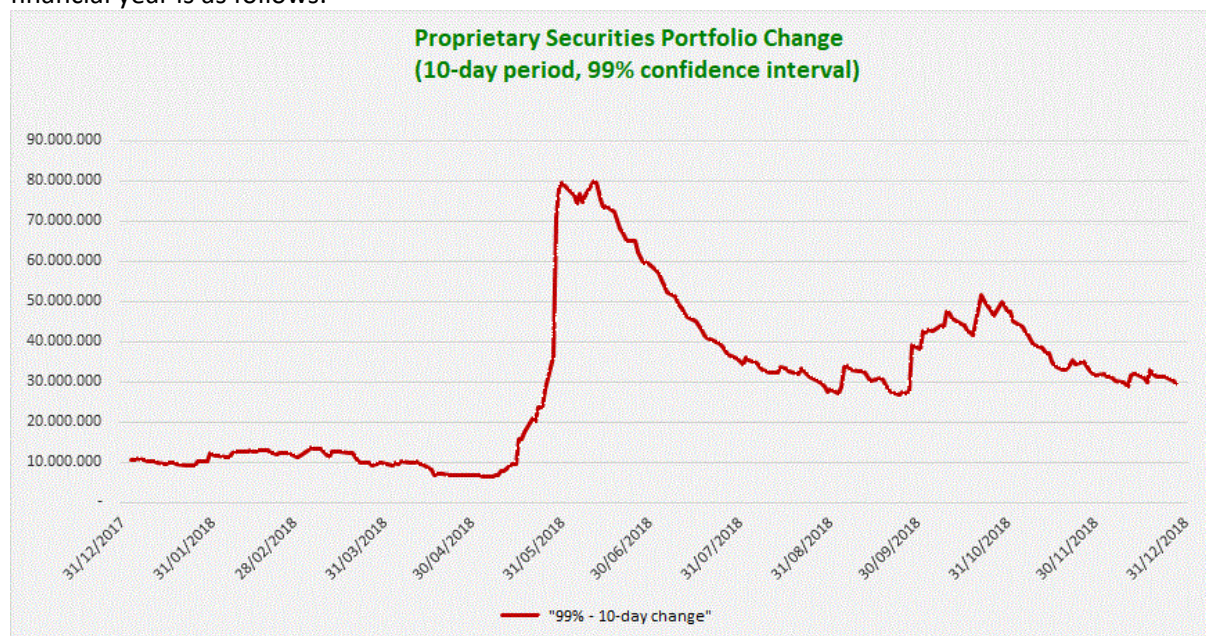
The investment choices were predominantly oriented to the bond market for securities issued by the Italian State (BTP AND CCTS). In addition, with the aim of diversifying risk and to increase investment opportunities in sectors of particular specialization, specific agreements have been entered into with two important operators of managed savings for investment mainly in corporate bonds, and to a lesser extent in the shares in CIUs securities and in equities. The portfolio entrusted to management amounted to 31 December 2018 to 113 million euros, of which 91 million euros were invested in corporate bonds and euro 22 million shares of CIUs and shares.

For evaluating price risk on the securities portfolio a management model based on the Value at Risk (Value at Risk - VaR) is used, capable of expressing briefly and in monetary terms the maximum loss likely a static portfolio, with reference to a specific time horizon and to a specific level of confidence.

For the calculation of the V.a.R. Service Risk Management Planning & Control uses ERMAS application is used. The financial information necessary for the determination of the V.a.R. (Volatility, correlations, structure of long-term interest rates, exchange rates, equity indices and benchmark indices) are provided by the product Risk Size. The V.a.R. model adopted is a parametric type, and uses a confidence interval of 99 % and a time horizon equal to 10 days. The V.a.R. is calculated on a daily basis

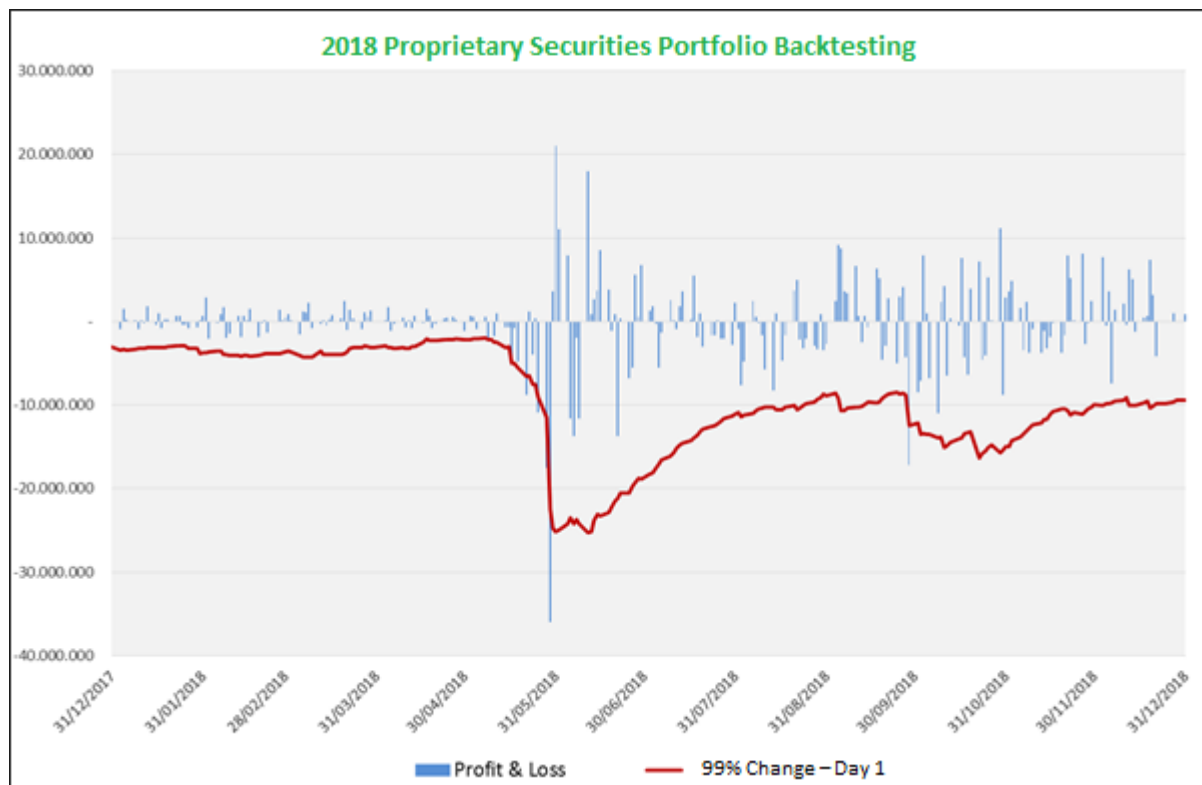
both on the securities portfolio managed directly by the Bank, and on the portfolio entrusted to external managers.

The of V.a.R. trend of the bond portfolio of the Bank managed internally during the course of the financial year is as follows:

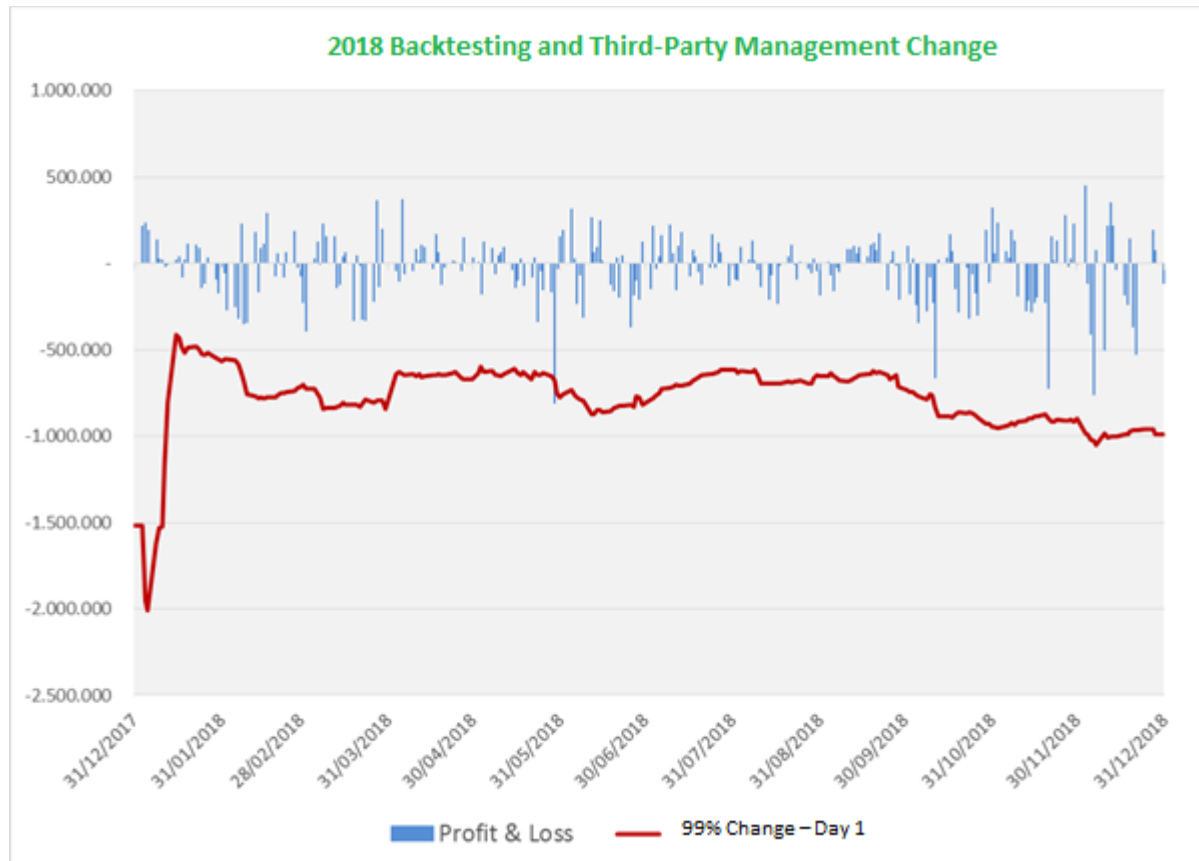


The v.a.R. trend, from the time that the securities portfolio is mainly composed of Italian government bonds, is aligned to the oscillations and the volatility registered on the relevant markets and the investment choices made in the period. In particular, the deepening crisis in Italian politics starting from the end of the month of May also coincided with the increase of the riskiness perceived on the markets, generating a significant increase of the V.a.R. Portfolio. A gradual reduction of the indicator is then recorded, although separated by a period of growth in the months of September and October as a result of political tensions noted. The measurement at the end of the year, an increase compared to the beginning of the year, is therefore as a result both of economic policy as well as interventions concerning the consistency of the portfolio.

From the daily analysis of "backtesting" carried out in 2018, as can be seen from the graph, the v.a.R. was exceeded in 6 instances, concentrated mainly in the month of May.



In order to monitor the risk profile of the portfolio entrusted to external managers, procedures to calculate the daily V.a.R. were also conducted on this portfolio, subjecting it to the relative backtesting. The illustration shows the V.a.R trend of the. for 1 day and the analysis of backtesting; the latter in particular has shown a single case of exceeding the V.a.R. confirming the reliability of the measurement.



Generally the securities portfolio of the Bank at the end of the year had a duration equal to 2.83 years.

Operational risk

Operational risk is the risk of suffering losses deriving from the inadequacy of or malfunctions of processes, human resources and internal systems, or from external events.

The Bank provides for a determination of the capital requirement for operational risk using the B.I.A. method - Basic Indicator Approach -, according to which the capital to cover this type of risk is equal to 15 % of the average of the "relevant indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the RRC.

Oversight of operational risk is the subject of constant attention, both in different phases of the processes and operational procedures, within the framework of periodic checks on the adequacy of the system of controls.

Primary oversight of operational risk is constituted by the internal regulatory framework adopted by the Bank and with the function to direct the behaviours and the execution of the processes.

The Bank has defined a set of organizational processes for oversight and management of instances of operational risk, within the framework in which it operates - together with the Risk Management

function - of the Internal Audit function, of Compliance and of the Supervisory Body established pursuant to Legislative Decree No. No. 231/2001. In order to contain the negative consequences in economic and reputational terms, arising from the event of the operational risk, the Bank has also adopted a business continuity plan, aimed at protecting the Institution in the event of critical events that may affect full operability and has also performed mapping of the main operational processes.

