BANCA VALSABBINA - DIRECTORS' REPORT ON OPERATIONS

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

15 APRIL 2020

INTRODUCTION

Introduction

Dear Shareholders, Welcome back to this recurring meeting that summarises the events and results of the financial year submitted for your approval today.
The most regular Shareholders attending the annual financial statements meeting cannot ignore the fact that the report we are about to comment on is characterised – as never before - by the bustle of initiatives and the liveliness of the impulses impressed on the company's development in all directions: in terms of size, efficiency of production and distribution equipment and economic results.
Therefore, we believe it is right to anticipate already in these first lines of our report that the 2019 financial year closed with really positive results. Net profit, which is normally the most significant figure in the opinions on financial statements, exceeded Euro 20 million and, as mentioned above, is at a truly brilliant level.
Far from indulging in triumphalism – an attitude unrelated to our usual behaviour - we must also note that the measure of net profit, although indeed considerable, is not even the most expressive component of the company's performance, given that profit has an even more significant qualitative dimension. In a long-term managerial vision - positively affected by the historical entrepreneurial tradition in the area of choice and by the firm compliance with the values of cooperative credit - the company's results cannot be important if they are not also respectful of the way in which they are produced.
From this point of view, the results of 2019, further improving on the already flattering ones of the previous year, place Valsabbina among the first and most solid co-operative credit banks in the country and project an image with a peculiar identity. At a time when the debate on banking issues was dominated and sometimes applauded by the closure of branches and staff reduction in order to safeguard minimum profitability profiles, our Bank's strategic thinking consolidated on its long-standing conviction: i.e. on the possibility of seeking a reasonable cohabitation with market and work conditions that have changed, but not erased, the models of credit brokering. The crisis in margins, in the presence of flat-rate curves and economies that grow very little, undoubtedly continue to compress the characteristic components of banking revenues - net interest income and net interest and other banking income - but the relative absolute values may continue to be positive and likely to grow if volumes increase; the quantities, i.e., of "banking product" intermediated at fair and profitable conditions and in the manner most suitable for customers from time to time: at the traditional counter, rather than through the different channels offered by technology.
And this is the guiding principle of our strategic plan, the time frame of which ends with the current year and the progress of which - diligently monitored - has paid off, highlighting the growth in deposits and loans, the increase in commission margins, the number of transactions, accounts and new customers, the progressive improvement in asset quality, and the constant enrichment of the catalogue of services offered.
And it is obvious that, even if only for the theory of historical recurrences, in the presence of even a slight recovery in interest rates, the new dimensional configuration and the renewed territoriality of the company can positively influence future profitability profiles.
Along with the growth and diversification of its policies, Valsabbina's image and reputation have also made important achievements, climbing positions in the ranking of intermediaries and in the publishing industry.
From one year to the next, the new and important branches brought the bank's business model - local bank by birth, by vocation, by will to continue to be so - to territories no longer contiguous in the meaning of the past, i.e. close and neighbouring, but in the meaning of the affinity of operational relations. The new customers in Milan, Bologna, Padua rather than Turin or Cesena, those in the large areas in which we have set up a branch, are all similar because of the same expectations that the users of banking services have in common, because of the identical hardworking traits and the

fact that they share and appreciate the service model that is the same model at every point of the network: treating each customer as if it were the only one. This is why our more than 100,000 customers show every day, regardless of where they come from, that they prefer and appreciate our bank for the simple fact of recognising its real face as "local bank".
On these new markets, perceived as competitive and elitist at the same time, we presented ourselves with the honest awareness of being the bearers not of one banking offer among many, which perhaps the market would not even require, but one strongly innervated of those values that underlie, without emphasis and without rhetoric, the cooperative principles of a co-operative credit bank.
Values that do not change as we change and therefore ensure a guarantee of identity over time.

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Let us now enter into the heart of our report, which is based on a traditional table of contents, the first of which – preparatory to commenting on the Bank's management and operational profiles - is a quick review of the most significant economic trends observed during 2019.
The data reported in this first chapter is taken from publications and official documents of the Bank of Italy, the European Central Bank, the International Monetary Fund, the Italian Banking Association and other sources representing associations and trade associations.

1. TRENDS AND FACTORS OF CHANGE

We have set ourselves the objective, introducing as usual the report on the financial statements with the performance of the economy and the markets, to go beyond the simple presentation of results and forecasts relating to the international and national context of reference, integrating this information with broader reflections on the factors that are determining the changes taking place and that are becoming more and more incisive from year to year.
Without this broader horizon, some apparent contradictions - ranging from the stagnant real economy and strong financial market trends in 2019, which we will discuss in the next chapter - would be difficult to reconcile.

Factors underlying the changes

Let us also be guided by the words of Ignazio Visco who, at the opening of the academic year at the University of Cagliari last November, identified the main agents of change: innovation, globalisation and demographic trends.
"Even though there is currently a protectionist reaction" – the Governor of the Bank of Italy noted – "it is difficult to think that we can stop these developments or, even worse, be under the illusion that this will bring benefits for citizens".
The push of technological progress - with innovations developed first in the information and communications sector and then with the digital revolution - is the first major factor of change.
The global value chains resulting from market integration, on the one hand, and from the international fragmentation of production, on the other, in a word, resulting from globalisation, mean that, for many consumer goods, every single component comes from the countries where it is most efficiently produced, thus reducing production costs and making the goods accessible to a potentially growing audience.
Demographic trends over the last 30 years show that 90% of the world's population growth occurred in emerging and developing countries where economic growth was also much faster with the product almost increasing fourfold compared to only twice as much in developed countries. These demographic trends are accompanied by important migratory flows.
The demographic situation in Italy is also a source of great concern, so much so that the President of the Republic recently stated that the drop in births is a tragedy that concerns "the very existence of our country".
A social drama but also an economic disaster.
The fall in birth rates and the simultaneous and increasing ageing of the population - according to the Bank of Italy - suggest a 15% drop in GDP in 2040 and a 13% drop in per capita income.

The effects of the changes taking place

The three agents of change referred to above have certainly had positive consequences and some critical issues that need to be quickly remedied by becoming the basis for a further push for change.
The decidedly positive factors include the 70% increase in world GDP per capita between 1990 and 2018, the trend of international trade faster than that of production and the significant improvements in social terms (fewer people in extreme poverty, lower infant mortality, increased schooling, increased life expectancy).
On the other hand, the environmental impacts are among the main critical points. The Bank of Italy warns that the "environmental crisis" – could reduce world per capita income by almost a quarter by 2100 compared to the level that could otherwise be achieved, with a much greater incidence in countries in the South. Moreover, the distribution of income within individual countries is changing and, in most cases, in the direction of greater inequality.

The assessment of the effects of technological progress on employment is more uncertain. If, eventually, globalisation tends to generate more jobs than it destroys, during the transition to a new more "digital" balance with more automation, the economic and social costs could be very significant.

The repercussions in Italy and for the banking system

In Italy, the production system was 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.
Governor Visco identifies four main causes: a) specialisation in traditional sectors most exposed to competitive pressures; b) the high incidence of SMEs with fewer resources to make the necessary investments in research and development; c) the preponderance of companies with ownership and management structures related to the same family with reduced interest towards the capital market and the exchange of professionalism with the outside world; d) over-dependence in sources of funding on banks.
The effects on the banking system of the scenario outlined above are clearly marked by opportunities and risks.
Opportunities lead to companies that innovate, related to value chains at an international level, that seek a fair mix between capital and debt, in need of access to the capital market and to the support provided by the public sector, Italian and EU, called to communicate with transparency and fairness to the market the choices they make, constantly looking for new and more efficient support services for their business.
The risks are that of not being able to read the changes taking place and of considering "territoriality" as the only rewarding factor, without fully understanding the identity characteristics of each district.
Human resources remain the main critical success factor for the bank. There is a need to invest in digital and language skills. There is a need to increase awareness in "reading" the financial statements of companies by connecting them to the trends of the economic sectors to which they belong. The ability to forge good business relationships and managerial qualities need to be improved. The whole structure should be geared towards achieving the results for the period by introducing only short-term qualitative objectives.

2. MACROECONOMIC TRENDS AND MARKETS: IMPACTS ON BANKS

We start, as we have often done in the past, the analysis of macroeconomic trends using the data and forecasts of the International Monetary Fund: the degree of openness towards foreign countries of the companies present in the different provinces where we operate is in fact very relevant.
At the end of January 2020, the Word Economic Outlook shows, among the positive signals in the macroeconomic context of reference, the decisive return to a more accommodating monetary policy, the favourable development of US-China trade negotiations and no more uncertainties regarding Brexit.
Among the most worrying risk factors remain geo-political tensions, the negative impact on international trade of the spread of the coronavirus, the uncertainties of the election year in the United States.
The development rates of the world economy remain adequately high, with growth prospects of 3.3% in 2020 and 3.4% in 2021. However, the trends between advanced economies, emerging markets and developing economies are very different.

If all in all the advanced economies show a positive year-end for 2019 by 1.7%, with a 1.6% growth in each of the two following years, the United States shows the most encouraging data, albeit slowing down, with full year forecast of 2.3% in 2019 and forecasts of 2% in 2020 and 1.7% in 2021.
On the other hand, the Eurozone shows overall lower trends - although all positive and slightly growing - than the USA: 1.2% for 2019, 1.3% for 2020 and 1.4% for 2021.
The usual tail-end is Italy with trends more than halved compared to those of the area (0.2% in 2019, 0.5% in 2020 and 0.7% in 2021).
Emerging and developing economies forecast a 2019 year-end of +3.7%, with growth of 4.4% in 2020 and 4.6% in the following year, with trends also differentiated by area.
The economies of the Far East (China, India) show, on an overall level, a full year forecast of 5.6%, with forecasts – in the following two years - of 5.8% and 5.9% respectively: forecasts that are also susceptible to some repositioning due to the effects – as yet unmeasurable – of the spread of the coronavirus.
On the other hand, the European emerging economies (Russia) recorded overall lower trends of 1.8% (2019), 2.6% (2020) and 2.5% (2021).
Even more compressed growth rates are expected in Latin America and the Caribbean.

Financial market developments and forecasts

The Economic Bulletin of the Bank of Italy at the beginning of the year indicates that the positive factors of the macro-economic scenario of 2019 prevailed, favouring a shift in investors' interest from the bond segment to the equity segment and thus boosting prices whose implicit volatility fell; long-term yields have risen slightly, reflecting less pessimistic assessments of growth prospects. Finally, the euro-dollar exchange rate remained almost stable.
The greatest contribution to stability is due to the initiatives taken by central banks in the face of the first economic slowdown, with the FED cutting rates three times in the United States and the ECB relaunching the quantitative easing plan.
The global stock market benefited from this with an average growth rate of 25%, with the European market gaining 23.25%. The S&P 500 index in the United States rose by 30%, the Italian and German stock exchanges by 28.2% and 25.5%, respectively.
Against this general background, and in the light of the low inflation prospects, the Governing Council of the ECB – in December 2019 – confirmed the need to maintain a highly accommodative monetary policy stance over an extended period of time. At the beginning of 2020, the trend in prices increased slightly to 1.4%, but the underlying component fell and inflation expectations, not only in the short term, are at very low levels.
In a scenario that will lead, as announced, the European Monetary Authority to launch a review of its monetary policy strategy by the end of the year, the period target to ensure that inflation continues to move steadily towards the long-established and unattained 2% target remains unchanged.
On the other hand, the risk factors weighing on the international economy, mentioned earlier, are characterising market trends in these first weeks of the new year, with forecasts that could reflect a less favourable tone of the real economy than estimated for the two-year period from 2020 to 2021.

National economic situation and need for structural reforms

The recent publication of ISTAT data on the performance of the Italian economy in the last quarter of 2019, with a negative sign (-0.3%), and a forecast on an annual basis of a limited +0.2%, increases the awareness of a setback in our country. Despite the weakness of the economy, the flow of new impaired loans was nevertheless limited, falling, net of write-downs, from 9.8% of total loans at the end of 2015 to 3.7% in September 2019.

The most recent forecasts of the Bank of Italy are in line with those of the International Monetary Fund, with an increase in GDP of 0.5% this year, 0.9% in 2021 and 1.1% in 2022.
Underlying these estimates, the Bank of Italy assumes a gradual recovery in international trade and a moderate expansion of domestic demand with investments gradually recovering thanks to the prospects for growth in global demand and expansionary financing conditions. On the other hand, there is a risk of adverse shocks: from the escalation of trade tensions to a slowdown in economic partners to geopolitical events if not also to concerns about the spread of the coronavirus that could limit the development of international trade.
However, the yield spread between 10-year Italian government bonds and the corresponding German bonds, which has fallen below 140 basis points at the date of this report, remains almost twice as high as that recorded for government securities in countries such as Spain and Portugal, which have also been hit hard by the global financial crisis and the sovereign debt crisis.
With regard to the structural measures to be taken to ensure higher growth rates of gross domestic product in Italy, at least in line with those of the other main partners in the Eurozone, a careful observer such as the International Monetary Fund – in its final note at the end of January 2020 - underlines the centrality of the reforms, the most significant of which are mentioned below:

- liberalising markets and decentralising wage bargaining;
- realigning wages to company-wide productivity by encouraging investments and job creation;
- shifting the burden of taxes from work, expanding the tax wedge towards real estate, including first home, and consumption (VAT);
- rationalising the tax deductions for IRPEF;
- fighting tax evasion;
- preserving the indexation of retirement age to life expectancy and ensuring actuarial fairness for early retirement;
- aligning the characteristics of guaranteed minimum income with international best practice to avoid disincentives to work and conditions of welfare dependency.

How long have the international authorities been recommending these measures to us? Too long not to be seriously placed in the political and social debate.
What would be the impacts from the point of view of the economic development of the country but also of social and inter-generational cohesion? Very relevant and divisive, which would require a common political will that goes beyond the short-term debate.
In this debate, in the territories in which the Bank operates, we believe we want to take an active part in terms of contributions to reflection and in the concrete nature of our daily actions.

The repercussions and challenges for the Italian banking system

In order to relaunch growth in our country, at least in line with the development rates of the other European partners, some structural reforms are therefore necessary; The first beneficiaries would be the companies most called upon to compete in highly competitive international environments.
The consequences of low growth are inevitably reflected in Italian banks that – in the decade from 2008 to 2018 – lost, compared to the average of the European system, revenues per customer and per employee, recorded increases in cost/income, and sometimes exasperatedly sought to diversify sources of income beyond the actual needs of customers.
With reference to 2019 and forecasts for 2020, the structural environment for Italian banks remains largely unchanged, given the still negative money market rates, with inevitable repercussions in terms of interest margins.
Commission income could decrease, at least with reference to asset management products, against the need to reconsider the pricing of the products themselves in order to favour the sustainability of their cost (especially on bond components).

The increase in revenues related to commissions from current account management, collections and payments, despite the increased operations also driven by the measures adopted in the recent Budget Law, could also be affected by a reduction in unit revenues as well as by the entry of new non-bank competitors into payment services.
The write-downs related to the plans to sell the NPLs could eventually reduce the economic results for the period.
The average ROE of the sector over the next three years could remain below 5% per year.
With reference to the basic trends of the domestic banking sector, article that appeared a few months ago in the magazine "Bancaria", entitled "Nuovi scenari bancari: banche nuove, banche commerciali e modelli di business (New banking scenarios: new banks, commercial banks and business models)", by Prof. Roberto Ruozi of the Bocconi University of Milan and Prof. Pierpaolo Ferrari of the University of Brescia, acts as our guide.
Their summary is that the Italian banking sector is becoming much less homogeneous than in the past. While banking will increasingly be a mass activity with volumes as the main critical success factor, services to businesses in their search for diversification of their sources of financing, beyond the mere use of bank credit, will make them more flexible and the banks offering them services more solid.

The crux of the matter is the following: "banks need to radically and rapidly develop their business model", given that the search for economies of scale will undoubtedly push towards further concentration of the banking system and that the offer of alternative forms of financing to the banking channel and direct access to the capital market by companies will push towards a "debanking of the economy".
According to the Bank of Italy identifying the underlying reasons for the changes underway is the first step to take in order to understand their scope and, above all, to trace their future evolution.
With regard to customer demand for services, the deep changes in the bank-customer relationship model must first be taken into account. Quality and customisation of the offer represent the most recurrent demands of consumers, combined with the need for immediacy, simplicity and accessibility in the choice of purchase and use of banking services.
With reference to the offer by intermediaries, the main focus is the impact of new technologies on both internal processes and customer relations. The overall benefit is represented by a reduction in the time and cost of processing the application files to the benefit of a greater concentration of human resources on more complex operations and decision-making processes.
In this season of great changes, it is therefore necessary to have under control a series of critical factors on which the very survival capacities of banks as autonomous and independent entities may also depend.

Each bank is developing its own policies in this context; as far as ours is concerned, we will dwell on the subject in the chapter dedicated to corporate strategies.

3. THE RENEWED "TERRITORIALITY" OF THE BANK

A broader concept of territoriality

In the "Non-financial Statement" envisaged by Italian Legislative Decree 254/2016, and which will be discussed below, prepared as a separate but integrated document to this report, Banca Valsabbina illustrates annually, for the benefit of all stakeholders, the social and environmental impacts resulting from its actions.
Since 1898, for the Bank, territoriality means: a) collecting private savings in the territory to direct them towards new productive investments in the same areas; b) services oriented mainly to families

and small and medium enterprises operating in the areas of establishment; c) using mainly suppliers belonging to the local fabric in the areas of establishment; d) investments in the local community in the form of donations and sponsorships in the areas of social welfare, education, training, culture, sports and social promotion.
Territoriality, understood as proximity on the territory, is not in itself a critical success factor if we do not fully understand the needs that each specific territory of establishment expresses.
In this direction, the Bank has taken steps to offer its customers an enhanced service model by leveraging - for private individuals - the opportunities arising from technological innovation and offer digitalisation and - for companies - the opportunity to access new sources of financing, including in the form of venture capital, through the markets dedicated to small and medium-sized enterprises.
In support of this strategy, over the years, it has also reshaped and extended its territorial structure. We briefly mention: the rationalisation of some branches in the provinces of Brescia and Trento, historical headquarters of establishment; the purchase in 2011 of Credito Veronese with the start of operations in the province of Verona; the purchase in 2017 of the company branch from Hypo Alpe Adria Bank with presence in the provinces of Bergamo and Modena as well as in the North East; the opening of branches in the province of Monza, Milan, Padua, Treviso and finally the extension in the Emilia-Romagna Region.
Today, the Bank's territorial network consists of 70 branches, of which 47 in the province of Brescia, 8 in the province of Verona, 2 in the province of Trento, 2 in the province of Monza Brianza and 1 in Bergamo, Mantua, Milan, Modena, Vicenza, Padua, Treviso, Turin, Bologna, Reggio Emilia and Cesena, respectively.

An overview of territorial trends

Last November, the Bank of Italy provided the usual comparative view of the territorial trends of the Italian economy, taking as a reference the situation updated until the first half of 2019.
The overview returns a scenario at different speeds.
The trend of GDP, while remaining positive, slowed down in all macro-areas of the country, both in 2018 and in the first half of 2019, but grew at a more intense pace in the North East.
In the first half of last year, growth in exports of goods at replacement cost continued only in the North East and the Centre; it was interrupted in the North West where it was affected by the weakening in the automotive sector and in the South against the decline in the oil sector.

Lombardy and the province of Brescia

Lombardy experienced a marked slowdown in the growth of economic activity in 2019.
According to data from Unioncamere Lombardia, Confindustria Lombardia e Regione Lombardia (UCR), manufacturing stagnated in the first nine months of the year compared to the same period of the previous year (0.3%) against an increase of 3% in 2018. Last year, the turnover of the retail trade companies also remained substantially unchanged overall compared to the previous period. On the other hand, the construction sector strengthened its business expansion, which had started to grow substantially again in 2017 after a long period of crisis.
In the services sector, among the sectors where production increased, the liveliest trend is that of food and IT activities, while the clothing, textile and transport sectors experienced the sharpest declines.
One of the main causes is the halt in the expansion of Lombardy's exports, after two years of sustained growth. Among the geographical areas, flows to EU countries decreased, partly as a result of lower demand from Germany, which has been affected by the difficulties of German industry, as have flows to Asia and in particular to China and the Middle East; on the other hand, exports to non-EU countries increased, mainly due to strong sales growth in the US (10.3%).

In the 2020 programmes, indications of stability in investment spending tend to prevail. The main reason for the slowdown in capital accumulation activity would be elements of uncertainty due to economic or political factors such as the US tariff policy.
Nevertheless, the profitability of companies in Lombardy remained at a high level, with almost 80% of companies in industry and services expected to close the year in profit.
The year 2019 saw a decrease in loans spread unevenly between the various sizes and the various sectors of economic activity, partially offset by the use of the bond market. In any case, loans to financially sound companies were still growing, albeit at lower rates of change than in 2018.
The data processed by the Chamber of Commerce of Brescia confirm the same trends with reference to the economy of the province.
Industrial production in Brescia started in 2019 with lower results than the regional figure that, although slowing down, continued to be positive. For the following period, entrepreneurs favour substantial stability covering all the variables considered. Expectations on foreign demand and turnover are slightly optimistic.
A negative result is also recorded with reference to the trade sector, again with reference to the data of the first months of last year, with expectations of entrepreneurs improving on all fronts.
With reference to the crafts sector, although the trend is substantially stable, a comparison of the geographical area shows that it achieved overall better results than the Lombardy average in the first few months of 2019. Equally positive was the result of services in the first months of the year, with optimistic outlook.

