BANCA VALSABBINA - DIRECTORS' REPORT ON OPERATIONS

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

FINAL AFTER MANAGEMENT COMMENTS AS AT 8 MARCH 2021

INTRODUCTION

Introduction

Dear Shareholders, for the second time in a row, our annual shareholders' meeting is being held in compliance with the regulations issued to contain infections from Coronavirus, and therefore in a very different setting from the lively and emotional atmosphere of all the shareholders' meetings that have been held since 1898, the year the Bank was founded.

The manner in which this silent and low-attendance meeting was held - without prejudice, of course, to the prerogatives of the Shareholders in the formation of the decision-making processes - nostalgically brings back thoughts of the warmth of past meetings, which were more crowded and attended each year due to the importance and significance of this recurring institutional appointment. But nostalgia turns to sorrow when we think of the many empty seats that a packed face-to-face meeting would have forced us to see this year. The invisible enemy that struck our region and the provinces of Brescia and Bergamo in particular, which are the areas with the highest number of deaths in the country, took away so many shareholders.

And while it is true that not a day has gone by without mourning the loss of people we have known and reflecting on what was happening, it is also true that never before this meeting day have we felt our corporate body so close "at a distance" in sharing the painful memory of those who are no longer with us.

Therefore, we entrust to the first lines of our report - to be delivered to the families of the Shareholders and customers who have passed away - a heartfelt thought and a feeling that could not be more sincere for the sadness of the testimonies of loneliness and pain that our work has forced us to listen to.

If there is one place, in fact, where one can recognise and understand the many difficulties produced by the crisis, it is the bank: this is where the fragilities and anxieties that the pandemic has transferred to the economic life of individuals and businesses come to. It is precisely because our large family - a group of almost 700 employees and just as many families - has been affected by this health emergency that the Bank has sensitively increased its resources and energy to provide immediate and tangible support to the world of production, the household sector and private individuals, all of whom have been hit by the most serious health, economic and social crisis of the modern era.

In order to implement this objective effectively, an operational plan was drawn up from the start of the lockdown, reassuring customers that the Bank was there, that it would remain at everyone's side and guarantee continuity of service, despite restrictions on people's mobility and meeting possibilities. With extraordinary commitment and a truly social sense of responsibility, difficulties that seemed insurmountable were overcome - with the support of a competent and close-knit internal "Crisis Committee" - such as those of speeding up remote working arrangements and making them immediately effective, coping with operations with counterparties that were not always "digitalised", and making network structures accessible in any case and secure when really necessary with unprecedented practices and formalities.

Once these operating conditions were guaranteed, the most challenging and ambitious step was to reconcile the timely continuation of the projects envisaged in the Strategic Plan with the heavy workloads entailed by government support measures - moratoria, loans, government-backed loans and joining ABI agreements - but also by the measures voluntarily implemented for the benefit of certain categories, not excluding charitable initiatives in support of extraordinary health requirements.

In a year, 2020, which would probably have been difficult even in the absence of the pandemic shock due to the persistence, at system level, of the threefold situation of low interest rates, high structural costs and high problem loans, the Banca Valsabbina Group's business model made it possible to withstand the impact of the global crisis while at the same time preserving and even improving market shares, efficiency profiles and management balances.

In fact, the economic and financial results for the year were all positive, as they even surpassed the brilliant performance of 2019. Net profit exceeded Euro 24 million, after absorbing the significant costs of dimensional and territorial development policies and after recording extraordinary provisions on credit risk to strengthen capital ratios that enhance the company's economic value and reputation; the attractiveness of the share, which is still crippled by the continued under-pricing of the entire banking sector, will also be enhanced. We are sure of it.

The story of this difficult 2020, which presents seemingly contradictory outcomes between our brilliant achievements and a general situation of unprecedented crisis, is not a separate page to be added to the others: it is an example of good corporate governance and consistency with the values and principles of cooperation that have enabled the Bank to cross three centuries of economic history, always lived with great respect for those who have been here, at the helm of this Bank, before us.

Turning the page on 2021, we are therefore fully aware that we are facing a year of great difficulties, but we are supported by full confidence in the vaccines, in the economic upturn driven by the recovery fund, and in ourselves for what concerns the responsibilities of our role as a co-operative credit bank that is an independent, solid and equipped to govern a development model cultivated with professionalism and business courage.

Before dealing with the various chapters that make up the report on operations, we would like to briefly summarise, in accordance with established practice, the main facts that have described the economic and financial scenarios of 2020 at a fast pace.

1. TRENDS AND FACTORS OF CHANGE

Last year, introducing as usual the report on the financial statements with economic and market trends, we set ourselves the objective to go beyond - in this initial chapter - a simple summary and forecasts of the external reference context, supplementing this information with broader reflections on the factors that are determining the changes underway.

Without this broader horizon, it would be difficult to understand the possible contradictions between the strong downturn of the real economy in Europe and Italy and the brilliant results achieved by our Bank in 2020.

Factors underlying the changes

The health emergency caused by the spread of the new coronavirus is still widespread globally and in Europe. Every day, the international and national health authorities remind us that, even in Italy, the first western country to be hit by the epidemic, the toll is very heavy, with over two million people affected and slightly less than one hundred thousand dead. The year 2021 started with a very high number of infections and fatalities, and although there have been positive developments in terms of vaccinations, it will still take time for the effects to spread widely and ensure that populations are protected across the board.

The response to the pandemic crisis, properly coordinated by EU Member States, is another factor driving the changes taking place. The substantial budgetary measures adopted in 2020, which were of a purely emergency nature and aimed at containing pandemic risks and limiting the devastating economic consequences, are expected to gradually fade away, giving way to a gradual transition towards recovery-supporting measures. The ECB reminds us in its latest Economic Bulletin that the Next Generation EU initiative is the central pillar on which economic recovery projects can be built in each of the EU countries.

The selective choices of support and development of the different economic sectors also trigger the changes taking place. For example, to make Europe an energy-neutral continent, the EU has proposed an ambitious strategy to decarbonise highly polluting sectors, using energy more efficiently and thus consuming less, helping to keep costs down for households and businesses, to protect the environment and to reduce dependence on external oil and gas suppliers.

The above-mentioned factors of change suggest that, beyond the current emergency phase, there are positive prospects for economic development - albeit with differentiated sectoral impacts - driven by a strong use of public resources; resources that will have to be repaid through income and employment growth, with the related production of adequate tax revenue, so that they are not transformed into new debt to be borne by future generations.

Governing change is therefore the real challenge in terms of political and social cohesion, in Europe and in Italy, to achieve the common goal; the capacity to manage highly complex and risky projects with the right balance between public and private sectors will be required, as will an efficient banking/financial system capable of resolving, in the short term, the problems of excess production capacity in the more traditional business segments and of supporting, over a broader horizon, entrepreneurial projects that are consistent with the new reference framework and solid from an industrial point of view, encouraging direct financing and access to public resources and the capital market.

The repercussions in Italy and for the banking system

In Italy, according to projections provided by ISTAT, the fall in gross domestic product in 2020 would be 8.8%, largely caused by the health crisis. The economic picture, even at the beginning of 2021, remains uncertain, especially in the services sector - from retail to transport, accommodation and restaurants - which is most exposed to the effects of the pandemic. The precautionary increase in households' propensity to save will further dampen already weak consumption.

Therefore, the crisis in demand and in production also has a significant impact on employment, the trend of which was mitigated - for employees - by the freeze on dismissals, while they were particularly serious for young people and women, in the presence of a higher incidence of fixed-term employment contracts.

The most recent crisis is based on national production activities that, as we pointed out last year, were not able to adapt promptly to the great changes produced by technology and globalisation: this had negative effects on productivity and the growth potential of the economy.

In the new macroeconomic scenario, the main weaknesses of the Italian system are worsening: specialisation in traditional sectors, which are more exposed to competitive pressures; the high incidence of SMEs with fewer resources to make the necessary investments in innovation; the preponderance of companies with ownership and management structures related to the same family with reduced interest towards the capital market and a persistent dependence in sources of funding on the banking channel.

As regards the impact on the banking system, it should be remembered that the market and regulatory context in which banking intermediaries operate has undergone significant changes in recent years, making it increasingly challenging to maintain economic and financial balances.

In line with the Bank of Italy's analysis, the structural changes underway can be summarised as follows: (i) the persistence of low interest rates penalises the profitability of traditional intermediation; (ii) advances in technology are shifting the efficiency frontier and necessitating significant investment; (iii) compliance costs tend to increase, as do reputational risks and sanctions related to incorrect business practices; (iiii) new technological players (known as fintech), offering innovative and cheaper solutions to financial requirements, increase competition and the obsolescence of less efficient production structures.

Human resources remain the main driver of change for our Bank, which continued to invest in hiring young people and adding new professionals to its workforce. However, significant efforts still need to be made, especially in terms of training, investing in digital and language skills, increasing awareness of how to "read" company financial statements in relation to the new trends of the economic sectors to which they belong, reorienting relational skills and managerial qualities towards the achievement of results - including qualitative results - that go beyond the mere short-term horizon.

2. MACROECONOMIC TRENDS AND THEIR IMPACT ON THE BANKING SECTOR

The degree of international openness of the companies present in the various geographical areas in which Banca Valsabbina operates prompts us, as usual, to take a brief look at the macroeconomic trends in the world and in Europe, comparing them with those in Italy.

For an overview, we rely on the estimates and forecasts made by the Eurosystem's research offices, although we are aware - given the high level of economic uncertainty - of the greater difficulties that economists face in producing reliable numbers and not just reference scenarios.

Even with regard to the latter, the Eurosystem experts considered it necessary to supplement the baseline scenario - outlined below - with two alternative scenarios, one moderate and one severe. On the one hand, news about the development of effective vaccines has boosted confidence that the pandemic can be adequately contained, making it less likely that a serious scenario will occur; on the other hand, the pandemic emergency itself has highlighted the dependence of several countries on external supplies and this could lead to the need to relocate production activities back to where the health crisis has already been faced and resolved (negatively affecting global value chains, including in the Eurozone).

However, the different scenarios share a common understanding that it will take time before widespread immunity is achieved and that a further resurgence of infections cannot be ruled out, with the concerns that this entails for public health and economic prospects.

World economic trend and key developments

World GDP in 2020 is estimated to decline by 3% in real terms (excluding the Eurozone), with a projected increase of 5.8% in 2021 and a subsequent expansion of 3.9% and 3.6% in 2022 and 2023, respectively. World trade (excluding the Eurozone) contracted more sharply in 2020 than GDP in real terms (- 9.2%), but, similarly, its recovery in 2021 is estimated to be more solid. By way of comparison, at the beginning of the year the world economy was expected to grow by 3.3% in 2020 and 3.4% in 2021.

The resurgence of COVID-19 infections is weighing on economic recovery in a context where the containment measures for the second wave are, however, more limited and therefore less devastating than those taken during the first outbreak in spring 2020.

Therefore, the ability to provide rapid and effective responses to the health crisis is, at least in the short term, a key factor, which may lead to different trends in the economic outlook of different countries.

However, the long-term effects could come mainly in the form of a reduction in the labour supply, since the pandemic has hit the human-factor intensive sectors hardest, in the presence of substantial investments aimed at increasingly automating the production and trade of goods and services.

Among the most worrying risk factors, only apparently overshadowed by the health emergency and the disastrous impact on the world economy, there are still geo-political tensions with positions of strength and weakness that could re-emerge in different ways after this disastrous setback.

Performance of the main economies outside the Eurozone

In the United States, the resurgence of contagions and electoral uncertainties affected economic performance in the final months of 2020, in a year that ended with GDP falling by 3.5%, the worst since 1946.

Expectations for 2021 are all focused on the new US presidency's ability to effectively tackle the health crisis and foster the national reconciliation that is essential for economic development.

China, the world's largest economy, was also the first to contain the virus at an early stage and restart the economy through powerful stimulus measures after the first fall in thirty years of unstoppable growth was recorded in early 2020. According to information provided by the National Statistical Office, gross domestic production, GDP, grew by 2.3% in 2020 in real terms and net of price fluctuations. In the last quarter of the year, the real growth rate came close to 6% after a broadly similar result in the previous July-September period. This positive trend has significantly affected Lombardy's industry, and in particular that of our Brescia districts.

The economy of Japan, the third-largest industrial power after the United States and China, showed a very unusual trend: having already entered a technical recession in the first quarter of 2020 - mainly as a result of the fall in consumption following the VAT increase - it recorded a vigorous rebound in GDP in the middle part of the year thanks to an increase in exports and a surprising recovery in household consumption. Already in the latter part of the year, the historic trade agreement between 15 Asia-Pacific countries, including China and South Korea, boosted the economy's post-Covid recovery in a climate of renewed optimism.

In the UK, the outlook for the economy is characterised by new closure measures amid a serious worsening of the pandemic crisis after a decline in GDP in 2020. On a longer time horizon, the impacts of the recent Brexit agreement with the European Union are to be assessed.

In the large commodity-exporting countries, primarily Russia and Brazil, the pace of recovery in the second half of 2020 is slowing as the number of infections remains high and the scope for supporting the economy with additional national budget measures is reduced. On the other hand, oil prices have been rising significantly since mid-September, although neither the International Energy Agency (IEA) nor OPEC expect oil demand to expand significantly before the end of 2021.

Performance of the economy in the Eurozone

The baseline scenario of the macroeconomic projections for the Eurozone, formulated by the Eurosystem economists, shows a forecast of real GDP trend of -7.3% in 2020, 3.9% in 2021, 4.2% in 2022 and 2.1% in 2023.

Although the news regarding the distribution of vaccines is encouraging, experts tell us that the downside risks remain linked to the heavy impact of the pandemic on the economic and financial conditions of all countries in the region. In this context, trends in the sectors are rather uneven with the service sector more affected by restrictions on social interaction and mobility than the industrial sector.

The scenario of uncertainty, at least in the short term, weighs heavily on the prospects for a recovery in domestic consumption and investment, despite the strong support provided to households and businesses by the lavish measures imposed on the national budget. On the one hand, consumers continue to show caution due to infection risks and their effects on employment and income by increasing the savings rate, and on the other hand, uncertainty about the economic outlook affects business investment decisions.

In the medium term, the recovery of demand and, more generally, of the European economy should be accelerated by two important structural drivers.

With regard to the first one, by the continuation of the favourable financing conditions allowed by a highly accommodative monetary policy thanks to the plurality of measures implemented by the ECB, first and foremost the pandemic emergency purchase programme (PEPP), aimed at supporting the flow of credit to all sectors of the economy, offering support to economic activity and safeguarding price stability in the medium term.

With regard to the second one, by the Next Generation EU programme, under which the European Union will be able to raise Euro 750 billion in capital market resources for transfers (390 billion) and loans (360 billion) to member states. Nearly 90% of the programme's resources will be channelled through the Recovery and Resilience Facility once each country has prepared a plan that - according to the European Commission's guidelines - must "reflect a substantial reform and investment effort".

The national budget deficit of the Eurozone, after rising sharply to close to 8% of GDP in 2020, is expected to decline again - as the economy recovers - to 6.1% in 2021, 3.9% in 2022 and 3% in 2023.

National economic situation and outlook for 2021

With reference to the performance of the national economy and the outlook for 2021, ISTAT reports, alongside a contraction of 8.8% in 2020, a GDP recovery of 2.3% in 2021, which is lower than the economic forecasts for the Eurozone as a whole outlined above. After a robust recovery in the third quarter of 2020, the Italian economy contracted again in the fourth quarter due to the economic effects of the new measures adopted to contain the health emergency.

In order not to lose sight of the terms of comparison, it might be useful to recall that ISTAT data at the beginning of 2020 projected economic growth for Italy of a meagre 0.2%; a level that is difficult to expand in the absence of preparatory structural measures such as the hoped-for reforms in the area of market liberalisation, realignment of wages to productivity, tax reform and the fight against tax evasion, and the reorganisation of public spending.

Just a few ideas taken from the most recent documents published by the Bank of Italy are enough to commit the extreme complexity of this past 2020 to the history of our country:

- household income recorded a strong decline over the last twenty years;
- the drop in consumption was exceptionally large and only partly countered by government measures taken to support disposable income;
- the household savings rate has more than tripled since the end of 2019, in contrast to the two previous crises at the beginning of the millennium;
- the added value of Italian companies decreased significantly, as did their profits, with a forced postponement of real investments due in part to restrictions on production activities;
- the change in public debt as a percentage of GDP reached its highest level in twenty years.

The political crisis that began at the turn of the year increased the difficulties in this delicate period for the country, which is called upon to make important choices on the use of the resources made available by the recovery fund.

However, the overcoming of the political crisis fortunately brightened up the prospects for a new dialogue and a calmer climate at all levels: essential factors for the implementation of a shared project for Italy's economic and social redemption.

Our contribution to the future of the country - what our Bank is looking forward to demonstrating - lies in the concreteness of our daily actions and in the determination of our decisions to invest in our territories in order to be effectively at the side of households and businesses.

The repercussions and challenges for the Italian banking system

The Bank of Italy emphasised how the contribution of banks in 2020 in providing households and businesses with the resources that the stimulus of budgetary policies, with the emergency decrees, had provided each time, was timely and effective.

The system has done its duty and the annual accounts, as revealed by Assopolari's analyses, should benefit from an improvement in the income statement: by 1.7% in terms of net interest income and 3.1% in terms of other income, for an overall increase in net interest and other banking income of 2.5%.

Similarly, operating costs are expected to decrease by 2.1% and personnel costs by 2.2%. This should translate into an increase in operating income of 9.8% as well as in net profit, driven by cost containment and only a moderate recovery in provisions (7.0%). Similar trends are expected for 2021, with net interest and other banking income growing 2.3%, operating expenses falling 1.9%, operating income rising 8.3% and provisions expected to rise 6.7%.

However, the challenges for the Italian banking system, which is called upon - under the guidance and stimulus of European and national supervisory authorities - to make structural changes, do not lie in short-term results.

As already mentioned, maintaining the economic and financial balances requires significant investments with important points of attention to which the ECB has not failed to refer in its very recent and emblematic "Guide on the supervisory approach to consolidation in the banking sector".

The reorganisation of banking activities, known as banking risk in journalistic terms, can bring benefits (this is what the Authority thinks), but these must be weighed against potential risks. If well designed and carried out, combinations can contribute to the overall financial soundness of the banking system without weakening the diversity of different business models. They can be a means to address long-standing issues in the European banking sector, such as low profitability and overcapacity. At the same time, a reorganisation involves implementation difficulties and must comply with prudential requirements, ensuring effective and prudent risk management.

For many "less significant" banks in Italy, the development of the market context is intertwined with some specific elements of attention, recently mentioned by the Bank of Italy, such as a higher incidence of non-performing loans on average, lower percentages of loan coverage ratio, high absorption of IT costs related to ordinary management and stringent budget constraints on investments in technology, low production efficiency and increased competition in more traditional business areas by newly established intermediaries, built on agile service models, with a consequent progressive reduction in margins.

The regulatory variable is not a minor factor of change.

The European regulator has published in recent years a number of new regulations and guidelines (e.g. NPL Guidelines, New Definition of Default, Calendar Provisioning, etc.) with the aim of improving the asset quality of the banking sector.

The aim is to move from solving the critical issue of high levels of non-performing loans (known as derisking), carried out by strengthening the internal management of NPLs and extraordinary transactions for the sale of non-performing loans, to a more prudent approach to credit management, from the earliest stages, by monitoring and identifying potential risks of impairment at an early stage.

To this end, stricter and more prudent standards to improve practices, governance models, processes and mechanisms for granting and monitoring credit are being introduced with the EBA Guidelines on Granting and Monitoring Credit, effective from mid-2021.

3. SHAREHOLDING STRUCTURE AND SHARE TRENDS

In the report to the financial statements, the chapter on the shareholding structure has always been the subject of up-to-date discussion not only because of the obligations laid down in Article 2545 of the Italian Civil Code but also because of the institutional character of the Bank that, as a co-operative credit bank, plays a special and clearly recognisable role within the credit system.

The emphasis that has always been placed on the cooperative movement is based on solid motivations, including the fact that Banca Valsabbina has remained among the few to be inspired by and to implement those principles of mutuality, even if not prevalent, which have made the cooperative credit movement great.

The responsibility of demonstrating concrete compliance with the cooperative purpose is based - beyond the reporting obligations provided for by law and by the articles of association - on the criteria that guide management policies, which have always been attentive to the relations established with a very special interlocutor and almost always a customer: the shareholder, who is the true owner of a free and independent company.

This responsibility is all the more important if we consider the size of the Bank, which according to authoritative research sources is one of the top banks in the "cooperative" category, and the size of its shareholding structure: there are approximately 40,000 Valsabbina shareholders, mostly individuals, but also companies and organisations.

In the chapters "Cooperative purpose and relation with Shareholders" and "Relation with the territory and the community", contained in the 2020 Non-financial Statement, as well as in the part of this report dedicated to commercial policies, analytical evidence is given of the initiatives that set out the concept of cooperative through a special relationship of proximity and trust, enriched by a flexible and competitive line of products and services designed for Shareholders.

With regard to the size of the shareholding structure, against the number of exchanges that took place during the year, the number of shareholders - almost all customers - increased moderately compared to the previous year: at the end of 2020, there were 39,999 compared to 39,719 at the end of 2019, in addition to 1,930 shareholders (1,639 at the end of 2019), including holders with less than 100 shares.

Therefore, in total, at the end of 2020, there were 41,929 holders of company shares - Shareholders - compared to 41,358 the previous year: 93.95% were individuals and 6.05% were companies and other entities.

With regard to the shareholding brackets, the following table shows their size in absolute and percentage terms.

From 1 to 100	6,299	15.02%
From 101 to 200	6,301	15.03%
From 201 to 500	18,765	44.76%

From 501 to 1,000	5,552	13.24%
From 1,001 to 2,000	2,679	6.39%
From 2,001 to 5,000	1,423	3.39%
From 5,001 to 10,000	507	1.21%
Beyond 10,000	399	0.95%

In terms of gender, there are 20,810 male shareholders and 16,777 female shareholders.

As for the geographical areas of origin, 89.9% of Shareholders live in Lombardy, 4.5% in Trentino Alto Adige, 3.86% in Veneto and 1.05% in Emilia Romagna. 0.70% of the Shareholders come from other parts of the country.

To complete the examination of the identity profiles of the shareholding structure, the following table shows an aspect that is singularly typical of the strong and stable bond that is established between the shareholder and his or her bank: i.e., the seniority of membership in the shareholding body due to the longevity of this type of family assets. More than 43% of shareholders have held their shares for more than 10 years and 12.4% for more than 20 years, a sign of their attachment and active participation in the life of the company.

Less than 1 year	1,085	2.71%
For 1 year	1,536	3.84%
From 2 to 3 years	1,355	3.39%
From 4 to 5 years	1,746	4.37%
From 6 to 10 years	10,971	27.43%
From 11 to 20 years	17,245	43.11%
From 21 to 30 years	4,952	12.38%
Beyond 31 years	1,109	2.77%

It is now known that the shares of the Bank have been traded since 18 July 2016 on the HI-MTF market managed by HI-MTF Sim Spa, the Order Driven equity segment, reserved for investment companies, banks and managers of regulated markets, authorised and subject to Consob supervision.

The transition to trading the security on this market - which the Bank had decided to do in view of the entry into force of the MiFid II Directive on 1 January 2018 - was an important step forward to facilitate trading, with the aim of improving the liquidity of the security itself.

During 2020, 333,008 shares were traded on the HI-MTF platform for an equivalent value of Euro 1.442 million at an average price of Euro 4.3308: price ranging between a maximum of Euro 4.38 from January to November 2020 and a minimum of Euro 4.03 from 13 November until the end of the year. These listing values were slightly lower than in 2019 during which 617,727 shares were traded, at an average price of Euro 4.5702.