For the purposes of improving the management process for operational risk the Bank has subsequently adopted an integrated system of detection, assessment, monitoring, mitigation and control of the risks themselves. In this respect a system for collecting and storing data related to events and operating losses has been put in place, which allows the creation of an historical database. In support of this system the LDC procedure (LDC Loss Data Collection) was adopted, which allows collection of data relating to the specific case classifying them according to the norms provided for by law. The various events that result in operating losses allows the Bank to identify such events or negative behaviours, thus favouring the appropriate corrective action.

In order to integrate the operation already carried out ex post with the collection of data on operating losses, the Bank has implemented a self-assessment process function to estimate in a prospective sense, its exposure to operational risk ("Risk Self-Assessment"). In particular it relates to a process of self-detection which aims to assess the degree of risk exposure by a combination of opinions expressed in terms of impact, probability of occurrence and effectiveness of controls.

In the context of operational risk IT risk is also monitored, ensuring in particular the reliability and security of business information and IT procedures. The Bank has formalized Methodology for the analysis and treatment of IT risk" on the basis of which a "Synthesis Report on the situation of the computerised risk" is periodically prepared. In particular, "critical" processes are reported, IT risks and operational continuity risks related thereto are identified, the "Plan of emergency management and operational continuity" are updated accordingly. The annual update of the analysis is also conducted on the basis of the specific evaluations undertaken by the IT outsourcer. The outcome of the evaluation for 2018 has confirmed a low risk exposure, commensurate with the degree of risk propensity of the Bank.

Interest Rate Risk

Interest rate risk, such as the risk of incurring losses due to an unfavourable trend in market rates of interest and its impact on the economic situation of the capital of the Bank, is generated by an imbalance between the deadlines (re-pricing) of assets and liability items recorded in the banking book, which show all financial assets and liabilities not included in the trading book for the purposes of the supervisory regulations.

In particular, from an economic point of view, variations in interest rates have an effect on net interest income and on the level of other costs and operating revenues which are sensitive to rates. From an equity point of view, rate changes affect the underlying value of assets, liabilities and off-balance sheet entries, because the present value of the future cash flows varies with interest rates.

The mitigation of interest rate risk therefore takes place via integrated management of banking assets and liabilities, aimed at stabilizing the interest margin and to safeguard the economic value of the banking book.

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

Measurement of interest rate risk on the second pillar takes place in the first place on the basis of the standard algorithm provided by Banca d'Italia Circular No. 285 of 2013, by means of the processing of an synthetic analytical index that expresses the ratio between the variation of the net value of the banking portfolio in the event of an interest rate shock (200 basis points) and "own funds". The Bank has always maintained its risk index at a lower level than the cautionary threshold fixed by legislation

(20%). The variation in the economic value of the banking portfolio against displacements not parallel yield curve is also calculated.

The regulatory measure is also integrated with an operational analysis occurring monthly, where for each sensitive entry, identified in the time horizon chosen for analysis, specific modalities of re-pricing shall be taken into account.

The ERMAS procedure allows monitoring of all activities of the bank connected with the transformation of the maturities of assets and liabilities and to quantify the assets and economic type of effects induced by hypothetical shock to market rates.

The measurement of the variability in the economic value of assets and liabilities of the Bank to monitor the current value of net worth, is carried out through "Sensitivity Analysis" management, which allow for verification of the sensitivity of the economic value of the Bank to variations in rates of interest.

Furthermore, to measure the variability in interest margins, determined by positive and negative variations of the rates on a horizon of 365 days, monitoring of the differences between asset and liability items of the financial statements, grouped according to the date of expiry or the redefinition of the rate is performed; the method used is "Gap Analysis".

In the context of techniques for measuring interest rate risk the bank uses behavioural models estimated internally to view items on the basis of the historical series recorded.

Liquidity risk

Liquidity risk is the risk that the bank is not able to efficiently manage expected and unexpected outflows of cash without compromising their ordinary operational and financial equilibrium.

The overall model adopted by the Bank for management and monitoring of liquidity risk is divided into three distinct areas depending on the scope of reference, of the horizon and the frequency of analysis:

- Management of intraday liquidity, i.e. the daily management of debit and credit positions on the different regulatory systems, payment and off-setting in which the Bank participates;
- Management of operational liquidity, i.e. the management of volatility events that impact the liquidity position of the Bank in the time horizon from 1 day to 6 months, with the primary objective of maintaining the ability of the Institution to meet ordinary and extraordinary payment obligations, while minimising costs. In this context, the recognition of the imbalance between sources of incomings and outgoings and the relative system of limits and thresholds for monitoring focusing in particular on time intervals up to 6 months;
- Management of structural liquidity, i.e. the management of all the events in the banking portfolio that impact on the overall liquidity position of the bank in the time horizon beyond 6 months, with the primary objective of maintaining a balanced dynamic relationship between assets and liabilities in the medium/long term.

The model adopted by the Bank for management and monitoring of liquidity risk is based on the construction of a "maturity ladder" (time scale deadlines) and on the allocation of certain flows and estimated on various time frames for same, in order to proceed with the calculation of the cumulative gap for each maturity band.

The Bank has defined some operational limitations for management of liquidity in both areas: operational and structural. Specifically, for the management of operational liquidity limits are defined in terms of the absolute values of the cumulative gap on the different deadlines, while for the management of structural liquidity the limit adopted is defined in terms of the ratio between assets and liabilities with a maturity of more than one year.

To oversee liquidity risk the Institution continuously monitors the value of the counterbalancing capacity (CBC), understood as the availability of assets that can be readily reimbursed, sold or used in

refinancing operations with the interbank system and which therefore allow to cash to be generated quickly and efficiently.

The Bank also has a "Contingency Funding Plan", as an instrument of attenuation of liquidity risk that indicates, in detail, persons and structures responsible - in need - of the implementation of policies for extraordinary type funding, as well as the actions to be taken to remedy the situation and in application of regulatory requirements foreseen by the new regulations in question.

Oversight activity of liquidity risk is also performed by monitoring oversight indicators represented by the requirement for liquidity in the short term (Liquidity Coverage Ratio - LCR) and from the requirement for structural liquidity (Net Stable Funding Ratio - NSFR).

In particular, the Bank shall provide monthly regulatory reports on the liquidity indicator "Liquidity Coverage Ratio" (LCR). With regard to the "Net Stable Funding Ratio" (NSFR) indicator a management type measurement is made on the basis of what is laid down in the framework of Basel III.

Finally quarterly reporting on "Additional Liquidity Monitoring Metrics - ALMM", such as additional metrics for monitoring the liquidity, supplementary indicators regulations already planned, designed to provide the Supervisory Authority with a comprehensive view of the risk profile of the liquidity of the bank is affected.

Risk of excessive financial leverage

Excessive financial leverage risk: is defined as the risk that a particularly high level of debt with respect to own capital renders the bank vulnerable, necessitating the adoption of corrective measures to its industrial plan, including the sale of assets with the accounting for losses which could lead to value corrections also in relation to the remaining assets.

The Bank is pursuing policies for sustainable growth with recourse to financial leverage, represented by the ratio between the regulatory capital and the total number of exposures, mainly represented by the budget surplus. The Bank monitors risk deriving from excessive recourse to financial leverage through monitoring the relevant indicator, subject to specific quarterly reporting quarterly to the Supervisory Authority.

Strategic risks

Strategic risk is constituted as the risk, both current and prospective, occurring where a decline in profits or capital of the bank arises from variations in the operative context, when business decisions are wrong or inadequately implemented, as well as from the poor reactivity to changes in the competitive environment.

The Bank has adopted a policy of attenuation of strategic risk that is based mainly on the formalization of an analytical, prudent and shared decision-making process. The decisions are based on careful and constant observation of the reference market, on gradual activation of new services and/or products, on a process of strategic and operational planning formalised and on constant recognition and monitoring of developments in business and of the relative deviations from the objectives set.

Reputational risk

Reputational risk is the current or prospective risk of impact on earnings or capital arising from a negative perception of the bank's image by customers, counterparties, shareholders, investors or Supervisory Authorities. Represents a "Secondary" risk, i.e. is triggered by risk factors which are mainly ascribable to operational risk (in particular due to the legal risk and non-compliance with rules) and

strategic risk. Despite being a "secondary" risk, the losses associated with the reputational risk can be much higher than those attributable to the event of the original risk.

In the light of the difficulties associated with the quantification and measurement of the relative risk a self-assessment process was implemented, with a view to identify risk events impacting more on the business reality through a qualitative assessment.

Within the scope of the process the operating areas more exposed to such a risk, are monitored by raising the awareness of the main actors involved and evaluating any mitigation actions.

The Bank has, as mentioned, a Code of Ethics aimed at sharing the system of values, principles and rules of conduct to which all internal subjects are expected abide by their own conduct.

The Institution also constantly updates and implements its internal regulatory framework and related processes in order to ensure constant oversight for the mitigation of reputational risk.

Further direct oversight concerning containment of possible unlawful conduct on the part of employees is represented by the system of internal reporting of violations (so called whistleblowing), with the identification of the subject making the disclosure kept confidential.

14. MARKETING ACTIVITIES

Marketing represents the engine for the development of the bank, the essential component which determines success in their market. This links and connects the multiple needs of the customers: from traditional activity of collection of savings and provision of credit to the offer of a multiplicity of services, through all channels and means of contact in the course of continuous evolution. The traditional presence locally through the physical network of branches, which also developed considerably in recent years, joined by the innovative channels of automated branched and *the on line*. These are all the ways in which customer relationships are maintained, which is the fulcrum of the commercial activity itself. A relationship that retains its characteristics of loyalty, attention, transparency and reliability even in the ever-changing needs of the application.

A change in the requirements above is accompanied by an equivalent surge in market rules and hence the need for a continuous updating in the offer of banking products and services. The growing specialisation which is required also requires enhancing the integration between the offer of solutions produced directly by the Bank and that to be achieved through the so-called third-party products that the bank puts at the disposal of clients with a strongly personalised thrust. Only in this way it is possible to provide the best responses in the event of requests that require solutions to a high specialization.

In this context the role of advice is also fundamental to, and puts the customer at the centre of attention of the Bank. The possibility to provide excellent levels of advice is in turn linked to the responsiveness and the professionalism of the staff.

Precisely for this purpose, the Bank continues to place the commercial relationship at the centre of its attention. The design of new products, the identification of the reference target and strong interaction between producers and distributors constitute an important instrument, both in respect of financial and banking products offered in respect of investment services.

From the month of August 2017, the Bank has adopted an Ethics Policy with which selects some types of financial transactions and service specifically reserved for business customers present in the armaments sector.

It is one of the many examples which can be mentioned to highlight how Valsabbina pursues maximum honesty in all markets of own reference, in the primary interest of customers and the business itself.

Geographic Organisation

The distribution network is composed of 70 branches based in 5 territorial areas: the North West area (which comprises the Franciacorta, Bergamo, Milan and the Brianza), the area Brescia city, area Brescia

South and hinterland, area Valsabbia and Valtrompia and the North East area (which includes the town of Desenzano and the provinces of Verona, Vicenza, Padua, Treviso, Modena and Bologna).

In the course of 2018 efforts to increase efficiency of the network, with the incorporation of some neighbouring branches (in the municipalities of Mazzano and Lumezzane, in the province of Brescia) and new openings in two provincial capitals: Treviso, in the month of July, and Bologna, in the month of December were continued.

The Bank is today present in 12 provinces and 4 regions; the province of Brescia remains that where the market shares is most significant, with 49 subsidiaries, followed by Verona with 8, from Trento with 3, by Monza-Brianza with 2 and from Milan, Bergamo, Mantua, Vicenza, Padua, Treviso, Modena and Bologna with 1.

Already the contribution of areas where branches were most recently established, where market share is growing at a fast pace is being felt.

Even in the course of 2019, as provided by the Strategic Plan, the rationalisation of the network, with the incorporation of a limited number of branches with neighbouring branches will be continues, minimizing the impact on customers and the opening of branches of Reggio Emilia and Turin in areas considered essential for the harmonious development of geographic organisation.

The expansion of intermediated assets thanks to openings in highly productive new areas will allow us to achieve economies of scale to the advantage of the overall profitability of the Bank, as set out in the paragraph dedicated to management strategies above.

Offer to shareholders.