The Veneto region

The Veneto region also recorded a marked slowdown in the growth of economic activities and production in 2019.
In the first half of the year, the manufacturing sector expanded at almost half the pace of 2018, suffering from the weakness of world trade. In perspective, the survey carried out by the Bank of Italy indicates a stagnation of orders even until the beginning of 2020 and indicates an interruption in the investment trend, after a development phase lasting five years. The lively production was affected by the further weakening of domestic and foreign orders.
In the construction sector, the modest recovery that began in 2018 was strengthened, supported in particular by the positive performance of the residential sector that, in addition to housing recovery, also involved new constructions. Public works also made a contribution to growth thanks to the recovery of investments by local authorities. The outlook for 2020 is assessed to be favourable.
With reference to the services sector, there was an overall positive trend, as well as expectations, also thanks to the trend of the tourism industry with an increase of 1.9% in the number of tourists compared to the corresponding period of 2018. In particular, in the transport sector, the increase in passenger traffic at the Veneto airports continued, although slowing down compared to the previous year.
As a result, the profitability of companies in industry and services, although declining, remained high.
The province of Verona is no exception to the above, thanks to the contribution of the variety of its products summarised by the Chamber of Commerce in the "4 A" formula: agri-food (agricultural products, food, wine), furniture (marble and furniture), clothing/fashion system (footwear, textiles, clothing) and automation (machinery and thermomechanics).
Overall, these sectors account for two thirds of the value of exports.

4. SHAREHOLDING STRUCTURE AND SHARE TRENDS

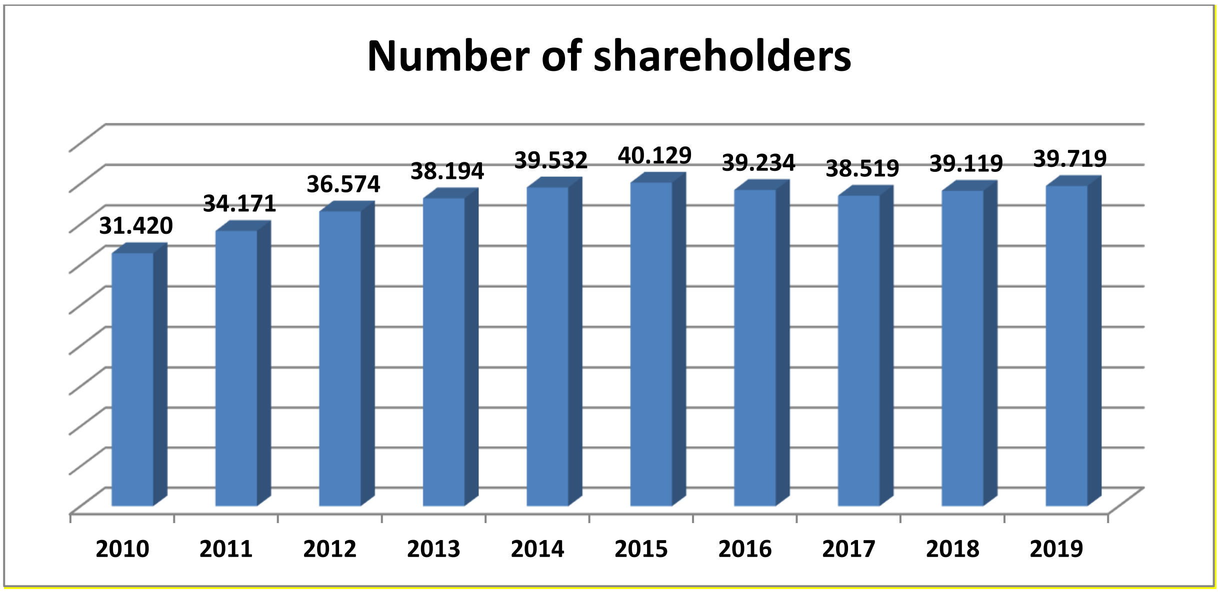
In the report to the financial statements, the issue of the development of the shareholding structure and the exchanges on shares has always had an important position: in fact, within this context, the trends and size of the share capital of the Bank, which is a "co-operative joint-stock company" under the articles of association, are shown.
In this sense, this paragraph is also an important opportunity –as already mentioned, as provided for by Article 2545 of the Italian Civil Code – to anticipate to the Shareholders and, more generally, to all stakeholders, the certification that the Bank's activities are in line with the cooperative purpose set out in Article 51 of its Articles of Association.
The criteria followed in the management of the Bank's business for the achievement of the cooperative purpose are precisely defined in the Bank's activity, which is based on the principles of loyalty, seriousness, honesty, competence and transparency, with the primary objective of creating value for the generality of its Shareholders, Customers, personnel and local communities.
In order to give substance to the concept of cooperative and, at the same time, broaden the social base in the markets served with the prospect of increasing loyalty, Banca Valsabbina supports several initiatives in favour of communities and territories: the chapters "Cooperative purpose and relation with Shareholders" and "Relation with the territory and the community", contained in the 2019 Non-financial Statement, give ample evidence of this.

Now entering into the specific subject of the share trading process, it should be noted that the shares of the Bank, codified as "BANCA VALSABBINA - ISIN IT0000220449", have been traded since 18 July 2016 on the HI-MTF market managed by HI-MTF Sim Spa, the Order Driven equity segment, an external platform set up in compliance with the MiFid Directive and recognised by Consob.
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.
This market is a multilateral trading facility (known as Mtf) alternative and complementary to regulated markets, access to which is reserved to investment firms, banks and operators of regulated markets, authorised and subject to Consob supervision. The share listed therein may be purchased/sold on the market also through other banks or intermediaries as envisaged by them.
The choice of the price made by the Bank with a view to providing better conditions of marketability and transparency to the share in the interest of its shareholder base was a choice shared almost unanimously by the entire co-operative banking sector, also with a view to strengthening a negotiating representativeness useful for the refinement of the regulatory mechanisms of the market itself.
During 2019, 617,727 shares were traded on this market for an equivalent value of Euro 2.823 million at an average price of Euro 4.5702, in a range between a maximum of Euro 4.76 reached in May and a minimum of Euro 4.38 from September 13 until the end of the year; therefore, interest in our share on the listing market was higher than last year when 370,511 shares were traded at an average price of Euro 5.075.
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. As a result, 57,200 shares were purchased on the Hi-Mtf market for an equivalent value of Euro 271,082; as authorised by the last shareholders' meetings, the Provision was also 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.
All-in-all, in 2019 the Provision was used to purchase 115,062 shares for an equivalent value of Euro 539 thousand.

As at 31 December, portfolio shares amounted to 1,205,216 for an equivalent value of Euro 9 million and 379 thousand; they were 1,090,154 for an equivalent value of 8 million and 840 thousand as at 31 December 2018.
Even this year, general market conditions have unfortunately not allowed the desired easing of pressure on the securities of cooperative banks, whose prices have fallen well below purchase or subscription prices, while for example the FTSEMIB, the basket of Italian companies with the highest capitalisation, including banks, has made a leap of 28.3 %, giving savers and investors significant margins of recovery on their invested capital. It is true that the characteristics of marketability and the different operating mechanisms of the various stock market indices significantly influence share prices, but it is equally true that the trend of Hi-MTF market prices is still affected by the negative perception towards banks that has led to the strong gap between the "value" of the share – the one that should be anchored to the company's assets and income prospects - and the "price" of the share – the one that, reported during the weekly auction, expresses instead the balance between supply and demand in a market season in which, for the reasons just mentioned, the latter clearly prevails over the former.

The re-absorption of the amounts of shares for sale and the progressive price recovery is a process that is not rapid but certainly continuous and all the more favourable for the shareholder when - as in the case of Valsabbina – the capital strength and its economic prospects make it interesting to keep the share in the portfolio; It is indeed incontrovertible that the "price" of equity securities tends to reflect the expectations expressed by market participants regarding the profitability prospects of the issuing company.
Our Bank - convincedly projected on the strategic thematic choices discussed below - bases the most realistic confidence in a gratifying recovery of the share price on this specific assumption.

With regard to the size of the shareholding structure, against the greater number of exchanges on the market, the number of Shareholders increased compared to the previous year: at the end of 2019, there were 39,719 compared to 39,119 at the end of 2018, in addition to 1,639 shareholders (1,860 at the end of 2018), including holders with less than 100 shares.
Therefore, the company structure of Valsabbina at the end of 2019 was composed of 41,358 holders – partners and shareholders - of the company's shares compared to 40,979 the previous year.
In the category of co-operative banks that retain the legal form of a co-operative bank, ours is at the top in terms of the size of its shareholder base.



5. EQUITY AND CAPITAL RATIOS

The amount and the trend of equity represent 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.
Therefore, also with regard to the future, the capital requirements are determined:
- by the observance of the capital requirements laid down by supervisory regulations;
- by the supervision of the risks related to the banking business;
- by business development projects;
- by assessments on the amount of profits to be distributed to the shareholders and to be capitalised.

Dealing with this specific point in the report is particularly challenging because of the objective complexity of the matter: the language of the supervisory authority on the issue of capital requirements and capital ratios to monitor the effectiveness of the regulatory and supervisory framework is based on an inevitably intense and specialised vocabulary that is difficult to translate into flat, discursive forms.
It is therefore in our turn challenging to summarise and illustrate to Shareholders this important document summary: however, we tackle the task by reducing reading difficulties as much as possible and protecting the mandatory completeness of the underlying information, which, among other things, reflects the Bank's favourable position in the specific regulatory context.

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; as at 31 December 2018, prior to the result for the year, the Bank's assets amounted to Euro 315 million and 616 thousand.
In compliance with the shareholders' resolution approving the 2018 financial statements, approximately Euro 10 million were allocated to reserves during 2019, thus bringing equity - also taking into account the other changes described in detail in the "Statement of changes in shareholders' equity – financial statements" – to Euro 326 million and 435 thousand.
Including the net profit for 2019, equal to Euro 20.3 million - the allocation of which will be decided by the Shareholders' Meeting - the book equity reaches the amount of Euro 346 million and 737 thousand.

The amount of own funds and the measurement of the related solvency ratios - values that derive from the size of the book equity - are particularly important components in the face of the banking company due to the implications of Prudential Supervision and the related effects on the structure of management activities.
For the purposes of Prudential Supervision, 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).
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.

At an early stage, the Basel III rules were subject to a transitional regime during which they were progressively applied – in most cases – in an increasing proportion until 31 December 2019, the date by which they were fully applied; at the same time, capital instruments that no longer comply with the regulations will be gradually excluded from the financial aggregate, useful for supervisory purposes, by 2021.

In terms of solvency rations, the minimum regulatory requirements for 2019 envisage that:
- Common Equity Tier 1 must be at least 7.0% of total RWA;
- Tier 1 must be at least 8.5% of total RWA;
- Own Funds (sum of Tier 1 and Tier 2) must be at least 10.5% of total RWA.

The above requirements include the percentage allocated to the capital conservation buffer of 2.5% as from 1 January 2019 and definitively.
Moreover, at the end of the prudent review procedure for 2018 - known as S.R.E.P. (Supervisory Review and Evaluation Process) - the Bank of Italy, in a letter dated 8 May 2019, issued the following capital requirements for our Bank:
- CET 1 Ratio equal to 8%, of which 4.5% for minimum regulatory requirements, 1% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve;
- Tier 1 Ratio equal to 9.85%, of which 6% for minimum regulatory requirements, 1.35% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve;
- Total Capital Ratio equal to 12.35%, of which 8% for minimum regulatory requirements, 1.85% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve.

The Supervisory Authority has the power to impose additional requirements on supervised intermediaries; the requirements described above, which currently represent the coefficients of reference, have been complied with since the reporting as at 30 June 2019.
The regulatory Own Funds amounted as at 31 December 2019 to Euro 401.7 million (387 million at the end of 2018), made up of Euro 367.5 million of Common Equity Tier 1 (CET 1) and Euro 34.2 of Tier 2 Capital, consisting of accountable subordinated loans; in this regard, it is necessary to point out

that the profit generated by the Bank is not included in Own Funds unless the Shareholders' Meeting approves the allocation of the result for the year.
The changes in Own Funds were due to the issue of a new subordinated loan of Euro 20 million maturing on 29 September 2024 in the first quarter of the year: Euro 19 million of this loan can be counted as Class 2 capital at the end of the year.
With risk weighted assets amounting to Euro 2.55 billion, the Tier 1 capital ratio, determined by the ratio between the Tier 1 capital and the risk weighted assets, comes to 14.43% ("phase-in") as against 14.72% in December 2018, while the Total capital ratio, which expresses the ratio between total Own Funds and risk weighted assets stands at 15.77% ("phase-in") compared with 15.73%.
Therefore, both ratios are significantly higher than the minimum requirements for 2019, as mentioned by 9.85% and 12.35%, respectively.
The main capitalisation ratios over the past four years present the following trend:

	31/12/2019	31/12/2018	31/12/2017	31/12/2016
Shareholders’ equity/customer deposits	9.05%	10.20%	12.08%	12.34%
Shareholders’ equity/loans and receivables with customers	11.06%	10.78%	12.97%	14.09%
Shareholders’ equity/total assets	6.75%	6.74%	8.88%	8.83%
Net non-performing loans/own funds	43.97%	58.08%	78.09%	90.84%
Net bad loans/own funds	23.92%	31.76%	44.42%	46.92%
Total capital ratio phased in/fully phased	15.77%/14.06%	15.73%/13.74%	16.60%	16.83%
Tier 1 capital ratio phased in/fully phased	14.43%/12.69%	14.72%/12.69%	15.17%	15.11%

It is useful to mention at this point of the discussion that with the entry into force of IFRS 9 (01/01/2018), 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, the above regulations envisage the possibility of including in Common Equity Tier 1 capital a transitional positive component equal to a portion of the increase suffered by impairment losses and recognised in the financial statements as a result of the first-time adoption of IFRS 9; 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. In addition to the possibility of deferring the impact deriving from the first-time adoption of the accounting standard, the transitional arrangements provide for the possibility of mitigating any impacts that the application of the new impairment model will produce until 2022, limited to the assessment of performing loans.
As at 1 January 2018, with the adoption of IFRS 9, 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.
For 2019, sterilisation on own funds was 51.9 million; in the absence of this transitional regime, the Total capital ratio and Tier 1 would have been 14.06% and 12.69%, respectively ("fully phased").

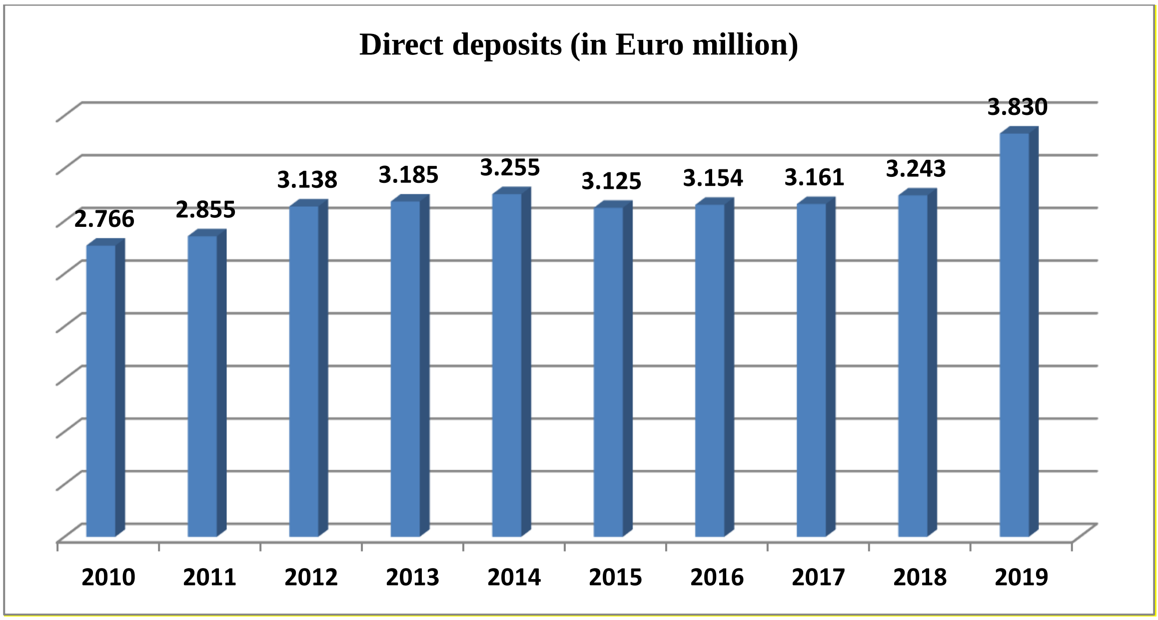
In terms of liquidity, the Bank's position was already well above the minimum ratios. The expected regulatory instrument is the LCR (Liquidity Coverage Ratio) given by the ratio between the reserve of liquid assets and the net outflow of liquidity envisaged over a 30-day stress period, which must be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

At the end of the year, the Bank's LCR ratio was 196%, equal to the ratio between the liquidity buffer of Euro 1,105.9 million and the expected net outflow (30 days) of Euro 564.4 million (net liquidity outflow).

6. CUSTOMER DEPOSITS

In the economy of any bank, the amount of deposits has always been the central and distinctive factor of strategic and management policies: the amount of deposits, conventionally understood as customer deposits, is usually the most immediate component in recognising the size of the company and certainly the most expressive of the trust it enjoys in the market; precisely for this reason, it is also the aggregate on which the most vigorous competition between intermediaries develops because the growth rates from year to year indicate the ability to attract new customers, to expand relationships, to intensify the bond of trust in relations with individual depositors and savers.

International accounting standards are more precise in qualifying the meaning of deposits and exceed, as we said, the conventional approximation to customer deposits; according to these standards, 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 3.830 billion in December 2019, up by 18.09% compared to Euro 3.243 billion in December 2018.



The strong growth of assets continued and strengthened the positive trend of the forecast budgets that, in line with the strategic plan, characterised the strong development of financing activities. In fact, during 2019, the entire banking system pursued similar policies of growth in direct deposits, achieving important results expressed in growth rates sometimes even double-digit rates; however, our Bank's performance, with an 18.9% year-on-year increase, was characterised by a great propulsive momentum mainly determined by the effective structure of the offer - with regard to the policy of setting rates, in particular - and by the effective action carried out in the areas of new establishment following the opening of the important branches mentioned elsewhere in this report.

Despite the absence of system data referring to the 2019 financial statements, it is quite realistic to expect Valsabbina to climb - compared to the 50th place in 2018 - a few more positions in the ranking of the first banks for direct deposits.

As shown in the table below, the components of customer deposits are concentrated in the technical forms of on-demand deposits and time deposits settled through current accounts:

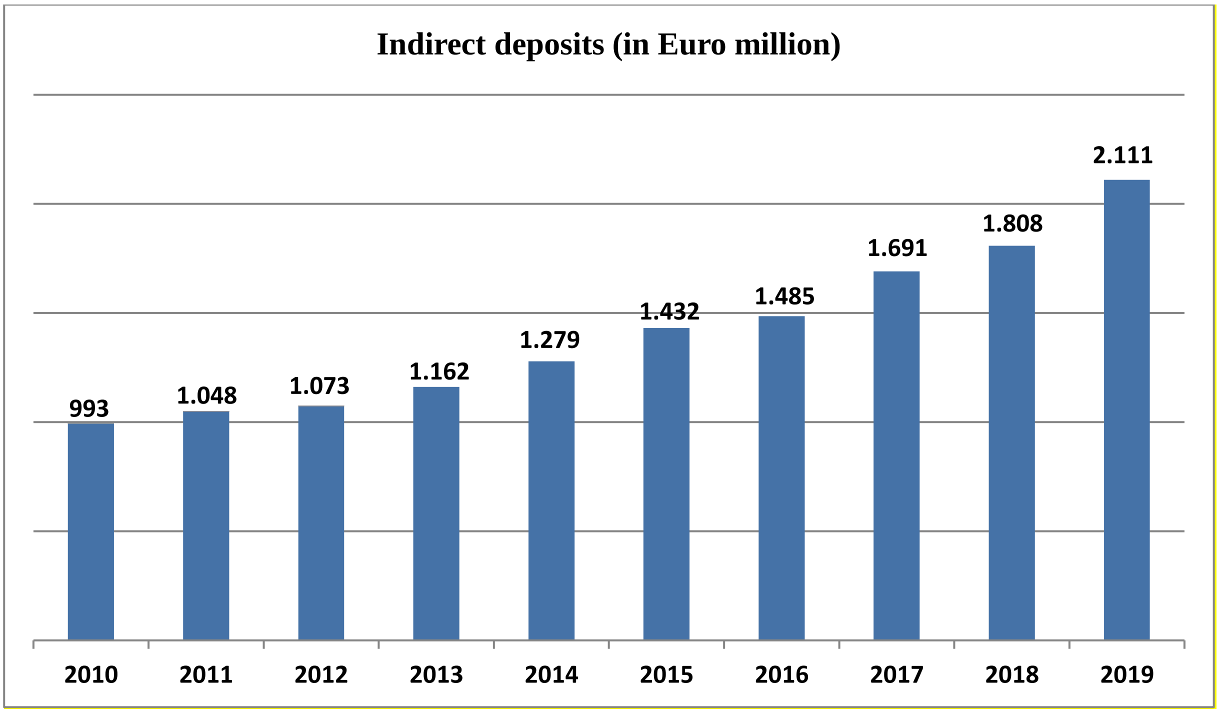
Customer deposits	**31/12/2019**	**31/12/2018**	**Change**	
(amounts in Euro 000)			**Absolute**	**%**
Savings deposits	27,134	29,692	(2,558)	(8.62%)
Current accounts	2,593,861	2,247,613	346,248	15.41%
Time deposits	949,519	668,927	280,592	41.95%
Other deposits	230	463	(233)	(50.32%)
Future lease payments - IFRS 16	5,644	-	5,644	NS
b) Due to customers	**3,576,388**	**2,946,695**	**629,693**	**21.37%**
Bonds	155,592	212,579	(56,987)	(26.81%)
Subordinated bonds	76,926	61,222	15,704	25.65%
Certificates of deposit	20,902	22,582	(1,680)	(7.44%)
c) Securities in issue	**253,420**	**296,383**	**(42,963)**	**(14.50%)**
Total direct deposits	**3,829,808**	**3,243,078**	**586,730**	**18.09%**
Indirect	**2,110,635**	**1,807,788**	**302,847**	**16.75%**
Total deposits	**5,940,443**	**5,050,866**	**889,577**	**17.61%**

Details of the technical forms show that "due to customers" increased from Euro 2,947 million as at 31 December 2018 to Euro 3,576 million as at 31 December 2019, a significant part of which is represented by "time deposits" that increased by Euro 281 million, or 41.95%; within this aggregate, there is also a component of approximately Euro 175 million with a residual life of more than 18 months.