During the year, the Bank intervened in the negotiations with the relevant Provision for purchase of own shares, in support of the liquidity of the security, by virtue of the authorisation of the Bank of Italy, pursuant to the CRR and shareholders' meeting regulations that envisage interventions compared to the price recorded in the last auction: 22,400 shares were purchased on market for an equivalent value of Euro 91,762.

the Provision was used for purchasing the shares of the Bank offered for sale as part of insolvency procedures or garnishments notified to the Bank, as well as for purchases envisaged by the Articles of Association in cases of shareholder exclusion.

A total of 54,546 shares were thus purchased for an equivalent value of Euro 238 thousand.

As at 31 December, portfolio shares amounted to 1,259,762 for an equivalent value of Euro 9.617 million; they were 1,205,216 for an equivalent value of 9.379 million as at 31 December 2019.

Even this year, general market conditions have unfortunately not allowed the desired easing of pressure on the securities of cooperative banks, whose prices continue to show the wide gap between the "value" of the share – the one that is anchored to the company's assets and income prospects - and the "price" of the share – the one that, recognised during the weekly auction, expresses instead the balance between supply and demand for the share.

It goes without saying that the value of equity securities tends to reflect the expectations expressed by market participants regarding the profitability prospects of the issuing company.

In the case of our Bank, the capital strength and its excellent income performance in recent years - confirming its ability to create value over time - make it realistically attractive to keep the share in the portfolio, also given its high yield in the form of dividends, only partially and temporarily suspended as a result of the demands of banking supervision following the pandemic crisis.

On these assumptions, the Board of Directors bases its most realistic confidence in the much hoped-for recovery in the share price level in tandem with a strong recovery in the stability profiles of the securities market.

4. EQUITY AND CAPITAL RATIOS

The purpose of this chapter is to represent the amount and the trend of equity that are one of the Bank's strategic priorities, both in relation to the growth and development prospects of the risk and in relation to regulatory legislation.

For a banking company, the concept of riskiness completely encompasses the company and, when speaking of capital, i.e. regulatory capital, we are referring to an aggregate that includes all the accounting items that are fully available to be used to cover risks and possible business losses.

As far as we are concerned, we can affirm that we have always adopted risk policies based on prudential criteria, supported by constant attention to the correct sizing of our own means. The economic consequences triggered by the outbreak of the devastating pandemic crisis that is still ongoing make us reflect on the fact that it is essential to continue and intensify, even before supervisory obligations, the process along these lines, ensuring, on the one hand, better management of the risk profiles inevitably related to banking activities and, on the other hand, raising and strengthening financial defences.

In the discussion of this chapter, we will see how the bank's administration has maintained a close and balanced correlation over time between the growth of aggregates and the growth of shareholders' equity, which we are about to highlight.

A summary of the main capitalisation ratios over the past four years is shown in the table below, while a more complete analysis of what happened during the year, both from an accounting point of view and in terms of prudential supervision, is provided later in this chapter and is also analytically presented in the Explanatory Notes, Part F. "Information on equity".

	31/12/2020	31/12/2019	31/12/2018	31/12/201
shareholders’ equity / customer deposits	8.69%	9.05%	10.20%	12.08%
shareholders’ equity/loans and receivables with customers	10.94%	11.06%	10.78%	12.97%
shareholders’ equity/total assets	6.24%	6.75%	6.74%	8.88%
net non-performing loans/own funds	34.29%	43.97%	58.08%	78.09%
net bad loans/own funds	20.03%	23.92%	31.76%	44.42%
total capital ratio phased in/fully phased	17.11%/15.73%	15.77%/14.06%	15.73%/13.74%	16.60%
tier 1 capital ratio phased in/fully phased	15.92%/14.51%	14.43%/12.69%	14.72%/12.69%	15.17%

Given that the Bank’s equity corresponds to the algebraic sum of the items 110 “Valuation reserves”, 140 “Reserves”, 150 “Share premium reserve”, 160 “Share capital”, 170 “Own shares (-)” and 180 “ Profit/loss for the year” under liabilities in the balance sheet, the changes in these items are summarised below.

At the end of 2019, prior to the result for the year, the Bank's assets amounted to Euro 326.435 million and net profit was Euro 20.302 million. In accordance with the shareholders' resolution approving the 2019 financial statements, a resolution that accepted the Bank of Italy's recommendation of 27 March 2020 not to proceed with the distribution of dividends, Euro 19.8 million was allocated to reserves. Shareholders' equity as at 31 December 2020 - taking into account the other changes described in the "Statement of changes in shareholders' equity in the financial statements" - amounted to Euro 349.297 million; including the net profit for 2020, equal to Euro 24.3 million - the allocation of which, to the extent permitted by Supervisory Measures, will be decided by the next Shareholders' Meeting - the book equity reaches the amount of Euro 373.6 million.

With specific reference to the banking business, as a result of the regulations concerning prudential supervision, in addition to the book equity, the definitions and contents relating to "Own Funds" and "Solvency Ratios" are important.

The reference regulations consist of EU Regulation no. 575/2013 (Capital Requirements Regulation, known as CRR) and of the 2013/36/EU Directive (Capital Requirements Directive, known as CRD IV) that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (known as Basel III framework, as well as the legislation introduced in 2020, described below.

The regulatory brief envisages that "Own funds" are made up of:

- Tier 1 Capital, in turn made up of Common Equity Tier 1 - CET1 and Additional Tier 1 - AT1;
- Tier 2 capital (T2).

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

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

Tier 2 is in turn made up of other financial assets, such as subordinated loans.

On the definition of regulatory capital, note that with the entry into force of IFRS 9 (1 January 2018), a transitional arrangement (art. 473 bis) was introduced in the EU 575/2013 - CRR Regulation, which defers in time the impact on Own Funds deriving from the application of the new impairment model introduced by the same accounting standard.

After exercising the option communicated to the Supervisory Body on 1 February 2018 following the adoption of IFRS 9, the above regulations introduce the possibility of including in Common Equity Tier 1 capital a transitional positive component equal to a portion of the impairment losses recognised in the financial statements as a result of the first-time adoption of IFRS 9; the amount of this share is decreasing over time over a five-year period according to the following percentages: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. As at 31 January 2018, shareholders' equity decreased by Euro 61.5 million (book equity as at 31 December 2017 Euro 382 million, as at 1 January 2018 Euro 320.5 million); the transitional arrangements referred to above envisage that, from a prudential point of view, this effect will be progressively sterilised over a period of five years. As from 1 January 2023, the impairment losses implemented with IFRS 9 will be fully accounted for in Own Funds.

The regulations introduced in 2020 in response to the Covid-19 emergency are contained in EU Regulation 2020/873, adopted by the European Parliament, under which the starting date of application of certain measures envisaged by the new CRR2 was changed, with the simultaneous introduction/amendment of certain transitional regimes impacting Own Funds.

Specifically:

- a new dynamic system that allows the sterilisation of the increase in collective impairment on performing loans at the reporting date compared to the collective impairment in place as at 1 January 2020. This sterilisation percentage is decreasing over time over a five-year period according to the following percentages: 100% for the years 2020 and 2021, 75% for the year 2022, 50% for the year 2023 and 25% for the year 2024. The sterilisation of investments in software, i.e. the opportunity to replace the deduction of the corresponding amount from Own funds with the recognition of a corresponding 100% risk-weighted amount under "Risk assets-Other assets". Opportunity applied for the first time from the reporting of 31 December 2020, in compliance with the starting date related to the official publication of EU Regulation 2020/2176;
- the new SME supporting factor: the redefinition of the "supporting factor" was already envisaged in the CRRI and, following Regulation 873, its application has been anticipated from 30 June 2020;
- the sterilisation of the amount corresponding to the change between 31 December 2019 and the specific reporting date of valuation reserves on government bonds held in the FVOCI portfolio: the option under EU Regulation 2020/873 was exercised in September 2020 and applied from Corep reporting on 30 September 2020.

In the light of the updated legal and regulatory framework described above, we are pleased to review the numbers and configuration of the items that constitute, in a broad sense, the company's assets.

The regulatory Own Funds - in transitional regime - amounted as at 31 December 2020 to Euro 407.4 million (Euro 401.7 million at the end of 2019), made up of Euro 379.1 million of Common Equity Tier 1 (CET 1, Euro 367.5 million at the end of 2019) and Euro 28.3 million of Tier 2 Capital (34.2 million at the end of 2019), consisting of accountable subordinated loans; it should also be noted that the profit generated by the Bank in the period under review is not included in Own Funds unless the Shareholders' Meeting approves the allocation of the result for the year.

The trend in own funds was positively affected by the allocation of the 2019 result of Euro 19.8 million, the issue of a new subordinated loan of Euro 8 million and the improvement of the FVOCI valuation reserves of Euro 3.3 million; whereas it was negatively affected by the amortisation of subordinated loans of approximately Euro 14 million, the inclusion of a further portion of the negative reserves recognised at the time of transition to IFRS 9 of Euro 9 million, and the sterilisation of the change in the Securities Valuation Reserves of the FVOCI Portfolio.

As at 31 December 2020, the effect deriving from the application of the IFRS 9 transitional arrangement relating to the valuation of non-performing loans determines an increase in Own Funds of Euro 42.8 million, while the application of the transitional arrangement under Regulation 873 relating to the valuation of performing loans has no effect on their amount, given that the provisions at 31 December 2020 were lower than at 1 January 2020.

The application of the transitional arrangement FVOCI Government Security Reserves pursuant to Regulation 873 is equal to a reduction in Own Funds of Euro 3.2 million. Without taking into account the effect of the transitional regimes, Own Funds thus amounted to Euro 367.8 million, of which Euro 339.5 million represents CET1.

The risk-weighted assets of Euro 2.38 billion compared to Euro 2.54 billion as at 31 December 2019, combined with the capital levels outlined above, give rise to the solvency ratios described below.

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

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

Following the periodic supervisory review put in place by the Supervisory Authority - known as S.R.E.P. (Supervisory Review and Evaluation Process) - under which the Bank of Italy, on the basis of the evidence gathered in the supervisory review and evaluation process, has the authority to set specific capital and/or liquidity ratios for each intermediary, with notification of 15 June 2020, it sent the Bank the decision to set the new minimum capital ratios with effect from 30 June 2020 as follows:

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

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

Both the phase-in and fully phased-in ratios are therefore significantly higher than the minimum supervisory requirements for 2020, which are 11.85% for Total and 9.65% for Tier 1, including the Pillar II requirement.

It should be noted that the coefficients of reference are those calculated according to the rules for transitional regimes (Phase-in), although the fully-phased coefficients should also be published.

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

As at 31 December 2020, the Bank's LCR ratio was 180%, equal to the ratio between the liquidity buffer of Euro 1,161.2 million and the expected net outflow (30 days) of Euro 646.3 million (net liquidity outflow).

5. CUSTOMER DEPOSITS

In order to better understand the trends of our deposits in 2020, it may be useful to place its profiles in the context of the entire banking system, which in the same period recorded double-digit growth rates, the likes of which have never been seen. The reasons, once again, relate to the effects of the pandemic crisis on economic decisions.

In fact, Covid 19 reinforced a number of trends and behaviours that are already typical of the Italian situation, such as the propensity of households to save and the reluctance of companies to make investment decisions in times of reflective markets. Thus, households saved because they reduced the purchase of goods and services, also frightened by the future and worried about a drop in income; businesses, in turn, in times of great uncertainty, reduced or postponed investments due to a lack of confidence in the recovery of production activity and, at the same time, kept liquidity in their accounts, as happened to households, due to moratoria that allowed, for example, the freezing of repayment plans and the suspension of payments (taxes, bills, contributions). At the end of last December, the propensity to save pushed households and businesses to leave Euro 1,736 billion in accounts and deposits, Euro 162 billion more than at the end of December 2019. The year-on-year increase was 10.3%, data published in the Bulletin of the Italian Banking Association.

In line with the system's trend, our Bank also recorded a significant growth in the aggregate, two points higher than the national figure: deposits, conventionally understood as customer deposits, grew by 12.29% year on year.

The reasons for such a significant performance, which do not end with the aforementioned preference for liquid assets by savers, lie in two separate but complementary factors. First and foremost in the effectiveness of commercial policies that prioritise deposits as an expression of the ability to compete and grow in the market, to attract new customers, to expand relationships and to intensify the bond of trust in relations with individual depositors and savers who are also Shareholders.

Secondly, for the balanced and rational organisation of the sales network: the banking centres where Valsabbina's branches are located - from the historic branches in the province of Brescia to the more recently established regional and provincial capitals - are all characterised by a lively economic and productive fabric and a high density of savings.

Based on Bank of Italy data on bank deposits, Il Sole 24 Ore mapped per capita deposits and drew up a ranking, by province, of the territories where "more savings were made" in the first eight months of 2020. A glance at the ranking confirms the Bank's strong presence and activity in the markets with the highest per capita deposits: for example, Milan, Bologna, Vicenza, Turin, Monza and Brianza, Cesena and Brescia.

After this introduction, we will go into the trends and technical forms of our deposits, specifying that, according to accounting principles, this term refers to "direct deposits from customers". direct deposits from customers are shown under the liability item 10 "Financial liabilities measured at amortised cost" under sub-items b) due to customers and c) securities. Direct deposits, aggregated in its two components, amounted to Euro 4.301 billion, up by 12.29% compared to Euro 3.830 billion in December 2019.

The upward trend in assets, already strictly observed during 2019 due to the growing contribution of newly opened branches in the important regional centres, thus continued in 2020, supported, as already mentioned and as also reported at the system level, by the increase in liquid assets held by customers; a phenomenon that has consolidated well beyond the initial phases of high uncertainty brought about by the pandemic shock due to the clear aversion to illiquid or riskier investments.

The following chart, which shows the development of direct funding in the period from 2010 to 2020, immediately shows the significant development achieved in inflows in the past two years: a development sought and pursued with a commercial logic that has increased the stock of the aggregate by over one billion, i.e. 32%, in just two years. In the previous period from 2010 to 2018, even with the diversity of market conditions, the growth rate stood at 15%.

In the chapter on trade policies we will see how this was possible.

The "components of deposits" charts show immediately the changes in customers' allocation choices, in line with system trends.

Legend: Savings deposits and current accounts – Bonds – Time deposits – Certificates of deposits – Sundry deposits – Indirect deposits

Legend: Savings deposits and current accounts – Bonds – Time deposits – Certificates of deposits – Other deposits – Indirect deposits

While savings deposits - an item associated with a bygone historical period - further reduced their marginal size, from 27 to 24 million, current accounts grew substantially, rising from almost 2.6 billion in 2019 to over 3.1 billion: an increase of 21.31%, confirming the clear preference for demand deposits, albeit to the detriment of expectations of returns on the related deposits.

The trend in term deposits was the opposite; the decrease - from Euro 949 million to Euro 789 million, equal to 16.87% - related to the item "time deposits", mainly as a result of the maturity of some significant items held with institutional investors and financial companies. Moreover, short-term repurchase agreements with Cassa di Compensazione & Garanzia amounting to Euro 131.8 million were recorded in our financial statements at the end of the year.

Securities issued - i.e. typical medium-term deposits - now represent a residual part of deposits, which is nevertheless an important part due to the presence in the aggregate of subordinated bonds useful for the composition of "Own Funds" required by banking supervision; the nominal value of these bonds eligible for inclusion in Tier II capital amounted to Euro 78 million at the end of the year.

As obvious as it may seem, since our Bank has a traditional vocation for core operations, deposits - both ordinary deposits from retail customers and corporate deposits - is the main source of funding.

Customer deposits	**31/12/2020**	**31/12/2019**	**Change**	
(amounts in Euro 000)			**Absolute**	**%**
Savings deposits	23,989	27,134	(3,145)	(11.59%)
Current accounts	3,146,587	2,593,861	552,726	21.31%
Time deposits	789,363	949,519	(160,156)	(16.87%)
PcT with CC&G	131,802	-	131,802	NS
Other deposits	83	230	(147)	(63.91%)
Future lease payments - IFRS 16	5,452	5,644	(192)	(3.40%)
b) Due to customers	**4,097,276**	**3,576,388**	**520,888**	**14.56%**
Bonds	99,053	155,592	(56,539)	(36.34%)
Subordinated bonds	83,014	76,926	6,088	7.91%
Certificates of deposit	21,211	20,902	309	1.48%
c) Securities issued	**203,278**	**253,420**	**(50,142)**	**(19.79%)**
Total direct deposits	**4,300,554**	**3,829,808**	**470,746**	**12.29%**
Indirect	**2,145,273**	**2,110,635**	**34,638**	**1.64%**
Total deposits	**6,445,827**	**5,940,443**	**505,384**	**8.51%**

Even more than in the past, the deposit policies were followed with a special sensitivity and attention to the relevant cost profiles, seeking a balance between the expectations of the depositor, on the one hand, and the constraints that the continuing season of zero or even negative interest rates imposes on banks when it comes to remunerating the funds they raise, on the other hand. In this sense, we can honestly believe that we have effectively met our customers' expectations, suggesting alternative solutions to traditional forms of savings on a case-by-case basis, depending on a variety of factors, including risk appetite.

INDIRECT DEPOSITS

The indirect deposits sector, and in particular the managed assets sector, has always been the subject matter of strategies aimed at increasing assets through the strengthening of dedicated structures, the specialisation of roles with the support of training and updating activities, the selection and commercial agreements with product partners, and the implementation of procedures and support for advisory functions.

Considering the complexity of the external context - characterised by uncertainties and sudden reversals of trends in the financial markets - it is extremely positive that indirect deposits, thanks to the good and tried and tested offer capacity, nevertheless recorded an increase compared to the same period in 2019: an increase of 1.64% - slight but significant when compared to the system's data - which sees the aggregate stand at 2.145 billion.

The historical trend of indirect deposits is shown in the table below.

The composition of the aggregate shown below highlights, on the one hand, the reduction of the first three items - Bot (T-bills) government securities, shares, corporate and foreign bonds - and, on the other hand, the significant growth of stocks relating to mutual funds and insurance policies, the main components of managed assets.

Indirect deposits	**31/12/2020**	**31/12/2019**	**Change**	
(amounts in Euro 000)			**Absolute**	**%**
Bot (T-bills) Government securities	259,732	280,253	(20,521)	(7.32%)
Italian and foreign shares	287,923	404,648	(116,725)	(28.85%)
Corporate and foreign bonds	141,217	144,961	(3,744)	(2.58%)
Mutual funds	881,336	792,762	88,574	11.17%
Insurance policies	575,065	488,011	87,054	17.84%
	2,145,273	**2,110,635**	**34,638**	**1.64%**

By type of product, indirect deposits show that mutual funds and insurance policies reached 67.89% of the total aggregate as at 31 December 2020, to the full benefit of the expansion of net revenues from services

Percentage distribution of indirect deposits	**31/12/2020**	**31/12/2019**
Bot (T-bills) Government securities	12.11%	13.28%
Italian and foreign shares	13.42%	19.17%
Corporate and foreign bonds	6.58%	6.87%
Mutual funds	41.08%	37.56%
Insurance policies	26.81%	23.12%
	100.00%	**100.00%**

Total deposits thus exceeded the considerable amount of Euro 6 billion, reaching Euro 6.446 billion compared to Euro 5.940 billion in December 2019 (+8.51%).

6. LOANS

"The increase in non-performing loans (NPLs) - past due loans, unlikely to pay and bad loans - is the main risk that Italian banks face today. They can do so from a more solid position than in the past. Compared to 2007, the ratio of best quality capital to risk-weighted assets in the banking sector as a whole has more than doubled; the stock of NPLs has declined by more than two-thirds from its 2015 peak." These were the words of the Governor of the Bank of Italy, Visco, in a hearing before the Parliamentary Commission of Inquiry into the banking sector on 10 February.

We have quoted this passage to emphasise the importance attached by the Supervision to the quality of loans, i.e. the loans that banks make to their customers; a primary, fundamental activity, which represents one of the two pillars - the other being deposits - of the core management.

For a local and cooperative bank such as ours - which is typically a commercial bank and which makes the core management the distinguishing feature of its policies - the volume of loans is a first indicator of its size and ability to compete on the market in meeting the needs of its customers: and competition is all the more effective and profitable the more the credit disbursed remains of good quality, protected from the risk of impairment, i.e. of becoming a problem loan.

From this point of view, the 2020 financial year will remain an unforgettable year in our history for having achieved several apparently irreconcilable objectives: having supported families and businesses in conditions of serious difficulty due to the dramatic effects of the pandemic crisis, having increased the volume of loans with a simultaneous activity of limiting problem loans, and having achieved profitability profiles that contributed significantly to the brilliant result for the year.

We will then report on the action taken in terms of credit policy, considering that when the pandemic broke out, the bank promptly activated a series of measures to benefit customers and the areas served. We refer to the government measures introduced mainly by the "Cura Italia" Decree and the "Decreto Liquidità" (Liquidity Decree), but also to the initiatives promoted by the ABI at association level and, for our part, to the support actions for the benefit of certain sectors or subjects that did not have the characteristics to access the previous forms of facilitation. Moreover, the tried and tested support measures through operations backed by the government through Mediocredito Centrale and other initiatives - smaller in terms of unitary amount but important for the speed of response in meeting pressing liquidity needs resulting from the forced closure of production activities - are also important.

The growth trend in loans continued for the fourth consecutive year, culminating at the end of the financial year with record results that we are preparing to comment on, by mentioning that, in accordance with the international accounting standard IFRS 9, loans to customers are shown under item 40.b) "Financial assets at amortised cost - Loans and receivables with customers"; this financial statement item also includes debt securities issued by non-bank counterparties (including government securities), which will be discussed later in the paragraph on "Financial assets”. In this part of our report, we will therefore focus on the issue of loans granted to customers: on the amounts, on the trends, on the different types of borrowers and technical forms and on the credit quality profiles, given the importance of the stock of non-performing loans for capital ratios and profitability.

At year-end, "Loans and receivables with customers - loans" amounted to Euro 3.415 billion, an increase of Euro 278 million or 8.88% on the previous year; if we consider that net non-performing loans decreased by approximately Euro 37 million, the increase in the aggregate, which generates interest-bearing assets, is far greater in size and has a positive effect on profitability profiles.

The trend in Loans - loans to customers in the period from 2010 to 2020 is shown below.

As mentioned above, several factors contributed to the significant increase in the last year. First, a strong increase in demand for new credit emerged following the outbreak of the pandemic; secondly, the phenomenon of granting moratoria - whether by law, as a result of interbank agreements, or on the Bank's own initiative and therefore discretionary - which at the end of the year totalled no less than Euro 700 million in loans; thirdly, albeit in the context of the periods of partial containment of ordinary operations due to the partial closure of branches, the launch of new commercial relations resulting from territorial expansion in the new areas of establishment.

The moratoria granted by the Bank - which fall within the scope of application of the EBA Guidelines on the prudential treatment of this facility in response to the health emergency (EBA/GL/2020/02) - are mainly attributable for 54% to regulatory interventions (former Cura Italia decree, Gasparrini Fund) while moratoria by association represent 33% of the total (former ABI Moratoria). Taking into account the residual duration, the majority share, corresponding to about 97% of the total number of granted moratoria, was concentrated within a time frame of 6 months. This figure does not take into account the extension to 30 June 2021 of the former Cura Italia decree moratoria defined by the 2021 Budget Law.