Nearly 19,000 members in 2018 used the various packages offered, all distinguished by a competitive pricing and the completeness of the services included which satisfy every kind of need: from management solutions to savings to personal loans to the means of payment.

The Packages exclusively reserved to members are four: all private customers are offered diversified formulas as a function of their shareholding (100, 200 or 500 shares) and enterprises with a minimum holding of 1,000 shares, a structured configuration of services. This differentiation in the offer has proved adequate to the most frequent requirements of the customer shareholder.

Direct collection: current account contracts

Data for the year just ended related to the acquired customers also confirms the constant growth of the numeric bases of current accounts; today the bank counts 83,031 current account holders against the 79,527 in 2017 confirming the capability of achieving and consolidating appreciable market share even in situations marked by an objectively diversified and competitive offer. The incidence of said increase has touched the 5%, a signal of a lively dynamic that bodes well in a parallel development of relations and initiatives of cross-selling opportunities.

The increase in this specific context gives priority to the variety of proposals for contracts and the current account to communication policies and advice in favour of customers, aimed at spreading knowledge of services and instruments that originate from careful analysis of the market and by the segmentation of targets.

In the course of 2018, current account contracts have been revised in order to improve the offer to the customer with solutions for all requirements. Today there are about 30 contracts addressed to specific customer segments, whether consumers or otherwise, offered by the Bank to the subjects potentially interested in opening of the current account relationship. Among the new the Smart Account stands out, which provides attractive discounts, and a new concept based on the use of an application that integrates with the Valsabbina online platform.

The Smart account is the ideal product for use by "remote" without resorting to branch services except in exceptional circumstances. The contract is particularly competitive for the customer because of

these characteristics and, thanks to the facilities provided for by the online platform which encourage use, low operational impact for the Bank.

In this way it is possible to expand and integrate the multichannel offer while ensuring quality and efficient services in favour of customers.

The Family Account Family was also introduced, for management of the family expenditure thanks to reduced management costs and to the inclusion in the package of two cards with subsidised fees. The new contract, conceived from revisiting the "Flexible Account" showed a good number of new accessions in the course of the year just ended without being associated with a specific category of customers, was paired with the insertion of new facilities in order to make it more competitive. In need the product can be integrated with other services at the completion of the offer.

Finally, the Secure Account is dedicated exclusively to that segment of customers who do not currently maintain a current account with the bank but require a comprehensive service package for the management of their deposits.

The product aims to offer the customer maintaining a deposit balance, whether in a current account or time deposit, which is particularly interesting when compared to current market rates. The claw-backs forms of collection are also guaranteed by the Interbank Deposit Protection Fund and will also provide custody of securities portfolios for free for the first 12 months where used by a customer to transfer of means of payment with simultaneous extinction of a current account running at other bank or transfer of securities deposited with third parties.

Among the products already consolidated with high popularity, in addition to these packages offered to members mentioned above, it should be pointed out that a "Youth Account" for customers "under 30" in search for a full range of services and innovative solutions that leverages the flexibility and convenience of online services should be noted. The conditions of the said account are individually advantageous. The "Youth Account" today counts over 8,800 current account holders, including 1,200 acquired in 2018.

The "44 cats Account" deserves particular mention. It was introduced in the course of 2015 and reserved to our "small customers" from birth.

Still in the segment for the youth is the "First Account", reserved for children up to 17 years who can approach banking services in full safety, and which has today over 1000 members acquired in just two years since its launch.

Even customers "over 65", received attention in the "Evergreen Account" currently used by about 2,000 holders, indicating the interest aroused by the formula for its characteristics of simplicity, economy and completeness.

The "Pink Account", designed for the female customers, has undoubtedly attracted broad approval, achieving 5,500 sign-ups.

Finally, various contracts are dedicated to artisans, traders and farmers - each focused on the specificity of the needs related to the respective compliance management and accounting - were revisited and updated to the needs of the economic operators of the area.

The direct collection: The time deposit

During 2018 direct collection has grown significantly, demonstrating confidence, both on the part of private individuals and institutional investors in our bank.

A very important instrument for direct collection is represented by the "time deposit", often preferred by customers compared to traditional loans. In relation to growing demand and in line with the market yields, the Bank has joined the "time deposit" to the usual offer with maximum durations of 24

months and with payment of interest to maturity, new financial products with durations up to 60 months and payment of interest through semi-annual coupons, at a fixed rate.

Precisely this flexibility, in addition to the benefit of the guarantee figure by the Interbank Deposit Protection Fund, has allowed a strong affirmation of the financial instrument within the development policies provided by the Bank.

Indirect managed deposits - The private banking service

Despite the negative trend in financial markets, growth of indirect deposits was significant, and has thus reached the amount of 1,808 billion, confirming important trends of recent years: particularly positive, were the performances of the Managed Savings, which exceeded the threshold of 1 billion euros, increasing and with harmonious development of both the CIUS component (634 million, +10%) both of that of insurance in financial content (435 million, + 8%).

These results were the result of selected and reliable partnerships with specialized product companies, careful evaluation and selection of risk profiles in addition to the proposed formulas, beyond that of a constant and careful training of the staff of the sales network to provide professional solutions tailored to the different demands and with a careful evaluation of the profiling of customer characteristics.

In this context, a particular appreciation was recorded for the insurance product composite of Zurich "Multinvest", which combines the advantages of a separate management of capital guaranteed with those of asset management, which has reached a stock over 145 million.

In addition to the now consolidated partnership with the Zurich Group, the placement of the insurance product "AzStyle" distributed by the company Az Life Ltd of the Azimut Group, already our partner for the mutual investment funds and SICAV segment was initiated. This product Unit Linked to whole life allows the subscriber to choose between 4 investment lines that correspond to different default and risk profiles, with investment of sums in mutual funds (CIUS).

The service model has evolved in response to the introduction of Mifid II. From 2018 all customers who subscribe to managed saving products are offered free, a basic consulting service. For the more demanding customers, from 2016 a consultancy service was already provided, offered by the private banking structure, mandated to offer assistance and advice to customers with portfolios of an amount equal to or higher than 100 thousand euros. Already from the outset the service has proved to be much appreciated for the proven skills and professionalism of our specifically dedicated staff. Thanks to constant training of personnel and the promotion carried in its area, already more than 250 customers, for a total amount of over 350 million, have chosen to avail themselves of the private banking personalised service of Banca Valsabbina. In this regard the business plan provided the employment of new professionals dedicated to the development of private banking, so as to match the increasing demand for services with a high trust content.

Policies and insurance solutions

The partnership - active since 2001 - between Banca Valsabbina and the Zurich Group for the placement of insurance products characterized by high reliability and pricing profiles able to compete with the major insurance and financial firms on the market continued.

The fiduciary relationship of close collaboration, established from the start of bancassurance activity, allows a great organizational fluidity in offering a wide range of selected products aimed at the protection of the person and of the family.

The prestige of the partner, the perfect operational understanding that has been established and the high quality of the products and prices are among the factors that have led to progressive and constant growth of the combined portfolio.

Corporate Lending and Leasing

From 2018 the Bank, with its strong capillary network model and a functional distribution, has disbursed to more than 3,500 in new funding, a total amount of over 600 million euros, reflecting strong attention and active support to the complex of economic activities in the area.

To the Consolidated Fund of funding set out in Law 662/96, supported by the guarantee issued by Mediocredito Centrale for 80% of the amount paid in respect on which in 2018 the Bank has taken positions in approximately 1,400 companies ranging between SMES and micro enterprises for a total amount of 265 million euros, and sought new initiatives for financing investments incurred by substantial appropriations at subsidised rates.

The Bank has also confirmed products for companies that have made investments in the context of the "Industry 4.0" (use of intelligent machines, interconnected and connected to the Internet; connection between physical and digital systems, complex analysis through the use of the Big Data). Hyper depreciation, in particular, aims to encourage investment in industrial sector 4.0, with the addition of technologies for precision agriculture and for the reduction of energy consumption.

In order to make this important opportunity widely accessible by customers, the Bank has established a ceiling of 20 million to the requirements for loans that companies will be able to subscribe to use this facility.

To publicise the important opportunities arising from the Industry plan 4.0, the Bank also has also contributed to the current year initiatives "on site" of the Giornale di Brescia that has promoted deepening of relationships and round tables.

The meetings were held at leading industrial enterprises of the territory and have seen the participation of entrepreneurs and professionals who have made known their point of view concerning this veritable new industrial revolution. To supplement their product range, the Bank), has worked with the European Investment Fund (EIF), to put at the disposal of innovative Italian enterprises a platform for of EUR 50 million of funding, deliverable in the next two years, guaranteed to 50% from the fund itself.

This agreement falls within the scope of the program for research and innovation in the European Union "Horizon 2020" and is part of the project "InnovFin - EU finance for innovators", funded by the European Commission.

The initiative is aimed at providing support to the local economic structure and, from a technical point of view, provides for the granting of a guarantee by the EIF on funding for research, development and innovation on the part of SMES and Small Mid-Cap (enterprises with fewer than 500 employees). The percentage of cover is fixed and equal to 50% of the residual debt, from time to time, and attracts a guarantee commission equal to 50 basis points for SMES and 80 basis points for enterprises with medium-sized capitalisation.

The agreement confirms on the one hand, the solidity and dynamism of the institution, on the other hand a new instrument to provide practical support for the activities of small and medium-sized enterprises in the area, which continues to be the heart of the production system of the country and are at the centre of the business strategies of the Bank.

Through the EIF platform so far been paid over 35 million of funding for innovative enterprises has been disbursed.

The Bank continues activities related to the t "Let's go" project promoted by the Region of Lombardy. The purpose of the initiative is to relaunch the productive system, facilitating the output phase affected by the economic crisis.

The initiative investments funds - including the purchase of machinery, equipment and specialist expertise - contained in appropriate corporate development schemes aimed to restore optimum conditions of production, to maximize energy efficiency, the healthiness of workplaces, the security of processes and the growth in the markets of the Lombard companies, favouring finalized plans to the revitalisation of brown-field sites.

Concerning support for corporate finance, following positive consolidated experience, the Bank has intensified the publication of its successful initiative: in collaboration with specialized operators, it has

in fact confirmed to creditor companies with regard to the Public Administration, a proposal for assignment of receivables without recourse, providing counterparties concerned the opportunity to monetize in advance and at favourable interest rate conditions for their loans. The countervalue of discounted credits through this formula exceeded EUR 200 million in 2018 and customers who have benefited, in addition included many SMES, and also some of the most important Italian utilities.

The Bank is also present in the minibond market for. In addition to providing customers with the support of a primary operator in the sector, mentoring and assistance in the issue process, has put in place a platform dedicated to investments for 30 million euros. To date minibonds for over 7 million euros have been subscribed, all in companies operating in the north east of the country. With respect to the finance company, the Bank has launched a service for the stock market listing of SMES and for M&A, and has participated in the placement on the market of AIM an important company in Brescia. a relief policies introduced by the previous government and the implementation of facilitating legislation also contributed to old results for the 2018 financial year in the leasing sector. The year closed with a stipulated 339 transactions for a value of almost 50 million euro. An increase of 7 % of the number of contracts and of 28% on volumes was realised compared to 2017. The traditional and proven partnership in this sector of activity with SG Leasing was profitably added a commercial collaboration with Biella Leasing.

The mortgage loans to households

Strongly positive results were confirmed in the field of first mortgage financing, whose reference market was revived by the constant growth in the phenomenon of subrogation.

Loans for house purchases totalled about 700 for total amounts to 90 million. Success experienced for the "Concert" package continued in 2018, with competitive conditions for both fixed and variable rates.

Consumer credit

In the course of 2018 Banca Valsabbina and Cofidis - European specialist in consumer credit, part of the Credit Mutuel Group - continued with the agreement of multiyear partnership for the distribution of financing products dedicated to families. These products are offered by our 70 branch offices with the trademark Valsabbina. The agreement allows the Bank to diversify its product range and make procedures for repayment more agile and flexible by a specific target clientèle that, thanks to the expertise of Cofidis concerning consumer credit, has the opportunity to benefit from the fiduciary nature of the relationship as well as the turnaround times evaluation and disbursement of funding.

In the first year of partnership at least 2,000 customers have chosen this product with almost 35 million euro of disbursed, a demonstration of excellence in service that has allowed the Bank to significantly increase volumes in this sector.

In the context of continuous search for products and services that enable to intercept the new demands of the clientèle, to be anticipated and guaranteeing a significant contribution to the commissions margin, the Bank has signed an agreement with Vivibanca Spa, an intermediary specialized in the granting of financing in the form of transfer of a fifth of their salary, delegation of payment and anticipation of TFS.