At the same time, securities in issue – a typical component of medium-term deposits – fell from Euro 296 to 253 million, as a result of the commercial policy implemented with the entry into force of the bail-in regulations aimed at encouraging the replacement of maturing bonds with other forms of compulsory deposits such as time deposits; therefore, subordinated bonds in issue amounted to Euro 76.9 million, of which Euro 70 million of nominal value eligible for inclusion in own funds.

The policies for the development of direct deposits were followed with a special sensitivity and attention to the cost profiles of the deposits themselves, constantly seeking a balance between the expectations of the depositor, on the one hand, and the constraints that the current season of rates at historical lows imposes on banks as regards the remuneration of the funds collected. In this sense, we believe that we have effectively met customers' expectations, suggesting from time to time alternative and profitable solutions to the traditional and more widespread ways of using liquidity and savings, while safeguarding the cost profiles of deposits. Therefore, it is a source of satisfaction to be able to record, against the already mentioned substantial growth in direct deposits, a substantial change in its cost component in the form of interest expense.

In full reflection of the growth in direct deposits, the trend in indirect deposits also recorded important results, rising from Euro 1.808 billion at the end of 2018 to Euro 2.111 billion in the year under review: the effect of this increase was also facilitated by the sophisticated strategies for recomposing the technical forms of deposits just commented on.



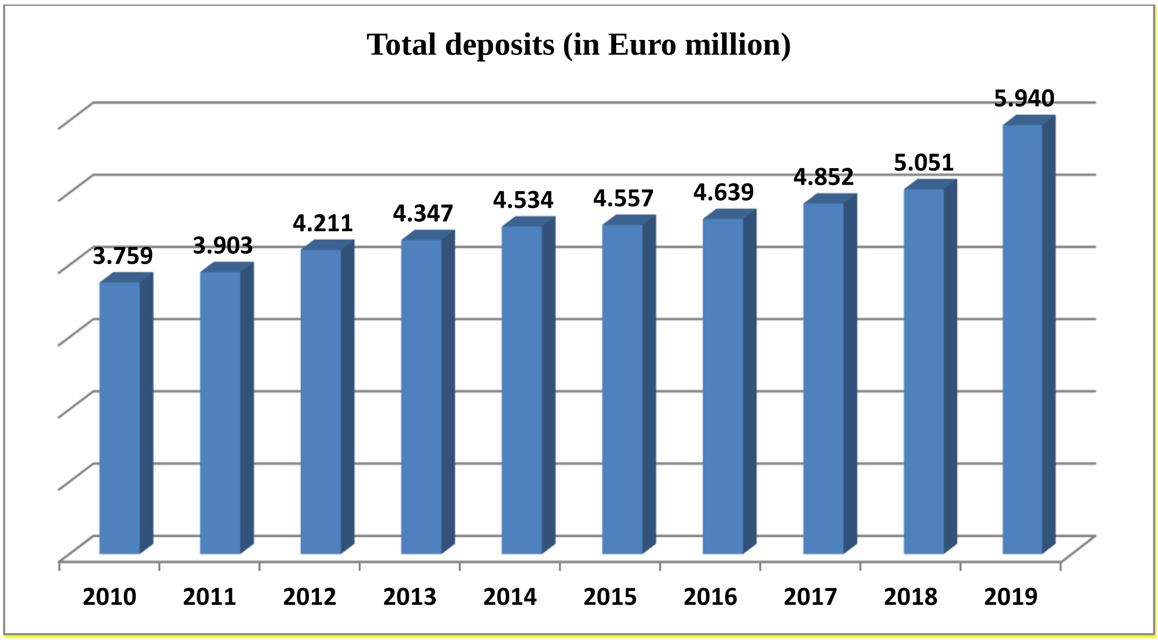
Special attention was once again given this year, within the broad chapter of indirect deposits, to the development of managed deposits, due to the obvious consideration that this type of deposits can simultaneously generate significant commission income for the Bank and gratifying returns for customers who invest their savings.
Significant increases were achieved in equity securities, mutual funds and insurance policies, as shown in the table below.

Customer deposits	**31/12/2019**	**31/12/2018**	**Change**	
(amounts in Euro 000)			**Absolute**	**%**
Bot (T-bills) Government securities	280,253	307,748	(27,495)	(8.93%)
Italian and foreign shares	404,648	293,486	111,162	37.88%
Corporate and foreign bonds	144,961	137,082	7,879	5.75%
Mutual funds	792,762	634,378	158,384	24.97%
Insurance policies	488,011	435,094	52,917	12.16%
	2,110,635	**1,807,788**	**302,847**	**16.75%**

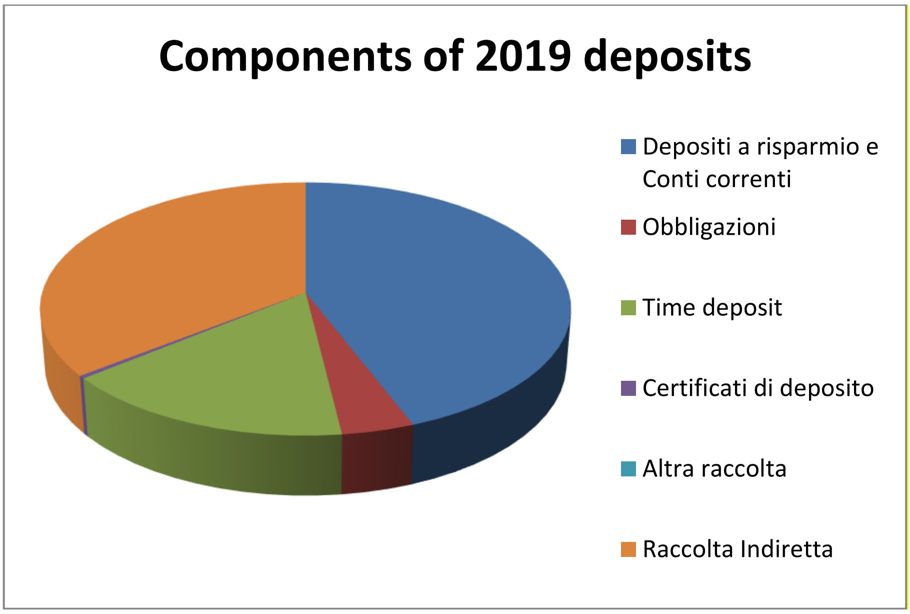
By type of product, indirect deposits show that mutual funds and insurance policies reached 60.68% of the total aggregate as at 31 December 2019, to the full benefit of the expansion of net revenues from services, a priority objective of corporate strategies.

Percentage of indirect deposits	31/12/2019	31/12/2018
Bot (T-bills) Government securities	13.28%	17.03%
Italian and foreign shares	19.17%	16.23%
Corporate and foreign bonds	6.87%	7.58%
Mutual funds	37.56%	35.09%
Insurance policies	23.12%	24.07%
	100.00%	**100.00%**

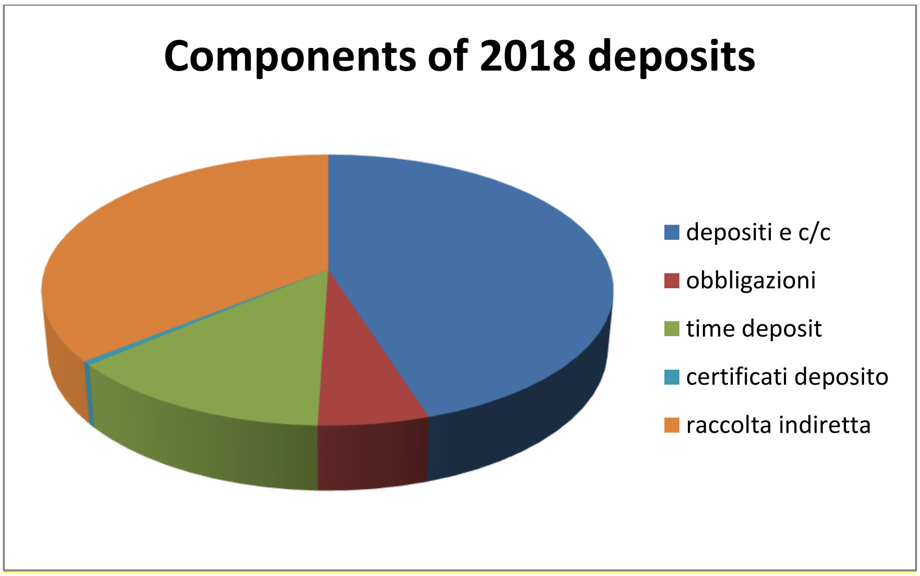
Total deposits thus came close to the considerable amount of Euro 6 billion, reaching Euro 5.940 billion compared to Euro 5.51 billion in December 2018 (+17.61%).



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



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



Legend: deposits and c/a – bonds – time deposits – certificates of deposits – indirect deposits

7. LOANS

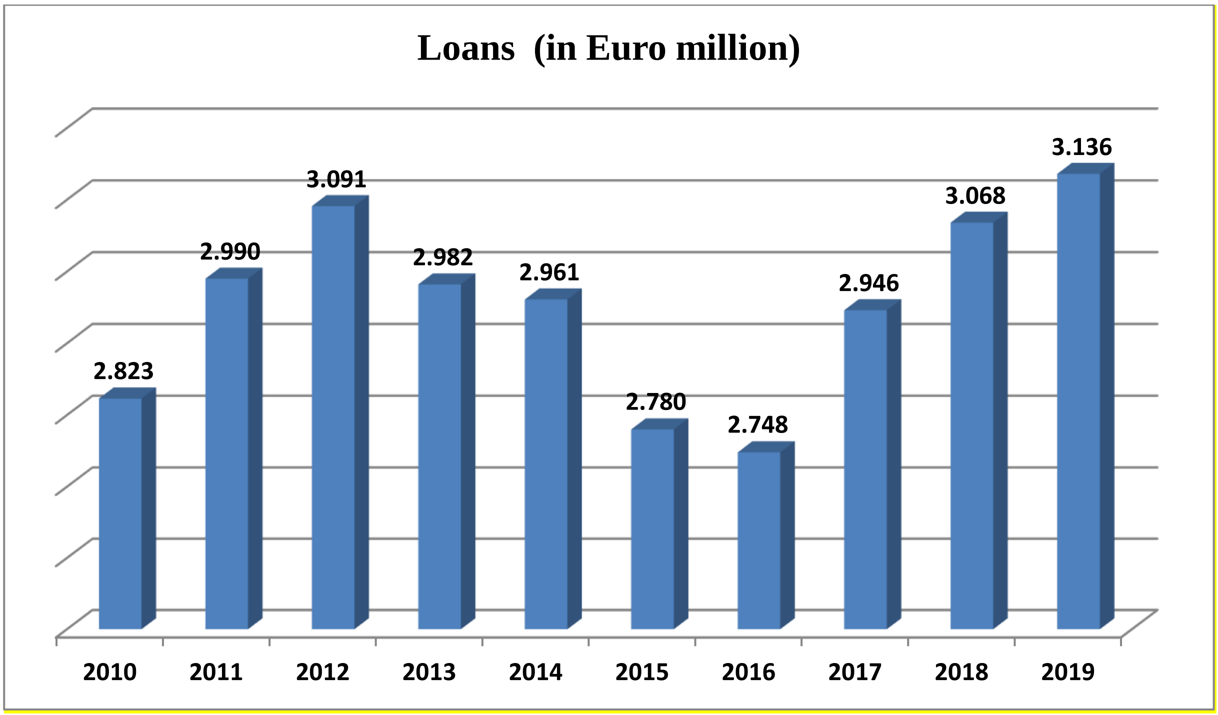
It is well known how the trend and qualitative characteristics of credit assets have had a negative impact on the profitability profiles of banking companies in recent years: the worsening of credit quality caused by the prolonged economic crisis, the lower demand from the corporate market, the low marginality related to the persistently low level of interest rates are in fact the factors that have profoundly altered the balance of the income statement of the banking system in recent years.
The analysis that we are going to develop today on the subject of loans allows us to make a preliminary positive comment on the contribution of the interest-bearing component related to

credit management: during 2019, some of the factors mentioned above were partially mitigated, due to the policies implemented in terms of derisking and the selective increase in outsourced customers.

We now review the most significant changes by mentioning that, with the application of 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 item also includes debt securities issued by non-bank counterparties (including government securities), which will be discussed later in the comments on "Financial assets"; note, however, that the figures shown in the tables below do not include those in the item Debt securities, but only those referring to the item Loans.
At year-end, "loans and receivables with customers - loans" amounted to Euro 3,136 million, an increase of Euro 68 million or 2.22% on the previous year; if we consider that net non-performing loans decreased by approximately Euro 50 million, the increase in the aggregate that produces margins is far greater in size, a size that has a positive effect on profitability profiles.
The same concept takes on further importance, if referring to the longer period of the last two years, since as at 31 December 2017 performing loans amounted to Euro 2,627 million out of total loans of Euro 2,946 million, while as at 31 December 2019 these totalled Euro 2,960 million and Euro 3,136 million, respectively.
Several factors contributed to this trend, as outlined in the introduction to this chapter: an improvement, albeit limited, in the general conditions of the economy, the good results of territorial expansion policies in new areas due to the related implications in terms of new customers and increasing work flows, but above all the significant reduction in non-performing loans. This reduction was achieved both through extraordinary sales transactions and through the slowdown in transfers to non-performing loans as a result of the constant supervision exercised over higher risk exposures, as well as through the effectiveness of actions aimed at collecting these receivables. The overall improvement in the quality of the aggregate is reflected and confirmed in the numerical representations shown in the following tables.

In parallel with the initiatives to upgrade credit assets, operational plans continued to expand the Bank's presence in the new areas in which it operates, mainly in the Emilia-Romagna region, using prudent competitive approaches based on risk spreading. With the same approach of improving the quality of the offer and increasing lending volumes, a strong impulse has been given to financial instruments conceived and consolidated for some time, such as loans under Italian Law 662/1996 or, more recently, operations backed by the guarantee of the European Investment Fund (EIF).
In accordance with our usual practice, the comment on the section on credit includes a preliminary brief overview of the various technical forms, a summary of medium and long-term disbursements, as well as the breakdown of loans by sectors of economic activity and by category of credit facility. Finally, comments are reserved for the examination of the qualitative profiles of the portfolio.

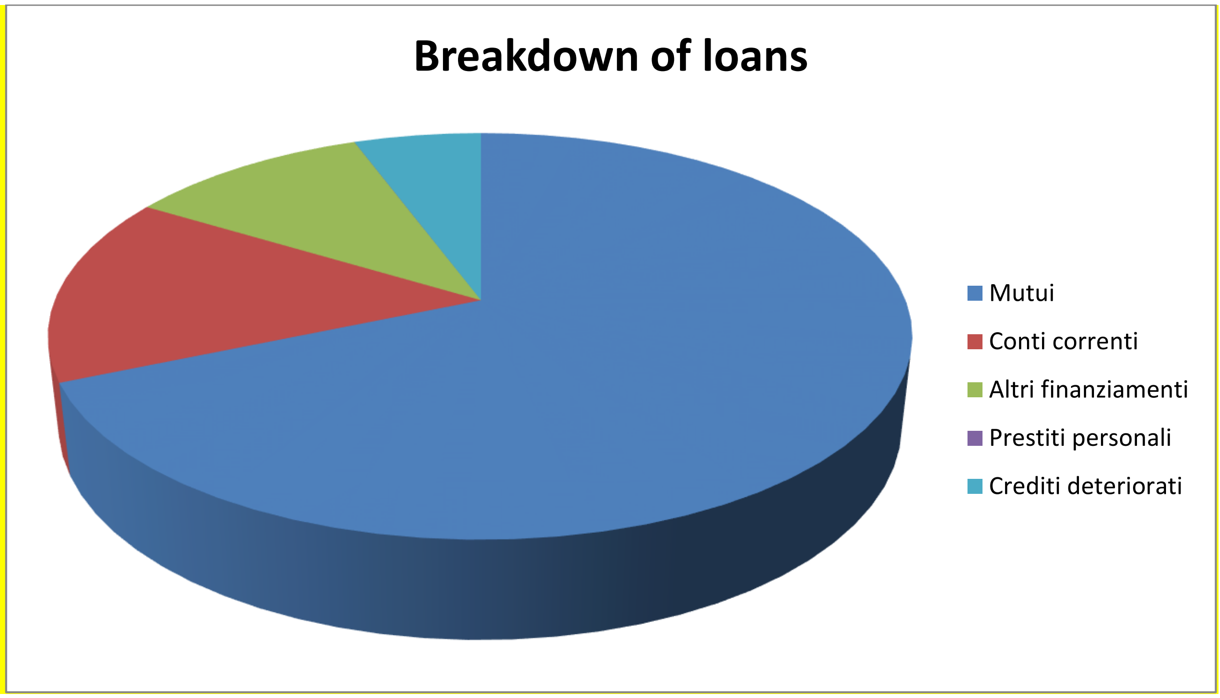
The trend in loans - loans to customers over the last decade is summarised in the chart:



The change in the breakdown of loans by technical form compared to 2018 is presented as follows:

Financial assets at AC - customers	31/12/2019	31/12/2018	Change	
(€/1000)			Absolute	%
Current accounts	471,424	451,197	20,227	4.48%
Mortgages	2,151,930	2,000,518	151,412	7.57%
Personal loans	222	311	(89)	(28.62%)
Other loans	336,117	391,340	(55,223)	(14.11%)
Non-performing loans	176,610	224,761	(48,151)	(21.42%)
Loans	**3,136,303**	**3,068,127**	**68,176**	**2.22%**
Debt securities	**1,048,362**	**890,347**	**158,015**	**17.75%**
Total Financial assets at AC - customers	**4,184,665**	**3,958,474**	**226,191**	**5.71%**

The increase in the technical form of mortgages is immediately evident: this increase, combined with the reduction in short-term loans and the decrease in non-performing loans, allows us to appreciate an increase in net loans of 2.22%. The category of mortgages includes, in addition to traditional mortgage loans for the purchase of properties, all instalments, including loans backed by government guarantees.



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

The initiative of loans backed by government guarantees up to 80% of the amount via Mediocredito Centrale continued also in 2019. The credit facilities granted through this technical form, including those in the microcredit sector for companies with a maximum of 9 employees and a turnover not exceeding Euro 2 million, totalled 1,200 for an equivalent value of more than Euro 235 million; the decrease in new loans attributable to this technical case, amounting to approximately Euro 30 million, was almost offset by ordinary land, building and mortgage loans, disbursed for a total of Euro 229 million out of 1,198 positions compared to Euro 201 million out of 1,061 positions in 2018. Approximately 560 loan transactions were completed for the purchase of first homes for an amount of more than Euro 76 million.
Finance leasing operations intermediated by means of partner companies recorded positive results: 413 contracts were finalised for Euro 69 million, compared to 341 for Euro 49 million in the same financial year.
The "Personal Loans", distributed by the network following the partnership finalised with the specialised company Cofidis, showed a good pace of growth, improving on the already positive results of 2018: the table below shows the trend.