Change in loans and receivables with customers - technical forms

The trends in the composition of loans by technical form, compared with those in 2019, are as follows:

Financial assets at AC - customers	**31/12/2020**	**31/12/2019**	**Change**	
(€/1000)			**Absolute**	**%**
Current accounts	314,467	471,424	(156,957)	(33.29%)
Reverse repurchase agreements	26,298	-	26,298	-
Mortgages	2,641,212	2,151,930	489,282	22.74%
Personal loans	150	222	(72)	(32.43%)
Other loans	292,839	336,117	(43,278)	(12.88%)
Non-performing loans	139,717	176,610	(36,893)	(20.89%)
Loans	**3,414,683**	**3,136,303**	**278,380**	**8.88%**
Debt securities	**1,449,963**	**1,048,362**	**401,601**	**38.31%**
Total Financial assets at AC - customers	**4,864,646**	**4,184,665**	**679,981**	**16.25%**

The growth from Euro 2.151 billion in 2019 to Euro 2.641 billion, or 22.74%, in mortgages, which, combined with the reduction in the on-demand component and the decrease in non-performing loans, makes it possible to appreciate an increase in net lending of 8.88%, is very significant. The category of mortgages includes, in addition to traditional mortgage loans for the purchase of properties, all instalments, including government-backed loans. The granting of moratorium measures clearly contributed significantly to the increase in the item.

Legend: Mortgages – Reverse repurchase agreements - Current accounts – Other loans – Personal loans – Non-performing loans

The following table, which represents the medium/long-term disbursements made both directly and as a distribution channel, once again shows the exceptional nature of the year just ended; government-backed loans, including loans granted without origination and 100% guaranteed with a maximum amount of Euro 30,000, exceeded Euro 520 million, more than doubling the volumes for the 2019 financial year.

Ordinary mortgage, building and land loans amounted to Euro 226 million on 1,177 positions, down slightly from Euro 229 million on 1,198 positions in 2019; considering the continuing problematic context, the trend of the operations under examination implies an undoubted vitality of the pace of work that the network structures have been able to express amidst difficulties of contact and relations that are well known also by the counterparties.

As for finance leasing operations intermediated by means of partner companies, 364 contracts were finalised for Euro 46 million, compared to 413 for Euro 69 million in the same financial year; there was a more marked drop - the reasons for which are easy to understand if we consider the concerns and uncertainties of the customer segment at which this type of facilitation is traditionally aimed - in both personal loans and salary-backed loans.

MEDIUM/LONG-TERM DISBURSEMENTS (amounts in Euro/1000)	**31/12/2020**		**31/12/2019**		**% change**	
	Trans. No.	**Amount**	**Trans. No.**	**Amount**	**Trans. No.**	**Amount**
A) Directly using funds of the Bank						
Loans with Mediocredito Centrale backing made available by Italian Law No. 662/1996	1,759	464,460	1,200	234,274	46.58%	98.26%
Loans of up to Euro 30,000 backed by an automatic guarantee from Mediocredito Centrale	2,686	56,945	-	-	100.00%	100.00%
Artisan loans backed by surety of the Credit Guarantee Consortiums making reference to the various Trade Associations	90	7,971	176	9,661	(48.86%)	(17.49%)
Ordinary mortgage, building and land loans	1,177	226,305	1,198	228,552	(1.75%)	(0.98%)
Loans and mortgages to Shareholders of the Bank	139	12,364	133	13,896	4.51%	(11.02%)
Mortgage-secured current accounts	6	7,910	5	2,012	20.00%	293.14%
B) Indirectly as intermediary of specialised Institutes						
Lease transactions	364	46,163	413	68,819	(11.86%)	(32.92%)
Personal loans - Cofidis	1,504	28,391	1,830	32,117	(17.81%)	(11.60%)
Salary-backed loans	98	1,756	161	2,653	(39.13%)	(33.81%)

<u>Trend of loans and receivables with customers - risk spreading and sectoral diversification</u>

The following table shows the number of customers granted credit facilities broken down by amount brackets and shows, on the whole, a substantial stability in risk spreading policies: more than 75% of facilities are placed within the first two brackets, i.e. three out of four customers operate with credit facilities of less than Euro 125 thousand. With reference to the three-year period under observation, the growth in the number of counterparties granted credit facilities, distributed across the various amount brackets, is undoubtedly positive: the acceleration observed in the 2020 financial year is obviously correlated to the strong growth in loans mentioned above.

Number of customers granted credit facilities broken down by credit facility category						
	31/12/2020	**% of total credit facilities**	**31/12/2019**	**% of total credit facilities**	**31/12/2018**	**% of total credit facilities**
Up to Euro 40,000	13,229	3.45%	13,708	3.8%	14,035	4.1%
From Euro 40,001 to Euro 125,000	8,249	13.43%	7,844	14.4%	7,538	14.7%
From Euro 125,001 to Euro 250,000	3,621	13.39%	3,281	13.5%	3,132	13.7%
From Euro 250,001 to Euro 500,000	1,861	13.79%	1,621	13.5%	1,494	13.2%
From Euro 500,001 to Euro 1,000,000	967	14.32%	840	13.9%	796	13.9%
From Euro 1,000,001 to Euro 5,000,000	704	28.95%	587	27.1%	540	25.8%
Over Euro 5,000,001	62	12.66%	56	13.8%	53	14.6%
Total	**28,693**	**100.00%**	**27,937**	**100.0%**	**27,588**	**100.0%**

The chart below, as well as the reconciliation table immediately following it, summarise the breakdown of loans by branches and sectors of economic activity. As in previous years, indicating that the Bank has not changed its vocation as a "local bank", more than 55% of total loans are concentrated in the household sector and in trade and services. The weight of industry and construction - public works is by no means negligible, absorbing 7.64% and 6.49% of total loans, respectively, due to the Bank's long-standing presence in areas with a strong "construction" and manufacturing tradition.

Legend: Households – Sundry services – Wholesale trade, retail trade and public services – Financial companies – Other mechanical engineering businesses – Construction and public works – Other

Sectors of business activities	**2020**	**2019**	**2018**	**2017**
Consumer households	24.27	25.94	25.96	25.48
Other services	14.70	14.01	13.19	15.56
Wholesale trade	10.45	10.41	10.45	10.56
Other mechanical engineering businesses	7.64	7.81	7.35	7.55

Construction and public works	6.49	6.15	5.94	7.27
Financial companies	6.30	7.61	9.77	7.06
Retail trade and public services	5.88	5.15	5.06	5.13
Foodstuffs and beverages	3.10	2.67	2.42	2.15
Agricultural and industrial machinery	2.83	2.59	2.39	2.18
Agriculture, forestry and fishing	2.41	2.21	2.02	2.04
Construction materials, glass and ceramics	2.21	2.23	2.35	2.20
Transport services	1.94	1.61	1.57	1.51
Wood, furniture and other industrial products	1.71	1.76	1.71	1.76
Energy and chemical products	1.46	1.38	1.31	1.17
Non-ferrous metal and iron and steel industries	1.44	1.64	1.72	1.95
Textile products and clothing	1.44	1.51	1.53	1.70
Rubber and plastic products	1.32	1.13	1.12	1.00
Electrical supplies and materials	1.15	1.14	1.10	1.17
Vehicle repairs and sundry articles	0.85	0.82	0.84	0.74
Means of transport	0.76	0.57	0.52	0.40
Paper and publishing	0.65	0.63	0.62	0.57
Public administration authorities	0.50	0.57	0.60	0.60
Fine and precision engineering	0.50	0.47	0.46	0.25
Total	**100.00**	**100.00**	**100.00**	**100.00**

With regard to the economic sectors with the greatest exposure, it should be noted that already in the first months of the pandemic, the Bank - which monitors the sectoral concentration of its loan portfolio on a monthly basis - carried out a dedicated study on the performing loan portfolio. In particular, a "sectorial" analysis of the portfolio was carried out, aimed at identifying the main areas of economic activity with the greatest credit exposure, then identifying - on the basis of processing carried out by primary providers - the sectors that could be more significantly impacted by the pandemic emergency. The analysis carried out did not show any particular concentration on the sectors most exposed to the pandemic.

Trend of loans and receivables with customers - government-backed loans

The performing loan segment is characterised by the presence of a significant proportion of government-backed loans, the stock of which has increased significantly following the measures launched at government level to contain the effects of the spread of Covid-19.

Concerning the stock of government-backed loans and moratoria granted as a consequence of the Covid-19 pandemic, reference should be made to the specific tables in the Explanatory Notes.

Derisking policies

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

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

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

The amount of forborne performing exposures i.e. measures that change contractual conditions in favour of customers, also fell from 78.3 million in 2019 to 63.3 million in the year under review. This aggregate generally excludes legal moratoria, moratoria related to interbank agreements and discretionary moratoria granted as a result of the pandemic crisis.

The amount of impairment losses on loans to customers recognised in the income statement, net of reversals, was Euro 26.8 million; whereas the assignments of receivables, as the balance between losses and gains, led to total losses of approximately Euro 6.7 million. The cost of credit, represented by the percentage-based incidence of the losses on sale and impairment losses on loans and receivables with respect to their amount recorded in the financial statements at net value, amounted to 0.98%.

The coverage rate for non-performing loans increased from 41.80% to 46.53%. More specifically, that on bad loans amounted to 52.83% compared to 48.03% in the previous year; that on unlikely to pay was equal to 36.87% against 35.15% and that on past due loans was equal to 15.27% against 11.92%.

The coverage measure shows the prudent approach adopted by the Bank in its decisions to adjust non-performing loans, given that the less significant banks as a whole are characterised by an average coverage percentage of 40.8% (Bankitalia data of 30 June 2020).

As a result of the process of managing non-performing loans by means of recovery operations and provisions in the income statement, as well as following the aforementioned disposal operations, net non-performing loans fell from Euro 176.6 million to Euro 139.7 million; net bad loans amounted to Euro 81.6 million and represent 2.39% of net loans and receivables (3.06 in 2019). Unlikely to pay fell from Euro 66.8 million to Euro 48.9 million (1.43% of net loans and receivables). Past due loans, which fell from 13.8 to 9.3 million, represent 0.27% of net loans and receivables, compared to 0.44% in 2019. The gross NPL ratio, which measures gross non-performing loans as a percentage of total gross loans, thus fell from 9.23% in 2019 to 7.34% at the end of 2020; while the net NPL ratio fell from 5.63% to 4.09%.

The Texas Ratio, i.e. the ratio of net non-performing loans to net shareholders' equity less intangible assets, is 38.36% compared to 52.33% at the end of the previous year.

The following tables show the amounts and changes in loans broken down by regulatory classification and the related adjustments in absolute terms.

31/12/2020 **Type of exposure/values** (amounts in Euro 000)	**Gross exposure**	**Individual impairment**	**Collective impairment**	**Net exposure**	**% of total net exposure**
a) Bad loans	172,979	91,383	-	81,596	2.39%
b) Unlikely to pay	77,413	28,543	-	48,870	1.43%

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

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

CREDIT QUALITY RATIOS	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Percentage out of gross loans and receivables					
% of bad loans out of total gross loans	4.86%	5.62%	8.70%	12.73%	13.41%
% of unlikely to pay out of total gross	2.17%	3.13%	3.66%	4.80%	6.18%
% of past due loans out of total gross	0.31%	0.48%	0.68%	0.81%	1.07%
% of non-performing loans out of total	7.34%	9.23%	13.03%	18.35%	20.65%
Coverage percentages					
Bad loans	*55.80% 52.83%	*51.14% 48.03%	*60.89% 57.19%	*58.73% 55.84%	*54.75% 51.40%
Unlikely to pay	36.87%	35.15%	31.97%	26.93%	17.20%
Past due loans	15.27%	11.92%	11.61%	7.94%	8.10%
Total non-performing loans	*48.81% 46.53%	*43.97% 41.80%	*50.85% 47.74%	*48.64% 46.14%	*41.73% 38.92%
Performing loans	0.72%	0.81%	0.93%	0.46%	0.54%
Percentage out of net loans and receivables					
% of bad loans out of total net loans	2.39%	3.06%	4.01%	6.17%	7.12%
% of unlikely to pay out of total net	1.43%	2.13%	2.68%	3.85%	5.59%
% of past due loans out of total net	0.27%	0.44%	0.64%	0.82%	1.08%
% of non-performing loans out of total	4.09%	5.63%	7.33%	10.84%	13.78%

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

Credit management policies

From a management point of view, it should be noted that, with a special reference to the portfolio subject to moratorium, the Bank has undertaken specific analysis and control activities of the positions subject to facilities, distinguishing between "private" and "corporate" customers. This "enhanced" monitoring was carried out starting from a portfolio analysis approach, identifying the possible credit risks of individual customers, then allowing the competent corporate functions to launch targeted initiatives for direct checking of positions, thus intervening proactively in order to contain any portfolio impairment. It should also be noted that in the second half of 2020, the Bank also reviewed its valuation policies for credit exposures to customers. At the same time, the risk parameters for assessing past due non-performing loans and unlikely to pay were updated. These initiatives allow the Bank to enter the 2021-22 period with an adequate positioning in relation to the system data for less significant banks.

The monitoring of credit risk performance was further enhanced with the activation, through the IT outsourcer Cedacri, of an Early Warning system, based on 14 indicators, through which positions characterised by a greater probability of impairment are identified in advance in order to proactively monitor and manage their development.

Expected impacts of regulatory changes

At the end of this documented examination of the quantitative and qualitative profiles of the credit portfolio, we think it would be useful to briefly comment on the expected impacts of the regulatory changes, also in view of the fact that the Bank of Italy - paying consistent attention to the issue, as mentioned at the beginning of this chapter - has asked banks at the end of 2020 to produce a report on the strategic alignment process with post-Covid-19 scenarios and structural changes in the market. The Bank complied with this request by submitting a detailed report, of which the following is a summary.

It should be noted that as from 1 January 2021, the new definition of default under EU Regulation No. 575/2013 (CRR) came into force. The new provisions introduce more stringent criteria and classification methods than those adopted to date, in particular, debtors will be classified as non-performing in the following cases:

- the presence of arrears of more than 90 days (180 in the case of public administrations) in the payment of a material obligation (i.e. if the past due debt is greater than 1% of the total exposure to the counterparty and exceeds Euro 100, or Euro 500 in the case of non-retail counterparties) without the possibility of offsetting the overdue amounts against any availability on other credit lines;
- the bank considers it unlikely that the debtor will fully satisfy its obligation without recourse to action such as enforcement of guarantees (e.g. bankruptcy of the debtor, loss of sources of income, increased leverage);
- The classification of a relationship as a default implies, either mandatorily or as a result of valuation, the classification as a default of related relationships (known as contagion mechanism);
- granting forbearance measures involving a loss of more than 1% of the original debt.

The expected impacts for the Bank, related to the entry into force of the new definition of default, can be summarised as an expected increase in the incidence of positions classified as past due and as unlikely to pay.

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

7. FINANCIAL ASSETS AND EQUITY INVESTMENTS

With the application of IFRS 9, financial assets are shown under the following items:

20. Financial assets measured at fair value through profit or loss, broken down into the following sub-items:

a) financial assets held for trading;

b) financial assets designated at fair value;

c) other financial assets mandatorily measured at fair value.

30. Financial assets measured at fair value through other comprehensive income

40. Financial assets measured at amortised cost, broken down into the following sub-items

a) loans and receivables with banks:

- of which debt securities;
- of which loans.

b) loans and receivables with customers:

- of which debt securities.

70. Equity investments

Financial liabilities to banks are shown under item

10. Financial liabilities measured at amortised cost

a) due to banks.

The comparison between financial assets and liabilities between 2020 and the previous year is summarised as follows.

Financial assets	31/12/2020	31/12/2019
20. Financial assets measured at fair value through profit or loss	**214,157**	**231,371**
a) financial assets held for trading	859	348
b) financial assets designated at fair value	11,932	11,774
c) other financial assets mandatorily measured at fair value	201,366	219,249
30. Financial assets measured at fair value through other comprehensive income	**568,539**	**411,775**
40. Financial assets measured at amortised cost	**1,594,072**	**1,194,418**
a) loans and receivables with banks	144,109	146,056
- of which debt securities	2,885	18,277
- of which loans	141,224	127,779
b) loans and receivables with customers by debt securities	1,449,963	1,048,362
70. Equity investments	**1,651**	**1,211**
Total	**2,378,419**	**1,838,775**
of which:		
loans and receivables with banks for loans	141,224	127,779
Italian government securities	1,714,201	1,231,499
other bonds	361,173	363,199
mutual investment funds	101,379	66,422
equity securities and equity investments	48,070	37,754
insurance policies	11,932	11,774
derivative contracts	440	348
	2,378,419	**1,838,775**

Financial liabilities		31/12/2020	31/12/2019
10. Financial liabilities measured at amortised cost	a) Due to banks	1,204,724	869,319
	Total	**1,204,724**	**869,319**

Average term of securities portfolio

The average term of securities portfolio including external asset management as at 31 December 2020 was 4.12 years - a value that is within the limits set by the Board of Directors - compared to 3.69 years in 2019.

Loans and Receivables with banks - Due to banks

Loans and receivables with banks amounted to Euro 144.1 million and include a debt security issued by a bank of Euro 2.9 million. The aggregate includes balances relating to the compulsory reserve held by the Bank of Italy amounting to Euro 100.9 million, short-term restricted loans amounting to Euro 7.4 million and other loans/current accounts on demand for the remaining part.

Liabilities to banks amounted to Euro 1,204.7 million at the end of 2020 compared to Euro 869.3 million at the end of last year. The aggregate includes amounts due to the ECB under the TLTROIII programme with a total nominal value of Euro 1,210 million, of which Euro 920 million maturing on 28 June 2023 and Euro 290 million on 27 September 2023, nominal amounts that contribute to the balance including accrued interest income. During the year, all tranches of TLTROII loans were closed, of which Euro 250 million was due in June and Euro 440 million was paid in advance between June and September.

The amount borrowed for TLTROIII is equal to 50% of the eligible loans disbursed by the bank as at 28 February 2019, which is the maximum that can be disbursed until December 2020, when the ECB Governing Council decided to increase the maximum borrowing from 50% to 55%.

Each of the programme's operations will last three years; an interest rate equal to that of the main refinancing operations prevailing during the respective TLTROIII shall apply to them, except for the period from 24 June 2020 to 23 June 2022 when a reduction of 50 basis points shall apply. Counterparties that achieve certain lending performance targets during the specified periods will benefit from a further reduction in the applied rate.

As it is reasonably certain that targets in terms of lending performance for the relevant period (first special reference period, 1 March 2020-31 March 2021) will be met, for 2020, interest income commensurate with the maximum applicable rate of 1% has been recognised.

Finally, it should be noted that, if with the TLTROII operation the bank was able to request up to a maximum of Euro 694 million of loans from the ECB (of which Euro 690 million actually taken out), with the TLTROIII operation it will be possible to access loans up to a maximum of Euro 1,334 million (of which Euro 1,210 million already taken out). The support measure granted by ECB via the banks to the real economy has thus been considerably strengthened; the increase in our assets, in particular in the financial assets pledged as collateral to the ECB, is concomitant with the greater amount of loans received.

Financial assets measured at fair value through profit or loss

	31/12/2020	% of portfolio	31/12/2019	% of portfolio
Other bonds other than government securities	90,017	42.03%	144,174	62.31%
Other bonds other than government securities	**90,017**	**42.03%**	**144,174**	**62.31%**
UCITS units	59,762	27.91%	23,443	10.13%
Real estate UCI units	41,617	19.43%	42,979	18.58%
Equity securities	10,389	4.85%	8,653	3.74%
Total UCIs and equity securities	**111,768**	**52.19%**	**75,075**	**32.45%**
Derivative contracts	440	0.21%	348	0.15%
Insurance policies	11,932	5.57%	11,774	5.09%
Other	**12,372**	**5.78%**	**12,112**	**5.24%**
Total	**214,157**	**100.00%**	**231,371**	**100.00%**

In absolute terms, net financial assets measured at fair value through profit or loss were 7.44% lower in December 2020 than in December 2019.

The item "Other bonds" includes Euro 67.7 million for the Valsabbina Investimenti bond, a bond fully subscribed by the Bank and issued by a vehicle company set up to securitise loans and receivables with the Public Administration; the security was recognised in the financial statements at 31 December 2019 as at Euro 130 million. The aggregate also includes a similar transaction called "Atlas" for Euro 9.1 million, as well as other debt securities that do not pass the SPPI test.

The units of "closed-end real estate reserved alternative investment funds" were recorded for Euro 41.6 million and measured according to the NAV published by the management companies; the measurement according to the latest available NAV (reports as at 30 June 2020) resulted in the recognition of a loss in the income statement of approximately Euro 1.4 million. No new units were subscribed during the year.

The UCITS units include both listed securities, and therefore measured according to the price expressed by the market, and unlisted securities, but nevertheless measured according to the NAV published periodically by the issuer; towards the end of the year, units of the "Efesto" fund of Euro 10.9 million also entered the accounting portfolio, units received in exchange for the sale of non-performing loans, as already described in the section on loans.

The item "Equity securities" includes the Cedacri security of Euro 3.9 million - against an equity investment of 1.05% - and for the remaining Euro 6.5 million, securities listed on national and international stock markets; there are also three capitalisation insurance policies issued by major operators for a total value of Euro 11.9 million.

Financial assets measured at fair value through other comprehensive income

	31/12/2020	% of portfolio	31/12/2019	% of portfolio
Italian government securities (BTP, CCT)	404,504	71.15%	268,432	65.19%
Other bonds	128,005	22.51%	115,453	28.04%
Total Bonds and government securities	**532,509**	**93.66%**	**383,885**	**93.23%**
Equity securities	**36,030**	**6.34%**	**27,890**	**6.77%**
Total	**568,539**	**100.00%**	**411,775**	**100.00%**

Financial assets measured at fair value through other comprehensive income increased from 411.8 million in 2019 to 568.5 million in 2020, recording a percentage increase of 38.07; this increase is concentrated on Italian government securities, which is the most significant segment of the portfolio. In addition to Government Securities, the portfolio also includes "other bonds" issued by leading national and international companies, both financial and industrial, and securities listed on stock markets.

The residual life of debt securities is shown in the following table

Breakdown of debt securities by maturity				
Duration	**31/12/2020**	**% of aggregate**	**31/12/2019**	**% of aggregate**
up to one year	4,285	0.80%	95,684	24.93%
between 1 and 2 years	11,852	2.23%	7,551	1.97%
between 2 and 3 years	19,754	3.71%	14,377	3.75%
between 3 and 5 years	128,094	24.05%	152,037	39.60%
between 5 and 10 years	343,814	64.56%	102,383	26.67%
beyond 10 years	24,710	4.56%	11,853	3.08%
Total	**532,509**	**100.00%**	**383,885**	**100.00%**

The breakdown of equity securities as at 31 December 2020 is described in the following table:

Description (amounts in Euro 000)	Value as at 31/12/2019	Purchases	Sales	Change to SE due to measurement	Value as at 31/12/2020	No. of shares	% / % of holding
Bank of Italy	15,000	-	-	-	15,000	600	0.20%
Arca Sgr Spa	5,212	869	-	-	6,081	881,523	1.76%
Vivibanca	4,901	-	-		4,901	2,970,063	8.78%
Satispay	2,000	-	-		2,000	71,890	1.26%
B.Pop. Cividale	549	-	-	(50)	499	84,500	0.50%
Luigi Luzzatti	170	-	-	-	170	71,000	9.58%
ATM	-	28	-	2	30	5,950	NS
Unione Fiduciaria Spa	28	-	-	-	28	4,320	0.40%
Consulting Spa	24	-	-	-	24	22,500	15.00%
Other	6	-	-	-	6	NS	NS
Unlisted shares on regulated Markets	**27,890**	**897**	**-**	**(48)**	**28,739**	**-**	**-**
Listed shares on regulated Markets	**-**	**8,564**	**-**	**(1,273)**	**7,291**	**-**	**-**
Total equity securities FVOCI portfolio	**27,890**	**9,461**	**-**	**(1,321)**	**36,030**	**-**	**-**

During 2020, the shareholding in Arca Sgr was increased by investing Euro 869 thousand for the subscription of 126,081 shares, thus increasing the interest to 1.76% from the 1.51% previously held.