This type of loan directed to employees (ministerial and public utilities, para-statal enterprises, private employees of enterprises in the SPA/srl form with a minimum of 20 employees) and pensioners, i.e. to subjects that can count on a pay cheque or on a pension payment on which the instalment of the predetermined financing can be charged.

The financing is also necessarily supported by a life insurance policy and that of job loss by the borrower customer.

The partnership with Vivibanca is also reinforced by the acquisition of shareholding by the Bank, with the objective of consolidating same as well as increasing its presence in a segment characterized by interesting income possibilities.

Electronic money services

The services of electronic money services showed a steady and substantial growth, confirming the positive trend already observed in previous years.

	2011	2012	2013	2014	2015	2016	2017	2018
Location of ATM machines	60	68	66	66	66	68	79	76
Number of transactions performed	807,558	862,254	875,207	896,746	928,223	971,803	1,038,703	1,057,158
Amounts transferred (in thousands of €)	133	148	153	159	167	172	180	184
POS stations	1,484	1,937	1,799	2,008	2,127	2,168	2,565	2,871
Number of transactions performed	1,321,361	1,645,407	1,867,782	2,198,200	2,340,510	2,430,956	2,555,905	2,952,046
Amounts transferred (in thousands of €)	108	133	140	159	167	175	190	209

Even in the event of a phenomenon in the economic conduct of consumers who, precisely for this reason, urge managers of payment systems to incessant innovations in service, the Bank has pushed commercial initiatives and communication to make use of the ATMs and POSs as easy and convenient as possible and their proliferation to the benefit of user customers, but also of the bank itself for the related commission contributions. In line with "Classic" credit cards as already mentioned, innovative products were included such as particular credit cards, distinguished by exemption mechanisms of the annual cost to reach the threshold of annual expenditure of predetermined minimum.

In addition to these products the rechargeable credit cards a growing place in the panorama of payment services is created: among these the "Counting on it Account", characterized by a device for electronic payment provided with IBAN codes for routing payments.

The Europass service should also be noted - available, as an electronic money service at all the branches of the Bank - offered thanks to the historic partnership with Nexi S.p.A. (now Cartasi). The formula combines the functionality of the credit card for the convenience of the device Telepass Autostrade per l'Italia device.

The lively and profitable commercial campaigns aimed at the development of payment services have made it possible to increase the stock of cards in circulation to over 94,000 units, a signal of favour among customers.

OnLine banking and telematic services

In the light of new business models, aimed at increasing digitization of banking services – moreover in safeguarding the centrality of the direct relationship with customers of 70 branches, even in 2018 the highest attention to the evolution of information technology services and "Online Bank" was assured: an attention due to high levels of service provided by the provider Cedacri and new initiatives planned for the near future. In such a favourable context Valsabbina, the Bank, launched a deposit account online; it is an ambitious project but realistic and functional with the goal of enhancing the entire commercial offer reaching new customers throughout the whole national territory.

Telematic services showed an important new increase in 2018, in parallel with an increase in the numerical base of relationships with current account holders as set out above.

For this purpose, active home banking contracts amounted at the end of 2018 to 40,626 units, compared to 36,322 last year, with an increase of 12% in the stock and in total continuity with the significant growth trend already highlighted in the last period.

This substantial increase was achieved thanks also to the impetus that the bank gave in terms of communication with customers, always considering this service as a supplement and completion of the direct and personal relationship that is realized with the contact at the branch. Continuous growth was facilitated by the simplification of procedures for use and by the reinforced security measures in the event of any attempts at IT fraud: the introduction of sophisticated systems for Strong Authentication, such as the OTP Token device and Secure Call, required for the authorisation of payment orders placed via home banking, has represented the most appropriate response to the problems of data protection and data security.

As expected there has been considerable appreciation for ancillary services made available online to customers. Among these are MyBank, a European-wide service allowing payment on affiliated sites generating from your home banking system a "SEPA Credit Transfer" in favour of the seller, with ease and in total security; Ribes S.p.A. offers its customers a wide range of information, real estate services and services of commercial nature for the management of credit risk and CBill, an online advisory and payment service created by the banks participating in the CBI Consortium with the objective of the digitalization of same.

In new partnership initiated by the Bank in the course of 2018 is that which arose from the important agreement with Satispay, a financial company with a high technological content (fintech) activities in payment services in which the Bank also took an equity position.

Satispay is an innovative service called "mobile payment", independent from the circuits of the credit/debit cards, that through a smartphone application makes free entrance in the sector of micropayments.

The service can be used by anyone with a current account in any European Bank for the free exchange of money by accessing address book contacts, payment at affiliated retailers (both physical and online), payment for professional services, as well as allowing the purchase of telephone recharges directly on the application.

From the point of view of the operator, the service allows for the acceptance of payments by Satispay users without the need for a POS and without cost of membership or monthly fees, as well as the ability to operate freely in the context of transactions of reduced unit amount and with committees particularly contained. The payment system is efficient and inexpensive compares to traditional credit card transactions, aimed at supporting other needs, with the consequent possibility of contributing to growth in Italy, as is already happening in other European countries - the use of electronic currency for so-called micropayments.

Satispay now includes some 60,000 affiliated retailers, including major brands such as Coop, Total Erg, MyChef, Esselunga and Grom, with impressive daily growth in sign-ups.

The entire process is managed through the use of an advanced technologically secure IT system that provides cryptography to protect data and money transactions performed, and on which risks -

strongly mitigated by the reduced ceilings of use defined by Satispay - the Bank remains fully indemnified.

Satispay puts at the disposal of clients two different applications of which one is specific for consumers (Satispay Consumer), focused on payment functions and the transfer of money, and the other for retailers (Satispay Business) with a particular focus on collection features.

Finally, for business clientèle, the service provides interesting initiatives of loyalty or acquisition of new customers through the use of innovative marketing. The collection campaigns "Cash Back", which consists in an immediate repayment of a percentage of the expenditure, credited directly on the user app. once payment is completed with Satispay stands out.

Currently already over 1,000 customers of the Bank have joined this innovative service.

15 HUMAN RESOURCES

Considering the productive resources that the Bank uses in everyday management activities, the human aspect certainly represents the most expressive component of the identity and business operation. And even the most precious in the sense of the value and the proximity to each type of interlocutor: the associate, the family enterprise, the Community in its various articulations.

In an increasingly competitive and constantly changing market the availability of skilled human resources, flexible and ready for continuous learning and to the assumption of diversified duties also constitutes a strategic factor of primary importance for the company.

On the other hand, this component represents at the same time a particularly significant cost factor in the income structure of the company, and in a context of urgent rationalisation of management, implementation of productivity and the efficiency of the actions of the personnel must be constantly monitored and improved.

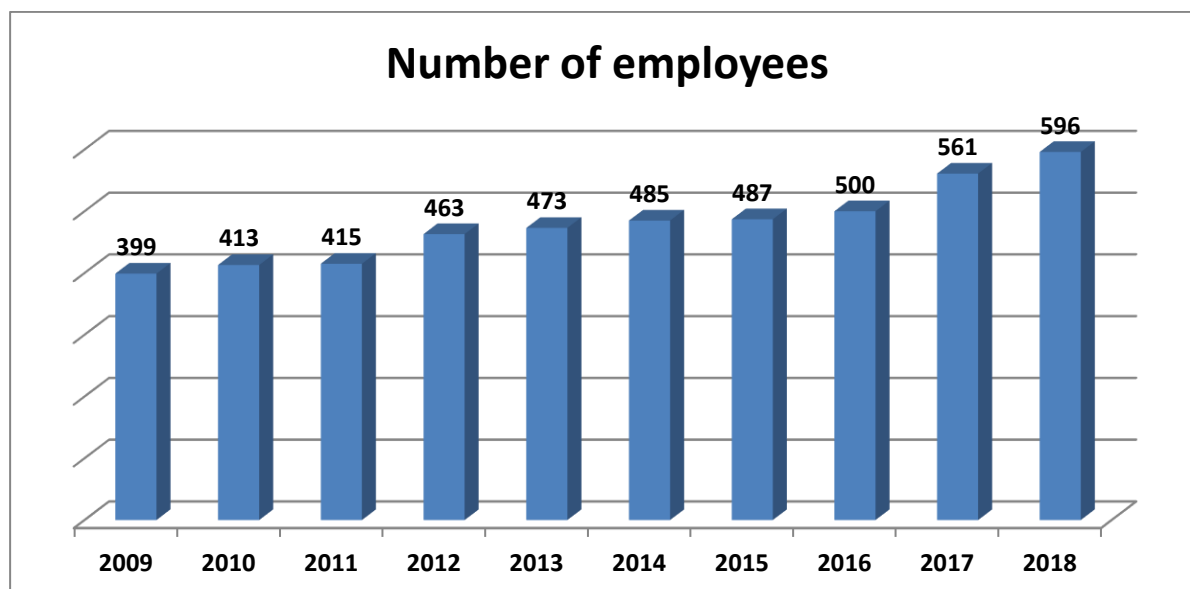
These actions must of course develop in harmony with the changing needs of the market and customers in terms of products and services requested, with adequate returns, with speed of execution and flexibility of instruments used.

All this impacts significantly on the characteristics and the peculiar ability of collaborators that express the image, reputation and the value of the company in a market where the timeliness must be combined with continuity, innovation with tradition, the virtual world with proximal physical presence. In such a context the ability to listen and balanced conduct, courteousness and responsibility are components sought out and indispensable in the relationship of trust between bank and customer; and the staff of the Valsabbina, at all levels, matches this peculiar profile.

At the end of 2018 the company staff is composed of 596 employees compared to 561 at the end of 2017: 54 were newly recruitment and 19 retired from service. The dynamics of growth are overall more contained with respect to 2017, the year in which it acquired the 7 branches of Hypo Alpe Adria Bank. Recruitment has affected both young and specialist professionals for a balanced sizing qualitatively of the central and peripheral structures.

The aforementioned dynamic claw-back of the structure is reflected from the point of view of frameworks, in percentage breakdown of the different areas and in the levels of breakdown by age and average seniority of service. The Bank has almost 600 employees: a positive result, but also with responsibilities for management and development policies for the resources themselves where objectives of productivity must be reconciled with considerations of cost containment.

The following chart is an analysis of the increase in the number of employees from 2009 to 2018.



This dynamic indicates a trend opposite to that recorded at national level, which records a contraction of over 2 percentage points in the annual average of the last three years as a result of integration processes and, not infrequently, recourse to Solidarity Funds or resignation incentives adopted by credit companies.

The following table sets forth out dynamics of the workforce in overall terms and contractual framework.

Staff - contractual framework over years	2018	%	2017	%	2016	%	2015	%
Executives	7	1.2%	10	1.8%	10	2.0%	9	1.8%
Senior management 3rd and 4th level	136	22.8%	117	20.8%	107	21.4%	104	21.4%
Senior management 1st and 2nd level	121	20.3%	106	18.9%	85	17.0%	78	16.0%
Other Personnel Areas	332	55.7%	328	58.5%	298	59.6%	296	60.8%
of which:								
Professional apprenticeship	-	-	-	-	-	-	-	-
administration	11	1.8%	3	0.6%	3	0.6%	1	0.2%
TOTAL	596	100.0%	561	100.0%	500	100.0%	487	100.0%

The number of Managers showed a reduction of 3 units with respect to the two previous years and reveals a percentage on the total staff equal to 1.17%, with respect to the sector average of 2.1% (source ABI 2017). Executives will increase in number, reaching a percentage of 43.12 % of the total, while the banking system is positioned at 41.5%.

The next table shows the dynamics with reference to age and seniority in the service of the staff of the Bank.

Staff - Age and seniority of service	2018	2017	2016	2015
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Average age	42.0	41.7	41.8	41.1
Period of service	11.7	11.4	12.4	12.1

The average age of employees of Valsabbina is 42 years; the same in banks of comparable size is 50, an indication of the relative youthfulness in the demographics of our staff whose average seniority of service is of 11.7 years.

Of the 596 staff at the end of the year, 176 are active in the central structures and 420 operate in the sales network, composed as already stated from 70 branches. This underlines the favourable conditions of operational efficiency achieved by effective management of two fundamental processes: management of internal mobility to favour advancement toward positions of increasing professional content and scheduling of training activities to meet skills requirements consistent with expectations and with the company strategy.