MEDIUM/LONG-TERM DISBURSEMENTS (amounts in Euro/1000)	**31/12/2019**		**31/12/2018**		**% 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.	1,200	234,274	1,412	265,047	(15.01%)	(11.61%)

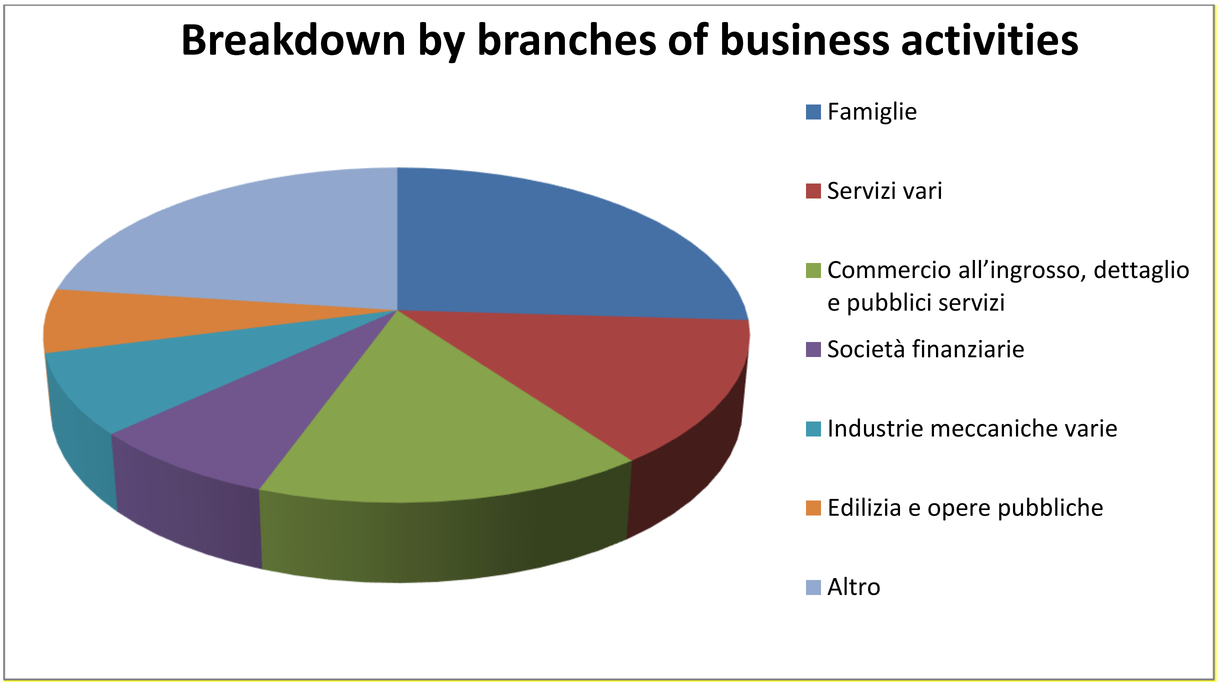
662/1996						
Artisan loans backed by surety of the Credit Guarantee Consortiums making reference to the various Trade Associations	176	9,661	112	6,263	57.14%	54.26%
Ordinary mortgage, building and land loans	1,198	228,552	1,061	201,281	12.91%	13.55%
Loans and mortgages to Shareholders of the Bank	133	13,896	214	14,298	(37.85%)	(2.81%)
Mortgage-secured current accounts	5	2,012	2	620	NS	NS
B) Indirectly as intermediary of specialised Institutes						
Lease transactions	413	68,819	341	48,929	21.11%	40.65%
Personal loans - Cofidis	1,830	32,117	1,940	32,557	(5.67%)	(1.35%)
Salary-backed loans	161	2,653	105	1,604	53.33%	65.40%

The breakdown of customers granted credit by category of credit facility confirms the achievement of the objectives of the credit policy pursued in recent years: i.e. the expansion of customer segments - in parallel with the mitigation of risks due to the splitting of portfolio classes, in the presence of a proven attention to the requirements of households and small-to-medium-sized companies that represent the reference customers for our model of cooperative bank. The number of loans granted at the end of the year was up compared to 2018; facilities exceeding Euro 1 million increased as a percentage of total credit facilities from 40.4% to 40.9%, while facilities of less than Euro 500 thousand decreased from 45.7% to 45.2%.

Number of customers granted credit facilities broken down by credit facility category						
	31/12/2019	**% of total credit facilities**	**31/12/2018**	**% of total credit facilities**	**31/12/2017**	**% of total credit facilities**
Up to Euro 40,000	13,708	3.8%	14,035	4.1%	14,944	4.6%
From Euro 40,001 to Euro 125,000	7,844	14.4%	7,538	14.7%	7,228	15.0%
From Euro 125,001 to Euro 250,000	3,281	13.5%	3,132	13.7%	2,987	13.9%
From Euro 250,001 to Euro 500,000	1,621	13.5%	1,494	13.2%	1,350	12.7%
From Euro 500,001 to Euro 1,000,000	840	13.9%	796	13.9%	702	13.2%
From Euro 1,000,001 to Euro 5,000,000	587	27.1%	540	25.8%	527	26.9%
Over Euro 5,000,001	56	13.8%	53	14.6%	52	13.7%
Total	**27,937**	**100.0%**	**27,588**	**100.0%**	**27,790**	**100.0%**

The breakdown of the portfolio by business segment is shown in the following table; the data confirms the constant attention paid to the household sector that, as part of the various borrowers, is always in first place in all the years under observation, with percentage values tending to increase but which are likely to accelerate following the commercial initiatives outlined in the strategic plan and aimed at increasing the contribution of "consumer households" to the development of operations and profitability in the retail sector.

Sectors of business activities	2019	2018	2017	2016
Consumer households	25.94	25.96	25.48	23.81
Other services	14.01	13.19	15.56	16.76
Wholesale trade	10.41	10.45	10.56	9.70
Other mechanical engineering businesses	7.81	7.35	7.55	8.00
Financial companies	7.61	9.77	7.06	8.04
Construction and public works	6.15	5.94	7.27	7.34
Retail trade and public services	5.15	5.06	5.13	4.60
Foodstuffs and beverages	2.67	2.42	2.15	2.21
Agricultural and industrial machinery	2.59	2.39	2.18	2.10
Construction materials, glass and ceramics	2.23	2.35	2.20	2.20
Agriculture, forestry and fishing	2.21	2.02	2.04	2.23
Wood, furniture and other industrial products	1.76	1.71	1.76	1.86
Non-ferrous metal and iron and steel industries	1.64	1.72	1.95	2.14
Transport services	1.61	1.57	1.51	1.36
Textile products and clothing	1.51	1.53	1.70	1.69
Energy and chemical products	1.38	1.31	1.17	1.24
Electrical supplies and materials	1.14	1.10	1.17	1.20
Rubber and plastic products	1.13	1.12	1.00	0.99
Vehicle repairs and sundry articles	0.82	0.84	0.74	0.68
Paper and publishing	0.63	0.62	0.57	0.60
Public administration authorities	0.57	0.60	0.60	0.65
Means of transport	0.57	0.52	0.40	0.43
Fine and precision engineering	0.46	0.46	0.25	0.17
Total	**100.00**	**100.00**	**100.00**	**100.00**



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

The preservation of the quality of credit assets, a priority objective at all decision-making levels, was strengthened compared to the pre-crisis years both to stem the deterioration of the facilities granted – largely determined by the continuing economic crisis itself – and to take into account the indications of the Supervisory Authorities: indications that will become even more important in the coming months. Therefore, the Board of Directors periodically updated the measurement criteria for all categories falling within the definition of non-performing loans within the scope of the operating and management policies supporting the credit policy: bad, unlikely to pay and past due loans, and the prudential criteria that monitor the examination of individual positions, with reference to the evaluation and updating of guarantees, the determination of the recoverable amount and timing of periodic revision of the defaulting counterparties are also formalised in corporate policies.
As part of derisking policies aimed at containing the stock of gross as well as net non-performing loans, during the financial year, three separate transactions for the sale of bad loans for a gross amount of more than Euro 100 million were prepared and concluded for a number of application files of just over 900; again as part of the same policies, a thousand bad loans were sold last year for an equivalent value of over 120 million. The total number of bad loans thus fell considerably to around 1,400, while – with regard to amounts – the stock of gross non-performing loans fell by 127 million, from 430 million in 2018 to 303 million at the end of 2019.
With regard to the composition in particular, gross bad loans fell by Euro 102.2 million, while unlikely to pay and past due loans – totalling Euro 103 and Euro 15.6 million, respectively – fell by Euro 17.7 million and Euro 6.7 million compared to the previous year.
As a result of the above mentioned initiatives - which were joined by the powerful internal operating machine engaged in individual credit recovery actions against defaulting borrowers - the gross NPL ratio, which measures the incidence of gross non-performing loans on total gross loans, fell from 13.03% in 2018 to 9.23% at the end of 2019: an appreciable result in itself on which the efforts of all components of the structure are concentrated.

The amount of forborne performing exposures i.e. measures that change contractual conditions in favour of customers, such as moratoria, extension of maturities and rescheduling of instalments – also fell from 83.9 million in 2018 to 78.3 million in the previous year.
The amount of impairment losses on loans to customers recognised in the income statement for 2019, net of reversals, was Euro 18.3 million; the assignments of receivables, as the balance between losses and gains, led to total losses of approximately Euro 4 million, Euro 5.6 million of which were recognised under item 100a) of the income statement and Euro 1.5 million of which were recorded as positive components from the collection of interest on arrears under item 10. 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 0.76%.
The coverage percentages shown in the tables below are in line with the strategic objectives defined in the three-year plan; the coverage rate for non-performing loans decreased from 47.74% to 41.80%. More specifically, that on bad loans amounted to 48.03% compared to 57.19% in the previous year; that on unlikely to pay was equal to 35.15% against 31.97% and that on past due loans was equal to 11.92% against 11.61%. The substantial sales of bad loans, which are logically more hedged than the positions managed on a continuous basis, have implicitly led to a lower average coverage rate.
As a result of the process of managing non-performing loans by means of recovery operations, disposals and further provisions in the income statement, as well as following the aforementioned disposal operations, net non-performing loans fell from Euro 224.8 million to Euro 176.6 million; the change in the ratio of non-performing loans to net loans from 7.33% to 5.63% is appreciable. Net bad loans amounted to Euro 96.1 million and represent 3.06% of net loans and receivables (4.01 in 2018). Unlikely to pay fell from Euro 82.1 million to Euro 66.8 million (2.13% of net loans and receivables). Past due loans, which fell from 19.7 to 13.8 million, represent 0.44% of net loans and receivables, compared to 0.64% in 2018.
The Texas Ratio, i.e. the ratio of net non-performing loans to net shareholders' equity less intangible assets, is 52.33% compared to 69.94% 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.

31/12/2019 **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%**

31/12/2018 **Type of exposure/values** (amounts in Euro 000)	**Gross exposure**	**Individual impairment**	**Collective impairment**	**Net exposure**	**% of total net exposure**
a) Bad loans	287,066	164,160	-	122,906	4.01%
b) Unlikely to pay	120,702	38,594	-	82,108	2.68%
c) Past due loans	22,342	2,595	-	19,747	0.64%

Total non-performing loans	430,110	205,349	-	224,761	7.33%
d) Performing loans	2,870,121	-	26,755	2,843,366	92.67%
Total Loans	**3,300,231**	**205,349**	**26,755**	**3,068,127**	**100.00%**

Net exposure (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Bad loans	96,063	122,906	181,668	195,606	189,500
Unlikely to pay	66,781	82,108	113,461	153,523	169,491
Past due loans	13,766	19,747	24,226	29,554	29,636
Total Impaired loans	**176,610**	**224,761**	**319,355**	**378,683**	**388,627**
Performing loans	2,959,693	2,843,366	2,626,745	2,369,343	2,391,804
Total Net loans	**3,136,303**	**3,068,127**	**2,946,100**	**2,748,026**	**2,780,431**

CREDIT QUALITY RATIOS	**31/12/2019**	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Percentage out of gross loans and receivables					
% of bad loans out of total gross loans and receivables	5.62%	8.70%	12.73%	13.41%	11.91%
% of unlikely to pay out of total gross loans	3.13%	3.66%	4.80%	6.18%	6.93%
% of past due loans out of total gross loans	0.48%	0.68%	0.81%	1.07%	1.06%
% of non-performing loans out of total gross	9.23%	13.03%	18.35%	20.65%	19.91%
Coverage percentages					
Bad loans	*51.14% 48.03%	*60.89% 57.19%	*58.73% 55.84%	*54.75% 51.40%	*51.29% 47.09%
Unlikely to pay	35.15%	31.97%	26.93%	17.20%	18.66%
Past due loans	11.92%	11.61%	7.94%	8.10%	7.37%
Total non-performing loans	*43.97% 41.80%	*50.85% 47.74%	*48.64% 46.14%	*41.73% 38.92%	*38.25% 35.07%
Performing loans	0.81%	0.93%	0.46%	0.54%	0.69%
Percentage out of net loans and receivables					
% of bad loans out of total net loans and receivables	3.06%	4.01%	6.17%	7.12%	6.82%
% of unlikely to pay out of total net loans and receivables	2.13%	2.68%	3.85%	5.59%	6.10%
% of past due loans out of total net loans and receivables	0.44%	0.64%	0.82%	1.08%	1.07%
% of non-performing loans out of total net	5.63%	7.33%	10.84%	13.78%	13.98%

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

The overview developed on the subject of loans would not seem to us to be complete if we failed, ultimately, to mention an important legislative initiative, which is likely to increase the attention of the banks to the managerial stability of the companies granted loans and to produce clear positive effects on the quality of the report. With the entry into force of Italian Legislative Decree no. 14 of 12 January 2019 - the Code of Business Crisis and Insolvency - it will in fact become increasingly

necessary, also on the part of the banking system, to make an early diagnosis of the possible business crisis, i.e. the probability of future insolvency of the company to which loans were granted by identifying equity, income, financial imbalances related to the specific characteristics of the company, which can be identified through the indices developed by the Italian National Association of Professional Accountants and Auditors.
The economic and financial assessment of the company must be carried out – to the benefit of the Bank and the protection of the position – by analysing the adequacy of the prospective cash flows that, in turn, must allow the assessment of the future management trend with a view to going concern.

8. 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 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 2019 and the previous year is summarised as follows:

Financial assets	**31/12/2019**	**31/12/2018**
20. Financial assets measured at fair value through profit or loss	**231,371**	**281,244**
a) financial assets held for trading	348	75
b) financial assets designated at fair value	11,774	9,577
c) other financial assets mandatorily measured at fair value	219,249	271,592
30. Financial assets at fair value through other comprehensive income	**411,775**	**298,198**
40. Financial assets measured at amortised cost	**1,194,418**	**1,097,745**
a) loans and receivables with banks	146,056	207,398
- of which debt securities	18,277	3,647
- of which loans	127,779	203,751

b) loans and receivables with customers by debt securities	1,048,362	890,347
70. Equity investments	**1,211**	**1,251**
Total	**1,838,775**	**1,678,438**
of which:		
Loans and receivables with banks for loans	127,779	203,751
Government securities	1,231,499	1,062,127
other bonds	363,199	301,371
mutual investment funds	66,422	67,905
equity securities and equity investments	37,754	33,632
insurance policies	11,774	9,577
derivative contracts	348	75
	1,838,775	**1,678,438**

Financial liabilities		**31/12/2019**	**31/12/2018**
10. Financial liabilities measured at amortised cost	a) Due to banks	869,319	1,241,118
	Total	**869,319**	**1,241,118**

Average term of securities portfolio

The average term of securities portfolio including external asset management as at 31 December 2019 was 3.69 years - a value that is within the limits set by the Board of Directors - compared to 2.83 years in 2018.

Loans and Receivables with banks - Due to banks

Loans and Receivables with banks amounted to Euro 146.1 million, including, under debt securities, a bond loan of Euro 3.2 million subscribed by us and a certificate of deposit of Euro 15 million, both issued by banks. The aggregate decreased compared to Euro 207.4 million as at 31 December 2018 due to the lower number of time deposits subscribed: almost all of these deposits were recognised with maturities by the first quarter of 2019.

Liabilities to banks as at 31 December 2019 amounted to Euro 869.3 million compared to Euro 1,241.1 million at the end of last year. This item consists of amounts due to the ECB with a nominal value of Euro 690 million relating to the TLTRO II programme; these operations, already included in last year's aggregate, have maturities of Euro 250 million in June 2020, Euro 150 million in December 2020 and Euro 290 million in March 2021. The bank receives interest on these loans at a rate of 0.40%, which is recognised until maturity. The Bank will then have the possibility of replacing the TLTRO II loans with new disbursements made by the ECB as part of the new operation, called TLTRO III, presented by the Monetary Authorities in the second half of 2019 and for which our Bank meets the necessary access requirements.

The item Loans and Receivables with banks - Due to banks also includes Repurchase agreements (repos) for an amount of Euro 138 million, compared to Euro 400 million as at 31 December 2018: these transactions with leading banking counterparties all have a maximum maturity in January 2020. Lastly, there is a loan of Euro 50 million from the ECB, which has already expired in early January of this year.

Financial assets measured at fair value through profit or loss

	31/12/2019	% of portfolio	31/12/2018	% of portfolio
Other bonds other than government securities	144,174	62.31%	193,583	68.83%
Other bonds other than government securities	**144,174**	**62.31%**	**193,583**	**68.83%**
UCITS units	23,443	10.13%	23,417	8.33%
UCI units	42,979	18.58%	44,488	15.82%
Equity securities	8,653	3.74%	10,104	3.59%
Total UCIs and equity securities	**75,075**	**32.45%**	**78,009**	**27.74%**
Derivative contracts	348	0.15%	75	0.03%
Insurance policies	11,774	5.09%	9,577	3.41%
Other	**12,112**	**5.24%**	**9,652**	**3.43%**
Total	**231,371**	**100.00%**	**281,244**	**100.00%**

In absolute terms, net financial assets at fair value through profit or loss were 17.73% lower in December 2019 than in December 2018. This trend is mainly due to the lower number of bonds issued by securitisation vehicles for the purchase of loans and receivables with the Public Administration: these loans were subscribed by the Bank at the end of 2019 for approximately Euro 140 million compared to Euro 160 million the previous year. This aggregate includes the "Valsabbina Investimenti" security of about 130 million; the security is representative of an operation launched in 2016, which led the vehicle, throughout its entire duration, to purchase loans and receivables for a total amount of approximately Euro 419 million.
The decrease in this item was also due to the repayment of an ABS security booked for an exposure of about Euro 25 million as at 31 December 2018.

The units of closed-end real estate reserved alternative investment funds were recorded for Euro 42.9 million (-1.5 million compared to 2018) and comprise funds set up by the investee company Polis Fondi sgr of Euro 17.7 million, by the Finint Fenice fund of Fenice Investments sgr of Euro 19.5 million and by Fondo Namira of Euro 5.7 million. The decrease of 1.5 million in the balance of this item is due solely to write-downs made using the NAV provided by the issuers themselves. It is necessary to mention that investments in the funds were made mainly through the contribution of real estate assets taken over by the subsidiary Valsabbina Real Estate as part of its debt collection activities, rather than through the subscription of shares instrumental to the funds' participation in the auctions, rather than – finally – through the sale of non-performing mortgage loans.

The item "Equity securities" includes, for the amount of Euro 3.9 million, the 1.05% shareholding in Cedacri SpA – the leading company in outsourcing services for the banking sector – together with other minor interests that do not qualify as strategic; this same portfolio also includes three capitalisation insurance policies issued by major operators.

Financial assets at fair value through other comprehensive income

	31/12/2019	% of portfolio	31/12/2018	% of portfolio
Italian government securities (BTP, CCT)	268,432	65.19%	185,029	62.05%
Other bonds	115,453	28.04%	90,892	30.48%

Total Bonds and government securities	**383,885**	**93.23%**	**275,921**	**92.53%**
Equity securities	**27,890**	**6.77%**	**22,277**	**7.47%**
Total	**411,775**	**100.00%**	**298,198**	**100.00%**

Financial assets measured at fair value through other comprehensive income increased year-on-year from 298.2 million in 2018 to 411.8 million in 2019 with a percentage increase of 38.09. This trend is due to the significant increase in the portfolio of Italian government securities, which in any case includes a security worth around Euro 90 million with a residual life of less than one year. In addition to Government Securities, the portfolio also includes bonds issued by leading national and international companies, both financial and industrial.

Breakdown of debt securities by maturity				
Duration	**31/12/2019**	**% of aggregate**	**31/12/2018**	**% of aggregate**
up to one year	95,684	24.93%	3,285	1.19%
between 1 and 2 years	7,551	1.97%	73,229	26.54%
between 2 and 3 years	14,377	3.75%	91,311	33.09%
between 3 and 5 years	152,037	39.60%	63,445	22.99%
between 5 and 10 years	102,383	26.67%	42,949	15.57%
beyond 10 years	11,853	3.08%	1,702	0.62%
Total	**383,885**	**100.00%**	**275,921**	**100.00%**

The breakdown of equity securities as at 31 December 2019 is described in the following table:

Description (amounts in Euro 000)	**Value as at 31/12/2018**	**Purchases**	**Sales**	**Capital gains/losses**	**Change to SE**	**Value as at 31/12/2019**	**No. of shares**	**%** % of holding
Bank of Italy	15,000	-	-	-	-	15,000	600	0.20%
Arca Sgr Spa	6,390	-	-	-	(1,178)	5,212	755,442	1.51%
Vivibanca	1,650	3,251	-	-	-	4,901	2,970,063	8.78%
Satispay Aor	2,000	-	-	-	-	2,000	71,890	1.74%
B.Pop. Cividale	659	-	-	-	(110)	549	84,500	0.50%
Luigi Luzzatti	170	-	-	-	-	170	17,000	9.58%
Unione Fiduciaria SpA	28	-	-	-	-	28	4,320	0.40%
Consulting SpA	24	-	-	-	-	24	22,500	15.00%
Other	6	-	-	-	-	6	NS	NS
Total	**25,927**	**3,251**	**-**	**-**	**(1,288)**	**27,890**	**-**	**-**

During the financial year, the equity investment in the capital of Vivibanca, a financial intermediary operating in salary-backed loans and with which our Bank developed a qualified partnership for placement through our local network of products issued by this company, was increased.
The equity investment thus increased from 3.01% to 8.78% of the share capital: the equity investment was recorded for a total amount of Euro 4.9 million.

Financial assets measured at amortised cost - Debt securities

	31/12/2019	% of portfolio	31/12/2018	% of portfolio
Italian government securities (BTP, CCT)	963,067	90.29%	877,098	98.11%
Other bonds and certificates of deposit	103,572	9.71%	16,896	1.89%
Total Bonds and government securities	**1,066,639**	**100.00%**	**893,994**	**100.00%**

In absolute terms, "Financial assets measured at amortised cost - Debt securities" increased significantly compared to December 2018 due to the increase in both newly acquired government securities and other bonds.
At the end of 2019, the bond portfolio consisted in Government securities of Euro 963 million - of which long-term treasury bonds (BTP) of Euro 588.8 million and treasury certificates of credit (CCT) of Euro 374.2 million - and in corporate bonds and ABS of Euro 88.5 million, with an average duration of 4 years compared to 2.7 years last financial year.
Other bonds include debt securities and certificates of deposit issued by banks for a total of Euro 18.3 million.