An investment of approximately Euro 8.6 million was also made in listed shares, shares historically characterised by a good coupon flow, with the aim of achieving a profitable return in the medium term. In this regard, it should be noted that for equity securities held in this accounting portfolio, the only component to be recognised in the income statement is dividends; in case of sale of securities or an ascertained reduction in the economic value of the issuing company, the accounting impacts are fully recorded under shareholders' equity, as well as is the impact of regular valuations.

Financial assets measured at amortised cost - Debt securities

	31/12/2020	% of portfolio	31/12/2019	% of portfolio
Italian government securities (BTP, CCT)	1,309,697	90.15%	963,067	90.29%
Other bonds and certificates of deposit	143,151	9.85%	103,572	9.71%
Total Bonds and government securities	**1,452,848**	**100.00%**	**1,066,639**	**100.00%**

In absolute terms, "Financial assets measured at amortised cost - Debt securities" increased significantly compared to December 2019 mainly due to the increase in both newly acquired government securities and other bonds, also given the increased size of the new TLTROIII programme.

At the end of 2020, the bond portfolio consisted in Government securities of Euro 1,309.7 million, of which long-term treasury bonds (BTP) of Euro 681.1 million and treasury certificates of credit (CCT) of Euro 628.6 million, and in corporate bonds of Euro 31.8 million. The remaining part of the portfolio consists mainly of ABS securities; the item "Other bonds" also includes debt securities issued by banks of Euro 2.9 million.

The residual life of the securities recorded in this portfolio is shown as follows.

Breakdown of debt securities by maturity				
Duration	**31/12/2020**	**% of aggregate**	**31/12/2019**	**% of aggregate**
up to one year	-	0.00%	15,052	1.41%
between 1 and 2 years	1,234	0.08%	-	-
between 2 and 3 years	236,388	16.27%	1,358	0.13%
between 3 and 5 years	435,777	29.99%	206,472	19.36%
between 5 and 10 years	652,609	44.92%	796,926	74.71%
beyond 10 years	126,840	8.73%	46,831	4.39%
Total	**1,452,848**	**100.00%**	**1,066,639**	**100.00%**

Equity investments

Equity investments are recorded in the amount of Euro 1,651 thousand and consist of the equity investment of 9.8% in the share capital of Polis Fondi Immobiliare di Banche Popolari Sgr p.A. for Euro 1 million, the new investment in the associated company INTEGRAE SIM for Euro 500 thousand, against a 26.30% equity investment in the capital and 100% of the capital of the subsidiary Valsabbina Real Estate srl for Euro 137 thousand.

For the capitalisation of the latter, the Bank paid Euro 450 thousand during the year to cover losses; consequently, the equity investment was written down by Euro 510 thousand.

Valsabbina Real Estate

The eleventh financial year of Valsabbina Real Estate ended on 31 December 2020, during which the Company continued its institutional activity by participating in sales by the court.

Following the measures adopted to combat the spread of the Coronavirus, auctions at the Court of Brescia were suspended as of March and were subsequently resumed for certain types of real estate, mainly by electronic means, in May/June.

Moreover, as most recently established by Italian Law Decree no. 183/2020 (known as "Mille Proroghe" decree), the suspension of insolvency procedures concerning loans for the purchase of first homes has been extended to 30 June 2021.

However, the Company's activities continued during the year with its participation in 6 sales by court, all of which ended with the awarding of the asset to third parties, always at values higher than the minimum intervention prices, confirming the importance of having a practical tool aimed at better protecting the loans related to mortgage transactions through the direct participation in auctions. The activity of the Company acted as an incentive for higher bids that allowed not to reduce the selling prices and/or to sell the property at prices higher than the starting prices themselves.

During the year, the disposal of real estate assets continued: 6 real estate units were sold, realising a total capital gain of Euro 74 thousand, while negotiations were started on several fronts aimed at the disposal of assets still held by the Company.

At the end of the last financial year, Valsabbina Real Estate owned 12 properties, 10 of which for residential use - one of which for mixed use - a shop and a restaurant; the total value of inventories recorded in the financial statements was Euro 1,716 thousand.

The 2020 financial year ended with a loss of approximately Euro 511 thousand as indicated in the reclassified income statement below, compared with the previous financial year

(amounts in Euro 000)	**31/12/2020**	**31/12/2019**
Value of production	671	1,671
Costs for services	(102)	(149)
Costs for use of third-party assets	(3)	(3)
Operating expense	(34)	(56)
Difference between costs for purchases of properties and the change in inventories	(1,153)	(2,031)
Total net of interest and taxes	**(621)**	**(568)**
Interest expense	(25)	(48)
Taxes	135	81
Loss	**(511)**	**(535)**

The shareholders' equity, inclusive of the loss for the year, amounted to Euro 127 thousand: the paid-in and subscribed share capital amounted to Euro 100 thousand. As noted, during the year, the parent bank made a capital contribution and covered losses of Euro 450 thousand.

The financial statements for the year ended 31 December 2020 – if the conditions necessary exist - are prepared in condensed form pursuant to Article 2435 bis of the Italian Civil Code; moreover, consolidated financial statements are not drawn up due to the scant significance and relevance of the amounts of the subsidiary with respect to those of the parent company Banca Valsabbina, as emerges from the "Framework for the Preparation and Presentation of financial statements", which represents the conceptual model underlying the IAS standards. The financial statement total of the company of Euro 1,947 thousand is also below the threshold of Euro 10 million required by the Supervisory Instructions for the consolidated reports.

8. BUSINESS STRATEGIES AND POLICIES

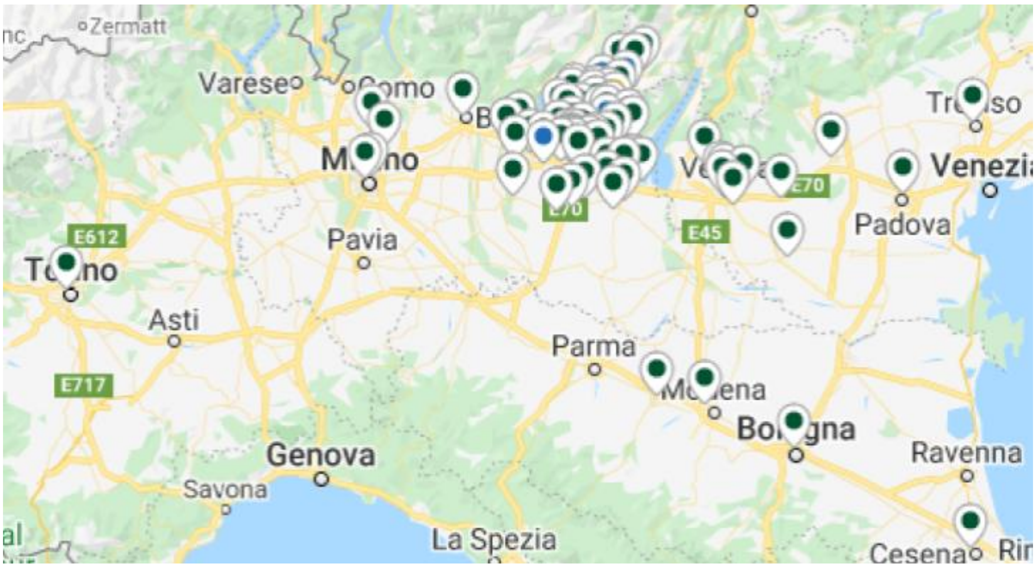
Business strategies

Let us now examine the key issues that constantly guide our strategic choices, following a logical path that provides answers to each of the following questions: i) where we are and why; ii) in which areas we want to grow and with whom; (iii) how to innovate our offer and still remain ourselves; (iiii) what risks we are exposed to and how to manage them.

Let us try to share these reflections.

Where we are and why

An overview of our branches on the map explains better than many words.



From our traditional presence in the province of Brescia, we have developed: westwards towards the capital of Lombardy, as far as Piedmont and Turin; eastwards towards Veneto, as far as Treviso and Padua; northwards towards the province of Trento; southwards towards Emilia Romagna, as far as Cesena. Today, the Bank's territorial network consists of 70 branches, of which 46 in the province of Brescia, 8 in the province of Verona, 2 in the province of Trento, 2 in Milan, 2 in the province of Monza Brianza, 1 in Bergamo, Mantua, Milan, Modena, Vicenza, Padua, Treviso, Turin, Bologna, Reggio Emilia and Cesena, respectively.

Evidently, these are not random choices, but rather a carefully planned path, built step by step over the last decade, from the rationalisation of certain branches in the provinces of Brescia and Trento, to the purchase of Credito Veronese to launch development in Veneto, to the opening of branches in the province of Monza and Milan, to the consolidation in Milan with the second opening in October 2020, after the two-year period from 2018 to 2019 characterised by a development plan concentrated mainly in Emilia Romagna.

The reason for our choices is clear: we want to consolidate and progressively strengthen our presence in our places of origin and in the main cities of Northern Italy because being in the area means growing with the area, seizing the opportunities that arise from the vocation - in terms of value production - that each of them expresses.

The rationalisation of branches will continue in 2021, as envisaged in the strategic plan, with the unification of a limited number of neighbouring branches, minimising the impact on customers, and the opening of at least one new branch in a capital of the province that is currently uncovered and has wide market opportunities.

In which areas we want to grow and with whom

First of all, it is useful to mention Banca Valsabbina's stake in Integrae Sim, a company specialising in corporate support and consultancy, the first investment company focused on the Mid-Market segment, which leads the ranking of NomAds and Global Coordinators in terms of number of listings on the AIM Italia market.

Here again, the choices are far from random.

The rationale for the acquisition of Integrae Sim, as we indicated in the press release of 24 October 2019, is to offer small and medium-sized Italian companies - expression of our economies - the possibility of direct access to the capital market using a complete platform of services in the field of extraordinary finance, both M&A and Equity Capital Market and Debt Capital Market, thus filling the absence of an operator focused on a market segment that today attracts more and more important international operators.

Integrae Sim is just one example of how a strategic direction is put into practice, starting from the "lively" observation of what is changing in the financial sector to arrive at the decision to be present, as protagonists, responsibly aware of our vocation and potential.

In this developing context, the Bank is also considering partnerships with companies operating in the "Fintech" and "alternative finance" world, or rather, complementary to bank credit, confirming a business model that is always attentive to developments.

How to innovate our offer and still remain ourselves

Our identity, innovating in continuity, represents - among those put here for common reflection - the real pivotal point for our shareholding base, the "imprinting" that we try to transmit to each new colleague and each new customer.

First of all, innovating means being able to offer solutions in line with expectations, moving in advance, even before our customers perceive the need for what we are going to offer them.

Our concrete action, in this difficult 2020 financial year marked by the Covid-19 epidemic, is the most direct proof of this: we have participated with commitment in the initiatives launched by the Government in order to contain the effects of the pandemic crisis on the economy and GDP and ensure liquidity for businesses and households; we reviewed our internal processes and reorganised our structures to enable the safe delivery of services; we support customers through the purchase of credits deriving from the realisation of building works related to the "110% superbonus", also making available dedicated credit lines.

What risks we are exposed to and how to manage them

Credit risk, as mentioned in several sections of this report, is the most important risk to which our Bank is also potentially exposed, especially prospectively.

Over the years, the company's top management has gradually and decisively pursued the derisking actions recommended by the supervisory authorities, in line with the NPL Guidelines. In this context, during the last quarter of 2020, transactions involving the sale of bad and unlikely to pay loans were finalised, enabling the gross NPL ratio to be reduced to below 7.5%, ahead of the targets set in the relevant strategic plan.

There is also a strong awareness that the crisis of the real economy related to the health emergency will lead to the generation of new flows of non-performing loans of a size and timing still highly uncertain, with possible significant new provisions. The moratoria and the risk of having to reclassify exposures subject to suspension of payments as non-performing are crucial.

We are currently devoting a great deal of energy to credit risk management, paying particular attention to non-performing positions in order to be able to anticipate the first signs of anomalies. In fact, we are aware that the cost of credit is mainly generated by the impairment of performing positions rather than by status changes between already non-performing classes.

The objective of spreading risk in terms of individual counterparties, sectors and geographical areas is being resolutely pursued, as is the policy of developing the channel of loans assisted by Medio Credito Centrale and the European Investment Fund.

Commercial policies

The underlying approaches

The relations with customers, through the mainstay commercial activity, is the driving force behind the Bank's development, the essential component that determines its success in its operational market. This report preserves unchanged over time its characteristics of loyalty, attention, transparency and seriousness, despite the ever-changing requirements of demand.

The primary objective is to respond to the many needs of customers in the traditional need to use savings and access to credit, the availability of new products and targeted services, easy-to-access channels and contact methods, from the physical network of branches to automated counters and to online services.

The growing specialisation required by the market makes it necessary to increase the range of third-party products that the Bank makes available in a highly personalised manner, adding - as support - its monitoring and advisory services to the customer. Continuing to place the commercial relationship at the centre of attention in this area means correctly identifying the reference targets for new products and strengthening the interaction between producers and distributors to guarantee the quality of the services offered in conditions of total transparency.

Deposits

With regard to direct deposits, the Bank continued with a policy based on prudent liquidity risk management criteria, through commercial strategies aimed at transforming bonds and maturing deposits mainly into asset management/insurance products in accordance with customers' diversification needs. Among the most important initiatives, it is worth mentioning the confirmation on the market of our online deposit account "Conto TWIST", which has been able to attract about 1,800 customers and reach almost all the national capitals. In 2020, Conto Twist shows around 4,900 outstanding time deposit transactions for a total value of Euro 115 million with a growth in assets of 28% compared to the previous year.

Moreover, in order to encourage the stabilisation of on-demand deposits, the Bank has made new products available to its customers so that the offer is adequate to meet the main constraint needs of our customers; in fact, today the bank offers time deposit products for both private individuals and businesses, with maturities ranging from 3 to 60 months, with payment of interest at maturity or through periodic coupon flows, not to mention the possibility of customisation that allows us to structure flexible products for specific needs.

The agreements

The Bank confirms its focus on its shareholders by identifying four dedicated solutions in its product portfolio: for private individuals there are formulas diversified in their size depending on their share ownership (100, 200 or 500 shares) and, for companies, an extensive configuration of services with a minimum of 1,000 shares. This offer has proved to be appropriate to the most recurrent needs of shareholder customers. Almost 19,000 Shareholders used in 2020 the several offer packages at their disposal, all characterised by competitive pricing and by the completeness of the included services that meet all requirements: from the most customised solutions for managing savings to personal loans, to means of payment.

The constant growth in the number bases of operating relations despite the limitations imposed by the lockdown – as the end of the reporting period, the Bank had 90,619 current account holders – confirms its ability to achieve and consolidate appreciable market shares.

There are about 25 agreements aimed at specific customer segments, both consumers and non-consumers, capable of satisfying every target group, age and usage need (also fully digitalised remotely).

The review of the offer implemented in 2019 has borne fruit; the new "Conto Family" (designed to meet the needs of households) and "Conto Smart" (fully digitalised and designed for use via an app) have attracted around 1,200 applications since their launch. These agreements are in addition to the consolidated "Conto Light", "Zero Spese", "Rosa" (for women), "Evergreen" (for the over-65) and "Giovani" (young people aged between 18 and 30) products, which together have around 32,000 members.

To conclude the range of products available to consumers, in addition to the aforementioned agreements reserved for Shareholders, special mention should be made of the "44 Gatti" and "Primo Conto" accounts designed for our young customers who are not yet of age; these products have been chosen by more than 2,000 customers.

With regard to non-consumers, the "Conto Impresa", "Esercenti", "Small Business" and "Artigiani" agreements stand out, with more than 2,000 members.

These forms of deposit are all guaranteed by the Interbank Guarantee Fund.

Asset management

Indirect deposits, in spite of the economic context that characterised the year just ended, increased further, reaching a stock of around 2 billion 145 million.

Insurance products with a financial content performed very well, reaching a volume of around Euro 575 million, up 17% on the previous year. These were the results of selected and reliable partnerships with specialised product companies, of a careful assessment and selection of the risk profiles of the proposed formulas, as well as of a constant and scrupulous training activity of personnel. In this area, the special appreciation for Zurich's multi-branch insurance product "Multinvest", which combines the advantages of the capital-guaranteed separate management with those of asset management through single-premium investment formulas or the activation of predefined periodic payments (PAC), is confirmed: this product reached volumes in excess of Euro 250 million. Supplementing the established partnership with the Zurich Group, and the more recent agreement with Helvetia, the Bank has entered into a new distribution agreement with Vittoria Assicurazioni in order to further enrich its product portfolio.

The prestige of the partners, the proven operational understanding and the high quality of the list products are among the three factors that led to the progressive and steady development of the intermediated insurance portfolio.

All customers who subscribe to asset management products are offered a free basic consulting service. For the most demanding customers, an advanced consulting service is available for customers with portfolios of Euro 100 thousand or more: the service is followed by our private banking, which was expanded in 2020 and is characterised by the proven qualification and professionalism of its operators, which are essential for meeting the growing demand for highly specialised services.

As at 31 December 2020, the Private Banking Service had 457 customers with volumes managed of Euro 621 million. The specialist structures, both central and peripheral, are made up of around 55 resources qualified to provide the advanced consultancy service.

Loans

Analysing loans, the policy of supporting local economies continued, favouring the disbursement of loans with guarantees from the EIF and MCC, access to which was facilitated by the easing of admission criteria and the extension of the percentage of guarantee coverage following the government measures issued due to the health emergency.

Overall, in 2020, disbursements reached record levels, reaching around 7,200 new loans, for a total amount of almost one billion: more than Euro 970 million to be precise.

As regards loans disbursed to businesses under Law 662/96, guaranteed by Mediocredito Centrale, about 4,500 loans were disbursed during the year, compared to 1,200 in the previous year, for companies - both SMEs and microbusinesses - for a total disbursed amount of 570 million compared to about 235 million in 2019. Approximately 2,500 of these loans have a 100 % guarantee with an average amount disbursed of Euro 22,000 and a value of Euro 53 million. The numbers reflect the government decisions contained in the "Cura Italia" and "Liquidità" decrees, which increased the maximum guarantee on loans to 90 % of the amount disbursed, together with the provision of a 100 % guarantee on loans up to a maximum amount initially set at Euro 25,000 (increased to Euro 30,000 following the conversion into law of the "Liquidità" Decree) and at genuinely lowered rates.

To enrich its product range, the Bank collaborated with the European Investment Fund (EIF) to provide innovative Italian companies with a credit ceiling for both investment and working capital for the "Covid-19 support period". The former have a 50% guarantee percentage on the amount financed, while the latter have an 80% guarantee percentage. This agreement is part of the "Horizon 2020" research and innovation programme of the European Union and is part of the "InnovFin - EU finance for innovators" project, financed by the EC bodies. The initiative aims to support the economic and productive fabric and, in technical terms, provides a guarantee from the EIF for loans for research, development and innovation activities, or liquidity related to the pandemic phase, in favour of SMEs, Small Mid-Caps and Large Mid-Caps (companies with less than 3,000 employees). More than Euro 45 million of such loans was disbursed through the EIF ceiling in 2020.

At the same time, in June, the creation of a new specialised segment within the agricultural sector was made official, with the aim of increasing the sectoral opportunities in our territory that had not been available until then.

Equipment loan and real estate loan to consumers

Banca Valsabbina and Cofidis – European specialist in consumer credit, part of the Credit Mutuel Group – continued the well-established multi-year partnership agreement also in 2020 for the distribution of financing products for households. The agreement allows the Bank to diversify its range of products and services and to make repayment methods more flexible and agile for a specific target of customers who, thanks to Cofidis' expertise in consumer credit, can benefit from the speed of the assessment and disbursement of loans. In 2020, 1,500 customers made use of this efficient service with disbursements of Euro 29.5 million, confirming the high quality characteristics of the product offered. Moreover, the Bank has long since entered into the capital and signed an agreement with Vivibanca Spa, an intermediary specialising in the granting of loans in the form of salary-backed loans, salary deductions and advances on TFS: these loans are intended for employees and pensioners and are compulsorily backed by a life and employment insurance policies by the borrower customer. In 2020, 95 transactions worth Euro 2.8 million were concluded, but our marketing department estimates that this popular contract formula will rapidly intensify.

Positive results were also confirmed in the sector of mortgages for the purchase of first homes, whose reference market was reawakened by the well-established active subrogations and encouraged by the consensus obtained by the "Concerto" package products, due to the competitive conditions for both fixed and variable rates.

Payment services

E-money services were affected by the pandemic emergency and especially by the lockdown period, which led, in line with the system, to a decline in transactions carried out on physical POS that was not offset by transactions carried out online with digital platforms; in this regard, it should be noted that the Bank has in any case strengthened its commercial and communication initiatives to make the use of ATMs and POSs as easy and convenient as possible and their dissemination to the benefit of user customers.

	2016	2017	2018	2019	2020
ATM points	**68**	**79**	**76**	**75**	**79**
Number of transactions carried out	971,803	1,038,703	1,057,158	1,077,781	911,809
Amounts transacted (in millions of Euro)	172	180	184	186	170
POS	**2,168**	**2,565**	**2,871**	**3,301**	**3,701**
Number of transactions carried out	2,430,956	2,555,905	2,952,046	3,937,986	3,418,773
Amounts transacted (in millions of Euro)	175	190	209	261	227

With regard to credit cards, thanks to the historic partnerships with Nexi and American Express, the race to digitalise payments continued, focusing on promoting products that encourage their use. To date, the stock of credit cards amounts to around 48,000 units, while debit cards issued to customers have now exceeded 55,000, a sign of the latter's constant attention to the widespread phenomenon of digital payments.

With regard to the debit cards issued by the Bank, it is worth mentioning the commercial and social campaign implemented by the Bank during the lockdown: the initiative, aimed at limiting the opportunities for contact between people, has found concrete expression in the fact that ATM withdrawal fees have been reduced to zero and the fee has been free for one year for customers over 65.

Also in the area of digital payment instruments, the partnerships, capital or otherwise, launched by the Bank include the agreement with Satispay, a financial company offering an innovative "mobile payment" service, independent of credit/debit card circuits. From the shopkeeper's point of view, the service allows to accept payments from Satispay users without the need to have a POS and without membership fees or monthly fees, as well as to be able to operate free of charge in transactions with a small unit amount and with particularly low fees. Currently, already more than 4,400 of the Bank's merchants and private customers have signed up to participate in this innovative service with a 45% growth in sign-ups compared to 2019.

In 2020, the development of IT and "Online Banking" services continued to receive constant attention and expertise, justified by the high levels of service provided by the Cedacri provider. In this regard, in November, a new home banking retail platform and app was launched and made available to customers together with a new strong authentication tool that allowed Valsabbina On Line service holders to access and authorise their orders using finger print and face ID tools in line with the best technological and security standards.

Active home banking contracts amounted to over 50,000 at the end of the year, an increase of 6% compared to last year and in full continuity with the significant growth trend that has long been recorded: the performance was achieved thanks to the impetus provided in terms of communication to customers and, above all, the greater ease of use and improved safety control units against possible attempts of computer fraud.

Moreover, 2020 saw a significant development in the digitalisation processes serving the exchange of communications and information with the Bank: to date, around 80% of customers receive communications by email, PEC (certified email address) or via the reserved area of their home banking in place of the traditional paper-based production. The vast majority of our customer companies equipped with a PEC (certified email address) use this channel for the exchange of periodic communications, whether sent or received, with a consequent improvement in timing and quality of communication.