As regards gender characteristics, the female component consisted of 193 colleagues of which 18 are part time. The percentage of the female component on the total employees is equal to 32.4%, in line with last year; the age average of female staff is of 40.9 years, compared to 43.1 men.

The following table summarizes the characteristics and dynamics of referred to above.

Staff - breakdown by gender	2018	2017	2016	2015
males	403	380	348	338
females	193	181	152	149
Total	596	561	500	487

The female component is still numerically lower than the average for the banking system, which is around 45.2 % of the workforce, although in recent years the gap will be progressively reduced. On the other hand, the contribution of female staff in roles of responsibility is more and more significant in both the central structures and the sales network where 13 branches and a structure of Capoarea are entrusted to management by a woman.

Very high rate of educated staff are present, with 292 employees - about 50% of the total - in possession of a diploma, against the data of 40% in the system. Graduates in economics, law or otherwise relevant fields are most prevalent and consistent with the operation of the sector.

Particular attention is relevant to the development of human resources has been guaranteed by training aimed at the professional development and management of the staff of the Bank stimulated by a standard increasingly higher qualitative required by the supervisory provisions.

The formation pursuant to the goal of encouraging more wide-ranging and timely integration of new resources from other banking companies is followed.

As for the past few years, training interventions were articulated in keeping with the particularities of the different roles of the Bank, not only through the definition of specific educational content, but also through the creation of modules aimed at the development of managerial and relationship skills with the objective to support management in the improvement of operating results and the involvement and growth of colleagues.

With regard to the contents of educational activity, attention has been focused in the first place on those areas where the regulatory provisions expressly impose the requirement to ensure retention over time of the knowledge and skills of staff.

With the introduction of Mifid II Requirements, on the subject of investment services, specific training courses were introduced having as object, in particular, advice concerning investment services and related obligations for investor protection.

With the adoption of the European directive on the subject of the distribution of insurance products (IDD CD), and in general, in order to increase the knowledge and skills of the staff involved in the insurance offer in line with the IVASS requirements, training courses in Bancassurance were provided, a matter that has absorbed, as in the past, a very high number of hours of training.

With the planned entry into force, by 21 March 2019, of the new requirements of experience and professionalism that the personnel involved in the offering of real estate financing to consumers is required to possess, specific training initiatives were implemented aimed at raising awareness of personnel to full compliance with the new obligations of transparency of information and of substantial fairness in customer relations, especially where there are difficulties in payments.

Another important chapter in training activities was dedicated to the theme of the prevention from risk of involvement of the Bank in phenomena of money laundering. The main attention was focused on the study of the most relevant sources of risk, their manifestation in typical banking to oversight of specific mitigation that the supervisory regulations require and that the Bank must implement.

Other topics have focused on commercial content, credit and legal and corporate matters.

As regards the commercial area, training has increasingly focused on new products and services and on the modalities of sales in order to be able to offer customers precise advice. Intense training activities focused on credit, articulated in different stages of its processes, notably as regards the management of the so-called NPLs, i.e. non-performing banking assets.

A similar discussion concerns training in the context of corporate and legal affairs on insolvency procedures. This banking transaction significantly impacts on the regulatory framework with rapid changes which require continuous updates in terms of business processes and conduct on the part of the staff.

Turning to a discussion of a quantitative type, the numbers give an immediate perception of training activities promoted and delivered in the course of the year. The hours devoted to learning in the different forms - in class, participation in events, video conferencing, e-learning - represented 38,579, 21% more than in the previous year; staff benefitting from at least a training activity has reached the 537 units.

The overall assessment of activities generally undertaken in 2018 is very positive.

In-house training activities and those of self-training through media and technological applications were intense and fruitful, thanks to the contribution of all: learners and teachers, staff dedicated to the teaching topics, within a context of valued and appreciated collaboration also supplied by a component business trade union. Heartfelt gratitude goes to all for the dedicated commitment and collaboration, in the understanding that the investment in staff training is one of the most important factors for ensuring the company's solid prospects for growth.

It is not superfluous to recall at the end of the paragraph that even in the 2019 year the Bank will benefit from important financing by the interprofessional FBA fund for the implementation of the annual teaching plan.

16 COMPLIANCE AND REGULATORY RISKS

It useful to open this year with a paragraph dedicated to new legislation and regulations with some reflections drawn from the interventions of the supervisory authorities the observations of the Governor of the Banca d'Italia are considered emblematic on the occasion of the World Day of the savings of 2018.

" In a regulatory framework which become gradually more stringent, Italian banks have long been engaged in a process of strengthening their capital base to make them more stable and to expand their capacity to provide credit to households and businesses.... They must continue to nourish the confidence of their customers with transparent and law abiding conduct, demonstrating in the facts that banks and finance are not 'the enemies' of savings and savers, but collaborators for the benefit of the economy".

If on the one hand, therefore, the substantial application of a stringent and unavoidable system of rules has become gradually more of a constraint on the strengthening of the banks, the one of same - feeding the confidence of customers with transparent and law-abiding conduct - represents the only real prospect for the revival of the sector.

In this dual perspective - the main new regulations already in force and those to be introduced are set out below.

Provisions concerning protection of the stability of the financial system, issued in recent years, and widely known, are articulated in the following measures:

- Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR) which introduced new European rules on prudential requirements of banks, in implementing the Basel 3 accords, and the Banca d'Italia Circular 285/2013, which has made those provisions fully operational in Italy. The principal innovation of 2018 relates to the process of determination of the capital adequacy of banks (ICAAP process), the measurement system/control of liquidity risk (ILAAP process), the review of the "Policies and practices of remuneration and incentive schemes", the good practice and the role of Internal Audit with reference to safety measures and measures of control for outsourced IT services. Instead are pending adoption of the new regulations on the subject of requirements and eligibility criteria in the course of the assignment of company representatives of the bank are pending. Further reforms are expected before 2022 in order to reduce excessive variability and improve the comparability and transparency of capital requirements calculated by banks;
 - Directive 2014/59/EU (Bank Recovery and Resolution Directive - Brrd) which introduced at European level the principle of "internal rescue". The main innovation of the bail-in was to debit the cost of the bank rescue to investors, shareholders and bondholders of banks in crisis, also involving also the holders of deposits exceeding 100 thousand euros. Implementing Legislative Decrees 180 and 181 of 2015 have deeply changed the perception of the soundness of the banking institutions concerning their shareholding and as regards the market. Within the regulatory framework, authorities in the sector have intervened with the provisions of the Banca d'Italia concerning restructuring plans as well as with specific measures tackle possible crisis scenarios in Italian intermediaries;
 - The Single Supervisory Mechanism (SSM) that has, since November 2014, entrusted direct tasks of supervision of banks of larger size (significant) for the European Central Bank. From a process of slow convergence of national bank supervisory systems a completely new model of a Banking Union, based on a system of centralised supervision and integrated at supranational level has emerged. The transition to the single supervisory body has determined new rules of analysis of non-performing loans (NPL), which have caused a strong impact on the financial statements of banks, with relevant initiatives of "de-risking" and disposals to securitise impaired loans;
 - The "Guidelines for less significant banks in Italy in the management of impaired loans", issued by the Banca d'Italia on the basis of which the supervisory authority has requested banks supervise the adoption of a formalised strategy aimed at optimising management of NPLs, maximising the present value of recoveries and the effectiveness of concessionary measures, by intervening on the classification of debts in order to ensure a correct identification and representation of risks by formalising policies for the evaluation of the credits and guarantees which are as complete as possible and ensure the consistency of the criteria applied. The intermediaries are implementing said working plan, making - where necessary - revisions to its strategic plans for the period.
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The provisions aimed at protecting customers in banking, finance and insurance, and - more generally - consumers, were not less numerous and of significant impact.

From 2018 in force are:

- Directive 2014/65/EU: so called MiFID II) and the connected regulation (EU) No. 600/2014 (so called MiFIR) as well as the relevant implementing regulations, both at European and national level. The declared objective is the strengthening of protection measures for investors. The main changes concern: management of new products; assessment of adequacy concerning the risk profile of the portfolio of investors; the service of providing investment advice; management of conflicts of interest and incentives; communications to customers on costs and charges; the knowledge and skills of personnel involved in the provision of investment services to customers; the guidelines of the financial markets. Expected - from March 2019 - New guidelines regarding the obligation of intermediaries to provide personalized recommendations, or take investment decisions/disinvestment in the execution of a management mandate, that are genuinely appropriate, having regard to the characteristics of customers served and the specificity of the products;
- Directive 2016/97/EU: IDD) aiming to harmonize the provisions relating to the issue of insurance, with an increase in the level of consumer protection. The main areas covered are: policies concerning management and control of insurance products; rules of conduct and the performance of pre-contractual and contractual obligations with which intermediaries must comply; the policy for the management of conflicts of interest, fees and incentives; the identification and appointment of a responsible person for the issue of insurance; the obligations of vocational training and refresher courses;
- Directive 2015/2366/EU: PSD2) on payment services in the internal market aims to promote the development of a safe and competitive internal market for efficient retail payments, , strengthening the protection of the users and providers of payment services, supporting innovation and increasing the level of safety of electronic payments. With the right of the customer to transfer payment services and the relative balance on another account in 12 working days, it is also intended to ensure effective comparability between the various offerings on the market and encourage, at the same time, the right of choice for the consumer of more affordable product offers;
- The provisions on the subject of banking transparency, both through a revision of the specific regulation of the Banca d'Italia, both through the recommendation of "good practices". In chronological order, of specific importance are: communication on financing transactions against divestment of the fifth of a salary, containing indications on the conduct and practices deemed to comply with the rules, to improve the quality of relationships with customers and reduce litigation; the resolution of Banca d'Italia containing provisions for implementation concerning remuneration of credits (comprehensive Commission) and overdrafts (commission for preliminary work) aimed at strengthening of systems of governance and of the organisation, the application of more stringent operational practices, improving the effectiveness of internal controls; update the Banca d'Italia with reference to management of new products, containing rules similar to those already introduced in the context of investment services and insurance distribution, previously claw-back;
- Regulation (EU) no. 2016/679 the co called GDPR) concerning the protection of personal data, in force since 25 May 2018, whose main contents are aimed at: improving the information and the rights of the person concerned; increase measures for the mitigation of risk through the appointment of a Data Protection Officer (DPO); introducing obligations for keeping a register of processing; carry out impact and risk assessments.

The above provisions aimed at protecting clients are associated - finally – instruments by methods that tend to be resolved during extra-judicial disputes with intermediaries. In this context, as well as making

a reference to the totality of decisions actually taken by the Financial banking arbitrator as well as by the arbitrator for financial disputes in 2018, ongoing initiatives to take those decisions more timeously, taking account of the growing workloads that weigh heavily on these bodies must be borne in mind. Of importance, among the new Regulations of 2018, there are finally the provisions Banca d'Italia, which are at the moment confined to specific areas (e.g. concerning politically exposed persons), implementation of Legislative Decree No. 90 of 25 May 2017, in implementing Directive (EU) 2015/849 concerning the prevention of the use of the financial system for the purpose of money laundering and financing of terrorism. The framework of the new legislation will be further integrated during the course of 2019, with the entry into force of the s Banca d'Italia measure already in consultation by April 2018.

In the light of significant new elements in the regulatory framework of reference, the Bank is taking measures with due reliability and accuracy with the entry into domestic legislation of the new provisions of law and the related oversight guidelines previously mentioned. All areas into which banking and financial activities, are divided, from governance, to the system of risk management, to the system of internal controls to the commercial system, to organizational structures and information system are transversally involves. A key role is assigned, obviously, to a dedicated functionary to check compliance with quality standards.

Our Bank is also intensifying efforts to ensure a substantial respect of these rules in relations with customers through a significant investment in training, the dimensions and characteristics of which are examined in the specific chapter of this report dedicated to human resources.

17 TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are governed by the appropriate internal rules within the meaning of Art. 2391 bis of the Civil Code, of Consob Resolution No. 17221 of 12 March 2010 and subsequent amendments and additions and Title V, Chapter 5 of the Banca d'Italia Circular No. 263/2006.

The internal regulation, published on the website of the Bank as required by the legislation:

- Identifies the deliberative process and the implementation of the operations carried out by the Bank with related parties and with the subjects related to them;
- Establishes appropriate rules to ensure transparency and the substantial and procedural fairness of transactions;
- Defines the operating procedures for monitoring and management of transactions with related parties and governs the modalities of operation of controls and of the notifications required by the supervisory provisions.