The residual life of the securities recorded in this portfolio is shown in the following table:

Breakdown of debt securities by maturity				
Duration	**31/12/2019**	**% of aggregate**	**31/12/2018**	**% of aggregate**
up to one year	15,052	1.41%	-	-
between 1 and 2 years	-	-	-	-
between 2 and 3 years	1,358	0.13%	249	0.03%
between 3 and 5 years	206,472	19.36%	146,864	16.43%
between 5 and 10 years	796,926	74.71%	741,242	82.91%
beyond 10 years	46,831	4.39%	5,639	0.63%
Total	**1,066,639**	**100.00%**	**893,994**	**100.00%**

Equity investments
Equity investments are recorded in the amount of Euro 1.211 million and consist of 9.8% equity investment in the share capital of Polis Fondi Immobiliare di Banche Popolari Sgr S.p.A. for Euro 1.014 million and of 100% of the subsidiary Valsabbina Real Estate srl for Euro 197 thousand.
For the capitalisation of the latter, the Bank paid Euro 480 thousand during the year to cover losses. Depending on the related result, the equity investment was written down by Euro 520 thousand.

Valsabbina Real Estate
In 2019, the tenth financial year of the subsidiary Valsabbina Real Estate, the company continued its institutional activity of participating in sales by the court
It participated in 11 sales by the court, all of which ended with the awarding of the asset to third parties, always at values higher than the minimum intervention prices. Therefore, as in the past, Real

Estate's activities provided a stimulus for higher bids made by third-parties, confirming the usefulness of having an operational tool to protect the value of mortgage-backed loans through direct participation in sales by the court.
As at 31 December 2019, the company owned 18 properties, 16 of which were for residential use - properties classified in its financial statements as inventories recognised for a total of Euro 2.869 million, gross of acquisition-related expenses, including tax-related expenses - while the inventories recognised on the same date of the previous year amounted to Euro 4.8 million.
During the year, the disposal of real estate assets actively continued, as evidenced by the 10 deeds of sale signed, as a result of which the owned real estate units decreased from 30 at the end of last year to the aforementioned 18. This resulted in total capital losses, net of capital gains, of Euro 225 thousand; a property, which is expected to be sold in the near future, has also been written down by Euro 180 thousand.
Moreover, loans and receivables with customers are recognised in assets for sales with lien agreement of Euro 80 thousand and loans and receivables from the parent company for tax consolidation of Euro 81 thousand.
The amount due to the Bank is recognised in liabilities for the credit facility of Euro 2.754 million gross of interests of Euro 47 thousand that will be debited in 2020, in addition to other payables of Euro 16 thousand.
The value of production amounted to Euro 1,671 thousand, of which Euro 1,626 thousand for sales and Euro 45 for other revenues.

The 2019 financial year ended with a loss of Euro 535 thousand as indicated in the reclassified income statement below, compared with the previous financial year:

(amounts in Euro 000)	**31/12/2019**	**31/12/2018**
Value of production	1,671	952
Costs for services	(149)	(135)
Costs for use of third-party assets	(3)	(3)
Operating expense	(56)	(61)
Difference between costs for purchases of properties and the change in inventories	(2,031)	(1,100)
Total net of interest and taxes	**(568)**	**(347)**
Interest expense	(48)	(66)
Taxation	81	71
Loss	**(535)**	**(342)**

The paid-in and subscribed share capital amounted to Euro 100 thousand and, as said, is entirely held by Banca Valsabbina S.C.p.A.
The shareholders' equity, inclusive of the loss for the year, amounted to Euro 187 thousand. During the year, the Parent Bank made two capital contributions and covered losses for a total of Euro 480 thousand.
The financial statements as at 31 December 2019 – 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 (Euro 3.032 million) is lower than the limits envisaged by the Supervisory instructions for the consolidated indications (financial statement assets less than Euro 10 million).

9. BUSINESS STRATEGIES AND POLICIES

The company's 2019 strategies focused, first of all, on improving asset quality, with a view to derisking the financial statements, and on commercial development, making the distribution network more effective and creating new business segments.
The words of Governor Visco, at Assiom Forex in Brescia a few weeks ago, draw our attention to the work done and the results achieved, despite the limited size of our Bank, a size to which the Supervisory Authorities associate potentially greater vulnerabilities.

Non-performing exposures in 2019 were reduced by more than the objectives shared with the Supervisory Authority, mainly thanks to sales made in 2018/2019 of Euro 200 million, without resorting to GACS or multi-originator transactions.
A significant contribution was also made by the Anomalous Loan Division's internal management of non-performing loans: anomalies in the management of performing loans were promptly identified; the management of non-performing loans still outstanding (past due and unlikely to pay) improved; recovery rates for bad loans increased also thanks to the support provided by the internal structures dedicated to "special projects" with an optimal management of properties to guarantee debt exposures; smaller amounts of bad loans were outsourced.
The objective of financing profitably the real economy and the search for revenues beyond the traditional banking model was also pursued with determination, in line with the Business Plan, by investing in initiatives aimed at increasing the operating scale of our branches.
The entry into operation of new businesses and the improvement of the distribution model, particularly in consumer credit and asset management, as well as the rationalisation of the local network contributed to the containment of the cost of deposits, to the growth in lending, including through the purchase of loans claimed by companies from the Public Administration, to the granting of new loans with guarantee 662, and to the increase in net fee and commission income.

In the coming months, the new strategic plan will be implemented in a rapidly changing context with significant impacts of new technologies. The management and commercial positioning strategies launched so far will be able to fully unfold their effects, constituting a fundamental element to best interpret the cooperative model on which our Bank is based.
The reduction in the level of exposure to credit risk, in line with the NPL Plan presented to the Bank of Italy, is one of the fundamental components for the success of the new strategic plan.
The Bank also plans to follow up the initiatives aimed at increasing commercial effectiveness by consolidating its presence in the historical areas and ensuring qualitative/quantitative development in those served by the new branches so as to achieve important objectives in terms of new customers, volumes and profitability profiles. In fact, the planned mergers will allow the containment of costs due to the rationalisation of the use of resources.
It is reasonable to expect that an important contribution to the growth of the commission margin may come from initiatives aimed at strengthening the offer in the field of investment products and services also supported by the team of dedicated private bankers, the distribution of consumer credit products and the actions taken in the bancassurance field, also thanks to a new commercial agreement for "corporate" policies.

Changes in deposits and loans
Direct deposit policies comply with prudent liquidity risk management criteria, through consolidation of the on-demand component and transformation of maturing bonds and deposits mainly into new time-deposits. The initiatives already launched or planned worth mentioning include the launch of

the online deposit account "Conto TWIST", which has been able to attract almost 1,500 new customers and 90 million deposits throughout the country; the issue of bonds and subordinated bonds also with innovative solutions such as those using the basket bond mechanism; the review of pricing for unsecured loans to SMEs to bring the Bank more in line with average market profitability. A significant source of funding will also come from the market for ABS securities resulting from self-securitisation transactions.
The Bank also envisages actions to increase volumes of indirect deposits by responding to the demand from households, which is increasingly oriented towards instruments that allow greater diversification of investment sources and risk profile, with a particular focus on mutual funds and insurance products.

The process of credit disbursement cannot disregard a special focus on the quality of the target customer base, which will continue to be represented by households and small and medium-sized enterprises. The increase in lending volumes will be pursued with the objective of spreading risk in terms of individual counterparties, sector and geographical area; the development policy of the channel of loans backed by Medio Credito Centrale and the European Investment Fund is also confirmed, with a special attention to businesses, as well as to the channel of home mortgages for households. The purchase of receivables from companies from the Public Administration will also continue and will be extended to other trade receivables.
To specifically support corporate customers, the Bank is already active in investment banking through the purchase and structuring of minibonds, in securitisation transactions and in accompanying small and medium-sized enterprises (SMEs) on the capital market.
In the latter segment, the Bank participated in 2019 as "co lead manager" in the listing of 5 companies on the AIM market of Borsa Italiana and announced the entry into the capital of a SIM leader in the listing of small and medium-sized companies.

Commercial activity and territorial structure
The relations with customers, through 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.
With reference to the distribution network, the contribution of the more recently established areas where market shares are growing at a fast pace is increasingly appreciable. The rationalisation of branches will continue in 2020, 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.
A second location in Milan has already been identified, where it is scheduled to open in the first half of the year. The expansion of the assets traded following the settlement in new highly productive territories will certainly allow economies of scale to be achieved to the benefit of the company's overall profitability.

The offer of products and services

This review of the solutions proposed to customers starts from the analysis of the offer dedicated to Shareholders. There are four packages exclusively reserved for shareholders: 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 2019 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 – to date the Bank has 89,053 current account holders – confirms its ability to achieve and consolidate appreciable market shares even in contexts characterised by an objectively diversified and competitive offer. This increase exceeded 7%, as a sign of a lively trend that suggests a parallel development of cross-selling relations and initiatives.

There are about 30 agreements aimed at specific customer segments, both consumers and non-consumers. The new products include Conto Smart, an ideal solution for "remote" use that provides interesting benefits, based on the use of an application that can be integrated with the Valsabbina Online platform. This makes it possible to expand and integrate the multi-channel offer.

During the year, Conto Family was also introduced, designed for family expenses thanks to reduced management costs and the inclusion in the package of two cards with a low-interest rate. The new agreement, deriving from the revision of "Conto Flessibile", has been completed with the inclusion of new facilities in order to make it even more competitive. If necessary, the product can be integrated with other services to complete the offer. Finally, Conto Sicuro is dedicated exclusively to the segment of customers who do not currently have current account relations with the Bank. The product aims to offer the potential customer a return on deposits, both in the form of a current account and time deposit, which is particularly attractive compared to current market rates.

We also point out "Conto Giovani", with over 9,000 account holders, for customers "under 30" looking for a complete and innovative range of services that takes advantage of the versatility and cost effectiveness of online services and guarantees unusually advantageous conditions. “Conto 44 Gatti” - introduced in 2015 and reserved for our “small customers” from birth - is worth mentioning Attention was also paid to customers "over 65": "Conto Evergreen" - now used by approximately 2,200 holders, all sensitive and interested in the characteristics of utmost simplicity, affordability and completeness - is reserved for them. "Conto Rosa", reserved for female customers, has also met with wide approval, reaching almost 6,000 members. Finally, note the different agreements reserved for craftsmen, traders and farmers - each designed on the specific nature of the requirements related to their management and accounting obligations.

The above mentioned forms of deposit are all guaranteed by the Interbank Guarantee Fund and securities portfolio custody free of charge for the first 12 months is also envisaged in the event that the customer uses the procedure for transferring means of payment with simultaneous extinction of a current account held at another bank or transfer of securities deposited with third parties.

The positive trend of the financial markets combined with intense commercial activity allowed for significant growth in indirect deposits, which thus reached Euro 2.110 billion with an increase of over Euro 300 million. The performance of assets under management, now close to Euro 1.3 billion, was very positive: volumes achieved with a harmonious development of both the UCI component for

Euro 793 million and the insurance component with financial content for Euro 488 million. 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, a special appreciation was recorded for Zurich's multi-branch insurance product "Multinvest", which combines the advantages of the capital-guaranteed separate management with those of asset management: appreciation for the formula is evidenced by the achievement of volumes in excess of 200 million. Supplementing the established partnership with the Zurich Group, the placement of the “Multiattiva” insurance product was launched, distributed by the company Helvetia, already our partner for the Non-Life branch.
The service model also developed in response to the introduction of Mifid II. Since 2018, all customers who subscribe to asset management products are offered a free basic consulting service. For the most demanding customers, an advanced consulting service has been available since 2016, reserved for customers with portfolios of Euro 100 thousand or more: the service is followed by the internal private banking structure that is characterised by the proven qualification and professionalism of its operators, destined to increase in number to meet the growing demand for highly specialised services.

As part of the partnership – active since 2001 – between Banca Valsabbina and the Zurich Group for the placement of life insurance and non-life insurance products characterised by high reliability and by pricing profiles able to compete with major financial and insurance companies present on the market, is being consolidated. The trust relation of close collaboration established from the very beginning of bancassurance activities allows a greater organisational ease in offering a wide and selected range of products aimed at protecting the person and family. The partner's prestige, the proven operational understanding and the high quality of the list products are among the factors that led to the progressive and steady growth of the intermediated portfolio.

As part of its range of products, services and consulting activities in the credit area, in 2019 the Bank provided over 3,700 new loans for a total amount of over Euro 600 million, demonstrating its strong focus and active support for the economic activities in the area. Italian Law 662/96 loans, backed by a guarantee issued by Mediocredito Centrale for up to 80% of the amount disbursed, were approximately 1,200 for companies – both SMEs and micro-enterprises – for a total disbursed amount of Euro 235 million. The figures are slightly lower than the previous year due to the introduction of the new reform of the Guarantee Fund that slowed down its operation.
To enrich its product range, the Bank collaborated with the European Investment Fund (EIF), in order to make available to Italian innovative companies a ceiling of Euro 100 million in loans, payable over the next two years, 50% backed by the Fund itself. 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 by SMEs and Small Mid-Caps (companies with less than 500 employees). The coverage percentage is fixed and equal to 50% of the residual debt existing each time, and a guarantee fee of 50 basis points for SMEs and 80 basis points for medium capitalisation companies is envisaged. More than Euro 60 million of loans has so far been provided to innovative companies through the EIF ceiling.
With regard to support for corporate finance, in collaboration with specialised operators, the Bank 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 2019 Euro 200 million and among the customers who used it, in addition to many SMEs, there were also some of the most important Italian utilities.

The year was very positive for the leasing sector with the signing of over 400 transactions for almost 70 million, a strong increase compared to recent years. In this sector of activity, the traditional and proven partnership with SG Leasing was profitably complemented by commercial collaboration with Biella Leasing.

Strongly positive results were confirmed in the sector of mortgages for the purchase of first homes, whose reference market was reawakened by the constant growth of subrogations. The mortgages paid for the purchase of first homes increased considerably. In fact, in 2019 the success of the products of the "Concerto" package was extended due to the competitive conditions for both fixed and variable rates.

Banca Valsabbina and Cofidis – European specialist in consumer credit, part of the Credit Mutuel Group – renewed the multi-year partnership agreement in 2019 for the distribution of financing products for households. These products are offered by our 70 branches under the Valsabbina brand. 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 2019, as many as 1,800 customers experienced this opportunity with almost Euro 34 million disbursed, demonstrating the high quality of the service. 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 2019, 161 transactions worth Euro 4.2 million were concluded.

E-money services showed a constant and considerable growth, confirming the positive trend already observed in past years. In particular, the Bank has pushed 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. Consistent with the above, “Classic” credit cards were accompanied by innovative products such as such as special credit cards, characterised by the exemption of the annual cost when the minimum cost threshold previously established is reached. The stock of cards in issue reached 98,900 units, as a sign of strong customer satisfaction.

	2019	**2018**	**2017**	**2016**	**2015**
ATM points	**75**	**76**	**79**	**68**	**66**
Number of transactions carried out	1,077,781	1,057,158	1,038,703	971,803	928,223
Amounts transacted (in millions of Euro)	186	184	180	172	167

POS	**3,301**	**2,871**	**2,565**	**2,168**	**2,127**
Number of transactions carried out	3,937,986	2,952,046	2,555,905	2,430,956	2,340,510
Amounts transacted (in millions of Euro)	261	209	190	175	167

In 2019, the Bank has once again paid greater attention to the development of IT services and "Banca Online", an attention legitimated by the high levels of service rendered by the provider Cedacri.

Active home banking contracts amounted to over 47,000 at the end of 2019, an increase of 16% 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.

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. To date, Satispay already has around 60 thousand licensed shopkeepers. Currently, more than 3,000 of the Bank's customers have already subscribed to this innovative service.

Moments of communication - Promotional and cultural activities

The promotion of the Bank's image is an important component of commercial policy, but even before that it is an essential moment to enhance our way of being a cooperative bank: close and supportive of the territory and attentive, therefore, to the many topics - economic, cultural, social, historical and even sporting - offered to our observation in the world around us.

There are many initiatives that the Bank has put in place in 2019 under the chapter on "communication" to testify to its role and to signal its presence as an institutional entity within the communities served. The space that our website dedicates to disseminating these initiatives is growing year by year in line with our awareness of social issues and in parallel with the aims of promoting our commercial offer; we cannot mention them all because the review would take up too much space, but we think it is right to point out the most significant ones for the success and for the positive effects on the reputation of our brand.

Among the initiatives of an economic and business nature, mention should be made of the meetings promoted on the subject of corporate finance, innovative instruments for the financing of investments by SMEs and, in particular, their access to the capital market: "Mini-bonds as a tool for approaching extraordinary finance for the metals supply chain" and the "AIM listing and the M&A market", in collaboration with Ernst Young, have been the titles of the meetings much attended by our customers. The presentation last April, together with our partner Arca Fondi SGR, of Carlo Cottarelli's book "I sette peccati dell'economia italiana" (The Seven Sins of the Italian Economy) was much publicised. Our Business Director Paolo Gesa's video appearances on local broadcasters and on RAI on finance and banking economics were numerous and always very popular: opportunities of great significance for affirming the Bank's name on concrete and topical operational issues.

The Bank was also present at important events such as the Italian Agricultural Zootechnical Fair of Montichiari, which crossed the finish line of the 91st edition, or the 6th edition of the "Premio Verona Network", organised by the Verona Network Group at the Verona Chamber of Commerce or, again, the Da Vinci 4.0 Project of the Giornale di Brescia newspaper: all initiatives that have had a major media and public response.

In terms of sporting events, Banca Valsabbina and the Millenium management made official last June the renewal of the agreement for the role of "title sponsor" for the 2019-2020 season. The official name of the first team, in its second Serie A1 championship, will therefore remain "Banca Valsabbina Millenium Brescia": an initiative of absolute importance for the positive impact on the image and reputation of our Bank.

The initiatives promoted in social and solidarity terms are numerous and all of high value. One for all, linked to the world of sport and in particular to the event just mentioned, was the conclusion of the campaign "Ace For The Cure e Volley" conducted by our Bank together with Volley Millenium Brescia: over Euro 7 thousand for the prevention and treatment of breast cancer for the Susan G. Komen association, a concrete donation that will save lives and give a better future to many women.

There have been many other responses, and perhaps even for small amounts, from the Bank - in the form of contributions or donations - to requests from local communities. We did it willingly, with sobriety and discretion, aware that this kind of attention communicates sympathy and closeness with people and organisations that operate with noble aims in the territory.

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 - we are strongly convinced of this - 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 in each employee and collaborator the above values, awareness of their role, motivation at work and a sense of belonging. We pursue these objectives with determination through 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, for us, first and foremost 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 source and relevance, the "critical conscience" that forces to assess the adequacy and effectiveness of the controls to analyse its deficiencies in depth and implement remedies.
The scope of reference of the control system at Banca Valsabbina S.C.p.A., 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.

The first level is represented by the controls delegated to the operating structures of branches or central headquarters aimed at ensuring full knowledge of the customer, from which derives the correct performance of the banking transactions. Typically, at the first level 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;
- 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 assumption 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, required by European Regulation no. 2016/1075, 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;
- 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.

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.
Finally, the third level controls are entrusted to the internal audit department (called 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.
During 2019, 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 controls as far as each function is concerned. In anticipating that – as a result of the activities carried out by the control functions in 2019 – no significant critical issues or significant malfunctions emerged, more details are provided below 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 as well as with the "good practices" indicated by the supervisory authorities of the sector.
The activity carried out by the Risk Management will find 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 development of money laundering and terrorist financing techniques by actively participating in the training of employees as well as in targeted meetings with branch managers in the territorial areas.
In 2019, 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 sales 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 credit 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.
The results of the checks and recommendations of the second and third level control units – which directly report to the corporate bodies – were analysed using the internal structured concerned, submitted to the General Management and the Board of Statutory Auditors and formed the subject matter of systematic reporting to the Board of Directors as part of the information flows, as envisaged by current legislation. Also in the light of the results for 2019, the development of the reference regulations and the multi-year control plan, the Board of Directors approved in February 2020, 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 2019 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 RISK MANAGEMENT SYSTEM

In implementing the Bank's business model, the Board of Directors adopts the strategic business plan and 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 require banks to equip themselves with the risk measurement and control instruments listed below.
Banks primarily ensure 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.

Banks also have a strategy and process in place to control the current and prospective internal capital adequacy assessment process (ICAAP), as well as the internal liquidity adequacy assessment process (ILAAP). This process is 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 assuming potential stress scenarios.
The banks are also called upon to have 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 assumed and the assessment of their consistency with respect to the objectives defined.
Two additional control units complete the risk management system.
On the one hand, the Supervisory Authorities have the task of verifying the reliability and consistency of the results of the processes adopted by the Bank and formulating an overall opinion on the intermediary as part of the "SREP Process" (Supervisory Review and Evaluation Process), requesting that appropriate corrective measures be taken where necessary.
On the other hand, there are 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). 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 to which our Bank is exposed.