Other services offered

With regard to support for corporate finance, in collaboration with specialised operators, Valsabbina confirmed the proposal to the creditor companies of the Public Administration a solution for the assignment of credit without recourse by offering to the interested customers the possibility of monetising their certified credits in advance and at favourable interest rate conditions. The equivalent value of receivables disinvested through this formula exceeded in 2020 Euro 100 million and among the customers who used it, in addition to many SMEs, there were also some of the most important Italian utilities.

The trend of transactions intermediated in the leasing sector continued to be very positive, as evidenced by the conclusion of more than 350 transactions for an equivalent value of Euro 46 million generated by the effective and consolidated partnership with SG Leasing.

Communication, promotional and cultural activities

The positioning and promotion of the company image are important components of commercial policy, as well as essential moments to confirm our way of being a cooperative bank: close to the territory, supportive of its protagonists and attentive, therefore, to economic, cultural, social, historical and sporting topics.

Even if the pandemic crisis prevented us from carrying out many of the public initiatives and meeting events planned, there was no shortage of projects and activities that - under the heading of "communication" - confirmed the Bank's role in the territories covered and within the communities served also in 2020. These actions are given visibility and prominence through the company website and digital channels, in keeping with the sensitivity always shown for social issues and in parallel with the aims of promoting our brand; we cannot mention them all, but the most significant are highlighted below.

Among the initiatives of an economic nature, some webinars promoted by our partners on the subject of corporate finance, instruments for the financing of investments by SMEs and their access to capital markets are worth mentioning; in addition to these, our management has given interviews and taken part in in-depth sections in local newspapers and specialist magazines on topics relating to finance and banking business, fintech and tax incentives: opportunities of great significance for attesting to the Banca Valsabbina brand on concrete and extremely topical issues.

On other fronts, the company was present at important events, either in person or remotely, such as the 92nd edition of the "Fiera Agricola Zootecnica Italiana" (Italian Agricultural Zootechnical Fair) of Montichiari; the 13th edition of the “Inaugurazione dell’anno giudiziario dei penalisti italiani” (Opening of the legal year of Italian criminal lawyers), held at the Brescia Chamber of Commerce; the conference “Una formula innovativa per la trasformazione digitale delle PMI” (An innovative formula for the digital transformation of SMEs) organised by Neosperience and Banca Valsabbina, moderated by Sebastiano Barisoni, deputy manager of Radio24; the activities of Ma.Co.f. - Centro della Fotografia Italiana - in partnership with the Municipality of Brescia, to promote cultural activities, publications and exhibitions (including virtual activities); the "Da Vinci 4.0" project of Editoriale Bresciana, developed to involve and reward the students of Brescia's technical institutes and those involved in the work-related learning programme: all initiatives that have had a major media and public response.

In terms of sporting events, Banca Valsabbina and the management of Volley Millenium Brescia renewed the agreement for the role of "title sponsor" also for the 2020-2021 season, with the name of the first team, in its third Serie A1 championship, being confirmed as "Banca Valsabbina Millenium Brescia": a partnership of absolute importance due to the positive effects on the national reputation of our brand.

The initiatives promoted in social and solidarity terms are also numerous. One above all, related to the world of sport and in particular to the sponsorship just mentioned, was the "Ace For The Cure" campaign, devised by the Bank and carried out together with Volley Millenium Brescia: a fundraising campaign for Susan G. Komen Italia association for the prevention and treatment of breast cancer, with the Millenium athletes as testimonials and our Bank in the role of financial backer.

The bank's support for requests from local communities was also high, in the form of contributions or donations, scholarships or loans.

Among the many, it is worth mentioning - but not for the purpose of seeking consensus - the participation in the #AiutiAMObrescia fundraising promoted by Giornale di Brescia and Fondazione Comunità Bresciana, aimed at purchasing B-pap respirators and any other equipment or device urgently needed by all the hospitals in Brescia: this participation resulted in a contribution of Euro 300 thousand in addition to the donation of 30 tablets. The Bank also made a contribution of Euro 100 thousand to the Manerbio, Gavardo and Desenzano Hospitals, which are part of ASST del Garda.

We have done so with conviction and sobriety, confident that initiatives of this nature strengthen those precious ties with the people and the companies that operate in our territory.

9. GOVERNANCE AND RISK MANAGEMENT

Risk analysis and assessment by the Supervisory Authorities

The assessment of the most significant risks faced by supervised entities, and in particular the early identification of emerging risks, is an important prerequisite for the successful implementation of banking supervision. This is supported by the Supervisory Review and Evaluation Process (SREP) used by the Supervisory Authority to guide the supervisory review of banks and to determine whether, in addition to the minimum requirements, any additional specific capital, disclosure or liquidity requirements or other prudential measures should be imposed. The Supervisory Authority reminds us that the SREP aims to capture the overall picture of the bank's risk profile, which is necessarily multifaceted with several interconnected risk factors.

In the light of the above-mentioned Supervisory Model, we will now analyse the control units adopted by Banca Valsabbina for the governance and management of risks.

Risk governance in Banca Valsabbina

In implementing the Bank's business model, the Board of Directors defines the strategic plans in the annual budgets, being aware of the risks to which the Bank potentially exposes itself and the capital requirements it is required to have to meet them. To this end, the supervisory provisions defined the risk measurement and control instruments listed below.

The Bank primarily ensures that risk is contained within the limits specified in the Risk Appetite Framework (RAF). Therefore, the RAF is reviewed annually in order to take into account the expected development of the risks taken, in line with the guidelines of the Strategic Plan, outlined and updated in the budgeting process.

The internal specialist structures also have a strategy that emanates from the Board of Directors, and a current and prospective internal capital adequacy assessment process (ICAAP), as well as an internal liquidity adequacy assessment process (ILAAP). These processes are formalised annually in a special document, the "ICAAP - ILAAP Report", in which an accurate identification of the risks to which the Bank itself is exposed in relation to its operations, the strategies adopted and the markets of reference is carried out independently, also simulating potential stress scenarios in order to check the adequacy of the capital endowment and the liquidity risk management and governance system.

The Bank has also adopted a "recovery plan". This document represents the instrument dedicated to dealing promptly and effectively with crisis situations, regulating the measures to be taken to restore the Bank's economic, equity and financial equilibrium. The Plan defines the indicators to be monitored for the timely identification of crisis situations as well as the strategies and actions to be taken in order to remove any critical issues.

The structure of the risk management and control process envisages prompt and constant reporting of the activities carried out by the corporate bodies, ensuring the accurate reporting of the risks taken and the assessment of their consistency with respect to the objectives defined.

Two additional control units complete the risk management system.

Therefore, the obligations to disseminate transparent and standardised information to the market regarding capital adequacy, exposure to risks and the general characteristics of systems for identifying, measuring and managing such risks (known as Third Pillar) fall within the scope of their management. Additional qualitative and quantitative information on risks and own funds is also provided in Section E of the Explanatory Notes, "Information on risks and the related hedging policies", and in Section F, "Information on equity", respectively.

Let us now move on to a more detailed analysis of the risks of the way in which the risks to which our Bank is exposed are managed.

Credit risk

The Bank's business model is primarily geared towards supporting local economies, households, entrepreneurs, professionals and Small-Medium Businesses. The particular focus placed on maintaining relations with customers and their development is the Bank's strength as it allows continuity of relationship and customer support in a long-term perspective.

The business model adopted by the Bank is mainly focused on traditional loan brokerage; therefore, the analysis of the risk related to the disbursement of credit is particularly important.

The analysis of the credit risk has the aim of assessing the ability of the company to suitably select its customers and the economic initiatives that are creditworthy, as well as the efficacy of the management, monitoring and trend control process of the counterparties to which loans were already granted.

The Board of Directors defines the lending policies overseeing the quality of the loans both during the first resolution and opening of the relation and in the subsequent management of the relation, taking into due consideration the Bank’s economic/equity amounts and the related economic scenario. In particular, the credit policies break down the strategic lines of the Bank in compliance with the established risk appetite level and the related risk target and limit system formalised in the RAF.

The prevailing strategic inputs of the policies in recent years was obtaining an adequate remuneration of the risk taken by means of an adequate creditworthiness assessment, the splitting up and diversification of the counterparties as well as the assumption of suitable guarantees. Over the past year, disbursement and renewal strategies of credit facilities have taken due account of the economic policy measures adopted by the Italian Government to counter the economic crisis caused by the Covid-19 pandemic. In particular, the Bank pursued the dual purpose of providing financial support to customers and mitigating the risk of impairment of its loan portfolio, by rescheduling the maturities of existing loans and granting new financing backed by the forms of state guarantees defined by government interventions. Therefore, the Bank actively participated in the implementation of government measures relating to the "Cura Italia" and "Liquidità" Italian law decrees, as well as industry initiatives, by granting new finance and moratoria, in line with other operators in the system. In perspective, as discussed in more detail in the chapter on "New Regulations and Good Practices," the gradual phasing out of several support measures in 2021 could increase the inherent level of impairment in loan portfolios.

The origination and disbursement of credit, both during the first loan proposal resolution and in the subsequent renewal of the credit facilities, maintained a central role in credit risk taking and is carried out using an IT procedure that allows to collect systematically a series of external and internal information, in order to carry out a thorough and updated and in-depth analysis of the borrower's condition. Therefore, the assessment considers both quantitative information and qualitative analyses aimed at understanding the quality of the projects to be financed also prospectively, in order to allow the delegated subjects to decide the granting of adequate credit facilities, both in terms of the amount and in items of economic conditions, in full compliance with the relevant internal regulations.

The subsequent phase of trend control, monitoring and classification of exposures aims at enabling timely interventions in case of anomalies or impairment. These activities are organised in a detailed credit management process, which envisages the assignment of specific tasks based on the types of anomalies reported and on the classifications assigned to each credit, ensuring an adequate and systematic process of credit monitoring, with particular reference to non-performing exposures.

For the accurate and constant analysis and monitoring of the risk, the Bank also uses a management system, known as “Credit Rating System - CRS”, which classifies the customers on the basis of creditworthiness, via an internal scoring system. The system comprises a statistical-type insolvency risk measurement model that, by means of an appropriate customer segmentation, an analysis of the economic and financial indicators of the counterparty, an analysis of the trend in the relationship with the Bank as well as with other Banks (Central Credit Register) makes it possible to estimate the Probability of Default (PD) of the Customer with the consequent assignment of the rating class.

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

In particular, performing loans are distinguished between loans recorded in stage 1, for which there is no particular increase in credit risk, and loans recorded in stage 2, for which there has been a significant deterioration in creditworthiness. In particular, the latter is identified on the basis of specific criteria adopted by the Bank, including the significant deterioration in the rating class assigned by the CRS model.

On the other hand, with reference to the calculation of the Expected Loss on performing loans, the method introduced by IFRS 9 requires a write-down to be defined, which also takes into account the impact of the development of macroeconomic scenarios in a forward looking logic. Specifically, the expected loss is calculated by defining the probability of default at one year for stage 1 positions, considering instead the entire residual life of the credit for stage 2 positions, as they are riskier.

As part of the determination of forward-looking probabilities of default to be used for the calculation of the expected loss, the Bank, on the basis of a specific project organised by the IT outsourcer Cedacri with the collaboration of an external advisor, implemented the scenario approaches adopted in order to take due account of the extreme volatility that currently characterises the forecasts relating to the development of macroeconomic variables following the covid-19 pandemic. In particular, a "multi-scenario" approach was defined whereby three different possible developments of the macroeconomic environment (best, base and adverse) are duly weighted for the purpose of constructing the probability of default vector to be used for estimating the expected loss. Moreover, the three different scenarios are differentiated by geographic area and by sector of economic activity of the financed counterparties in order to take due account of the peculiarities of the portfolio under assessment. Plus, in order to accurately consider the increase in government-backed loans in the bank's loan portfolio as a result of the economic policy measures adopted with the government measures, the logics for defining Loss Given Default were also implemented, defining a specific LGD for government-backed loans.

The loan monitoring activity is also supported by the “Credit Quality Management” application that allows to quickly identify the counterparties with anomalies, divide customers up into monitoring sub-portfolios according to the Bank’s operational guidelines, and customise the process chosen in terms of players involved and actions to be undertaken, and historicising the recovery activities carried out.

With the aim of mitigating the taking of the credit risk, the Bank considers and selects the collaterals and personal guarantees to be requested from customers granted credit, by monitoring constantly their values.

In particular, the Bank uses the “Collateral” procedure in order to have a management and monitoring system of the mortgage guarantees and to check their conditions of general and specific admissibility so as to benefit from a minor capital absorption in connection with the credit risk. This procedure also allows to carry out a statistical update process of real estate values, representing a monitoring of the residual risk, which consists in the risk that a minor amount than that envisaged is obtained from the enforcement of a guarantee.

The Anomalous Loan Division, which includes the Trend Monitoring, Pre-dispute, Legal and Disputes Services, is in charge of the management of non-performing loans or loans with irregular trend. In particular, the "Performance Monitoring Service" manages non-performing loans, the "Pre-dispute Service" manages positions classified as past due and/or overdue non-performing and unlikely to pay, the "Legal and Disputes Service" deals with the management of bad loans, with the support of external professionals.

In the light of the "Guidelines for Less Significant Italian Banks in the management of non-performing loans", during the year the Bank approved the NPL Plan for the period from 2020 to 2022, which has as its main objective the consolidation of the important derisking objectives already achieved in previous years, taking due account of the deterioration of the macroeconomic context that has inevitably also had an impact on the credit recovery process. Again with reference to the NPL Plan, the internal process envisages the periodic monitoring of the related objectives in order to verify the achievement of corporate strategies and assess any corrective actions. The objectives defined in the Plan in terms of reducing the incidence of both gross and net impaired loans were largely achieved. In particular, the Bank's net non-performing loans as a percentage of total loans in 2020 are below the target level defined for 2022.

In order to further strengthen the process of measuring loans and receivables, the related internal regulations were updated in 2020, defining an organic and complete framework for the classification and measurement of the loan portfolio, perfectly summarised with the best practices found at system level, following the issuance by the supervisory authority of the guidelines for the management of NPLs.

In terms of capital absorption and for the purposes of calculating capital requirements, the credit risk represents the most significant risk for the bank, in the light of the high incidence of loans with respect to total balance sheet assets.

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

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

The concentration risk per individual borrower is monitored examining - with specific methods - the exposures involving a significant amount vis-à-vis individual counterparties and between those associated legally and/or economically, while the risk measurement, for the purpose of capital adequacy assessment, takes place using a model on the entire loan portfolio based on the Herfindahl index, in line with the matters envisaged by the instructions in force.

On the other hand, the assessment of the geo-sectorial concentration risk is carried out by segmenting the loan portfolio by sectors of economic activity and by geographic areas of origin of the customers granted credit. For the purpose of assessing capital adequacy, the Bank uses the method proposed and defined by ABI.

Special attention was paid during the year to analysing the loan portfolio according to the different economic sectors to which the counterparties belong in order to identify the impact of the pandemic on the Bank's credit exposures at an early stage. Specific references have already been made in this report in the chapter on loans.

Measurement and monitoring activities are carried out periodically, in order to maintain the degree of concentration within thresholds consistent with RAF and with credit policies and are designed to maintain an adequate diversification of risk.

In assessing capital adequacy, the Bank uses the procedure called CCM (Credit Capital Management) both for credit risk and for concentration risk, with the aim of supplementing the figures relating to the calculation of prudential requirements (First Pillar), measured using the special SDB Matrix application. The CCM application is also used as part of the activities functional to the supervisory review (Second Pillar).

Market risk

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

The investment activity in securities is carried out alternately with a view to achieving only the contractual cash flows, in a "held to collect" (HTC) business model logic, or with a joint view to collecting contractual cash flows and any capital gains from disposal, according to a "held to collect and sell" business model.

Trading in securities for the sole purpose of taking advantage of possible increases in fair value was of secondary importance in 2020 compared to the management of the portfolio according to the "held to collect" and "held to collect and sell" approaches and was carried out for limited periods of time and for limited investment values.

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

The investment choices made during the year were mainly oriented towards the bond market for securities issued by the Italian government (BTPs and CCTs). Moreover, with the aim of diversifying the risk and increasing the investment opportunities in particularly specialised areas, specific agreements are in place with two important asset management operators to mainly invest in corporate bonds and, to a lesser extent, in stock & share units. The portfolio entrusted under management amounted as at 31 December 2020 to Euro 202.4 million, of which Euro 138.9 million invested in corporate bonds, 13 million in Italian government bonds and Euro 50.6 million in stock & share units. This information has already been provided above in the chapter on financial assets.

With regard to the assessment of the price risk on the securities portfolio, a management model is used based on the Value at Risk (VaR), able to express briefly the maximum possible loss of a static portfolio in monetary terms, with reference to a specific timescale and a specific confidence level.

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

The VaR trend of the internally managed portfolio, also because it is entirely made up of Italian government securities, aligned itself with the fluctuations and volatility registered on the related markets as well as with the choices of investment/disinvestment made during the period. In particular, the spread of the Covid-19 pandemic in March coincided with an increase in perceived risk on the markets, generating a significant increase in the portfolio V.a.R. However, in the following months, there was a subsequent significant reduction in the risk indicator.

According to the “backtesting” analysis carried out in 2020, VaR was exceeded in 4 cases (in February and March), and in any case related to the negative performance of the markets following the health emergency.

In order to also monitor the risk of the portfolio entrusted to outside operators, the VaR was also calculated on a daily basis on this portfolio as well, subjecting it to backtesting. The 1-day VaR trend and the backtesting analysis revealed only one case of exceeding of the VaR thereby confirming the reliability of the measurement made.

The Bank's securities portfolio had a duration of 4.1 years at year end.

Operational risk

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

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

The supervision of the operational risk is subject to constant attention both in the various phases of the operational processes and procedures and periodic adequacy checks on the system of controls. The first supervision for operational risk comprises the internal legislative framework adopted by the Bank, functional for guiding the conduct and the execution of the processes.

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

For the purpose of improving the process, the Bank adopted an integrated measurement, assessment, monitoring, mitigation and control system for these risks. In this regard, a system has been created for the collection and storage of data relating to operational events and losses, which permits the creation of a historical database. The LDC (Loss Data Collection) procedure was adopted to support this system, making it possible to collect the data relating to specific cases and classify it according to the regulations. The collection of the events that have led to operational losses allows the Bank to identify the reiteration of adverse events or behaviour, thus encouraging appropriate corrective measures.

The procedure for collecting and processing loss events is constantly being implemented, also thanks to the widespread "risk culture" among operators; therefore, any incorrect behaviour is promptly identified and appropriate mitigation actions are implemented.

During 2020, additional first-level controls were also implemented on operational processes relating to credit disbursement and management in view of the possible increase in risk as a result of the health crisis.

For the purpose of supplementing the operations that are already carried out afterwards with the collection of the operating losses, the Bank implemented a self-assessment process useful for estimating on a forecast basis its exposure to the operating risk (“Risk Self Assessment”). Specifically, this involves an estimation self-diagnostic process that sets out to assess the degree of the exposure to the risk by means of a combination of opinions expressed in terms of impact, probability of occurrence, efficacy of the controls.

As part of the operational risk, the IT risk is also monitored, assessing the reliability and security of company information and procedures using IT support, in particular. This risk is becoming increasingly important in the banking business due to regulatory changes, the drive for technological innovation and the increase in remote operations. The Bank formalised the “Method for analysing and processing IT risks” on the basis of which the “Summary report on the situation of IT risk” is prepared on a regular basis. In particular, the “critical” processes were reported, the IT risks and related business continuity were identified, and the “Plan for managing emergencies and business continuity” was updated accordingly. The analysis is updated annually also on the basis of specific assessments made by IT outsourcers. The outcome of the assessment carried out in 2020 confirmed a low risk exposure, consistent with the Bank's risk appetite.

Interest-rate risk

The interest rate risk, as the risk of incurring losses due to unfavourable developments in market interest rates and the related impact on the financial position, is generated by the imbalance between the maturities (repricing) and the asset and liability items belonging to the bank book, which is made up of all the financial assets and liabilities not included in the trading portfolio as per supervisory regulations.

In particular, in terms of income statement, changes in interest rates affect net interest income and the level of other interest-sensitive operating costs and revenues. In terms of balance sheet, changes in interest rates affect the underlying value of assets, liabilities and off-balance sheet items, since the present value of future cash flows changes as interest rates change.

Therefore, mitigation of the interest rate risk takes place by means of the integrated management of the bank assets and liabilities, aimed at stabilising the net interest income and protecting the economic value of the portfolio.

The measurement of interest rate risk is carried out by the Risk Management, Planning & Control Service and is implemented first of all on the basis of the standard algorithms set out in the 32nd update of Bank of Italy Circular No. 285 of 2013, distinguishing the calculation in terms of changes in economic value (annexe C) and in terms of changes in net interest income (annexe C-bis). The Bank has always maintained the risk index at a level lower than the warning thresholds established by the regulations.

The regulatory measurement is also supplemented by monthly operational analysis, where for each sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.

The ERMAS procedure makes it possible to monitor all the Bank’s activities related to the transformation of the maturities of the assets and liabilities and to quantify the balance sheet and income statement effects, induced by hypothetic shocks of the market rates.

The measurement of the variability of the economic value of the assets and liabilities - useful for monitoring the current value of the equity - is carried out for management purposes via "Sensitivity Analysis", which make it possible to check the sensitivity of the Bank’s economic value with regard to the change in the interest rates.

Moreover, for the purpose of measuring the variability of the net interest income, determined by positive and negative changes in the rates over a time period of 365 days, the differences between asset and liability items of the financial statements are monitored, grouped according to the maturity or rate redefinition date; the method used is “gap analysis”.

As part of interest rate risk measurement techniques, the bank uses behavioural models estimated internally for on-demand items on the basis of historical data.

In 2020, an update was issued on interest rate risk aimed at modifying the simplified algorithms to be used for the relative measurements, for which the Bank, in the light of the regulations and the analysis of its historical series, updated the models of behaviour for on-demand items, at the same time adapting the internal risk management systems in order to complete the alignment plan with the new guidelines.

Liquidity risk

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

The overall model adopted by the bank for managing and monitoring the liquidity risk is divided up into three distinct areas according to the reference scope, time horizon and the analysis frequency:

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

- the management of structural liquidity, or rather the management of all the events of the bank book that impact the overall liquidity position in the period beyond 6 months, with the primary objective of maintaining a balanced dynamic ratio between medium- to long-term assets and liabilities.

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

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

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

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

Liquidity risk is also controlled by monitoring the supervisory indicators represented by the short-term liquidity requirement (Liquidity Coverage Ratio - LCR) and the structural liquidity requirement (Net Stable Funding Ratio - NSFR).

In particular, the Bank transmits the regulatory reporting of the liquidity indicator "Liquidity Coverage Ratio" (LCR) on a monthly basis. With regard to the “Net Stable Funding Ratio” (NSFR) indicator, an operational-type measurement is carried out on the basis of the matters envisaged by the Basel III Framework.

Finally, the quarterly reporting related to the "Additional Liquidity Monitoring Metrics - ALMM" is carried out as additional to those already envisaged, and aimed at providing the Supervisory Authority with a comprehensive view of the Bank's risk profile.

Risk of excessive leverage

The risk of excessive leverage is the risk that a particularly high level of debt compared to equity makes the bank vulnerable, requiring corrective measures to be taken for its business plan, including the sale of assets with recognition of losses that could result in impairment losses also on the remaining assets.

The Bank pursues sustainable growth policies with limited recourse to leverage, specifically represented by the ratio of regulatory capital to total exposures, mainly deriving from balance sheet assets. The Bank controls the risk arising from excessive leverage by monitoring the related indicator, which is specifically reported on a quarterly basis to the Supervisory Authority.