It should be noted that all transactions with related parties and with the subjects related to them have been carried out by the Banca Valsabbina and group companies in respect of the criteria of substantial and procedural fairness and under conditions similar to those applied to the best customers; no atypical and/or unusual operations have been carried out with related parties or other subjects., This term is used to refer to operations that for significance and/or relevance, nature of counterparties, the subject of the transaction procedures for determining the price and timing can give rise to doubts as to the correctness and/or completeness of the disclosures, conflicts of interest, to the preservation of the integrity of corporate assets, to protect the shareholders.

In order to promote greater coordination between the independent directors to improve information flows, the Committee of Independent Directors was established and whenever called upon to give its reasoned and non-binding opinion, it is always found unanimously in favour of the transaction.

Finally, it should be noted that no transaction with related parties and/or related subjects has a significant effect on the financial situation or on the results of the Bank, nor there have been modifications or development of transactions with such counterparties that could have had a significant effect in this sense.

With regard to data and more detailed information please refer to Part H - transactions with related parties of the explanatory notes.

18 SUPERVISORY BODY PURSUANT TO ITALIAN LEG. DECREE 231/2001

The functions of the Supervisory Body, established pursuant to Legislative Decree 231/01, have been consigned, with effect from 15 November 2017 to the Board of Statutory Auditors.

Since the legislation provides that the Board of Statutory Auditors must verify the correct adoption of the Organizational Model on the part of the bank, giving it the role of Supervisory Body complete with the tasks the duties of the Board which in terms of the law and the articles of association, must ensure the adequacy of the organisational, administrative and accounting of the company, details the structure and allows a greater timeliness of controls. Also, for the sole purposes of Legislative Decree 231/2001, the Board of Statutory Auditors must not be considered as a management structure and as such cannot be included with those who commit the offences provided for in the Decree in question. The Supervisory Body established pursuant to Article 6 of Legislative Decree 231/2001 (hereinafter for brevity also "Organisation 231") has the task of assessing the correct operation of the methods organisation adopted by the Bank to avoid involvement in punishable acts pursuant to and for the effects of Legislative Decree 231 of 2001. It regularly reports, as established by the Organisational Model, to the Board of Directors of the Institution.

In the course of the meetings during the course of the year, the Organisation 231 has had the opportunity to examine more closely the necessary organizational measures adopted by the bank relating to the application of the rules on combatting money-laundering and the financing of international terrorism also in the light of the innovations introduced with Legislative Decree 90/2017; There were also several specific checks having as subject: 1) Market Abuse; 2) corporate crimes; 3) IT crime and illegal processing of data; 4) misappropriation, money laundering, utilisation of money and self-laundering. These tests were carried out using the risk assessment methodology approved by the Bank, using the process of management and control of non-compliance risk.

Organisation 231 also has read and discussed the annual reports of the various corporate functions for controlling the Bank evaluating, in particular, critical issues emerging and the related interventions and/or plans by the Bank for the removal of the same.

In the course of 2018 reports concerning the commission of offences and/or relevant offences within the meaning of the rule as well as other matters relating to violations or suspected violations of the rules of conduct or procedure contained in the Model were not received.

It is noted that the company web site contains all the information concerning the organisational model adopted by the Bank as well as the breakdown of the Supervisory Body.

It should also be noted that in the course of the year a draft revision and updating of the Organisation, Management and Control Model pursuant to Legislative Decree No. 231/2001 has been started and completed with the support of a specialised consulting firm, in order, *inter alia*, to standardise the content of the document to best practice, guidelines and legal principles in this matter.

The new Organisation 231, consists of two main parts, general and special, integrated in the Ethical Code and the code of conduct which were approved by the Board of Directors on 27 June 2018.

19 ECONOMIC TREND

From an examination of the income statement 2018 in the first place the positive trend of the interest margin which rises from 64,2 to 71 million euros emerges; added to the increase in net commissions - equal to 31,3 million, compared to 30.4 million in 2017 - substantially compensates for the partial loss of income of earnings from the sale, equal to Euro 6,2 million at 31/12/2018 against the 13,9 million at the end of 2017.

At the end of 2018, transactions for the implementation evaluation process that has affected the portfolio of FVTPL mandatory securities designated at fair value in the income statement are shown at 5,5 million euro losses (7,3 million in 2017) , also considering the components derived from trading and dividends, for a result in the intermediation margin of 105,5 million euro: an amount substantially in line with that of 2017.

It is to be noted that in 2018 the value adjustments on assets at amortized cost and FVOCI have impacted on the income statement for an amount of 14,2 million euro compared to 51,9 million in the previous year ensuring a positive reversal of the trend that has been possible thanks to the introduction of the principle IFRS 9.

Operating costs were equal to 74.6 million euro compared to 64.2 million at the end of the previous year.

After write-downs of shares and losses on disposal on investments for 362 thousand euros, tax for approximately 813 thousand, the last line of the income statement for the financial year closed with a net profit of 15 million and 186 thousand euros.

The main components of the income statement are expressed in the following table:

Reclassified Income Statement (amounts to euro / 1000)	31-12-2018	31-12-2017	Absolute change	Changes in %
INTEREST MARGIN	71,027	64,164	6,863	10.70%
Net fee and commission income	31,330	30,379	951	3.13%
Dividends and proceeds of trade and other	3,145	11,069	(7,924)	(71.59%)
INTERMEDIATION MARGIN	105,502	105,612	(110)	(0.10%)
Value adjustments on net financial assets AC AND FVOCI	(14,275)	(51,964)	37,689	(72.53%)
Gains (losses) on contractual changes without cancellations	(247)	-	(247)	NS
Net result of financial management	90,980	53,648	37,332	69.59%
Staff costs	(42,468)	(36,421)	(6,047)	16.60%
Other administrative costs	(40,490)	(36,695)	(3,795)	10.34%
Net provisions for risk and charges	321	830	(509)	(61.33%)
Adjustments / net recoveries on intangible assets	(2,818)	(2,624)	(194)	7.39%
Other charges - operating income - profits or losses	10,836	10,718	118	1.10%
Operating costs	(74,619)	(64,192)	(10,427)	16.24%
Gains (losses) on equity investments and disposals	(362)	(312)	(50)	16.03%
PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	15,999	(10,856)	26,855	NS
Income taxes for the year	(813)	5,035	(5,848)	NS
Comprehensive income	15,186	(5,821)	21,007	NS

The interest margin

The interest margin amounted to 71 million euros against the 64,2 of 2017 with an increase of 6,8 million, equal to 10.7%.

The disaggregated data shows an increase in the contribution of the operation with the clientèle. The amount of interest assets - equal to 78,7 million euros net of interest liabilities for customer deposits and securities in circulation in measure respectively of 11,1 million and 12.2 million - giving a margin of 55,4 million, with an increase of 1,7 million compared to 2017 and equal to 53.7 million.

The contribution of financial assets marks an increase of 5.6 million in relation to a fractional increase in the rates on the amount invested and especially thanks to interests arising from securities on the securitisation of loans to the public administration.

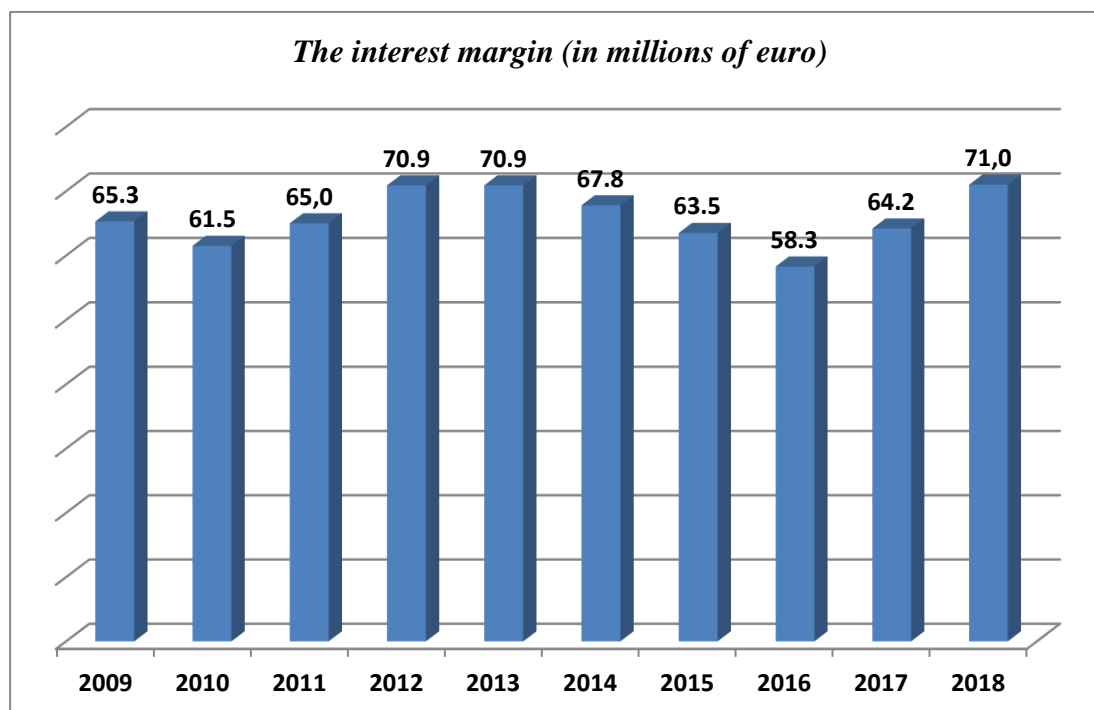
Interest income with banks amounted to 547 thousand euro, while those liabilities amounted to 9 thousand.

In the Item interest income on financial liabilities are accounted for in interest recorded by the ECB within the framework of the TLTRO program.

Interest margin (amounts in euro /1000)	31-12-2018	31-12-2017	Absolute change	Changes in %
Interest and similar income	94,334	94,709	(375)	(0.40%)
- on debt instruments and interest rates	11,308	5,653	5,655	100.04%
- On credits for funding to banks	547	926	(379)	(40.93%)
- On loans for financing to customers	78,690	84,105	(5,415)	(6.44%)
hedging derivative instrument	3	-	3	NS
Other assets	117	-	117	NS
Financial liabilities	3,669	4,025	(356)	(8.84%)
Interest expense	(23,307)	(30,545)	7,238	(23.70%)
- with banks	(9)	(47)	38	NS
- with customers	(11,083)	(10,543)	(540)	5.12%
- securities issued	(12,188)	(19,811)	7,623	(38.48%)
- Financial assets	(27)	(144)	117	NS
INTEREST MARGIN	71,027	64,164	6,863	10.70%

As a result of the 5th update of Circular 262/2005, the interest margin at 31 December 2018 includes 5,301 million interest commensurate the passage of time in the framework of the assessment of impaired loans (return of discounting) previously included in the item 'value adjustments for impaired loans'; this combination, equal to 7,010 million at 31 December 2017 was reclassified in "credits for funding to customers".

Moreover, with the new provisions of the said circular the accounting of arrears interest occurs to their collection; above the criterion was applied only to non-performing loans.



The margin on services

Net commissions totalled 31,3 million euro with a growth of 951 thousand euros, equal to 3% compared to the previous year and relates to the difference between active commissions for 36,4 million (+1,6 million equal to 4.6%) and the passive ones for 5,1 million (+ 636 thousand 14.4%).

In the current market context characterized by the contraction of margins by traditional loan sharks, continued the impetus to growth of the commission flows with increasing attention toward managed savings, favouring both the preferences of savers for instruments that allow greater diversification of forms of investment and, implicitly, the risk profile.

The increase in stocks of managed savings and bancassurance was significant, generating commission contributions which grew from 13,6 million in 2017 to 14,5 million in 2018; the increase, equal to 7.1%, contributed to the strong contribution of commissions from asset management on the total fee income, now equals 40%.

Commissions from securities placement fell by 4.6%, moving from EUR 6.6 million to 6.3 million; commissions from distribution of third party services - made almost entirely from placement of insurance policies - grew instead of from 5,5 million in 2017 to 6,5 million: the increase is partial justification for a reclassification of revenues up to the last financial year charged to decrease in administrative expenditure.

Fees for other services, which predominantly comprise revenues relating to the issuing credit cards, to the intermediation of leasing, in granting loans to third parties, to the activities of financing in terms of Act 662/96 with the State guarantee equal to 5,6 million as against 5,7 million of 2017.