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 Bank 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.
The origination and disbursement of credit, both during the first loan proposal resolution and in the subsequent renewal of the credit facilities, has 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

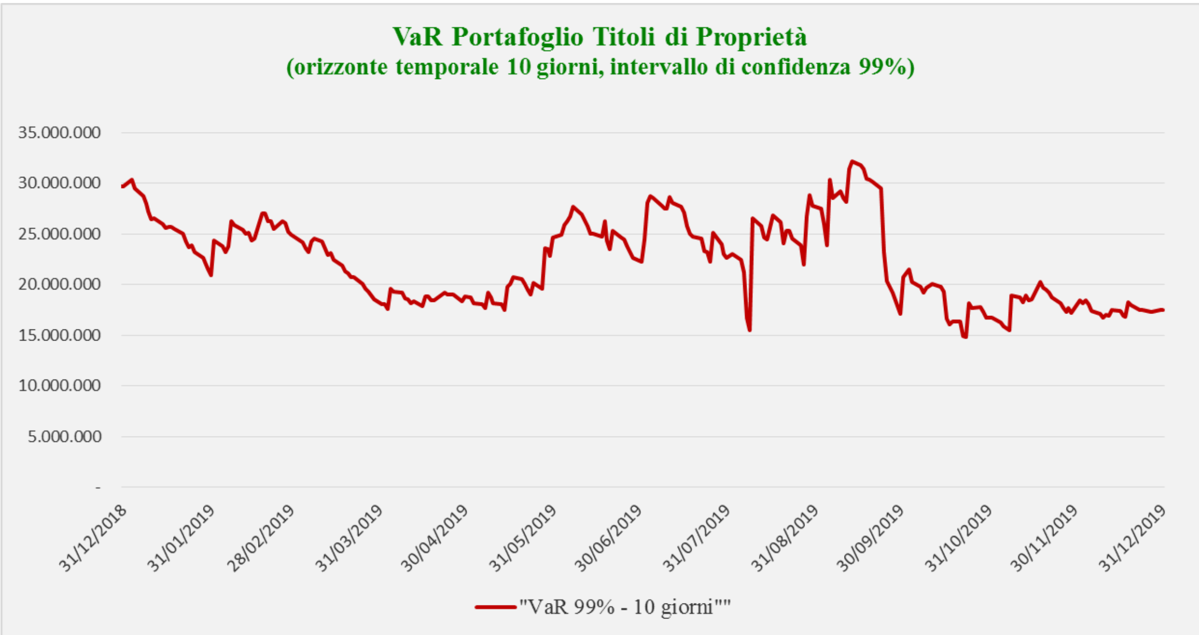
information to the Bank, in order to carry out a thorough and in-depth analysis of the customer. Therefore, the assessment considers both quantitative information and qualitative analyses aimed at understanding the quality of the projects to be financed also prospectively, in order to allow the delegated 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 credit risk, the Bank also uses a management system, known as “Credit Rating System - CRS”, which classifies the customers on the basis of creditworthiness, via an internal scoring system. The system comprises a statistical-type insolvency risk 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.
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 assumption 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 Bank set up the Anomalous Loan Division, including the Trend Monitoring, Pre-dispute, Legal and Disputes Services. In particular, the "Performance Monitoring Service" manages non-performing loans, the "Pre-dispute Service" manages positions classified as impaired past due and unlikely to pay, the "Legal and Disputes Service" deals with the management of bad loans, with the support of external professionals.

The Bank defined – in terms of non-performing loans – the NPL Plan for the period from 2018 to 2021, which will be updated in 2019, in the light of the "Guidelines for Less Significant Italian Banks in the management of non-performing loans". The main objective of the NPL Plan is to improve the effectiveness and efficiency of the process of managing and recovering non-performing loans, also with a view to gradually reducing and disposing of the stock. In particular, in the latest update, also taking into account the performance achieved in 2018, the targets for further reduction of non-performing loans and the related recovery strategies for 2019, 2020 and 2021 were revised, continuing the initiatives launched in previous years. Again with reference to the NPL Plan, the Bank carries out periodic monitoring of the related objectives in order to verify the achievement of corporate strategies and assess any corrective actions.
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 supervisory instructions.
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.
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 prudential control process (Second Pillar) and for the preparation of reports for public disclosure (Third 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 receiving 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, in a "held to collect and sell" business model logic.
The Bank has developed methods for the measurement of market risks that include price, interest rate and exchange risk on a consistent basis with the strategies adopted and with the characteristics of the financial assets held.
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 2019 to Euro 141 million, of which Euro 122 million invested in corporate bonds and Euro 19 million in stock & share units.
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.

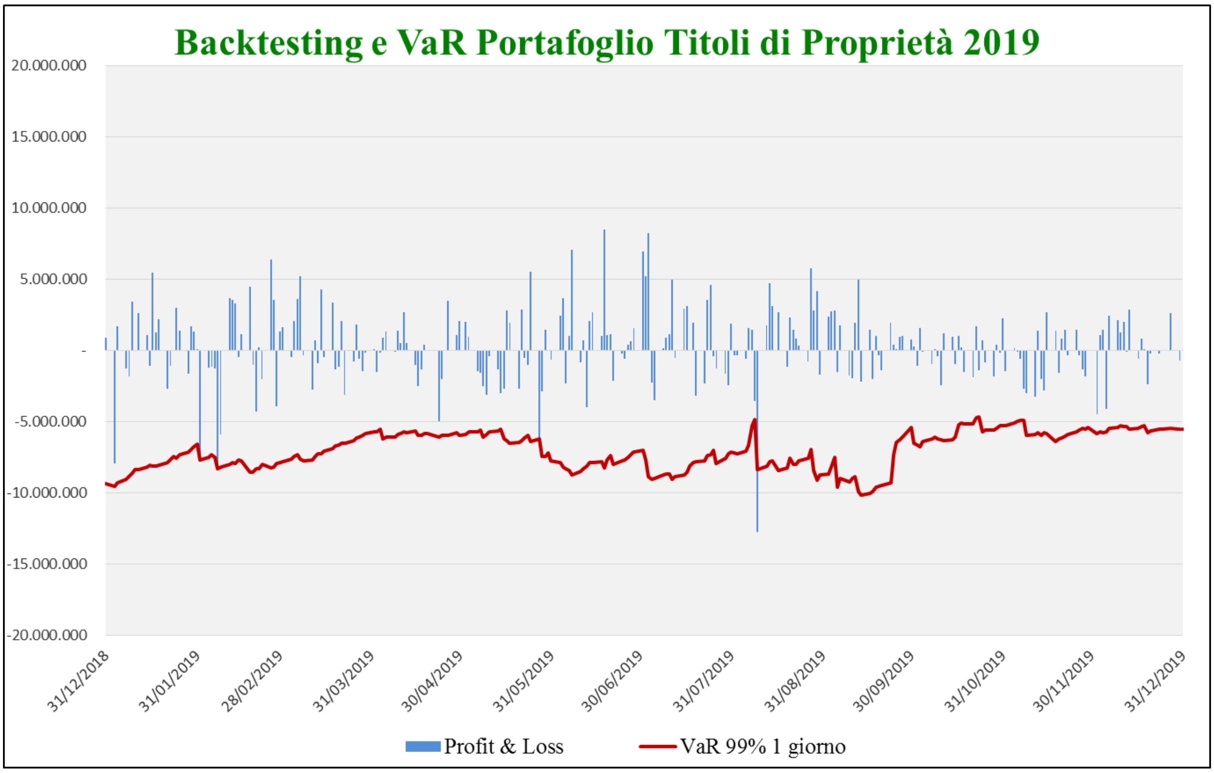
The performance of the VaR of the Bank's bond portfolio managed internally during the year was as follows:



<u>Legend</u>: VaR Bank's securities portfolio (10-day period, 99% confidence interval)

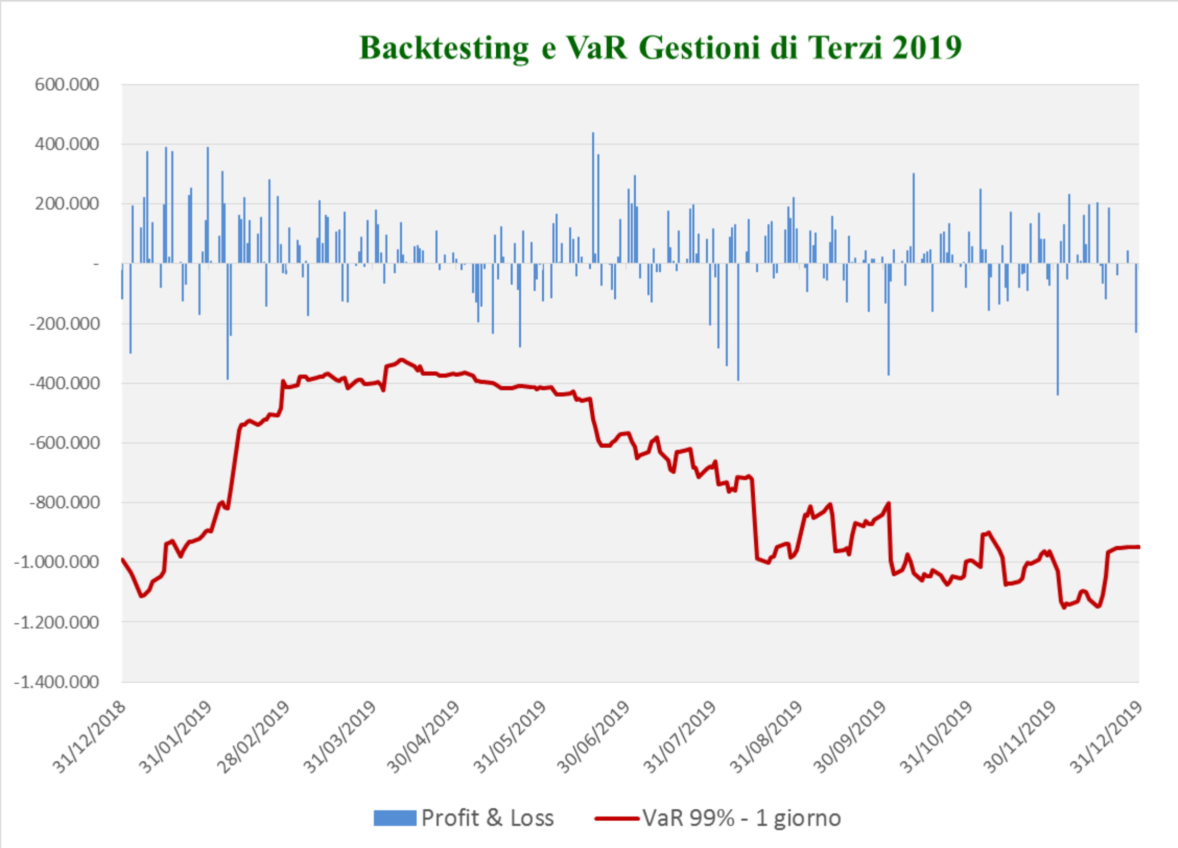
The VaR trend, from the moment that the securities portfolio is entirely made up of Italian government securities, aligned itself with the fluctuations and volatility registered on the related markets as well as with the choices of investment/disinvestment made during the period. In particular, the worsening of the Italian political crisis in August and September coincided with an increase in perceived risk on the markets, generating a significant increase in the portfolio V.a.R. However, there has been a subsequent significant reduction in the risk indicator over the last few months, with a year-end measurement also down from the values at the beginning of 2018.

According to the "backtesting" analysis carried out in 2019, as shown in the graph, VaR was exceeded in 2 cases (in May and August) and in any case related to Italian political uncertainty.



Legend: Backtesting and VaR Bank's securities portfolio 2019

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 figure shows the trend of VaR at day 1 and the backtesting analysis; in particular, the latter did not show cases in which VaR was exceeded thus confirming the reliability of the measurement made.



Legend: Backtesting and VaR Third-Party Management 2019

Overall, the Bank's securities portfolio had a duration of 3.7 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 occurrence of operational risks, the Bank also adopted the Business Continuity Plan, aimed at safeguarding the Bank in the presence of critical events that may invalidate full operations and also carried out the mapping of the main operating processes.
For the purpose of improving the operational risk management process, the Bank adopted an integrated measurement, assessment, monitoring, mitigation and control system for these risks. In this regard, a system has been created for the collection and storage of data relating to operational

events and losses, which permits the creation of a 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 negative events or behaviour, thus encouraging appropriate corrective measures.
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 functional 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 IT procedures, in particular. 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 for 2019 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 Bank's 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 bank book.
The measurement of the interest rate risk is carried out by the Risk Management, Planning and Control Service.
The measurement of the interest rate risk according to the second pillar is first of all carried out on the basis of the standard algorithm envisaged by Circular No. 285 of 2013, by means of the creation of a summary index that expresses the ratio between the change in the net value of the banking book against an interest rate shock (+/- 200 base points) and "own funds”. The Bank has always maintained the risk index at a level lower than the warning threshold established by the regulations (20%). The change in the economic value of the banking book is also calculated against non-parallel shifts in the yield curve.
The regulatory measurement is also supplemented by monthly operational analysis, where for each sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.
The ERMAS procedure makes it possible to monitor all the Bank’s activities associated with the transformation of the maturities of the assets and liabilities and to quantify the 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 Bank’s assets and liabilities to monitor 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.

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 Bank's liquidity position over a period between 1 day and up to 6 months, with the primary objective of maintaining the Bank's ability to meet its ordinary and extraordinary payment commitments, minimising the 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 Bank's overall liquidity position in the period beyond 6 months, with the primary objective of maintaining a balanced dynamic ratio between medium- to long-term assets and liabilities.

The model adopted by the Bank for the management and monitoring of the liquidity risk is based on the construction of the maturity ladder and on the allocation of 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, represented by the ratio of regulatory capital to total exposures, mainly represented by 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.

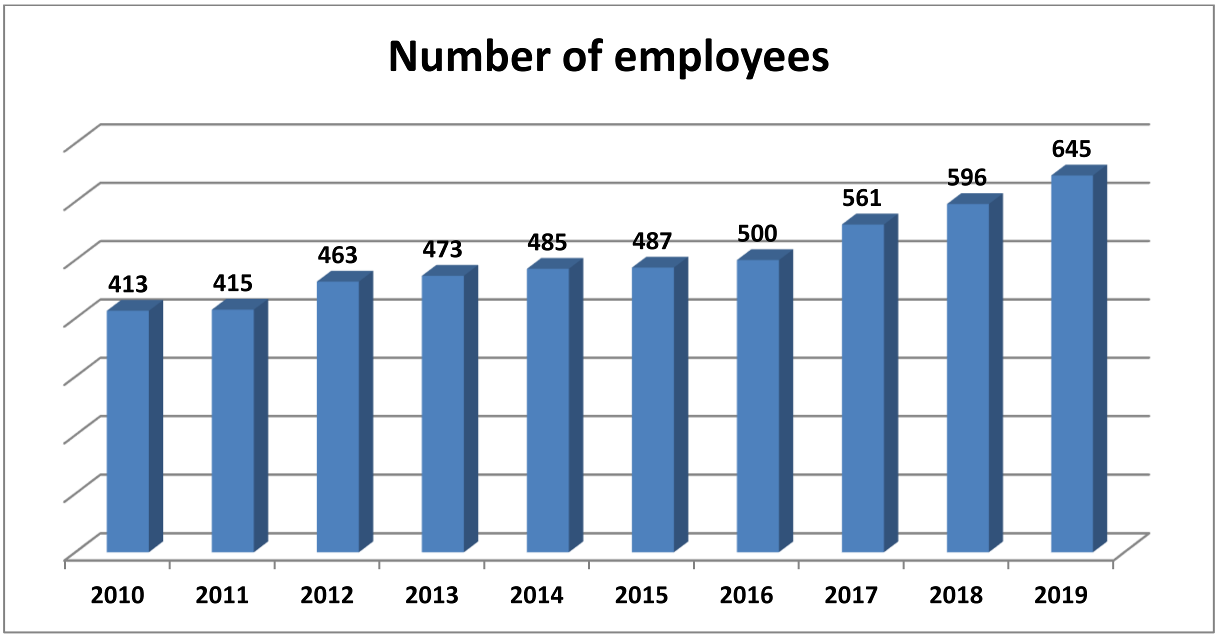
Strategic risk
The strategic risk is the current or future risk of drop in profits or capital of the Bank arising from changes in the operating context or from wrong company decisions, inadequate decision implementation, as well as poor responsiveness to changes in the competitive context.
The Bank adopted a mitigation policy for the strategic risk that is mainly based on the formalisation of an analytical, prudent and shared decision-making process. Decision making is based on the careful and constant observation of the reference market, on the gradual activation of new services and/or products, on a formalised operational and strategic planning process and on a constant measurement and monitoring of company performance and related deviations from previously established targets.

Reputational risk
The reputational risk is the current or future risk of drop in profits or capital arising from the negative perception of the image of the Bank by the customers, counterparts, shareholders, investors or supervisory authorities. 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 risk events with the greatest impact on the company through their qualitative 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 subject must comply with.
The Bank also updates and implements continuously the internal regulatory framework and related processes in order to ensure a constant monitoring for the mitigation of reputational 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 to converge them in a confidential manner.

12. HUMAN RESOURCES

We write every year - aware of how obvious it is - that in a market that is becoming increasingly complex and competitive, such as the banking market, characterised by strong service components and based on the relation of trust with customers, human resources play a major and decisive role in the achievement of the objectives and in the success of an image that is perceived by the market as a distinctive feature of the company. The quality of the results derives from the commitment of our collaborators, their professional skills, their sense of identification with the Bank, and the values that enrich the reputational profile of the Bank derive from their daily behaviour. If this is true in all circumstances, it is even more true in a season of strong development supported by expansion into new territorial areas where the Bank's brand needs to be promoted and affirmed because it is not yet adequately known.
It is therefore no longer obvious to be able to report, for having done so, that projects, attention and investments have been dedicated to human resources management and development policies with an intensity rarely found within the system: it is certainly no small thing to consider that in the face of a reduction of a few thousand people in the banking population, the Bank's staff increased in terms of numbers, roles, specialisations and hierarchies as a result of a reasoned design that ties in with the strategies and commercial policies commented on in the specific previous chapter.
As at 31 December 2019, the number of employees were 645, up 49 with respect to the previous financial year, as a result to 79 new hires and 30 terminations.

The following table shows the trends over the decade:



The increase was determined by the strong impetus given to the management and commercial development policies on which we have extensively discussed in other parts of this report. The largest number of new additions were reserved for the network and in particular for the new branches opened during the year and in the previous year, but the need for new staff was also significant due to the heavy workload required by the adaptations to the constantly evolving

regulatory framework in the light not only of the single European supervision. Within this context, the control functions, which have grown in number as a result of regulations not only in the sector, were strengthened and adapted to the continuous demands of the governance apparatus.
The configuration of the human resources structure at the end of 2019, as regards the number of employees and the structure of the positions, is shown in the following table:

	2019	%	2018	%	2017	%	2016	%
Executives	9	1.40%	7	1.17%	10	1.78%	10	2.00%
3rd and 4th level middle management	151	23.41%	136	22.82%	117	20.86%	107	21.40%
1st and 2nd level middle management	160	24.81%	121	20.30%	106	18.89%	85	17.00%
Remaining personnel	325	50.39%	332	55.70%	328	58.47%	298	59.60%
of which:								
professional training apprenticeships		-	-	-	-	-	-	-
under staff leasing	11	1.71%	11	1.85%	3	0.60%	3	0.60%
TOTAL	645	100.00%	596	100.00%	561	100.00%	500	100.00%

The distribution of personnel in the two large blocks - central structure and sales network - shows with positive significance that 29% of resources are allocated to the headquarters offices, whereas 71% are allocated to the 70 branches that make up the increased sales network. With the sole exception of 11 employees on staff leasing contracts, all resources are on permanent contracts.
In terms of staff levels also in 2019 it can also be seen that staff numbers are largely concentrated, with an overall upward trend, in the highest staff levels: 4th level middle management and employees of the third professional area represent more than 60% of the total. This trend is fully justified by the fact that the top management positions of the branches and the advancement to positions with a growing professional content in the central departments bring about role responsibilities with higher staff levels.

	2019	2018	2017	2016
average age	42.3	42.0	41.7	41.8
length of service	10.8	11.7	11.4	12.4
no. of males	441	403	380	348
no. of females	204	193	181	152
Total	**645**	**596**	**561**	**500**

The average age of our staff is 42.3 years, much lower than the system data, and obviously progressively increasing, while the length of service does not reach 11 years and has decreased over the last four years due to the significant 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.
The female component is growing in absolute values since it is made up of 204 employees and continues to represent almost a third of the entire workforce, but the contribution of this component in covering roles of responsibility is also growing: 16 female figures hold positions of responsibility,

15 of which in branch management roles and one at headquarters. The female component includes all 16 part-time workers.
The rate of schooling of the staff grows and thus consolidates as a strongly distinctive factor of the company: more than half of the employees – a figure higher than the average for the system - have a degree mainly in economics and law, as a sign of the precise guidelines followed by the Bank in its policies for recruiting resources and the conviction that training, starting with that of school desks or university classrooms, is a powerful tool for emancipation in all learning processes.

Therefore, it is not by chance that our collaborators, when they join the structure, have already acquired educational and behavioural traits that favour the sharing of the values and rules of behaviour of the "house" and accelerate that process of integration with the other components of the structure that allows to live the Bank's social relations immediately. The good company climate - favoured by internal communication practices based on dialogue, confrontation and the example of the bosses - is an immaterial component that is immediately recognisable and of high significance. The sense of belonging then creates relations of consensus and loyalty, so much so that the number of collaborators who left and went to other banks is completely negligible. Similarly, there are no situations of dispute or interpersonal discomfort that could jeopardise the constant improvement in the quality of relations between the bank, personnel and customers. The spirit of collaboration with the trade union component proved to be positive during the course of the year.
In full compliance with the consolidated guidelines of personnel management, also during 2019 the training and retraining processes - characterised by increasingly higher quality standards because often codified in the same supervisory provisions - were carefully planned, using - whenever possible - the financing made available by inter-professional funds.
The hours dedicated to learning in different ways - classroom, videoconferences, e-learning, webinars, participation in events - exceeded 32 thousand, a third of which were carried out using remote communication technology. On the other hand, 599 employees took part in at least one training course for a total of 5,248 attendees. The total number of training days was 4,328, of which 3 thousand were held in the classroom.