Strategic risk

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

The Bank adopted a mitigation policy for the strategic risk that is mainly based on the formalisation of an analytical, prudent and shared decision-making process. Decision making is based on the careful and constant observation of the reference market, on the gradual activation of new services and/or products, on a formalised operational and strategic planning process and on a constant measurement and monitoring of company performance and related deviations from previously established targets. During 2020, special attention was paid to analysing and updating the economic and financial projections, taking due account of the development of the macroeconomic scenario in order to be able to promptly implement the appropriate management initiatives in response to the serious pandemic situation still underway.

Reputational risk

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

In the light of the difficulties associated with the quantification and the measurement of the related risk, a self-assessment process has been implemented aimed at identifying, on a forecast basis, the adverse events with the greatest impact on the company through their qualitative and quantitative assessment.

As part of this process, the areas of operations most exposed to this risk are monitored by raising the awareness of the main players involved and assessing any mitigation action.

The Bank adopted, as said, a Code of Ethics aimed at sharing the system of values, principles and rules of behaviour all internal subjects must comply with. The internal regulatory framework and the related processes are also continuously updated and implemented in order to ensure constant monitoring for the mitigation of this type of risk.

An additional control unit aimed at limiting a possible unlawful behaviour by employees is represented by the whistleblowing system, by identifying the subject to whom they may be confidentially transmitted.

10. THE INTERNAL CONTROLS SYSTEM

The system of internal controls is a set of rules, procedures and company functions whose purpose is to achieve the effectiveness and efficiency of company processes, ensure the reliability and integrity of accounting and management information, guarantee compliance with regulations and risk management.

However, the fundamental prerequisite for risk mitigation is the ethical and legal behaviour of individuals and of the Bank as a whole, based on the concepts of correctness, transparency, diligence and confidentiality, on which the trust of customers is based. The Bank is constantly committed to fostering these values in each employee and collaborator, together with motivation at work, awareness of their role, and a sense of belonging. We pursue these objectives with determination through continuous training, the proximity of the areas to the branches in the territory, the invitation to all employees to report any potential anomalies, malfunction, customer complaint to the competent structures in order to remedy them in time.

Therefore, the control system is an integral part of this strategy aimed at mitigating risks (e.g. credit risk, reputational and penalty risk, risk of involvement in money laundering, etc.), the main support to understand their origin and importance, the "critical conscience" that forces to assess the adequacy and effectiveness of the control units, also useful for analysing its deficiencies in depth and implementing remedies.

The scope of reference of the control system at Banca Valsabbina, divided into three levels, is made up of the parent company and the subsidiary Valsabbina Real Estate S.r.l., an operating company active in the real estate sector.

At the first level, represented by controls delegated to the operational structures of branches or headquarters, there are line controls that allow to know the customer and intercept anomalies in the customer's behaviour in order to make sure that credit management operations are carried out properly, as part of banking and financial, payment and investment services. The first level of control also includes the so-called "second level" controls, aimed at ensuring that the operating flow relating to the provision of individual services is promptly observed and the related supporting documentation is properly signed, collected and stored.

The second level controls have the aim of ensuring and checking the correct implementation of the risk management process, the observance of the limits assigned to the various departments and the compliance of the business operations with standards, including those concerning self-regulation. These second-level controls, specialised on the major types of risk, are divided among the following dedicated corporate functions:

- the standards compliance department (called Compliance Service) has the task of preventing any risks arising from violations of internal and external regulations. The Compliance Service also carries out an important role in assisting in the prior definition of the adjustments of internal regulations to new regulations. In a context of growing exposure to reputational risks and sanctions within the banking system, the issue of compliance with good commercial practices and prevention of the risk of mis-selling assumes particular importance;
- the risk control department (called Risk management Service), which is involved in defining and monitoring the Risk Appetite Framework (RAF), the risk governance policies and the various phases that make up the related management process as well as in determining the limits to the taking of the various types of risk. The function is also involved in the internal processes for determining capital adequacy (ICAAP) and the adequacy of the liquidity risk governance and management system (ILAAP). Finally, the function is involved in the drafting of the recovery plan, discussed in the previous chapter, which contains the process for identifying possible situations of company crisis, as well as the related management actions aimed at rebalancing the economic and financial situation. In this delicate economic phase, in which the impairment of credit may once again be a major concern for the banking sector, the role of the Risk Manager in monitoring the performance of customer exposures is crucial;
- the department tasked with preventing reputational and sanction risks related to the involvement, even unknowingly, in money laundering and financing of international terrorism (called Anti Money Laundering Service), whose task is to prepare appropriate controls for mitigating the above-mentioned risks and monitor their proper use at the operational lines. The Head of the Anti-money Laundering Service is also assigned the task of “SOS Appointee” in relation to the reporting of suspect transactions, as well as reference individual for periodic reports to the FIU. Also in the light of specific indications coming from the competent authorities, the prevention of the risk of involvement in tax evasion - the main predicate offence of money laundering in Italy - is of particular importance.

The Bank has also appointed a Data Protection Officer, who is responsible for monitoring the risks of violation of the provisions of Regulation (EU) 2016/679 on the protection of personal data. The Data Protection Officer advises on the obligations arising from the Regulation and monitors compliance with its provisions in a context where the Italian Data Protection Authority intensified its inspection activities and defined stricter obligations in case of violation of data protection duties.

Finally, the third level controls are entrusted to the Internal Audit Service, which is delegated the task of checking the regular performance of the operations and the evolution of the risks and assessing the completeness, adequacy, functioning and reliability of the components of the internal controls system. Among the many issues that make up the audit agenda, controls on the adequacy of control units related to the credit management (from the earliest stages of granting) take specific priority.

During 2020, the above-mentioned second and third level controls were committed to verifying – on the basis of the work plan previously assigned by the Board of Directors – the adequacy of the internal risk mitigation control units. In anticipating that – as a result of the activities carried out by the control functions in 2020 – no significant critical issues or significant malfunctions emerged, more details are provided on the main issues in which each function was involved.

Compliance activities mainly concerned the mitigation of the risk of non-compliance in investment services, insurance brokerage and banking services. In particular, Compliance was engaged in verifying the compliance of the controls adopted by the Bank with the provisions of the law.

The activity carried out by the Risk Management finds an accurate representation in the next chapter dedicated to risk management, to which reference is made.

The Anti-Money Laundering Service activities aimed at preventing the risk of the Bank's involvement in money laundering and/or financing of international terrorism were focused, on the one hand, on the implementation of the new provisions of the Bank of Italy in terms of organisational and internal control, as well as customer due diligence, in implementation of the relevant EU Directives (known as IV and V Anti-Money Laundering Directive), and, on the other hand, on raising the network's awareness of the regulatory development of money laundering and terrorist financing techniques. Special attention was paid to the "Patterns representing anomalous behaviour", issued by the Supervisory Authority in relation to the health emergency related to the Covid-19 pandemic and its repercussions also in economic and financial terms. The Anti-Money Laundering Service actively participates in employee training by providing suitable and qualified e-learning platforms, as well as through classroom sessions.

In 2020, the Internal Audit Service focused on a wide programme of checks, both remote and at the various operating units; checks that concerned the main activities carried out in central structures and the operations of the network. In particular, in addition to the mandatory audits required by supervisory regulations on remuneration policies, review of the ICAAP-ILAAP process, analysis of outsourced activities, audits were carried out at central level on the management of non-performing loans (NPL), credit risk, money-laundering risk, administrative aspects and business activities. Areas relating to credit management, investment services, banking products and operational management were checked in the on-site audits at the branches. Moreover, line controls were monitored and constantly implemented in relation to regulatory developments and in the presence of new operating processes. Following the Covid-19 emergency, starting from the second quarter of 2020, a series of extraordinary remote controls were immediately introduced aimed at identifying possible critical situations with special reference to credit risk, money laundering risk in consideration also of the law provisions dedicated to the emergency issued from time to time.

The results of the checks and recommendations of the second and third level control units – which directly report to the top positions – were analysed using the internal structured concerned, submitted to the General Management and the Board of Statutory Auditors, and reported to the Board of Directors. Also in the light of the results that emerged in 2020 regarding the development of the reference regulations and the multi-year control plan, the Board of Directors approved at the beginning of the current 2021 year, the programme of activities of the corporate control functions for the new financial year.

In order to strengthen the effectiveness of the system, joint meetings between the Board of Statutory Auditors and the heads of control functions continued during 2020 with the aim of developing debates aimed at highlighting critical issues and points of attention as well as areas for improvement and corrective action. The assignment to the Board of Statutory Auditors of the responsibilities of the Supervisory Body pursuant to 231/01 since November 2017, is also aimed at encouraging a more integrated risk assessment. With reference to the checks carried out by this Supervisory Board, reference is made to a subsequent specific chapter.

11. The Report on Corporate Governance and ownership structures pursuant to Article 123-*bis* of the TUF

This section of the Report on Operations contains the detailed information on corporate governance and ownership structure that issuers of securities admitted to trading on regulated markets or multilateral trading systems are required to provide pursuant to Article 123-*bis* of the Consolidated Law on Finance (TUF).

Changes in ownership structure as at 1 March 2020 (pursuant to Article 123-*bis*, par. 1, TUF)

Structure of the share capital (pursuant to Art. 123-bis par. 1, letter a), TUF)

The Bank is an issuer with shares widely distributed among the public in accordance with Article 2-*bis* of the Consob Regulation on Issuers. The share capital, entirely subscribed and paid up, amounts to Euro 106,550,481.00 divided into 35,516,827 ordinary shares with a nominal value of Euro 3.00 each.

The share capital structure consists only of ordinary shares, which have been listed on the Hi-MTF multilateral trading facility since 18 July 2016.

Restrictions on the transfer of financial instruments (pursuant to Art. 123-bis, par. 1, letter b) TUF)

The Bank's Articles of Association provide for acceptance clauses only for the acquisition of Shareholder qualification by holders of shares, contained in Articles 8 and 9 of the Articles of Association.

In compliance with the regulations in force applicable to cooperative banks, Article 11 of the Articles of Association envisages that no one may directly or indirectly own more shares than the maximum number permitted by law, set by Article 30 of the Consolidated Banking Law at 1% of the share capital, i.e. 355,168 shares. The limit in question does not apply to UCIs in securities where the limits provided by the relevant regulations will apply.

Significant investments in capital, securities with special rights and shareholdings of employees (pursuant to Article 123-bis, par. 1, letter c), d) and e) TUF)

In compliance with the principle of the shareholding limit referred to in the previous paragraph, no person appears to hold, directly or indirectly, significant investments in capital pursuant to Article 120 of the Consolidated Law on Finance (TUF).

The cooperative form of the Bank excludes the possibility of controlling positions.

Employees who are Shareholders exercise their voting rights in the same way as Shareholders in general.

Restrictions on voting rights (pursuant to Article 123-bis, par. 1, letter f) TUF)

The exercise of the right to vote is subject to the status of Shareholder, which is acquired, following the resolution for approval by the Board of Directors, by registration in the Shareholders' Register.

In order to take part in the Shareholders' Meeting and exercise a vote, it is necessary to have been a Shareholder for at least 90 days prior to the date set for the Shareholders' Meeting on first call (Article 24 of the Articles of Association).

Pursuant to Article 30 of the Consolidated Banking Law and Article 24 of the Articles of Association, each Shareholder may cast only one vote, regardless of the number of shares held.

The participation in the equity and profits is proportional to the shares held; however, if the shareholding limit set forth in paragraph 1.2 is exceeded and the excess shares are not disposed of within one year from the notification of the breach, the relevant property rights accrued up to the disposal of the excess shares shall be acquired by the Bank and allocated to reserves.

There are no further restrictions on voting rights.

Shareholders' agreements known to the Bank pursuant to Article 122 TUF (pursuant to Article 123-bis, par. 1, letter g) TUF)

The Board of Directors is not aware of the existence of shareholder agreements pursuant to Article 122 of the Consolidated Law on Finance (TUF).

Clauses in the presence of a change of control (pursuant to Article 123-bis, par. 1, letter h) Consolidated Law on Finance (TUF)

There are no agreements to which the Bank or its subsidiary is a party that become effective, are amended or terminate in the event of a change of control of the Bank.

Authorisations to increase the share capital and to purchase own shares (pursuant to Article 123-bis, par. 1, letter m) TUF)

At the date of this Report, there are no authorisations to increase the share capital pursuant to Article 2443 of the Italian Civil Code or to issue convertible bonds pursuant to Article 2420-*ter* of the Italian Civil Code.

As at 28 February 2021, the Bank held a total of 1,264,478 own shares (representing 3.56% of the share capital) purchased under the authorisations granted by the Shareholders' Meeting.

Management and co-ordination activities (pursuant to Article 2497 et seq. of the Italian Civil Code)

The Bank is not subject to management or co-ordination in accordance with Article 2497 et seq. of the Italian Civil Code.

The Bank does not comply with corporate governance codes of conduct promoted by regulated market management companies or trade associations.

Shareholders' Meeting (pursuant to article 123-*bis*, par. 2, letter c) TUF

The operating mechanisms of the Shareholders' Meeting, its main powers, shareholders' rights and how to exercise them are regulated in Articles 20 to 29 of the Articles of Association.

It should be noted that, as a result of the Covid-19 outbreak, at the Shareholders' Meeting held on 29 June 2020, attendance of those entitled to vote took place exclusively through the Appointed Representative pursuant to Article 135-*undecies* of Italian Legislative Decree no. 58 of 24 February 1998, in accordance with the provisions of Article 106, paragraphs 5 and 6, of Italian Law Decree no. 18 of 17 March 2020, converted with amendments by Law no. 27 of 24 April 2020 and that, given the continuation of the health emergency, the Shareholders' Meeting called for 30 March 2021 on first call and for 31 March on second call will also be held in the same manner.

Board of Directors and Board Committees (pursuant to Article 123-*bis*, par. 2, letter d), TUF)

The Bank adopts the traditional system of administration and control, under which the Board of Directors assumes the role of body with strategic supervision and management of the Bank. The General Manager is also involved in the management of the company.

Pursuant to Article 30 of the Articles of Association, the Board of Directors consists of a minimum of 7 and a maximum of 13 members, including the Chairman and Deputy Chairman.

The Shareholders' Meeting of 2 May 2015 set the number of members of the Board of Directors at 10.

Article 30 of the Articles of Association also provides that the Board must include at least three non-executive Directors and that at least one quarter of the Directors must meet the independence requirements set forth in Article 30 of the Articles of Association. The Board of Directors in office is characterised by the presence of only non-executive Directors (10 out of 10 members), the majority of whom are independent (7 out of 10 members).

The following table shows the composition of the Bank's Board of Directors specifying that the Directors were members of the Board Committees.

Office	Members	Independent director	Risk Committee	Committee of Independent Directors
Chairman	Barbieri Renato	X		X
Deputy Chairman	Pelizzari Alberto			
Director	Baso Andriano	X	X	X
Director	Ebenestelli Aldo	X		
Director	Fiori Eliana	X		
Director	Fontanella Angelo		X	
Director	Gnecchi Flavio			
Director	Gnutti Enrico	X		X
Director	Niboli Pier Andreino	X		
Director	Veronesi Luciano	X	X	X

The operation of the Board of Directors is regulated by the provisions of Article 35 of the Articles of Association.

During 2020, the Board of Directors met 24 times; the average duration of each meeting was 2.5 hours and the average attendance rate was 97%.

In compliance with the provisions of the Articles of Association, during 2020, due to the continuing health crisis caused by the Covid-19 pandemic, board meetings were held almost exclusively by video-teleconference.

As from 1 January 2021 and to date, the Board of Directors has met five times.

The Board of Directors resolved, pursuant to Article 30 of the Articles of Association and in compliance with the relevant regulations and supervisory regulations, to set up a Risk Committee and a Committee of Independent Directors from among its members.

In carrying out their functions, the Committees have access to information and company functions required for the carrying-out of their duties and may use external consultants within the terms set by the Board of Directors.

The Risk Committee currently consists of three members, two of whom meet the independence requirements.

The Committee performs support functions for the Board in relation to risks and the internal control system, with the tasks envisaged by the supervisory provisions in force.

The Risk Committee meets at least quarterly.

During 2020, the Risk Committee met 5 times. The meetings lasted an average of about 1.5 hours. As from 1 January 2021 and to date, the Risk Committee has met once.

The Committee of Independent Directors consists of 4 members. The composition, powers and operation of the Committee are governed by a specific Regulation.

Board of Statutory Auditors (pursuant to Article 123-*bis*, par. 2, letter d), TUF)

The Board of Statutory Auditors, appointed by the Shareholders' Meeting in accordance with the provisions of the Articles of Association, performs the duties assigned by the regulations in force to the control body of a banking parent company, in accordance with the provisions of the law and regulations and the Articles of Association.

In accordance with the provisions of Article 41 of the Articles of Association, the Board is composed of 5 Acting Auditors (including the Chairman of the Board) and 2 Alternate Auditors, appointed by the Shareholders' Meeting.

The following table shows the composition of the Bank's Board of Statutory Auditors

Office	Members
Chairman	Vivenzi Mauro Giorgio
Acting Auditor	Garzoni Bruno
Acting Auditor	Mazzari Filippo
Acting Auditor	Pandini Nadia
Acting Auditor	Pozzi Federico
Alternate Auditor	Arpino Riccardo
Alternate Auditor	Dorici Donatella

The operating procedures of the Board of Statutory Auditors are set out in Article 44 of the Articles of Association.

During the 2020 financial year, the Board of Statutory Auditors met 23 times, with each meeting lasting an average of approximately 1.5 hours, and took part in the annual Ordinary Shareholders' Meeting, which it attended in its entirety (by teleconference, in compliance with the containment measures adopted by the competent authorities to combat and manage the epidemiological emergency caused by the Covid-19 virus and with the provisions of Article 106, paragraph 2 of Italian Law Decree no. 18 of 17 March 2020). As from 1 January 2021 and to date, the Board of Statutory Auditors has met four times.

The Board of Statutory Auditors also attended all 24 meetings of the Board of Directors held during the year 2020 and 5 held from 1 January 2021 to date. The Board also attended with at least one representative all the meetings of the Risk Committee.

Diversity policies (pursuant to Article 123-*bis*, par. 2, letter d-bis), TUF)

The Board of Directors and the Board of Statutory Auditors, as part of their self-assessment process, assessed the diversity profiles in terms of age, gender, territorial origin and educational and professional background of their members.

In view of the forthcoming Shareholders' Meeting, both the Board of Directors and the Board of Statutory Auditors drew up a document on their optimal qualitative and quantitative composition, in which they expressed, among other things, their hope that in selecting the candidates to be submitted to the approval of the Shareholders' Meeting, the profiles of persons with skills and experience that can foster debate and ensure internal dialogue within the bodies would be evaluated.

The Board of Directors also mentioned that the members of the Board cannot be older than 75 at the time of their appointment.

With regard to gender diversity, the Board of Directors has shown that one of its members belongs to the less represented gender, while the Board of Statutory Auditors has shown that one Acting Auditor and one Alternate Auditor belong to the less represented gender.

Characteristics of existing risk management and internal control systems in relation to the process of financial reporting (pursuant to Article 123-*bis*, par. 2, letter b), TUF)

For information on the characteristics of the existing risk management and internal control systems in relation to the financial reporting process, see the paragraphs *Governance and risk management* and *Internal control system* of this Report.

Other corporate governance practices

The Bank does not adopt any corporate governance practices beyond those required by law or regulation and described in this Report.

With regard to Article 123-bis, paragraph 1, letters i) and l), and paragraph 2, letter a) TUF, there is no information to be provided as they are not applicable to the Bank's situation.

12. HUMAN RESOURCES

This year we will certainly leave more space to the chapter on human resources than in the past because never as in 2020 have the Personnel, invested by the urgency of the pandemic, found themselves interpreting an operationally new work style in a profoundly changed scenario in terms of rules, interpersonal relationships and time management.

If, in the face of such sudden transformations that have undone the physicalness and operativeness of the workplace, the economic results for the year have been so positive, this is essentially due to two factors: firstly, to the reasoned entrepreneurial model that has financed dimensional development with an intensive investment in human resources - in contrast to the prevailing system policies - and secondly, precisely to the extraordinary ability expressed by the Personnel to interpret the shared strategic guidelines, demonstrating a serious and responsible commitment that has come to be accentuated with the debut on a large scale of remote work, smart working.

Borrowing a journalistic image, we could say that the Personnel was "the figure of the year", promoted by a market, user of banking services, who knows how to choose, recognises and therefore prefers people who express the character of the territory, because they were born there, know it and contribute decisively to the assertion of their bank's identity, making it so important, indispensable and "cooperative" as 2020 has been able to confirm.

It might seem rhetorical and celebratory what we are saying if the Bank were not at the top of the productivity indicators, if the company climate were not so welcoming, if trade union relations were not so involved and constructive, and if every employee did not feel proud to be a "builder" in that project of growth that has led the company to climb the rankings of the most solid and profitable banks in the "less significant" category.

Let us now take a look at the main qualitative and quantitative profiles, noting that the Non-Financial Statement, attached as a separate document to the 2020 Financial Statements, contains extensive and detailed information in the chapter called "Responsible management of human resources", from which members interested in learning more can easily find further information.

By the end of 2020, the company's staff reached a total of 689 units, compared to 645 units at the end of 2019, with a net increase of 44 resources. In detail, there were 72 hires and 28 terminations. There are 35 employees in the Bank belonging to protected categories, in particular employees with civil disabilities and children of labour victims, three more than in 2019, demonstrating the Bank's commitment and focus on its resources and community.

The following table, which shows the trend over the decade, shows a moderate growth in the number of employees up to 2016 and a significant acceleration from 2017 onwards.

The increase in the last four years was mainly due to the dimensional development policies implemented with the rationalisation and strengthening of the territorial network; most of the new hires were in fact reserved for plans to open branches in the major provincial capitals of northern Italy; Moreover, the recruitment of new resources in the central offices was also significant due to the heavy workloads related to the constant changes in the legal and regulatory framework, not only in the light of the single European supervisory authority.

Within this context, the control functions, which have grown in number in compliance with the sector regulations, were strengthened and adapted to the continuous demands of the governance apparatus.

The criteria that guided the selection of candidates for employment are those referred to in the Code of Ethics adopted by the company: these criteria favour, first and foremost, their origin in the territories where the Bank operates and, at the same time, the potential for professional development of new resources. In this sense, the recruitment of young people for their first work experience takes place following a careful selection process, which takes into account educational and training qualifications, personal characteristics, interpersonal skills and aptitude for the delicate job of banking. In order to fill organisational positions of particular complexity or strategic importance - a recurring circumstance, especially in periods of accelerated development of internal specialist roles, as was the case in 2020 - the Bank has also recruited people with proven professionalism and specific skills gained in similar sectors.

The configuration of the human resources structure at the end of 2020, as regards the number of employees and the structure of the positions, is shown in the following table:

	2020	**%**	**2019**	**%**	**2018**	**%**	**2017**	**%**
Executives	10	1.45%	9	1.40%	7	1.17%	10	1.78%

3rd and 4th level middle management	168	24.38%	151	23.41%	136	22.82%	117	20.86%
1st and 2nd level middle management	183	26.56%	160	24.81%	121	20.30%	106	18.89%
Remaining personnel	328	47.61%	325	50.39%	332	55.70%	328	58.47%
of which:								
professional training apprenticeships	-	-	-	-	-	-	-	-
under staff leasing	10	1.45%	11	1.71%	11	1.85%	3	0.60%
TOTAL	689	100%	645	100.00%	596	100.00%	561	100.00%

Among the 689 people who make up the company's workforce, 219 work in the head office structures, while 470 are distributed among the 70 branches that make up the sales network: it is important to bear in mind that 68% of the resources are on the market, a sign of the attention and impetus given by the Bank to the commercial relationship in terms of service, physical presence and availability to customers and the shareholding structure.