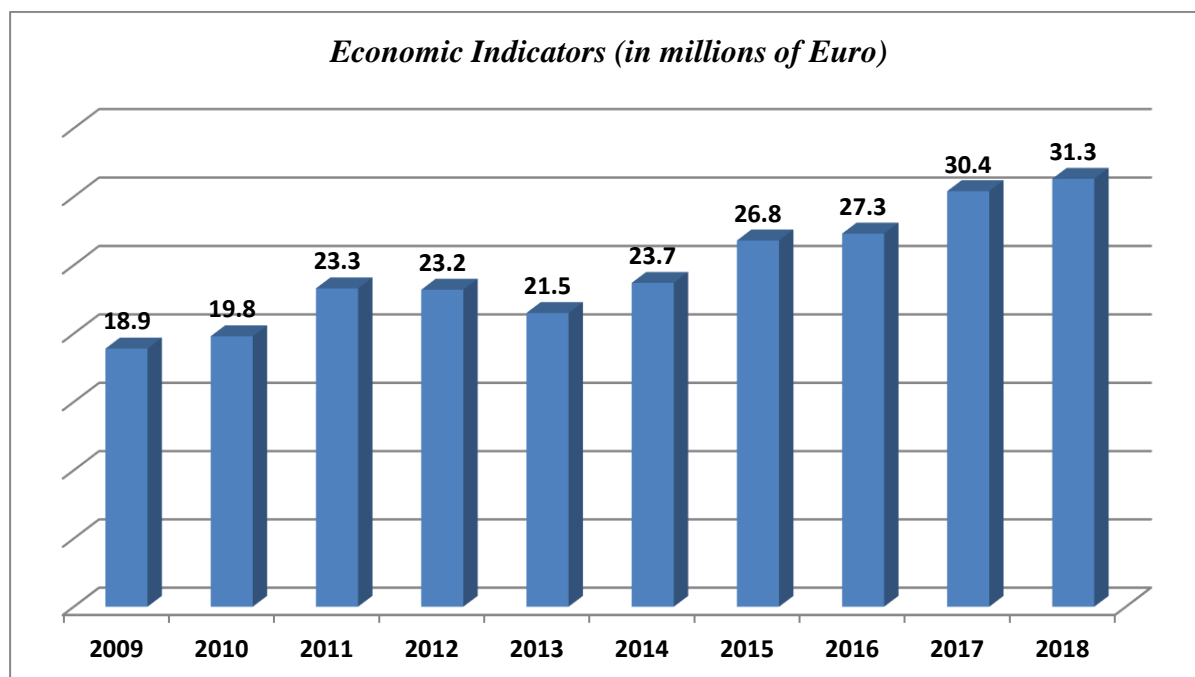
The commissions expense relates to management services and intermediation for 1,1 million, to collection and payment services for 1,4 million and other services for 2.6 million.

Active committees (amounts to euro / 1000)	31-12-2018	31-12-2017	Absolute	Changes in
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Issued guarantees	982	966	16	1.66%
Management services and brokerage:	14,548	13,587	961	7.07%
Currency trading	456	363	93	25.62%
Rights of custody and administration of securities	249	164	85	51.83%
- Securities placement	6,345	6,652	(307)	(4.62%)
Order collection	862	872	(10)	(1.15%)
- Financial advice	93	70	23	32.86%
- of third-party services:	6,543	5,466	1,077	19.70%
Collection and payment services	6,205	5,800	405	6.98%
- Penalties on anticipated and unresolved extinctions	654	646	8	1.24%
- Comm. on subsidies, proxies and payments	2,397	2,196	201	9.15%
- Comm. on ATM and Home Banking	980	855	125	14.62%
- Recessed effects s.b.f, after collection, etc.	2,174	2,103	71	3.38%
Holding and management of current accounts	8,541	8,256	285	3.45%
Servicing for securitisation transactions	480	458	22	4.80%
other Services; and	5,629	5,730	(101)	(1.76%)
Credit card commission	607	680	(73)	(10.74%)
- Comm.Ni ATM, POS	763	789	(26)	(3.30%)
- Comm. leasing	386	333	53	15.92%
- Other comm.	3,550	3,658	(108)	(2.95%)
- Foreign Comm.	323	269	54	20.07%
Total	36,385	34,797	1,588	4.56%

Fee and commission expense	31-12-2018	31-12-2017	Absolute	Changes in %
Management services and intermediation	(1,085)	(1,176)	91	(7.82%)
Collection and payment services	(1,416)	(1,340)	(76)	5.67%
other Services; and	(2,554)	(1,902)	(652)	34.28%
Total	(5,055)	(4,418)	(637)	14.40%

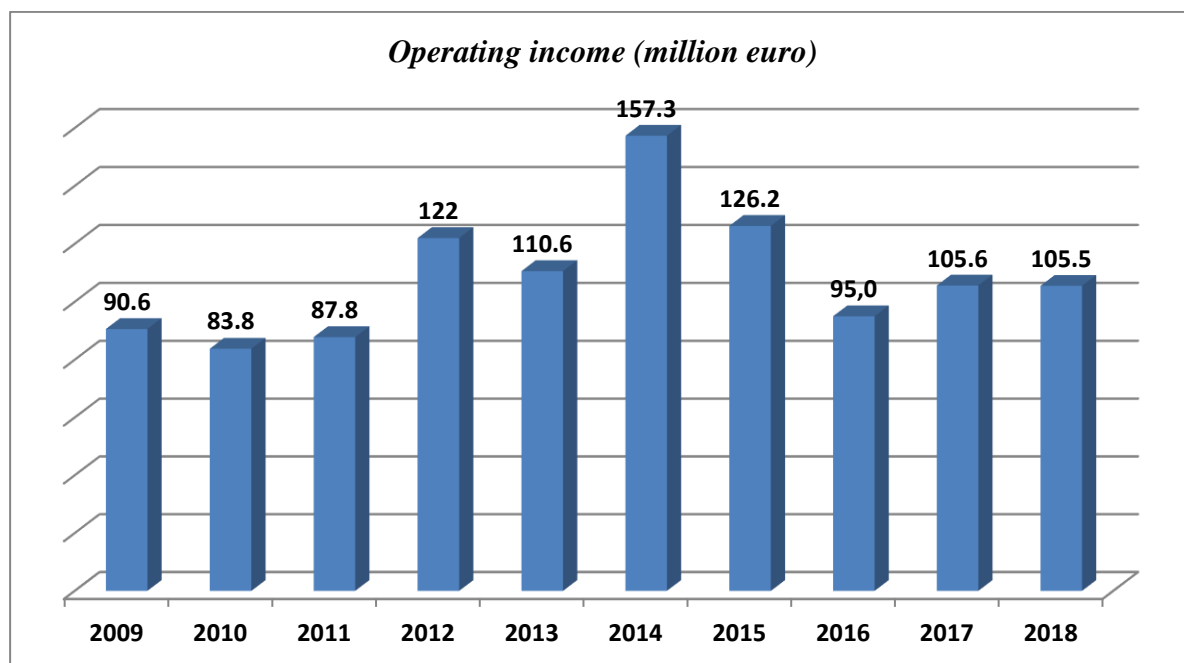
Total net assets	31,330	30,379	951	3.04%
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INTERMEDIATION MARGIN

Generally the intermediation margin maintains its consistency with 2017 with a balance of 105,5 million; its formation, in addition to the interest margin and the net commissions, contribute:

- Dividends of 1,5 million, as against 3,7 million of 2017. The item includes mainly dividends from shares in the Banca d'Italia for 680 thousand, dividends on shares of securities in the portfolio OCI for 402 thousand and dividends on shares of securities in the FVTPL portfolio;
- The net result of trading activities for 751 thousand, against 553 thousand in the previous year: the increase is mainly due to profits on exchange rates;
- The balance in the amount of 45 thousand euros, as the difference between the operations of disposals of credit that have generated losses for 5,64 million and earnings of 3,619 and those of sale of securities entered in its portfolio at amortized cost with earnings of 2,066 million;
- Profits on financial assets at fair value with impact on overall profitability of 6,4 million against the 15,1 million of 2017: Amount included also the capital gain on the partial disposal of the stake in Cedacri 5,1 million;
- The losses on the repurchase of own shares to 198 thousand, against 464 thousand in 2017;
- The profits from the valuation of insurance policies included in financial assets at fair value through profit or loss for 197 thousand against the 204 thousand in 2017;
- The net negative result arising from trading operations of the and the assessment of securities included in the portfolio of financial assets valued at fair value for 5,5 million as against 7,3 million in 2017.



Valuation adjustments to financial assets

Value adjustments, net of write-backs, amounted to 14,3 million euros compared to 51,9 million in 2017; those relating to loans to customers - financing amounted to 12,7 million. The difference with respect to the 14.3 million was determined by depreciation allowances related to debt securities included in the portfolios at amortized cost and at fair value, with impact on overall profitability. Such value adjustments were applied for the first time in the year under review as a result of the claw-back adoption of new IFRS 9.

Value adjustments on loans, net of write-backs, are the result of both the analytical evaluation of the possible recovery of non-performing loans of the application of the rules of assessment of other impaired credits in those in good standing. The difference between the value of the credit and the recoverable amount should be recorded in the income statement in value adjustments. The ratio between the total amount of value adjustments and the amount of the gross loans constitutes the so-called "hedging ratio of impaired credit", that the market seeks at the highest level since there is potential interest in speculative buying.

In order to mitigate, as far as possible, credit risk, the Bank has reinforced surveillance measures in every way and safeguards on dynamics combination dynamics by resorting to various means on intervention. The decrease of the value adjustments posted to the income statement was thus allowed by a plurality of factors, including a smaller flow of impaired loans entered, a reduction of stocks compared to the past and finally achieving a good percentage of hedging, thanks to the benefits of the first time adoption of the new IFRS 9.

With the adjustments on credits charged to the income statement ratio for hedging of impaired loans reached 47.7% against 46.1% in the previous year.

The significant reduction in total net impaired loans amounting to 224,8 million compared to 319,4 the previous year, is further due, to the positive results arising from prudent management of impaired positions, and to the effects of the first application of IFRS9 in terms of the increase of the write-downs; the different accounting physiognomy consequent to the adoption of the principle and the related technicalities - described in the relevant part of the explanatory notes - are the impaired loans to customers constituted the major part of the write-downs for 45,4 million and funds for credits in good standing for 15,1 million.

As a result of the described accounting entries, the net result of financial management amounted to euros 91 million against the 53,6 million of the previous year.

Operating costs

Operating costs at 31/12/2018 amounted to 74,6 million euros compared to 64,2 million in 2017 and are constituted by:

Detail (amounts in Euros / 1000)	31-12-2018	31-12-2017	Absolute change	Changes in %
Staff costs	(42,468)	(36,421)	(6,047)	14.24%
Other administrative costs	(40,490)	(36,695)	(3,795)	9.37%
Net provisions for risk and charges	321	830	(509)	NS
Adjustments / net recoveries tangible assets	(1,899)	(1,710)	(189)	9.95%
Adjustments / net recoveries to intangible assets	(919)	(914)	(5)	0.54%
Other operating expenses / income	10,836	10,718	118	1.09%
Total Operating Costs	(74,619)	(64,192)	(10,427)	13.97%

Personnel expenses were equal to 42,5 million euros, with an increase of 6 million compared to the previous year. This increase was mainly caused by an increase in employees in the organisation, an increase from 561 to 596 to take into account the program for opening of new branches, but also for higher cost components not present in the 2017 financial statements relating to donations and premiums related to employees.

The item also includes the compensation paid in the form of salary, the members of the Board of Directors and the Board of Statutory Auditors.

The administrative expenditure, analytically detailed in the following table, amounted to €40,5 million with an increase of €3,8 million compared to the previous year, mainly caused by compulsory contributions to funds for a resolution and a guarantee of depositors to €1.035 million, legal expenses for 339 thousand, expenditure relating to new securitisation transactions carried out in 2018 to 569 thousand and expenses for insurance premiums for 768 thousand. The increase in the latter item corresponds to an amount for commission fees.

In the list of administrative expenditure "indirect tax and duties", items which also include stamp duty paid on account of clients, other tax which is the responsibility of the bank including Imu, Tasi, Tari, municipal tax, stamp duties and various others connected with the activities of credit recovery. Within the entry the predominant component concerns the stamp duty equal to 6.559 million versus 6.424 of 2017, the recovery of which is entered in item 200 "Other income and expenses".