The thematic areas of the annual plan, apart from compulsory training matters, were those of a commercial nature for the need to monitor the operating and procedural aspects of many products and services offered; those relating to lending, broken down into the various stages of its process, particularly with regard to the management of non-performing loans and the new regulations on the Code of Business Crisis and Insolvency; those relating to MiFid II regulations with a special reference to investment services advice and related investor protection obligations, as well as those related to the transposition of the various EU directives on real estate mortgage and the distribution of insurance products.
The opinion on the quality of the training policy carried out in 2019 can only be positive, when one thinks of the ability of employees at all levels to press towards the known, common and reached targets and when one thinks of the accuracy and sense of responsibility with which the related significant investments were followed for its implementation.

13. NEW REGULATIONS, GOOD PRACTICES AND PENALTY MEASURES

The chapter on the regulatory framework of reference is dedicated this year: on the one hand, to the illustration of the innovations introduced by the legislator/regulator in 2019, or expected for the year 2020; on the other hand, to the analysis of the behaviour that intermediaries are called upon to adopt in the light of the "good practices" indicated by the Supervisory Authority, the results of the inspection interventions concretely implemented by it, and the penalty measures adopted.

All the areas in which banking and financial activities are involved, from governance to the risk management system, the system of internal controls, the commercial system, the organisational set ups and the information system, are transversally involved.
The main novelties or points of attention are attributable to the areas indicated below.

Corporate governance
The new Bank of Italy provisions of 5 December 2019 implementing the package of European provisions in the area of investment services (known as Mifid II) envisage internal governance measures by 31 March 2020 or, if compliance with these provisions requires amendments to the Articles of Association, no later than the date of approval of the 2019 financial statements by the Shareholders' Meeting.
The controls on conflicts of interest and related party transactions are subject to adjustment as part of the transposition into Italian law of Directive (EU) 2017/828 (SHRD 2) with interventions – in progress – to Consob regulations on related party transactions, governance requirements of listed companies and transparency of remuneration.

Risk management
A comprehensive reform package (known as CRD V, CRR II, BRRD II...) aimed - inter alia - at further strengthening the resilience of EU banks in case of difficulties, reducing risk and consolidating financial stability through new capital requirements, was adopted in mid-2019 with applicability staggered between December 2020 and June 2021.
With regard to the containment of credit risk, a "calendar" approach to the write-downs of new loans classified as impaired has been in force in the European Union since last year, in addition to those relating to the reduction plans that banks must present to the supervisory authorities annually.
Italian Law 133/2019 on national cybernetic security and the Bank of Italy and Consob guidelines, with operational implications for intermediaries, intensify the actions required to counter cyber threats related to the development of new technologies and the digital economy, to increase the security of financial operators and digital services offered to citizens, businesses and PAs, and to ensure the reliability of the financial system as a whole.

Control measures
Since 1 January 2020, the new provisions of the Bank of Italy on organisational and internal control measures, as well as on customer due diligence, have been in force, implementing the new EU anti-money laundering directives. These provisions envisage a strengthening of these controls, especially with regard to higher-risk customers, and abolish the provisions allowing for customer due diligence.
The penalties applied by the Bank of Italy in 2019 were, for some intermediaries, particularly significant, highlighting specific shortcomings in customer due diligence (e.g. identification of the beneficial owner towards companies and non-commercial entities), active cooperation and reporting of suspicious transactions.
During 2019, the protection of personal data has become increasingly important for intermediaries, not only because of the changed European regulatory framework (known as GDPR) in force since mid-2018, but also because of the intensification of the supervisory action taken by the Privacy Guarantor, which has included in its audit plan - among other things - the protection of personal data as part of processing carried out by banks. This Authority also adopted penalty measures of significant economic importance in the presence of violations imported by persons outside the world of intermediaries.

Organisational structures
The European Banking Authority updated its guidelines on the use of third parties (known as outsourcing) in the most relevant processes for intermediaries, guidelines with which national

supervisory authorities must comply in the coming months, aimed at defining a more harmonised reference framework for all financial institutions.

Services and customer protection
On 18 June 2019, the Bank of Italy updated its provisions on the transparency of operations and banking and financial services - regularity of the relationships between intermediaries and customers. Specific attention is paid to the issue of complaint management.
The supervisory action taken in 2019 to verify compliance with good recommended practices in customer relations, from salary-backed loans to consumer credit and the remuneration of credit facilities and overruns, was also significant.
On 4 December 2019, a specific communication was published by the Bank of Italy concerning guidelines on early repayment of consumer credit loans.

Last year, Consob published the 2019-2021 strategic plan aimed primarily at strengthening the confidence of savers and investors by increasing transparency and fairness of information, timely supervisory action and improving the functioning of the markets.
The Consob supervisory action in 2019 - through requests for data and news, hearings and inspections - aimed at checking the actual implementation of the provisions of MiFID II on investment services was also significant.

In the course of 2019, insurance distribution regulations were first put into practice. The main actions required 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. A number of amendments to the secondary provisions issued by Consob and IVASS are still under consultation.

In implementation of Directive 2015/2366/EU (known as PSD2) on payment services, in 2019, certain provisions relating to compliance with security obligations in the authentication of customers and the obligation to share data with other intermediaries, where the customer has granted authorisation, came into force.
The Budget Law for 2020 also introduced some important innovations aimed at promoting the use of electronic money, also adjusting the thresholds above which the ban on the transfer of cash between different parties applies: Euro 3 thousand until 30 June 2020; Euro 2 thousand from 1 July 2020 to 31 December 2021; Euro 1 thousand from 1 January 2022.

Issue of financial instruments
On 30 July 2019, Consob published amendments to the Issuers' Regulations for the implementation of Regulation (EU) 2017/1129 on the prospectus to be published for public offer or admission to trading of securities on a regulated market.

In light of the significant changes mentioned above, our Bank ensures that its regulations and internal operating practices are constantly adapted to the new supervisory regulations and guidelines in order to strengthen its controls, improve its offering and protect customers from risks.

14. RELATED PARTY TRANSACTIONS

Related-party transactions are disciplined by specific internal regulations pursuant to Article 2391 bis of the Italian Civil Code, Consob Resolution No. 17221 of 12 March 2010 as amended and Section V, Chapter 5 of the Bank of Italy Circular No. 263/2006.

The internal regulations, published on the Bank's website as required by legislation: a) regulate the identification, approval and execution of the transactions entered into by the Bank with related parties and parties associated with them; b) establish suitable rules for ensuring the transparency and essential and procedural correctness of the transactions; c) define the operating procedures regarding the monitoring and handling of the transactions with related parties and regulate 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 group companies 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.
The Committee of Independent Directors, whenever called upon to express its reasoned and non-binding opinion, has always unanimously expressed its support for the transaction.
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.
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 2019, 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: 1) Offences on false corporate communications; 2) Offences related to money laundering; 3) Offences related to occupational health and safety protection. As a result of these checks, no specific critical issues were found.
In 2020, it is necessary to update the Organisational, Management and Control Model following the expansion of the catalogue of predicate offences, including the offences referred to in Italian Law no. 133 of 18 November 2019, containing "Urgent provisions on the scope of national cybernetic security and the regulation of special powers in sectors of strategic importance" and the tax offences referred to in article 25-quinquiesdecies of Italian Legislative Decree 231/2001 (fraudulent declaration; issuing invoices or other documents for non-existent operations; hiding or destroying accounting documents; fraudulent tax evasion).

16. ECONOMIC PERFORMANCE

The good result of the income statement for the year in question is supported both by the trend in net interest income, which rose from Euro 71.0 million to Euro 73.3 million, and by the increase in net commissions – amounting to Euro 36.0 million compared to Euro 31.3 million in 2018 – but also by the income from the disposal of financial assets recognised in portfolios at amortised cost and FVOCI, which amounted to Euro 11.6 million compared to Euro 6.2 million at the end of 2018.
Gains of Euro 2.9 million (Euro 5.4 million in losses in 2018) emerged from the sale transactions and the measuring processes that involved the securities portfolio at the mandatory FVTPL and designated at fair value, which contributed, also considering the components deriving from trading and dividends, to the achievement of net banking income of Euro 125.7 million: an increase of Euro 20.2 million compared to 2018.
On the other hand, impairment losses on assets at amortised cost and FVOCI charged Euro 17.4 million to the income statement compared to Euro 14.3 million in the previous year.

Operating costs reached Euro 81.5 million compared to Euro 74.6 million in 2018.
After write-downs of equity investments and losses on disposal of investments of Euro 552 thousand, taxes of approximately Euro 5.4 million, the last line of the income statement for 2019 shows a profit of Euro 20.3 million: a similar net profit was achieved in the now distant year 2007, the year immediately preceding the long economic crisis that we have witnessed - not passively - all these years.

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

RECLASSIFIED INCOME STATEMENT (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Net interest income		71,027	2,321	3.27%
Net fee and commission income		31,330	4,647	14.83%
Dividends, trading and other income		3,145	13,214	NS
Net interest and other banking income	**125,684**	**105,502**	**20,182**	**19.13%**
Net impairment losses on financial assets at AC		(14,275)	(3,089)	21.64%
Modification gains (losses) without derecognition	(577)	(247)	(330)	NS
Net profit (loss) from financial operations	**107,743**	**90,980**	**16,763**	**18.42%**
Labour costs	(45,899)	(42,468)	(3,431)	8.08%
Other administrative expenses	(40,554)	(40,490)	(64)	0.16%
Net accruals to provisions for risks and charges		321	(99)	(30.84%)
Depreciation/amortisation and net impairment losses on tangible and intangible assets	(4,480)	(2,818)	(1,662)	58.98%
Other operating income/expense/profits or		10,836	(1,591)	(14.68%)
Operating costs	**(81,466)**	**(74,619)**	**(6,847)**	**9.18%**
Gains (losses) on equity investments and disposals of investments	(552)	(362)	(190)	52.49%
Profit from continuing operations gross of	**25,725**	**15,999**	**9,726**	**60.79%**

Income taxes for the year	(5,422)	(813)	(4,609)	NS
Profit/(loss) for the year	**20,303**	**15,186**	**5,117**	**33.70%**

Net interest income

Net interest income amounted to Euro 73.3 million compared with Euro 71 million in 2018, an increase of Euro 2.3 million or 3.27%.

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 in issue - amounted to Euro 55.5 million and is in line with last year.

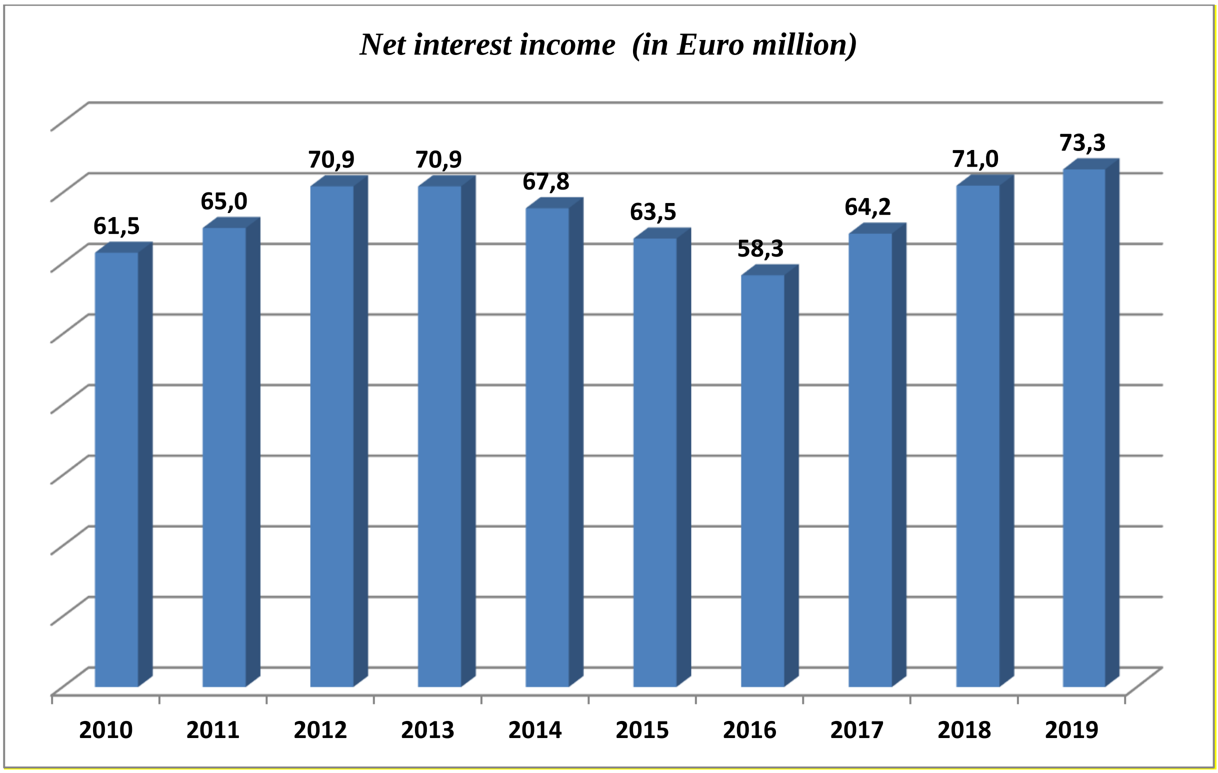
Interest of Euro 13.8 million was recorded on owned debt securities, compared to Euro 11.3 million in the previous year, a positive change of Euro 2.5 million; this positive result was helped by investments in securities representing securitisations of loans to the Public Administration.

Interest income from banks amounted to Euro 598 thousand, while interest expenses amounted to Euro 32 thousand.

Interest income on financial liabilities includes, inter alia, interest recognised by the ECB under the TLTROII programme.

NET INTEREST INCOME (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Interest income and similar revenues	**95,746**	**94,334**	**1,412**	**1.50%**
- on owned debt securities	13,842	11,308	2,534	22.41%
- on loans and receivables with banks for loans	598	547	51	9.32%
- on loans and receivables with customers for loans	77,789	78,690	(901)	(1.14%)
- on hedging derivatives	3	3	-	0.00%
- on other assets	-	117	(117)	NS
- on financial assets	3,514	3,669	(155)	(4.22%)
Interest expense	**(22,398)**	**(23,307)**	**909**	**(3.90%)**
- on due to banks	(32)	(9)	(23)	NS
- on due to customers	(14,372)	(11,083)	(3,289)	29.68%
- on securities in issue	(7,952)	(12,188)	4,236	(34.76%)
- on financial assets	(42)	(27)	(15)	55.56%
Net interest income	**73,348**	**71,027**	**2,321**	**3.27%**

Following the 5th update of Circular No. 262/2005, net interest income as at 31 December 2019 included Euro 4.03 million of interest proportionate to the passage of time in the measurement of impaired financial assets (discounting back), a positive component recognised until 2017 under the item "Net impairment losses on loans and receivables".
Moreover, under the new provisions of the aforesaid Circular, interest on arrears is recognised when it is collected, whereas under the previous regulations this criterion was applied only to bad loans.



Service margin

Net fee and commission income amounted to Euro 36.0 million, up by Euro 4.6 million (14.83%) compared to the previous year and is attributable to the difference between fee and commission income of Euro 41.6 million (+5.2 million or 14.35%) and fee and commission expense of Euro 5.6 million (+574 thousand or 11.36%).

The increase in fee and commission income was largely due to commissions charged to customers for current account management (+1.4 million, or 16.27%) and for collection/payment services (+0.9 million, or 15.21%).

Fees and commissions from management and trading services amounted to Euro 18 million, up Euro 2.7 million on last year. The most important components of this item are the placement of securities, the value of which increased from Euro 6.3 million to Euro 6.9 million; on the other hand, fees and commissions from the distribution of third-party services include income from the placement of insurance policies amounting to Euro 6.4 million, essentially equal to 2018, and fee and commission from the placement of personal loans from third parties (COFIDIS) amounting to Euro 2.8 million. In 2018, ordinary commissions of Euro 759 thousand were recognised in the income statement for the latter type.

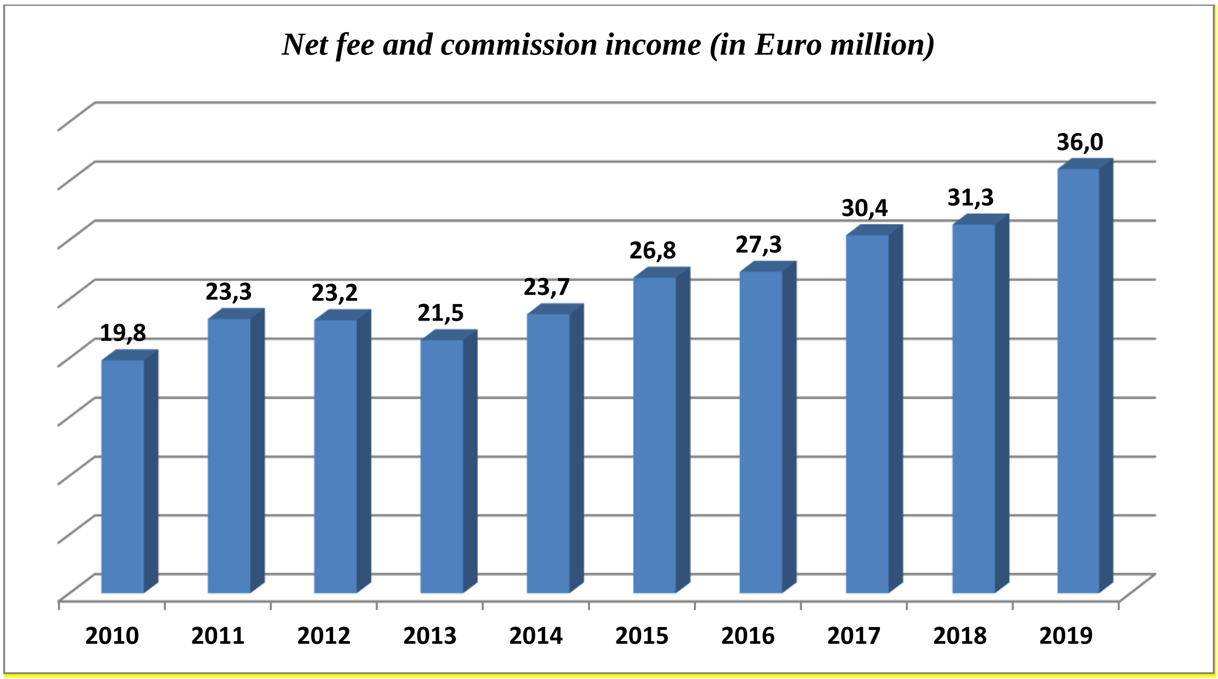
Commissions for other services, which mainly include income from the issue of credit cards, lease brokerage, financing activities under Italian Law 662/96 backed by government guarantees, amounted to Euro 4.9 million, unchanged compared to 2018.

Fee and commission expense refer to guarantees received amounting to Euro 0.1 million, management and intermediation services of Euro 1.3 million, collection and payment services of Euro 1.6 million and other services of Euro 2.6 million.