Almost all resources (99.85%) have a permanent contract and work full-time (98.2%): only 12 people have a part-time contract. Therefore, the total number of "stable" contracts is confirmed at over 99%, which is in line with the system data.

From the point of view of the distribution of positions, once again in 2020 the staff numbers are largely concentrated, with an overall upward trend, in the highest staff levels: there are 311 middle managers, divided into four levels, an increase of 40 on the previous year. The substantial increase is mainly due to the fact that the top positions in both the numerous and well-sized branches and in the head office functions imply correspondingly higher grades and remuneration in line with internal policies and trade union protocols.

For the reasons outlined above, in our Group the incidence of middle managers on the total number of employees is over 51%, a significantly higher figure than that of the system (42%) recorded in the latest Labour Market Report prepared by ABI; the incidence of personnel in the third professional area, at 46.7%, is lower than the system figure of 55.4%.

The average age of our personnel is 42.3 years, much lower than that of the system, which, according to the latest ABI survey, is 47 years, and is on the increase despite the volume of terminations, which have mainly involved people who have reached retirement age. The length of service does not reach 10.5 years and has decreased over the last four years due to the difference between the average age of newly recruited resources and the average age of those leaving the service: the latter is of significant importance both from the point of view of young people and the lower cost profiles of the resources themselves.

In terms of gender, there were 463 males and 216 females; the female component, which increased by 14 units during the year, continues to account for almost a third of the entire workforce: a level that is below the system figure, but which is expected to increase in the periodic updates of the structure and career plans of employees. The female component includes all 12 part-time workers.

In 2020, the level of education of the staff grows and thus consolidates as a strongly distinctive factor of the company: 51.4% of employees – a figure higher than the average for the system - have a degree mainly in economics and law, underlining the conviction that a good education at school and in university classrooms is a powerful factor in accelerating learning processes.

In line with the organisational and conceptual framework of the school model, which conveys information, educates to judge and evaluates results, a performance evaluation process for all employees is also implemented in the workplace with the support of an effective IT system. The evaluation, carried out in compliance with Article 75 of the CCNL (collective national labour agreement), thus involved all personnel in 2020. This activity - repeated annually - makes it possible, among other things, to build a historical reference archive for monitoring the professional growth of resources: essential support to ensure impartial judgement by evaluators.

The evaluations carried out so far allow us to confirm the high quality profile of our personnel and the adequacy of the organisational and technological structures supporting each employee. Covid 19 then unexpectedly tested the responsiveness and resilience of internal resources in the face of the sudden change in the register of work processes and performance of service, which for many staff members was done from home according to smart working practices. The latter was a truly invasive event that influenced moods, habits and paradigms of the working day, but which also led to the discovery at all levels of new forms of controlled autonomy, organisational freedom and flexibility within a strong sense of self-discipline.

In full compliance with the consolidated guidelines of personnel management, also during 2020 - although reduced in terms of time, place and duration - the training and retraining processes - characterised by increasingly higher quality standards because often codified in the same supervisory provisions - were fully implemented with the techniques and tools of distance learning; this innovative approach did not find us unprepared as specific topics that could be delivered through technological tools such as virtual platforms had already been isolated for some time.

In relation to the areas, the training sessions covered the regulatory, commercial, procedural and managerial areas, while credit and finance issues were the subject matter of targeted and properly differentiated interventions on specific targets. Specialised training courses were also provided to colleagues in charge of control functions, in line with current regulations on prudential supervision as set out in Circular 285 of the Bank of Italy, which envisages "continuous and specific training" for employees working in these functions.

In the regulatory field, courses were held to achieve and maintain Ivass and Mifid qualification for the sale and advice of insurance and financial products, courses on the transparency of contractual conditions and courses on the always topical and sensitive issue of anti-money laundering. A specific module on the legal framework of third-party garnishment was also reserved for network colleagues. Due attention was also paid to the Privacy law and health and safety regulations pursuant to Italian Legislative Decree 81/08. In this area, given the exceptional pandemic event that characterised the entire 2020 financial year, specific training was provided on Covid-19 Risk, which was mainly targeted at the managers and first-aid representatives of branches and headquarters.

In the commercial area, numerous information/training activities were carried out with the various commercial partners in order to increase and update knowledge of the products and services offered to customers and to provide concerted suggestions for marketing activities. This last activity requires proven and sometimes certified skills in order to be able to best support customers in the light of their specific needs and sensitivities in an "economic climate" that presents elements of extreme uncertainty.

In terms of procedures, the unprecedented situation experienced in 2020 as a result of the pandemic crisis has certainly given a further boost to the already ongoing process of digitalisation of banking activities: this is a constantly evolving process that will see us heavily involved in the coming years with the invaluable technical collaboration of the IT outsourcer Cedacri.

With regard to the managerial area - strongly felt in view of the increasing empowerment of customer relation resources - Banca Valsabbina, with the support of a specialised company, started about two years ago a professional/managerial development process for the network that envisages a uniform approach to commercial action, a univocal identity in the management of monitoring mechanisms and sharing of behaviour, known as Valsabbina Method.

The aim of the 2020 process was to give visibility to the "Method" so that it could become a concrete asset of corporate culture at all levels. In this sense, the branch staff had the opportunity of a direct and personal confrontation with the teacher in order to check learning and refine the application of the method over time.

Teaching activities within the framework of the training plan were usually carried out by external consultants with the necessary qualifications and, where required by regulations, also with certifications. Representatives of internal functions were also frequently brought into the virtual classroom to enhance the teaching experience with operational support for internal procedures and practices.

Overall, 624 colleagues attended at least one course; more than 33 thousand hours were devoted to training.

At the end of this chapter, we feel it is our duty to confirm that, even in a year full of concerns and emergencies such as 2020, the spirit of cooperation with the trade unions was expressed in the most respectful and productive dialectic; exactly in line with the provisions referred to in the Code of Ethics, "the Bank bases its dialogue with Trade unions in a responsible and constructive manner, by promoting a climate of mutual trust and dialogue, in the continuous search for profitable industrial relations".

13. NEW REGULATIONS AND GOOD PRACTICES IN CUSTOMER RELATIONS

We dedicate this chapter - as usual - to the development of the regulatory framework of reference, both in terms of innovations introduced in 2020, or expected for the year 2021, and in terms of "good practices" recommended by supervisory authorities in their relations with customers. The presentation will be carried out by thematic macro-areas.

The credit

Due to its direct impact on the solidity of banks, credit management has always been the subject matter of repeated regulatory and supervisory interventions, whether contingent or more far-reaching, with important innovations expected in 2021. Let us review these stages, focusing on the most significant passages.

The first part of the last decade, following the financial crisis of 2009, was characterised by the explosion, up to the peak of 2015, of non-performing loans, which was followed by a decisive derisking action by Italian banks, the results of which - in terms of internal recovery and sales to third parties - have been evident until 2020. In this regard, the European regulator issued a series of regulations, from the NPL Guidelines, to the new definition of default (effective from 1 January 2021), to the Calendar Provisioning mechanism, which provides for stringent and differentiated timeframes for provisions in the financial statements due to credit impairment (with first-time adoption as from 2021).

Nevertheless, the crisis of the real economy related to the health emergency will lead to the generation of new flows of non-performing loans of a size and timing still highly uncertain, with the need for possible significant new provisions. In relation to credit risk, supervisory attention is focusing on the appropriate classification and measurement of risks in the financial statements of banks and on the level of preparation of banks to deal promptly with debtors in difficulty. The worsening of economic conditions during the pandemic slowed down - as recently mentioned by the ECB - the pace of the ongoing reduction of non-performing loans with an inherent level of impairment in loan portfolios that has not yet fully manifested itself. The gradual phasing out of several support measures in 2021 could increase the risk of cliff edge effects. According to a recent communication from the ABI to the Government, the extension of the moratoria until 30 June 2021 provided for by the last budget law is crucial. In this context, ABI emphasises that banks should be allowed to grant relief measures for debtors (such as extending amortisation plans) without the granting of such measures triggering the reclassification of the position as non performing.

Finally, the new EBA Guidelines on loan granting and monitoring are already on the horizon, aimed at increasing sensitivity and supervision in its management, right from its very early stages. These provisions are aimed at strengthening the internal governance for granting and monitoring credit, the procedures for granting loans, the valuation of movable and immovable assets, and the monitoring framework. A phasing-in scheme is envisaged: for new loans, from 30 June 2021; for existing loans on which contractual renegotiations or modifications are granted from 30 June 2022.

Prudential regulation and risk mitigation of intermediaries

The 2019 EU Delegation law, which is on its way to Parliament, sets out the criteria for adapting national regulations to European standards on prudential regulation and rules on banks' loss absorption capacity. With reference to prudential regulation, Directive (EU) 2019/878 (known as CRD-V) and Regulation (EU) 2019/876 (known as CRR-II) update the 2013 provisions (known as CRD-IV and CRR), with the aim of further reducing risks in the banking sector, but also to support the economy by modulating the new provisions according to proportionality, so as to reduce the burden of regulations on intermediaries characterised by smaller size and operational complexity.

Among the new features of CRD-V, the following are of particular importance: amending the regulations of capital buffers to address risks of a macro prudential nature; strengthening governance control units (e.g. rules on related party transactions and eligibility of company representatives); revision of the principle of proportionality in remuneration policies and practices; greater proportionality in the exercise of supervisory activities with respect to small and non-complex banks; greater harmonisation of the ways in which supervisory authorities can impose additional capital requirements on intermediaries; the additional control units that intermediaries must adopt to address the exposure of the banking book to risks arising from interest rate changes.

Among the main changes in CRR-II, it is worth mentioning: the revision of the rules for calculating capital requirements for counterparty risk; the introduction of a binding leverage requirement and a medium-term liquidity indicator; a specific capital requirement for larger systemically important banks; greater harmonisation in the area of public disclosure. With reference to the new European rules on loss absorption capacity, being implemented, it is worth noting first of all Directive (EU) 2019/879 (known as BRRD-II) which intervenes - among other things - by extending the scope of the MREL regulation, i.e. the obligation for banks to issue and hold a certain amount of liabilities that, in the event of resolution and application of the bail-in, are able to absorb losses and recapitalise the bank. The regulatory provision refers primarily to larger banks, which will have to comply with the new requirement by 2024 (with an interim target for 2022).

Asset management services and insurance distribution

In the course of 2019, as we recalled last year, insurance distribution regulations were first put into practice in Italy. The main actions concerned: the policy on governance and control of the insurance product; the rules of behaviour and the pre-contractual and contractual obligations that intermediaries must comply with; the management of conflicts of interest, remuneration and incentives; the identification and appointment of an Insurance Distribution Manager; professional training and retraining requirements. After this initial period of adjustment, new provisions completing the Italian regulatory framework will come into force on 31 March 2021, covering the following topics:

information requirements and rules of behaviour for the distribution of insurance investment products (Consob Resolution No. 21466 29 July 2020); pre-contractual information, assessment of the policyholder's requests and needs, rules of behaviour (IVASS Measure no. 97 of 4 August 2020), governance and control of new products (IVASS Measure no. 45 of 4 August 2020). The ultimate aim of the new provisions is to strengthen the protection of customers from the earliest stages of the relationship by imposing stricter obligations to check consistency between their needs and the proposals of intermediaries.

Socially sustainable investments

"Sustainable finance", i.e. finance that complies with environmental, social and governance (ESG) criteria, is at the heart of the regulatory tightening process undertaken by the EU Commission as well as supervisory expectations relating to risk management and disclosure to customers. In this context, the new provisions concerning sustainability reporting in the financial services sector (EU Regulation 2019/2088), Consob's warning notice on ESG issues in the provision of investment services (No. 1/20 of 12 March 2020), the ECB Guide on climate-related and environmental risks and related supervisory expectations relating to risk management and disclosure, and the EU Guidelines on Non-Financial Reporting with reference to climate-related information require implementation from the beginning of 2021 and in subsequent years.

Preventing and combating money laundering

In November 2020, the new Patterns representing anomalous behaviour of the Financial Intelligence Unit on anti-money laundering related to tax offences were published, as a tool to help detect suspicious transactions to be reported to the competent authorities. The patterns, which have been expanded and updated, cover the following topics: use or issue of invoices for non-existent transactions; intra-Community VAT frauds; international tax fraud and other forms of international tax evasion; transfer of fictitious tax credits and other improper uses. While the first three patterns replace and revise previous patterns with similar content, the real novelty is represented by the last pattern that mainly refers to the activities of professionals (lawyers, notaries, accountants) who may become aware of apparently straightforward transactions that actually conceal real tax fraud. Besides, tax evasion represents, in terms of size, the main predicate offence of money laundering in Italy with an economic impact, in terms of "tax gap" on the State budget, in the average of the three-year period from 2015 to 2017, of 107.2 billion, as the manager of the Inland Revenue Agency reminded us in a recent hearing before the Parliament.

The anomalous behaviours related to the Covid-19 emergency, highlighted in 2020 by the Financial Intelligence Unit as predicate offences for money laundering, are no less relevant.

Prevention and management of risks related to outsourcing

During 2019, the European Banking Authority updated its guidelines on the use of third parties (known as outsourcing) by intermediaries, in order to strengthen the analysis of risks and mitigation measures in the face of phenomena that could have serious economic and reputational consequences for the intermediaries themselves. The Bank of Italy has decided to comply with these provisions as of autumn 2020, and recipients are required to comply promptly with these stricter provisions.

Customer protection and good commercial practices

Supervisory action to ensure effective compliance with good business practices in customer relations has grown significantly in recent years, with significant sanctions for intermediaries. In addition to repeated warnings concerning salary-backed loans, consumer credit, and the remuneration of credit lines and overdrafts, in 2020 the Bank of Italy, IVASS and AGCM also intensified their warnings concerning the bundling of insurance policies and loans. In particular, potentially "aggressive" cases were identified with reference to: credit protection policies (life and/or non-life policies aimed at guaranteeing the repayment of the loan, known as PPI - Payment Protection Insurance); policies relating to the protection of an asset pledged as collateral (e.g. explosion and fire insurance policies related to a property loan); "unrelated insurance policies", which are substantially associated with the loan and have no functional relation with the loan itself.

14. CORPORATE AFFAIRS – RELATED PARTY TRANSACTIONS

Related-party transactions are disciplined by specific internal regulations pursuant to Article 2391 bis of the Italian Civil Code, of the Regulation adopted with Consob Resolution No. 17221 of 12 March 2010 as amended and part three, Chapter 11 of the Bank of Italy Circular No. 285/2013.

The Bank, in compliance with the regulations, has also adopted and published on its website an internal regulation on this matter, which: a) regulates the identification, approval and execution of the transactions entered into by the Bank with related parties and parties associated with them; b) establishes suitable rules for ensuring the transparency and essential and procedural correctness of the transactions; c) defines the operating procedures regarding the monitoring and handling of the transactions with related parties and regulates the checks and the reports required by the new supervisory instructions.

The transactions with related parties and parties associated with them have been carried out by Banca Valsabbina and by the subsidiary Valsabbina Real Estate in observance of the criteria of essential and procedural correctness and under conditions identical to those applied to best customers; no atypical and/or unusual transactions have been entered into, either with related parties or with the other parties, these being understood to be transactions that, due to significance and/or importance, nature of the counterparts, subject matter of the transaction, method for determining the price and timescale, may give rise to doubts in terms of the correctness and/or completeness of the financial statement disclosure, conflicts of interest, the safeguarding of the integrity of the company assets and the safeguarding of the shareholders.

In compliance with the regulations in force on the matter, the Committee of Independent Directors expressed its reasoned and non-binding opinion on the matter whenever the nature of the transaction required it.

All transactions submitted to the Committee received a unanimous favourable opinion.

In conclusion, no transactions with related parties and/or parties associated with them had a significant impact on the balance sheet or the Bank’s results, nor have there been any changes to or developments of transactions with these counterparties that could have a significant effect in this sense.

As far as data and more detailed information is concerned, please see Section H - Related-party transactions in the Explanatory Notes.

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

The Supervisory Body, established in accordance with Article 6 of Italian Legislative Decree No. 231/2001 has the task of assessing the proper functioning of the organisational controls envisaged in the Organisational, Management and Control Model adopted by the Bank so as to avoid involvement in events that could be subject to penalties pursuant to and for the purposes of Italian Law No. 231 of 2001.

These provisions aim at involving, when punishing certain criminal offences, the assets of the entities, including banks and, ultimately, the economic interests of the Shareholders, as a consequence of offences committed by directors or employees, to the advantage of the entity itself and without adequate risk mitigation measures put in place by them.

The function of Supervisory Body has been assigned to the Board of Statutory Auditors as from 15 November 2017; this assignment completes the range of duties of the Board, which by law and by the articles of association is called upon to monitor the adequacy of the organisational, administrative and accounting structures of the company, simplifies the structure and allows for more timely controls.

During 2020, no reports were received regarding the commission of crimes and/or offences relevant under the regulations, as well as other information regarding violations or alleged violations of the rules of behaviour or procedures contained in the Organisational, Management and Control Model.

During the year, the Supervisory Body carried out specific audits – using the Risk Assessment method – approved by the Bank: i) Corruption offences; ii) Offences related to money laundering; iii) Tax offences. As a result of these checks, no specific critical issues were found.

In 2020, the Organisational, Management and Control Model was also updated following the expansion of the catalogue of predicate offences, including: i) tax offences (fraudulent declaration; issuing invoices or other documents for non-existent operations; hiding or destroying accounting documents; fraudulent tax evasion), referred to in Article 25, Italian Legislative Decree no. 231/2001; ii) cyber security offences, as referred to in Italian Law No. 133 of 18 November 2019.

16. ECONOMIC PERFORMANCE

In commenting on this year's economic results, one cannot fail to note that the net profit for the year is the best ever in the Bank's history, even higher than in 2019, itself the highest to date.

This result, achieved with the extraordinary commitment of all the bank's structures, might seem in contradiction with the general situation of the national economy following the Covid-19 pandemic; in fact, our Bank, as well as other financial intermediaries, have been able to combine support for the real economy through the granting of moratoria and new loans - mainly backed by the Government - with internal profitability, drawing resources from the renewed TLTRO operations, i.e. loans originated by the ECB characterised by even more favourable rates and volumes granted than in the past, and from the diversification of revenue sources. Nevertheless, TLTRO loans, together with the growth in on-demand direct deposits, allowed for an increase in financial assets under management, both at the level of proprietary securities (largely granted as collateral to the ECB) and loans granted to customers; financial assets that generated, together with interest income, significant trading income.

Higher commission margins compared to the previous year also contributed to the positive operating result; moreover, the improvement in the qualitative profile of the portfolio achieved through provisions to cover residual risks and targeted sales of non-performing loans, including significant amounts, was not negligible.

The summarised income statement items that led to the significant result for the year are shown in the table below and then referred to individually in the detailed comments on the following pages.

INCOME STATEMENT (amounts in Euro 000)	**31/12/2020**	**31/12/2019**	**Absolute change**	**% change**
Net interest income	83,200	73,348	9,852	13.43%
Net fee and commission income	39,084	35,977	3,107	8.64%

Dividends, trading and other income	30,156	16,359	13,797	84.34%
Net interest and other banking income	**152,440**	**125,684**	**26,756**	**21.29%**
Net impairment losses on financial assets at AC and FVOCI	(28,177)	(17,364)	(10,813)	62.27%
Modification gains (losses) without derecognition	(252)	(577)	325	(56.33%)
Net profit (loss) from financial operations	**124,011**	**107,743**	**16,268**	**15.10%**
Labour costs	(50,398)	(45,899)	(4,499)	9.80%
Other administrative expenses	(43,171)	(40,554)	(2,617)	6.45%
Net accruals to provisions for risks and charges	(1,245)	222	(1,467)	NS
Depreciation/amortisation and net impairment	(4,879)	(4,480)	(399)	8.91%
Other operating income/expense/profits or losses	9,802	9,245	557	6.02%
Operating costs	**(89,891)**	**(81,466)**	**(8,425)**	**10.34%**
Gains (losses) on equity investments and disposals	(421)	(552)	131	(23.73%)
Profit from continuing operations gross of	**33,699**	**25,725**	**7,974**	**31.00%**
Income taxes for the year	(9,360)	(5,422)	(3,938)	72.63%
Profit/(loss) for the year	**24,339**	**20,303**	**4,036**	**19.88%**

Net interest income

Net interest income amounted to Euro 83.2 million, against 73.3 in 2019. The increase of Euro 9.9 million, or 13.43%, is the result of those plans to develop the volumes of deposits and loans that are at the heart of the strategic plan and that we have commented on in detail in previous chapters.

NET INTEREST INCOME (amounts in Euro 000)	**31/12/2020**	**31/12/2019**	**Absolute change**	**% change**
Interest income and similar revenues	**102,792**	**95,746**	**7,046**	**7.36%**
- on owned debt securities	16,339	13,842	2,497	18.04%
- on loans and receivables with banks for loans	228	598	(370)	(61.87%)
- on loans and receivables with customers for	77,692	77,789	(97)	(0.12%)
- on hedging derivatives	3	3	-	-
- on other assets	24	-	24	-
- on financial assets	8,506	3,514	4,992	142.06%
Interest expense	**(19,592)**	**(22,398)**	**2,806**	**(12.53%)**
- on due to banks	(70)	(32)	(38)	118.75%
- on due to customers	(12,862)	(14,372)	1,510	(10.51%)
- on securities issued	(6,653)	(7,952)	1,299	(16.34%)
- on financial assets	(7)	(42)	35	(83.33%)
Net interest income	**83,200**	**73,348**	**9,852**	**13.43%**

The contribution from ordinary operations – represented by the difference between interest-bearing assets on loans to customers and onerous liabilities for due to customers and securities issued - amounted to Euro 58.2 million, 2.7 million more than last year. The item also includes Euro 2.7 million related to the reversal of the discount on non-performing loans compared to Euro 4 million in 2019.

Interest of Euro 16.3 million was recorded on owned debt securities, compared to Euro 13.8 million in the previous year, a positive change of Euro 2.5 million; the increase in assets contributed to this appreciable result.

Interest income from banks amounted to Euro 228 thousand, while interest expenses amounted to Euro 70 thousand.

Interest income on financial liabilities includes, inter alia and to a significant extent, interest recognised by the ECB under the TLTROII programme and the new ongoing TLTROIII programme; In this regard, it should be noted that - as it is necessary at the end of the reporting period, and in any case also thereafter, to be reasonably certain that the Bank will meet its targets in terms of lending performance for the relevant period in order to determine the rate recognised by the ECB (first special reference period, 1 March 2020 - 31 March 2021), interest income commensurate with the maximum applicable rate of 1% has been recognised in the 2020 financial statements.

Taking into account the amounts of assets and liabilities shown in the table above, the interest margin reached the substantial amount of 83.2 million and confirms the importance of a growth trend that has been progressively and continuously asserted over the last four years.

Service margin

Net fee and commission income amounted to Euro 39.1 million, up by Euro 3.1 million (8.64%) compared to the previous year and is attributable to the difference between fee and commission income of Euro 46.3 million (+4.7 million or 11.39%) and fee and commission expense of Euro 7.2 million (+1.6 thousand or 28.96%).

The increase in this item is strongly indicative of the impetus given to the development of service activities by the network: an impulse of such intensity as to neutralise the physiological slowdown in branch operations that occurred during the lockdown period, when the drive for digitalisation on the part of customers had not yet produced the acceleration that we are seeing today.