Other administrative expenses (amounts to euro / 1000)	31-12-2018	31-12-2017	Absolute change	Changes in %
Contribution to the funds for resolution of banking crises	(3,392)	(2,357)	(1,035)	43.91%
Telephone and data transmission costs	(1,932)	(1,799)	(133)	7.39%
Maintenance expenditure on tangible assets	(1,887)	(1,899)	12	(0.63%)
Rent expenses on real estate	(2,314)	(2,114)	(200)	9.46%
Costs of supervision, transport and storage of valuables	(872)	(779)	(93)	11.94%
Shipping costs	(284)	(279)	(5)	1.79%
Valuations and real estate acts	(293)	(565)	272	(48.14%)
Regulatory and procedural advice	(1,088)	(1,208)	120	(9.93%)
Various fees for Services and consulting	(679)	(423)	(256)	60.52%
Costs for the supply of material for office use	(517)	(600)	83	(13.83%)
Expenses for electricity and heating	(701)	(674)	(27)	4.01%
Advertising and promotion expenses	(1,236)	(1,210)	(26)	2.15%
Legal fees	(2,416)	(2,077)	(339)	16.32%
Insurance premiums	(3,074)	(2,306)	(768)	33.30%
Expenditure on information and printouts	(2,438)	(2,162)	(276)	12.77%
Data processing mgr.	(6,154)	(5,817)	(337)	5.79%
Taxes and duties	(7,506)	(7,385)	(121)	1.64%
Cleaning costs	(612)	(566)	(46)	8.13%
Annual subscriptions	(563)	(562)	(1)	0.18%
Contributions for treasury service and various associations	(16)	(9)	(7)	77.78%
Processing effects, checks and documents from third parties	(469)	(456)	(13)	2.85%
Maintenance costs and maintenance of rental property	(101)	(112)	11	(9.82%)
Subscriptions and advertisements in newspapers and magazines	(207)	(193)	(14)	7.25%
Purchase of promotional materials	(136)	(117)	(19)	16.24%
The cost of the service for administration contracts	(25)	(12)	(13)	108.33%
Expenses for travel and subsistence staff in service	(467)	(440)	(27)	6.14%
Administrative securitisation expenses	(652)	(83)	(569)	685.54%
Various minor expenses and expenditure for meetings	(459)	(491)	32	(6.52%)
Total	(40,490)	(36,695)	(3,795)	10.34%

Operating costs include further value adjustments in respect of tangible assets for 1,9 million, against 1,7 in 2017, and on intangible assets for 919,000 versus 914 thousand in 2017.

The provisions for risks and charges shows a positive imbalance between disbursements and provisions for 321 thousand euro (830 thousand in 2017), composed of provisions for disputes with banking activity for 151 thousand and reversals of impairment losses for commitments and guarantees for 472 thousand. The amount of the provisions for risks and charges, entered on the liabilities side, amounts to 3.2 million (3.1 million at the end of 2017); this is the estimation of the possible charges relating to

clawback fees, for compound interest or to request other repayments related to complaints from customers as well as to write-downs applied on contingent loans and on the profit margin.

The positive balance between other income/expense management, finally, amounted to 10,836 million euros, as better detailed in the following table:

(Amounts to euro /1000)	31-12-2018	31-12-2017	Absolute change	change %
Other operating income:				
Stamp duty recovered	6,531	6,393	138	2.16%
Comm.Quick inquiry	1,396	1,790	(394)	(22.01%)
Policyholder premium share	1,094	1,145	(51)	(4.45%)
Legal fees amount	2,057	1,344	713	53.05%
Other income and revenues	288	487	(199)	(40.86%)
Total income	11,366	11,159	207	1.86%
Other operating expenses				
Improvements on third-party assets	(253)	(249)	(4)	1.61%
Other liabilities	(277)	(192)	(85)	44.27%
Total expense	(530)	(441)	(89)	20.18%
Total other income (charges)	10,836	10,718	118	1.10%

The item includes the proceeds for 11,4 million euros, against the 11,1 million of 2017, net of charges for 530 thousand, against 441 thousand in 2017. The most significant proceeds are constituted by: recovery of stamp duty for 6,5 million (6,4 million at 31 December 2017), commissions on quick enquiries for 1,4 million (1,8 million at 31 December 2017), the recovery of insurance commissions for 1,1 million (amount equal to 31 December 2017), recovery of legal costs, including tax relating to 2 million (1,3 million at 31 December 2017).

Other charges are mostly constituted by contingent liabilities and the amortization of the adjustment operations of the buildings of the branches in location for 253 thousand.

As a result of the described trends the cost/income, which expresses the ratio between operating costs and the gross income is at 70.7% compared to 60.8% in 2017.

Intermediation margin value adjustments, operating costs, write-downs on controlled Valsabbina Real Estate for 340 thousand euro and the losses on the sale of goods for 22 thousand have been deducted, and move from profit on continuing operations before tax for euro 16 million.

The results of income

With the dynamics of profit margins previously mentioned, profit from continuing operations before tax amounts, as has just been pointed out, 16 million euros against a pre-tax loss equal to 10,9 million in 2017. Tax on income calculated in accordance with current rules and rates are equal to 813 thousand; in the determination of the tax burden of the financial year of the new provisions introduced by the Mef on 10 January 2018 and by the Budget Law 2019 as later shown in the financial statements of the notes to the accounts have been applied.

As a consequence, the net profit for the period amounted to 15 million and 186 thousand euro compared with the loss of 5 million and 821 thousand euros in 2017.

Indicator for	2018	2017
STRUCTURAL INDICES		
Uses/Tot. Active	62.53%	68.50%
Uses/ECR direct.	94.61%	93.21%
Average employees per branch (n. Dip./no branches)	8.51	8.01
Profitability ratios		
INTERMEDIATION MARGIN	2.15%	2.46%
Profit (Loss) / average shareholders equity	4.35%	(1.52%)
Profit (Loss)/average total assets	0.33%	(0.14%)
Intermediation margin/banking product	1.67%	1.73%
Write-backs in respect of assets at amortised cost/intermediation margin	13.46%	49.20%
Tax rate	(5.08%)	(46.38%)
Profit (loss) per share	0.43	(0.16)
Indices of productivity (in €/000)		
Banking product for average employee (1)	14,603	14,521
Utilisation for average employee	5,518	5,486
Direct deposits for average employee	5,833	5,886
Indirect deposits for average employee	3,251	3,149
Intermediation margin for average employee	189.8	196.7
EFFICIENCY INDICES		
Expenditure /average total assets	1.80%	1.68%
Expenditure/margin of intermediation.	78.63%	69.23%
Cost/income ratio	70.73%	60.78%
Cost/income ratio corrected (2)	73.73%	65.11%
Expenditure/banking product	1.02%	0.94%
Personal expenses/average number of emp.(in €/000)	76.38	65.96
Indices of asset quality		
Net impaired loans/net loans	7.33%	10.84%
Impaired net/net loans	4.01%	6.17%
Write-backs and losses on loans/impaired loans	0.48%	1.80%
Adjustments on bad debts/gross bad debts	57.19%	55.84%
Write-downs of impaired loans/ gross imp. loans	47.74%	46.14%
Texas Ratio (3)	69.94%	85.81%

(1) Direct and indirect collections from most customer loans

(2) Ratio between items 160+180+190 and 120+200

(3) Ratio between net impaired loans and equity (including results) deducted Intangible fixed assets

20 SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Within the meaning of Art. 3(d) and (e) of Legislative Decree No. 87 of 27 January 1992 n. 87, and in compliance with the directives of the legislation it is stated that subsequent to the date of closure of the financial year and up to the approval of the draft financial statements by the Board of Directors, which took place on 26 February 2019, there have been no significant events likely to affect or influence the financial and economic situation of the Bank and, more generally, on anything that has that has been set out in this document.

It should be noted in this paragraph of the report, the so-called " Carife Process ", which is reported under income, the positive outcome of the judgement delivered by the Court of Ferrara last 11 February: judgement which dismissed the arguments of the plaintiff, because "there is no basis in fact " – and excluded the existence of reciprocal subscriptions of capital between Banca Valsabbina and the Cassa di Risparmio di Ferrara in relation to transactions carried out in the year 2011. The judgement, absolving the former Director General of the Banca Valsabbina, Mr Spartaco Gafforini, as well as excluding the civil liability of the Institution.

The Board of Directors has maintained since outset a position of absolute and serene confidence in the outcome of the judicial proceedings, in the knowledge that they always operated with utmost respect for the law and, and especially, industry regulations.

21 FORESEEABLE PERFORMANCE TREND

The chapters in the first part of this report on the state of the economy and forecasts on the evolution of the economic scenario and financial outline trends that are not considered a consolidation of growth; the increase in the GDP, slowing down everywhere, has affected our country to a limited extent and does not allow an expectation of the development of that wealth that nourishes and pushes the processes of financial intermediation typical of banking activities.

Nevertheless, if on the one hand the proverbial prudence that has always characterised the conduct of our bank does not allow expressions of optimism, on the other hand we know we can count on our energy and resources to consolidate the positive conditions of efficiency and competitive capacity and to ensure positive operating results consistent with the risk attendant on loans – which has also been subject to a substantial improvement in its qualitative profiles - and with the reduced profitability from traditional intermediation activities in circumstances where interest rates have never been so low.

Thus, with growth likely to be contained the margin from cash management, there appears to be a realistic chance to significantly enhance the contribution of net revenues from services concerning recomposition of performing assets; in this sense we will dedicate daily and vigilant attention to the objective of increasing intermediated volumes to ensure adequate margins and from this point of view we know we can rely on the intense entrenchment in the local area and on the effectiveness of trade policies and communication which we have widely presented.

22 PROPOSED APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF THE PROFIT FOR THE YEAR

Dear Shareholders,

We are now submitting for your examination and approval the Financial Statements for the 2018 year, its asset, economic and financial elements, in addition to the attachments which form an integral part of same. The budget, which closes with a net profit of euro 15.186.011, was reviewed by the BDO Italia S.p.A..

As regards the allocation of the result for the financial year, the Board of Directors, highlighting the distribution of a dividend for euro 0.15 per share, proposes to the assembly as follows:

Operating results	15,186,011
10% to the legal reserve	(1,518,601)
15% to the extraordinary reserve	(2,277,902)
Proportion to be allocated:	11,389,508
- To shareholders €0.15 for each eligible share	(5,327,524)
- to the charitable fund	(60,000)
- Additional allocation to the extraordinary reserve	(6,001,984)

If the present proposal will be approved the amount attributable to the reserves and equity will amount respectively to 9,798,487 euro and 325,414,488 Euro.

The proposal of a dividend of 0.15 euro per share corresponds to a pay-out of 35.08%.

23 ACKNOWLEDGEMENTS

Dear Shareholders,

We have reached the end of our report, each year a little longer to account to a bank that is always a bit bigger. The pages added serve to give an account of the greater complexity of the operating environment and regulatory framework and, conversely, to illustrate the policies adopted in support of an autonomous corporate development attentive to safeguard the objectives and values of the Credito Popolare.

In all conscience we can say we have maintained compliance with to our institutional duties and entrepreneurial skills; we have done so with great dedication, trying to best interpret the role of responsibility as directors at a still difficult and particularly delicate economic time for banks which exist as intermediaries, through the long decade of crises.

In concluding this 121th financial year, we wish to address a word of thanks and greeting to all those who were involved and partners in our efforts and in corporate responsibility and those whose criticism helped us to excel.

Thank you, first of all, our members and the tens of thousands of customers who chose us and attend our branches every day. Thank you for your cooperation and support, for to the Board of Statutory Auditors and the General Management and all the staff: the new collaborators brought into Valsabbina simultaneously with the opening of new branches in turn a greeting and good wishes in the certainty that they can share with colleagues the "historical" sense of pride in belonging to the company.

A grateful and respectful thanks to the Banca d'Italia, which has been close during the course of the year on the occasion of an intervention of an oversight inspection for suggestions, advice and also the projections that we have heard with heartfelt deference which we will immediately implement as same is aimed at improving the overall profile of the Institution.

Similar positive sentiments go to Consob, a categorically and associated bodies in correspondent banking and all their representatives with whom we have profitable relationships.

Members present and to all those who know us and kindly attended we renew a sincere wish so that 2019 can continue as a peaceful and lucky year.

Brescia, 26 February 2019

THE BOARD OF DIRECTORS