Management/brokerage services, which include commissions from asset management, the placement of insurance policies and the distribution of other products, amounted to Euro 19.9 million compared to Euro 18.0 million in 2019; In particular, the placement of securities issued by third parties (mainly mutual funds) generated revenues of Euro 7.4 million compared to Euro 6.9 million, while the distribution of third-party products and services generated revenues of Euro 10.8 million compared to Euro 9.3 million in the same period last year.

The "distribution of third-party services" includes the placement of insurance policies, a commission generator of Euro 8.0 million compared to Euro 6.3 million in the previous year and the placement of other products - in particular Cofidis personal loans - of Euro 2.5 million compared to Euro 2.8 million in 2019.

Commissions for other services - which include income related to lease brokerage, government-backed loans under Italian Law 662/96, also penalties charged to customers for early redemption of the related loan agreements - amount to Euro 5.9 million compared to Euro 3.5 million in 2019; the sharp increase in this item, which mirrors the increase in fee and commission expense, is closely related to the increased volume of new government-backed loans granted during the year. On the other hand, certain types of commissions recorded under "collection and payment services" were slightly affected by the slowdown in operations between the first and second quarters. Commissions on keeping and management of accounts rose from Euro 9.9 million to Euro 10.7 million in 2020, due to the increase in the number of transactions, partly as a result of the strong increase in new current accounts opened during the year.

Fee and commission expense, which increased by Euro 1.6 million compared to the 2019 balance, refers to management and brokerage services - mainly on our own securities for which management is entrusted to specialised external entities - in the amount of Euro 1.7 million, collection and payment services of Euro 1.5 million and other services of Euro 3.9 million.

It is significant to note that the growth trend in net fee and commissions changed over the last four years in parallel with the trend in net interest income: this may seem obvious, but in the structure of bank financial statements such similarities are not always recurring.

FEE AND COMMISSION INCOME (amounts in Euro 000)	31/12/2020	31/12/2019	Absolute change	% change
Guarantees given	**1,046**	**980**	**66**	**6.73%**
Management and trading services:	**19,924**	**17,989**	**1,935**	**10.76%**
- currency trading	361	446	(85)	(19.06%)
- custody and administration of securities	272	323	(51)	(15.79%)
- placement of securities	7,404	6,904	500	7.24%
- orders collection	911	941	(30)	(3.19%)
- financial consulting	145	109	36	33.03%
- distribution of third party services	10,831	9,266	1,565	16.89%
Collection and payment services	**8,177**	**8,568**	**(391)**	**(4.56%)**
- Fees and commissions on transfers, proxies and	3,019	2,999	20	0.67%
- Collection of bills subject to collection, after collection,	2,174	2,424	(250)	(10.31%)
- Fees and commissions on ATM and Home Banking	1,194	1,184	10	0.84%
- Credit cards and Cashline/POS cards fees and	1,331	1,510	(179)	(11.85%)
- Penalties on outstanding amounts and reminders	459	451	8	1.77%
Current account management	**10,693**	**9,931**	**762**	**7.67%**
Servicing for securitisation transactions	**604**	**664**	**(60)**	**(9.04%)**
Other Services	**5,899**	**3,474**	**2,425**	**69.80%**
- Penalties on early redemptions	1,056	222	834	375.68%
- Lease fees and commissions	405	581	(176)	(30.29%)
- Sundry foreign fees and commissions	208	228	(20)	(8.77%)
- Other fees and commissions	4,230	2,443	1,787	73.15%
Total	**46,343**	**41,606**	**4,737**	**11.39%**

FEE AND COMMISSION EXPENSE(amounts in Euro	31/12/2020	31/12/2019	Absolute	% change
Guarantees received	(217)	(108)	(109)	100.93%
Management and trading services	(1,656)	(1,305)	(351)	26.90%
Collection and payment services	(1,522)	(1,603)	81	(5.05%)
Other Services	(3,864)	(2,613)	(1,251)	47.88%
Total	**(7,259)**	**(5,629)**	**(1,630)**	**28.96%**

TOTAL NET FEE AND COMMISSION INCOME	**39,084**	**35,977**	**3,107**	**8.64%**

Net interest and other banking income

Net interest and other banking income amounted to Euro 152.4 million compared with Euro 125.7 million last year, up by 21.29%; besides the net interest income and net fee and commission income, the following contribute towards its formation:

- dividends of Euro 1.5 million, compared with Euro 1.1 million in 2019. This item mainly includes dividends from investments in the capital of the Bank of Italy of Euro 680 thousand, dividends received on shares in the OCI portfolio of Euro 468 thousand and dividends received on shares in the FVTPL portfolio;
- net profit/loss from trading activities of Euro 3.754 million, compared with Euro 738 thousand in the previous year. The increase in the item is due to the fact that in this year, compared to previous years, securities portfolio was also managed in the accounting trading portfolio, with an implicit impact of the related economic effects in this item;
- the positive balance on assets recognised in the portfolio at amortised cost for an amount of Euro 4.2 million, as the difference between losses generated by the sale of non-performing loans of Euro 6.6 million and profits generated by the sale of securities of Euro 10.8 million;
- gains on financial assets measured at fair value through other comprehensive income of Euro 22.1 million, compared with Euro 12.4 in 2019;
- losses on the repurchase on Bank bonds of Euro 26 thousand, compared to Euro 4 thousand in 2019;
- valuation gains of insurance policies recorded in financial assets measured at fair value of Euro 158 thousand;
- net loss on purchases and sales and on the valuation of securities recognised within the portfolio of financial assets mandatorily measured at fair value of Euro 1.6 million: this amount is equal to the difference between the positive component of Euro 2.7 million resulting from the sale of financial assets and the negative component of Euro 4.3 million corresponding to the measurement at year-end of securities still included in the portfolio of financial assets. In the presence of a change in the direction of the financial markets during 2019, this item showed a positive result of Euro 2.7 million.

Impairment losses

Impairment losses, net of reversals of impairment losses, totalled Euro 28.2 million compared to Euro 17.4 million in 2019; those relating to loans and receivables with customers - amounted to Euro 26.8 million compared to Euro 18.3 million; the difference between Euro 26.8 million and the total of Euro 28.2 million is determined by the result of the lump-sum valuations of debt securities recorded in the portfolios at amortised cost and fair value with an impact on overall profitability.

Impairment losses, net of reversals of impairment losses, are the combined result of the analytical assessment of possible recoveries of bad loans and the application of the valuation rules for other non performing and performing loans. Therefore, the difference between the nominal value of the credit and the relevant recoverable amount must be recognised in the income statement as an impairment.

With impairment losses on loans and receivables charged to the income statement, the coverage ratio for non-performing loans - as illustrated above in the chapter on loans - increased from 41.8% to 46.53%, despite the fact that during the year there were large amounts of loans sold, both non-performing and unlikely to pay, with the related implications in terms of economic commitment.

Net non-performing loans at the end of 2020 amounted to Euro 139.7 million compared to Euro 176.6 million in the previous year, while the percentage of total loans - a particularly significant coefficient in the supervisory judgements - was 4.09% compared to 5.63% in 2019.

The sum of the income statement aggregates commented on in this chapter leads to a Net profit from financial operations of Euro 124 million compared to Euro 107.7 million in the previous year.

Operating costs

Operating costs - the components of which at the end of 2020 are shown, in accordance with the ritual of the accounting format, in the table below - reached Euro 89.9 million compared to Euro 81.5 million at the end of 2019.

OPERATING COSTS (amounts in Euro 000)	**31/12/2020**	**31/12/2019**	**Absolute change**	**% change**
Labour costs	(50,398)	(45,899)	(4,499)	9.80%
Other administrative expenses	(43,171)	(40,554)	(2,617)	6.45%
Net accruals to provisions for risks and charges	(1,245)	222	(1,467)	NS
Depreciation and net impairment losses on tangible assets	(4,260)	(3,784)	(476)	12.58%
Amortisation and net impairment losses on intangible assets	(619)	(696)	77	(11.06%)
Other operating income/expense	9,802	9,245	557	6.02%
Total operating costs	**(89,891)**	**(81,466)**	**(8,425)**	**10.34%**

Labour costs amounted to Euro 50.4 million, up by Euro 4.5 million compared to 31 December 2019: the increase is justified both by the salary trends relating to the renewal of the national collective labour agreement (CCNL) in the credit sector (effective from 1 January 2020) and the increase in the workforce. The need to strengthen the central structures on the one hand - due to the ever-increasing need for compliance with the various regulations introduced over time as well as the development of new forms of business - and on the other hand and to a more limited extent this year for the opening of new territorial offices, require the Bank to recruit new resources not only in terms of replacing those who have left the company.
The average annual cost per employee increased from Euro 72,942 in 2019 to Euro 75,837 in 2020.
As known, the item also includes the remuneration paid, under the form of emoluments, to the members of the Board of Directors and the Board of Statutory Auditors.
Administrative expenses, broken down in detail in the table below, amounted to Euro 43.2 million compared to 40.6 in the previous year:

OTHER ADMINISTRATIVE EXPENSES (amounts in Euro 000)	**31/12/2020**	**31/12/2019**	**Absolute change**	**% change**
Contribution to resolution funds of banking crisis	(4,938)	(3,459)	(1,479)	42.76%

Telephone, postal and data transmission expense	(2,326)	(2,318)	(8)	0.35%
Maintenance expenses of fixed assets and software fees	(2,086)	(2,138)	52	(2.43%)
Rentals payable on properties	(373)	(294)	(79)	26.87%
Security, transportation and custody of valuables expenses	(590)	(880)	290	(32.95%)
Transportation expenses	(274)	(292)	18	(6.16%)
Expert appraisals and real estate documents	(301)	(288)	(13)	4.51%
Legislative, procedural and other consulting	(1,588)	(1,366)	(222)	16.25%
Costs for office materials and supplies	(640)	(672)	32	(4.76%)
Electricity and heating costs	(657)	(735)	78	(10.61%)
Advertising and entertainment expenses	(1,372)	(1,319)	(53)	4.02%
Legal and debt collection costs	(2,296)	(3,033)	737	(24.30%)
Insurance premiums	(3,680)	(3,071)	(609)	19.83%
Costs for information and searches	(2,857)	(2,581)	(276)	10.69%
Data processing centre	(7,486)	(6,948)	(538)	7.74%
Indirect taxes	(7,696)	(7,659)	(37)	0.48%
Cleaning services	(1,101)	(666)	(435)	65.32%
Membership fees	(598)	(605)	7	(1.16%)
Contributions for Treasury Service and sundry associations	(9)	(9)	-	-
Processing of bills, cheques and documents with third parties	(599)	(568)	(31)	5.46%
Rented property maintenance and condo charges	(189)	(161)	(28)	17.39%
Subscriptions and ads for newspapers and magazines	(166)	(200)	34	(17.00%)
Purchase of promotional materials	(84)	(100)	16	(16.00%)
Cost of the staff leasing contracts service	(93)	(44)	(49)	111.36%
Expenses for travel and business trips involving personnel in service	(367)	(645)	278	(43.10%)
Securitisation administrative expenses	(211)	(87)	(124)	142.53%
Sundry minor costs and expenses for general meetings	(594)	(416)	(178)	42.79%
Total	**(43,171)**	**(40,554)**	**(2,617)**	**6.45%**

Much of the increase in the item is determined by the higher expenses incurred for the Resolution Fund in ordinary terms for the amount of Euro 1.992 million compared to 1.422 million in the 2019 financial year and in extraordinary terms for the amount of 629 thousand euros compared to 521 thousand in 2019, as well as for the contribution charged to us in the amount of Euro 2.316 million by the Interbank Guarantee Fund in relation to the "depositors' guarantee" function and for the rescue of Carige and Popolare di Bari; the charge in the 2019 financial year had been limited to Euro 1.516 million as at that time Banca Popolare di Bari was not included as a rescued intermediary.

Another part of the increase is determined by the extraordinary expenses incurred for Covid-19 (masks, disinfectants, sanitisation) included in the income statement for the period for approximately Euro 400 thousand.

Among the items making up administrative expenses, the most significant is that relating to services provided by the Data Processing Centre, by the IT outsourcer Cedacri, amounting to 7.486 million, an increase of 7.74%. The item "insurance premiums", which amounted to Euro 3.680 million compared to Euro 3.71 million in 2019, includes policies to protect the Bank, but also those taken out on behalf of customers with the Bank partially absorbing the cost of the policy.

"Legal expenses" decreased (Euro 2.296 million compared to Euro 3.33 million in 2019) mainly due to the lower impact of non-performing loans: the item includes expenses related to the recovery of bad loans both for the component relating to legal advice, also in relation to charges for the enforcement of MCC guarantees, and for that relating to taxes on court documents.

Electricity, travel expenses, security/transportation/accounting expenses also decreased due to lower operating costs of the branches, following the temporary reduction of work activities caused by the health emergency.

The item "Indirect taxes", amounting to Euro 7.696 million, is significant in terms of its size - substantially the same amount as in 2019 - and includes in addition to the stamp duty paid on behalf of customers, also other taxes pertaining to the Bank such as IMU, TARI, municipal taxes, registration taxes and sundry taxes; Within this item, the main component refers to stamp duty of Euro 7,205 thousand, in line with the values of 2019, the recovery of which is recognised under item 200 "Other operating income and expenses".

Provisions for risks and charges show a positive imbalance between releases and provisions of Euro 1.245 million: imbalance determined by net accruals to provisions for typical banking disputes of Euro 600 thousand and net accruals to provisions for commitments and guarantees given of Euro 645 thousand. Provisions for risks and charges, recognised as liabilities, amounted to Euro 3.7 million (Euro 2.6 million at the end of 2019); this is an estimate of the possible charges relating to pending revocatory actions, compound interests or other claims related to customer complaints, as well as write-downs applied to endorsement loans and credit margins.

Operating costs also include impairment losses on tangible assets of 4.3 million compared to 3.8 in 2019 and on intangible assets of 619 thousand compared to 696 thousand in 2019.

Finally, the positive balance of other operating income/expense amounted to Euro 9.8 million, as detailed in the table below.

OPERATING INCOME/EXPENSE (amounts in Euro 000)	**31/12/2020**	**31/12/2019**	**Absolute change**	**% change**
Recovery of stamp duty	7,174	7,180	(6)	(0.08%)
Fast credit processing fees	566	859	(293)	(34.11%)
Recovery of insurance premiums	1,265	1,071	194	18.11%
Recovery of legal costs	877	1,005	(128)	(12.74%)
Other income and contingencies	626	280	346	123.57%
Total income	**10,508**	**10,395**	**113**	**1.09%**

Leasehold improvements	(322)	(280)	(42)	15.00%
Other extraordinary expense	(384)	(870)	486	(55.86%)
Total expenses	**(706)**	**(1,150)**	**444**	**(38.61%)**
Balance of operating income (expense)	**9,802**	**9,245**	**557**	**6.02%**

Further to the described performances, the cost/income ratio - which expresses the ratio between operating costs and net interest and other banking income - decreased to 58.97% compared to 64.82% the previous year.

After deducting from net interest and other banking income the impairment losses, operating costs, write-downs on the subsidiary Valsabbina Real Estate of Euro 510 thousand and the net positive amount of capital gains and losses on the sale of tangible assets of Euro 89 thousand, the profit from operations gross of taxation is Euro 33.7 million.

Income results

With the performance of the income components commented on above, profit from operations gross of taxation came, as just mentioned, to Euro 33.7 million, compared to a profit before taxes of Euro 25.7 million in 2019, an increase of more than 30 percentage points.

Income taxes, calculated on the basis of current regulations and current rates, amounted to Euro 9.4 million; in determining the tax burden, the law provisions introduced each time and still applicable today were applied.

As a result, net profit amounted to Euro 24.339 million compared to Euro 20.303 million in the 2019 financial year: the best result in the Bank's history, as mentioned at the beginning of this chapter.

RATIOS	2020	2019
STRUCTURAL RATIOS		
Loans/Tot. Assets	57.06%	61.03%
Loans/Direct deposits	79.40%	81.89%
Average employees per branch (No. of employees/No. of branches)	9.84	9.21
PROFITABILITY RATIOS		
Net interest and other banking income/total assets	2.55%	2.45%
Profit(loss)/average shareholders' equity	7.20%	6.32%
Profit(loss)/average total assets	0.44%	0.40%
Net interest and other banking income/banking product	1.55%	1.38%
Impairment losses on assets at amortised cost/Net interest and other banking income.	17.72%	13.95%

Tax rate	(27.77%)	(21.08%)
Earnings(loss) per share	0.69	0.57
PRODUCTIVITY RATIOS (in Euro 000)		
Banking product per employee (average) (1)	15,383	14,929
Loans per employee (average)	5,327	5,158
Direct deposits per employee (average)	6,709	6,299
Indirect deposits per employee (average)	3,347	3,471
Net interest and other banking income per employee (average)	237.8	206.7
EFFICIENCY RATIOS		
Admin. expenses/average total assets	1.68%	1.72%
Admin. expenses/net interest and other banking income	61.38%	68.79%
Cost/income	58.97%	64.82%
Adjusted cost/income (2)	60.68%	67.39%
Admin. expenses/banking product	0.95%	0.95%
Labour costs/average number of employees (in Euro 000)	75.84	72.94
ASSET QUALITY RATIOS		
Net non-performing loans/net loans	4.09%	5.63%
Bad loans/net loans	2.39%	3.06%
Impairment losses and losses on loans/net loans	0.98%	0.76%
Impairment losses on bad loans/gross bad loans	52.83% (3) 55.80%	48.03% (3) 51.14%
Impairment losses on non-performing loans/gross non-performing loans	46.53% (3) 48.81%	41.80% (3) 43.97%
Texas Ratio (4)	38.36%	52.33%

(1) Direct and indirect deposits of customers plus customer loans
(2) Ratio of item 160+180+190 to 120+200
(3) Also including extinguished loans still held by the Bank
(4) Ratio of net non-performing loans to shareholders' equity (including profit/loss) less Intangible Fixed Assets

17. SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

Pursuant to Article 3, letter d) and e) of Italian Legislative Decree No. 87 dated 27 January 1992, and in accordance with the wording of the regulations, we specify that after the end of the reporting period and up until approval of the draft financial statements by the Board of Directors, which took place on 1 March 2021, no events took place liable to affect the truthfulness, clarity or correctness of the provided accounting representation.

18. BUSINESS OUTLOOK

After a year overshadowed by the dramatic consequences of Covid 19, the economic situation in our Country, and that of the Eurozone of which we are part, realistically suggests the prospect of a slow return to normality: however, the concern that still remains about the spread of the infection, despite the inclusion of vaccines in the strategy for combating the virus, does not yet seem to allow statements of optimism.

Nevertheless, the restored political stability made possible by the authority of a new government and the guidelines it announced when it took office - guidelines that are linked to the extraordinary impulse that the Recovery Fund will provide to our Country's economy, together with the continuation of expansionary monetary policies - legitimise well-founded feelings of confidence. GDP - this astonishing summary of the state of the economy - is expected to be positive at around 4%, after last year's depressing 8.8% loss.

With regard to our Bank, having just finished a 2020 that can be described as the most brilliant in its entire history, the outlook for the year is positive because it is based on a balance between margins and risk, based essentially on the containment of the cost of credit and the improvement of margins from ordinary operations: the type of management that is characterised by large intermediated volumes and a substantial diversification and stability of revenues, especially in terms of commissions, thanks to the unique attractiveness of our commercial network.

In this scenario, which is still affected by the effects of the pandemic, but which nevertheless foreshadows a return to economic development, the main guidelines for management in 2021 replicate those contained in the periodic monitoring of the Strategic Plan, on which we have dealt at length in the chapter on commercial strategies and policies: all of which are based on vigorous and fair competition, with no lack of ideas and resources to compete with larger and more muscular intermediaries in terms of supply models. We are already doing this with a humble approach in the wide market spaces opened up by the changes in distribution structures and the brands of historic and prestigious competitors: but let us not go any further on this point because the Bank is not a story, it is an action!

Finally, there is an interesting new strand to the management policies of the current year, drawn from the lessons of the devastating pandemic emergency: i.e. the opportunity to consolidate the new operational solutions adopted during the pandemic, stabilising their benefits through the adoption of systematic initiatives in the direction of process efficiency, particularly those relating to rules, tools, procedures and working styles. In this sense, digitalisation will be a powerful tool for organisational and production efficiency and will certainly be backed up by major investments whose economic return has been shown to be secure and rapid.

19. PROPOSAL FOR APPROVAL OF THE FINANCIAL STATEMENTS AND ALLOCATION OF PROFIT/(LOSS) FOR THE YEAR

Dear Shareholders,

We submit to your examination and to your approval the 2020 Financial Statements, in its equity, economic and financial elements, as well as the Annexes, which are an integral part. The Financial Statements ending with a Net Profit of Euro 24,339,380 were subject to audit by Mazars Italia S.p.A.

With regard to the distribution of the profit for the year, the Board of Directors, pointing out the payment of a cash dividend of Euro 0.13 per share, - disbursement in accordance with the Bank of Italy Recommendation of 16 December 2020 on the distribution of dividends - proposes the following to the Shareholders' Meeting:

Net profit for the year	**24,339,380**
10% to the legal reserve	(2,433,938)
15% to the extraordinary reserve	(3,650,907)
Portion to be allocated:	18,254,535
- to shareholders in the amount of Euro 0.13 for each eligible share	(4,617,188)
- to the charity fund	(500,000)
- additional allocation to extraordinary reserve	(13,137,347)

The portion of the result allocated to the Charity Fund will be directed, mainly, to the support of initiatives working on the Covid-19 pandemic.

If this proposal is approved, the amount attributable to reserves and shareholders' equity will total Euro 19,222,192 and Euro 368,519,239, respectively.
The proposed dividend of Euro 0.13 per share corresponds to a pay out of 18.97%.

20. ACKNOWLEDGEMENTS

Dear Shareholders,

Before submitting the financial statements for the year 2020 and the proposals on the agenda of the Shareholders' Meeting for your approval, we feel it is our duty, as well as our pleasure, to address a respectful thought to all those who, by placing their trust in us and giving us their consent, have made it possible to end a year that everyone would like to blot out from their minds and which, from the point of view of the Bank's economic results, has been extremely positive.

First and foremost, we would like to send our greetings and heartfelt thanks to Santo Ivano Beccalossi who, at the beginning of January - after 25 years of passionate and competent participation in the life and development of the Bank - resigned from the Board of Directors and from the position of Deputy Chairman: we wish him a long and peaceful future.

The Board of Directors then approved the appointment by co-optation of Pier Andreino Niboli - a well-known entrepreneur of Valle Sabbia at the head of an international industrial group - to the position of Director, and subsequently appointed Alberto Pelizzari as Deputy Chairman. We congratulate them both and wish them well in their work.

We would like to extend a sincere feeling of gratitude to our shareholders and customers - those who are both one and the other - for their invaluable support and active participation in the life of the company at times when their closeness to us seemed invaluable.

We would like to extend our thoughts and best wishes to all the personnel who demonstrate in their daily actions a great sense of belonging and loyal identification with their company. To the General Manager Tonino Fornari and the Joint General Manager Marco Bonetti - who have given so much in terms of energy and valuable examples - we express, together with our sincere thanks, our esteem for having been able to base their actions on a dialectical process that has involved all personnel and structures, responsibly leading to very solid results.

We extend our deepest consideration and appreciation to the Board of Statutory Auditors for its valuable and diligent service rendered when carrying out important and delicate functions that the Articles of Association and the regulations assign to the responsibilities of its members.

We would also like to extend our thanks and appreciation to the central and peripheral Supervisory Authorities for the attention and sensitivity with which they have followed the development of our Bank and for their willingness to provide us with suggestions and advice aimed at constantly improving our governance.

Finally, we would like to thank the Associations, Organisations, banks and all those who have worked with us.

We would like to extend our warmest thanks to all.

THE BOARD OF DIRECTORS