FEE AND COMMISSION INCOME (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Guarantees given	**980**	**982**	**(2)**	**(0.20%)**
Management and trading services:	**17,988**	**15,307**	**2,681**	**17.51%**
- currency trading	445	456	(11)	(2.41%)
- custody and administration of securities	323	249	74	29.72%
- placement of securities	6,904	6,345	559	8.81%
- orders collection	941	862	79	9.16%
- financial consulting	109	93	16	17.20%
- distribution of third party services	9,266	7,302	1,964	26.90%
Collection and payment services	**7,149**	**6,205**	**944**	**15.21%**
- Penalties on early redemptions and outstanding amounts	673	654	19	2.91%
- Fees and commissions on transfers, proxies and payments	2,862	2,397	465	19.40%
- Fees and commissions on Atm and Home Banking	1,185	980	205	20.92%
- Collection of bills subject to collection, after collection, etc.	2,429	2,174	255	11.73%
Current account management	**9,931**	**8,541**	**1,390**	**16.27%**
Servicing for securitisation transactions	**664**	**480**	**184**	**38.33%**
Other Services	**4,894**	**4,870**	**24**	**0.49%**
- Credit card fees and commissions	739	607	132	21.75%
- Cashline/POS cards fees and commissions	772	763	9	1.18%
- Lease fees and commissions	581	386	195	50.52%
- Other fees and commissions	2,574	2,791	(217)	(7.77%)
- Foreign fees and commissions	228	323	(95)	(29.41%)
Total	**41,606**	**36,385**	**5,221**	**14.35%**

FEE AND COMMISSION EXPENSE (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change %**
Guarantees received	(108)	(50)	(58)	NS
Management and trading services	(1,305)	(1,085)	(220)	20.28%
Collection and payment services	(1,603)	(1,416)	(187)	13.21%
Other Services	(2,613)	(2,504)	(109)	4.35%
Total	**(5,629)**	**(5,055)**	**(574)**	**11.36%**

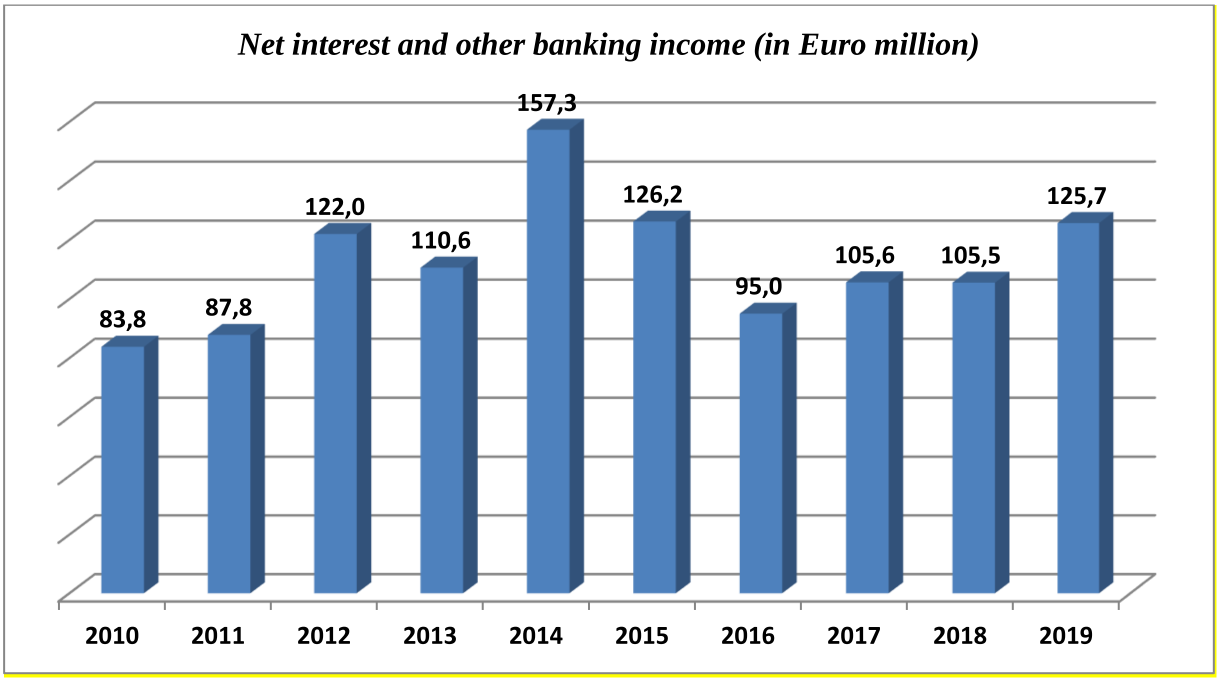
TOTAL NET FEE AND COMMISSION INCOME	**35,977**	**31,330**	**4,647**	**14.83%**



Net interest and other banking income

Net interest and other banking income amounted to Euro 125.7 million compared with Euro 105.5 million last year, up by 19.13%; besides the net interest income and net fee and commission income, the following contribute towards its formation:

- dividends of Euro 1.1 million, compared with Euro 1.5 million in 2018. This item mainly includes dividends from investments in the Bank of Italy of Euro 680 thousand, dividends received on shares in the OCI portfolio of Euro 348 thousand and dividends received on shares in the FVTPL portfolio;
- net profit/loss from trading activities of Euro 738 thousand, compared with Euro 751 thousand in the previous year;
- the balance on assets recognised in the portfolio at amortised cost for a negative amount of Euro 793 thousand, as the difference between losses generated by the sale of non-performing loans of Euro 5.6 million and profits generated by the sale of securities of Euro 4.8 million;
- gains on financial assets measured at fair value through other comprehensive income of Euro 12.4 million, compared with Euro 6.4 million in 2018;
- losses on the repurchase on Bank bonds of Euro 5 thousand, compared to Euro 198 thousand in 2018;
- valuation gains on insurance policies recorded in financial assets measured at fair value of Euro 198 thousand, in line with 2018;
- net profit on purchases and sales and on the valuation of securities recognised within the portfolio of financial assets mandatorily measured at fair value of Euro 2.7 million compared to a loss of Euro 5.5 million in 2018; this result is determined by a positive Euro 3.7 million from the sale of financial assets and a negative Euro 1 million from the measurement of what was recorded in this portfolio at the end of the year and not yet sold.



Impairment losses

Impairment losses, net of reversals of impairment losses, totalled Euro 17.4 million compared to Euro 14.3 million in 2018; those relating to loans and receivables with customers - amounted to Euro 18.3 million compared to Euro 12.7 million; the difference is determined by the effect 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 result of both the analytical assessment of possible recoveries of bad loans and the application of the valuation rules for other non performing and performing loans. The difference between the nominal value of the credit and the recoverable amount must be recognised in the income statement as an impairment. The ratio between the total amount of these impairment losses and the amount of gross loans and receivables (known as "coverage ratio of the non-performing loan") that the market seeks at the highest level as it is potentially interested in their speculative purchase.

For the purpose of mitigating the credit risk as far as possible, the Bank has for some time now been reinforcing the supervisory and control measures on the dynamics of the aggregate in every direction, resorting to the various possible methods of intervention.

With impairment losses on loans and receivables charged to the income statement, the coverage ratio for non-performing loans reached 41.8% compared to 47.8% the previous year; the decrease in the ratio is due to the large amounts of bad loans sold during the year, which are typically more covered than those managed on a going concern basis.

Net non-performing loans at the end of 2019 amounted to Euro 176.6 million compared to Euro 224.8 million in the previous year: a positive trend in the structural stabilisation of the quality of credit assets.

As a result of the described entries, the net profit (loss) from financial operations amounted to Euro 107.7 million, compared with Euro 91.0 million in the previous year.

Operating costs

Operating costs at the end of 2019 amounted to Euro 81.5 million - they were Euro 74.6 million at the end of 2018 - and consist of:

OPERATING COSTS (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Labour costs	(45,899)	(42,468)	(3,431)	8.08%
Other administrative expenses	(40,554)	(40,490)	(64)	0.16%
Net accruals to provisions for risks and charges	222	321	(99)	(30.84%)
Depreciation and net impairment losses on tangible assets	(3,784)	(1,899)	(1,885)	99.26%
Amortisation and net impairment losses on intangible assets	(696)	(919)	223	(24.27%)
Other operating income/expense	9,245	10,836	(1,591)	(14.68%)
Total operating costs	**(81,466)**	**(74,619)**	**(6,847)**	**9.18%**

Labour costs amounted to Euro 45.9 million, up by Euro 3.4 million compared to the previous year: this increase was mainly due to an increase in the number of employees from 596 to 645 (including 11 workers under staff leasing) to meet the need for new resources on the one hand to open up new local areas and on the other to strengthen the quality and quantity of the central structures.
On the other hand, the average annual cost per employee fell from Euro 73,939 in 2018 to Euro 72,942 in 2019 due to the lower unit cost of young people who joined the workforce during the year.
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 40.5 million and are substantially in line with the previous year; an effective comparison must also take into account that from this year, due to the accounting method provided for by the new IFRS 16, a large part of the cost of rents payable, previously recognised under administrative expenses, is now recorded under depreciations for rights of use (adjustments to tangible assets) and finance costs. These costs amount to a total of approximately Euro 1.9 million.
Administrative expenses also include the item “Indirect taxes”, item that also includes the stamp duty paid on behalf of customers, other taxes pertaining to the Banks such as IMU, TASI, TARI, municipal taxes, registration taxes and sundry associated with the debt collection activities. Within this item, the main component refers to stamp duty of Euro 7.211 million compared to Euro 6.559 million in 2018, the recovery of which is recognised under item 200 "Other operating income and expenses".

OTHER ADMINISTRATIVE EXPENSES (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Contribution to resolution funds of banking crisis	(3,459)	(3,392)	(67)	1.98%
Telephone, postal and data transmission expense	(2,318)	(1,932)	(386)	19.98%
Maintenance expenses of fixed assets and software fees	(2,138)	(1,887)	(251)	13.30%
Rentals payable on properties	(294)	(2,314)	2,020	(87.29%)
Security, transportation and custody of valuables expenses	(880)	(872)	(8)	0.92%
Transportation expenses	(292)	(284)	(8)	2.82%
Expert appraisals and real estate documents	(288)	(293)	5	(1.71%)
Legislative, procedural and other consulting	(1,366)	(1,767)	401	(22.69%)
Costs for office materials and supplies	(672)	(517)	(155)	29.98%
Electricity and heating costs	(735)	(701)	(34)	4.85%
Advertising and entertainment expenses	(1,319)	(1,236)	(83)	6.72%
Legal and debt collection costs	(3,033)	(2,961)	(72)	2.43%
Insurance premiums	(3,071)	(3,074)	3	(0.10%)
Costs for information and searches	(2,581)	(2,438)	(143)	5.87%
Data processing centre	(6,948)	(6,154)	(794)	12.90%
Indirect taxes	(7,659)	(6,961)	(698)	10.03%
Cleaning services	(666)	(612)	(54)	8.82%
Membership fees	(605)	(563)	(42)	7.46%
Contributions for Treasury Service and sundry associations	(9)	(16)	7	(43.75%)
Processing of bills, cheques and documents with third parties	(568)	(469)	(99)	21.11%
Rented property maintenance and condo charges	(161)	(101)	(60)	59.41%
Subscriptions and ads for newspapers and magazines	(200)	(207)	7	(3.38%)
Purchase of promotional materials	(100)	(136)	36	(26.47%)
Cost of the staff leasing contracts service	(44)	(25)	(19)	76.00%
Expenses for travel and business trips involving personnel in service	(645)	(467)	(178)	38.12%
Securitisation administrative expenses	(87)	(652)	565	(86.66%)
Sundry minor costs and expenses for general meetings	(416)	(459)	43	(9.37%)
Total	**(40,554)**	**(40,490)**	**(64)**	**0.16%**

Operating costs also include impairment losses on tangible assets of Euro 3.8 million compared to Euro 1.9 million in 2018 – variance determined by the adoption of IFRS 16 mentioned above - and on intangible assets of Euro 696 thousand compared to Euro 919 thousand in 2018 - variance

determined by the end of the amortisation period of the Core Deposit component originating from the acquisition of Credito Veronese.
Provisions for risks and charges show a positive imbalance between releases and provisions of Euro 222 thousand (321 thousand in 2018), consisting of provisions for typical banking disputes of Euro 40 thousand and write-backs for commitments and guarantees given of Euro 262 thousand. Provisions for risks and charges, recognised as liabilities, amounted to Euro 2.6 million (Euro 3.2 million at the end of 2018); 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.

Finally, the positive balance of other operating income/expense amounted to Euro 9.2 million, as detailed in the table below:

OPERATING INCOME/EXPENSE (amounts in Euro 000)	**31/12/2019**	**31/12/2018**	**Absolute change**	**% change**
Recovery of stamp duty	7,180	6,531	649	9.94%
Fast credit processing fees	859	1,396	(537)	(38.47%)
Recovery of insurance premiums	1,071	1,094	(23)	(2.10%)
Recovery of legal costs	1,005	2,057	(1,052)	(51.14%)
Other income and contingencies	280	288	(8)	(2.78%)
Total income	**10,395**	**11,366**	**(971)**	**(8.54%)**
Leasehold improvements	(280)	(253)	(27)	10.67%
Other extraordinary expense	(870)	(277)	(593)	NS
Total expenses	**(1,150)**	**(530)**	**(620)**	**116.98%**
Balance of operating income (expense)	**9,245**	**10,836**	**(1,591)**	**(14.68%)**

The item includes income of Euro 10.4 million, compared with Euro 11.4 million in 2018, net of charges of Euro 1.1 million, compared with Euro 530 thousand in 2018. The most significant income consists of: recovery of the stamp duty of Euro 7.2 million (Euro 6.5 million as at 31 December 2018), fast credit processing fees of Euro 859 thousand (Euro 1.4 million as at 31 December 2018), recovery of customer insurance of Euro 1 million (amount in line with 31 December 2018), recovery of legal costs, including related taxes, of Euro 1.0 million (Euro 2 million as at 31 December 2018).
Other expenses consist of contingent liabilities and other extraordinary expenses as well as the depreciation of the measures to adapt the buildings of the leased branches of Euro 280 thousand.
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 64.82% compared to 70.7% 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 520 thousand and capital losses on the sale of assets of Euro 32 thousand, the profit from operations gross of taxation is Euro 25.7 million.

Income results
With the performance of the income margins commented on above, profit from operations gross of taxation came, as just mentioned, to Euro 25.7 million, compared to a profit before taxes of Euro 16

million in 2018. Income taxes, calculated on the basis of current regulations and current rates, amounted to Euro 5.4 million; in determining the tax burden, the provisions introduced by the Mef on 10 January 2018 and by the 2020 Budget Law were applied, as explained further on in the explanatory notes.
In relation to all the above, net profit amounted to Euro 20.303 million compared to Euro 15.186 million in 2018: the increase in absolute terms was Euro 5.117 million.

RATIOS	2019	2018
STRUCTURAL RATIOS		
Loans/Tot. Assets	61.03%	62.53%
Loans/Direct deposits	81.89%	94.61%
Average employees per branch (No. of employees/No. of branches)	9.21	8.51
PROFITABILITY RATIOS		
Net interest and other banking income/total assets	2.45%	2.15%
Profit(loss)/average shareholders' equity	6.32%	4.35%
Profit(loss)/average total assets	0.40%	0.33%
Net interest and other banking income/banking product	1.38%	1.30%
Impairment losses on assets at amortised cost/Net interest and other banking income	13.95%	13.46%
Tax rate	(21.08%)	(5.08%)
Earnings(loss) per share	0.57	0.43
PRODUCTIVITY RATIOS (in Euro 000)		
Banking product per employee (average) (1)	14,929	14,603
Loans per employee (average)	5,158	5,518
Direct deposits per employee (average)	6,299	5,833
Indirect deposits per employee (average)	3,471	3,251
Net interest and other banking income per employee (average)	206.7	189.8
EFFICIENCY RATIOS		
Admin. expenses/average total assets	1.72%	1.80%
Admin. expenses/net interest and other banking income	68.79%	78.63%
Cost/income	64.82%	70.73%
Adjusted cost/income (2)	67.39%	73.73%
Admin. expenses/banking product	0.95%	1.02%
Labour costs/average number of employees (in Euro 000)	72.94	73.94
ASSET QUALITY RATIOS		
Net non-performing loans/net loans	5.63%	7.33%
Bad loans/net loans	3.06%	4.01%
Impairment losses and losses on loans/net loans	0.76%	0.48%
Impairment losses on bad loans/gross bad loans	48.03% (3) 51.14%	57.19% (3) 60.89%
Impairment losses on non-performing loans/gross non-performing loans	41.80% (3) 43.97%	47.74% (3) 50.85%
Texas Ratio (4)	52.33%	69.94%

(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) of Italian Legislative Decree no. 87 of 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 26 February 2020, and integration of the Report on Operations for the paragraphs "Significant events occurring after the reporting period", "Business outlook", "Proposal for approval of the financial statements and allocation of profit/(loss) for the year", which took place on 15 April 2020, no events liable to affect the truthfulness, clarity or correctness of the accounting representation provided took place.

The recent spread of the Coronavirus pandemic in our country has not, to date, significantly affected the Bank's income, assets and solidity; at present, it is not yet possible to quantify the actual impact that this health emergency will have on the national economy, on our customers and therefore, as a result, on our business reality.

In this emergency context, some measures taken by the Monetary and Supervisory Authorities and our Government deserve to be mentioned as first and important interventions in support of Financial Institutions, Businesses and Citizens.

In particular, the ECB announced, in recent weeks, a Temporary Programme for the purchase of private and public sector securities (PEPP) of Euro 750 billion and substantially extended the measure of TLTRO III financing, which our Bank will be able to access as of June, benefiting from negative interest rates. The Bank of Italy allowed its supervised banks to operate temporarily below the established solvency and liquidity coverage ratios; even though - fortunately - we do not expect this operation to be contextualised for our Bank.

The Italian Government presented in March the "Cura Italia" Decree aimed at establishing some initial measures to support the community and to introduce some types of legal moratorium on bank loans. In April, the "Decreto Liquidità" (Liquidity Decree) was approved, a decree designed to encourage the provision of liquidity to companies; with this decree the State, through public institutions such as SACE and the Central Guarantee Fund for SMEs, guarantees various types of loans to businesses to varying degrees. Our Bank will be fully involved in this process of supporting our customer companies.

Finally, as a matter of specific importance for our Bank, on 3 April 2020 the Bank of Italy announced the start of the capital requirements procedure (SREP); the new capital requirements, which will only apply at the end of the started procedure, are:

- CET 1 Ratio equal to 7.45% (currently 8.00%);
- Tier 1 Ratio equal to 9.15% (currently 9.85%);
- Total Capital Ratio equal to 11.35% (currently 12.35%).

A "Target Component" (P2G) of 0.50% was also reported as an increase of all the above coefficients. The resulting total ratios (CET1 7.95%, Tier 1 9.65% and Total Capital Ratio 11.85%) represent the Supervisory Authority's expectation that the Bank will hold additional resources.

18. BUSINESS OUTLOOK

A year ago, in this same passage of the report on business outlook, we wrote that "the state of the economy and the forecasts on the development of the economic and financial scenario outline trends that are not characterised by a consolidation of growth; the increase in GDP, slowing down everywhere, affected our country to a limited extent and does not allow an expectation of the development of that wealth that nourishes and pushes the processes of financial intermediation typical of banking activities".
A year has passed, and unfortunately, although we are talking about a 2019 financial statements characterised by extremely positive results, results due to the great commitment placed at the service of development through important and demanding measures such as those commented on during this annual report, now we will have to focus on the management of the extraordinary events resulting from the pandemic.

Starting from these days, we are implementing measures to support our business realities through instruments such as legal and ABI (Italian Banking Association) moratoriums, types of moratoriums that, among other things, do not impact on the measurement of the Bank's credit risk because they are generalised; the "Decreto Liquidità" (Liquidity Decree) will see us involved in the provision of new finance to the territory, finance almost counter-secured by public institutions. Moreover, as in the recent past, the Monetary Authorities are showing their support for the real economy and banks through the measures briefly described in the previous paragraph.

Therefore, we are not alone in managing the emergency and supporting our customers, which we will not fail to do.

We conclude this summary on the outlook for the current year by stating that - even in the context of uncertainty related to endemic factors of the Italian economy as well as external events such as the war of duties and unprecedented events such as the spread of the Coronavirus - the economic and asset profiles of our Bank remain positive and adequate to sustain its ability to grow and generate wealth in the medium term.

The future impacts, which are now difficult to estimate, will be conditioned by the duration of the emergency in our country and by the ways in which the economy will restart, even if at this moment we can say that the Bank's solidity and continuity of management are not in question.

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 2019 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 20,302,494 were subject to audit by BDO Italia S.p.A.
At the same time as the draft financial statements were approved on 26 February 2020, a proposal for the distribution of dividends was formalised and submitted to the Shareholders' Meeting; this proposal envisaged a cash dividend of Euro 0.18 per share, equal to a total of Euro 6,393 thousand, in addition to the free allocation of one share for every 88 already owned, equal to a further Euro 1,776 thousand.
Subsequently, on 27 March 2020, the Bank of Italy - as the Supervisory Authority for Less Significant Banks - extended to them a Recommendation already sent by the ECB to Significant Banks; this Recommendation, issued in the general context of the current health emergency, provides that neither dividends nor reserves should be paid and no irrevocable commitments should be entered into for the payment of dividends for the financial years 2019 and 2020 until at least 1 October 2020.
Although we are convinced that the above distributions would not affect the capital strength of our Bank, we have responsibly decided to comply with the instructions of the Supervisory Body, postponing any disbursements to the future.

Therefore, the Board of Directors proposes the following to the Shareholders' Meeting:

Net profit for the year	**20,302,494**
10% to the legal reserve	(2,030,249)
15% to the extraordinary reserve	(3,045,374)
Portion to be allocated:	15,226,871
- to the Charity Fund	(500,000)
- additional allocation to extraordinary reserve	(14,726,871)

The portion of the result to be allocated to the Charity Fund, equal to Euro 500,000, will be reserved mainly for the support of the welfare structures operating in the management of the emergency caused by the Coronavirus pandemic.

If this proposal is approved, the amount attributable to reserves and shareholders' equity will total Euro 19,802,494 and Euro 346,237,476, respectively.

20. ACKNOWLEDGEMENTS

Dear Shareholders, we have reached the last page of our report that is even more dense and detailed than last year's: on the other hand, the illustration of the management facts and the results of one year's work for a growing bank inevitably implies more extensive and widespread references and comments, also in order to respond to regulatory reporting requirements and obligations. Behind the positive results, there was the will but also the pleasure of explaining the reasons and transmitting – sometimes even at the expense of the ability to synthesise – our convictions: those of Directors who feel the weight of responsibility with respectful concern and who carry out an ambitious but not visionary project, with an independent spirit, on objective data and above all with a positive and confident attitude in the future.
We would like to close this report of ours by expressing our thanks - and not just because it is customary - to all those who have been close to us and involved in our commitment.

First of all, the members of the General Management and the top management of the various internal functions for the competent and assiduous contribution that supports us Directors in carrying out our functions: in the phases of defining objectives, in the preliminary and preparatory stages of our decision-making process model and in the formalisation of strategic guidelines within the recurring, demanding board meetings. The harmony and good climate within the management team - in itself a sign of managerial quality - are a determining factor in establishing a constant and collaborative dialogue between corporate bodies and functions: this behaviour keeps up the awareness that all of them have been chosen, in their respective and distinct roles, to be responsible, committed, informed and devoted to the exclusive interest of the Bank.
We also would like to thank, since we observed their skill and dedication on a daily basis, all our employees, who have increased in number and structure, yet compact and integrated in the rules and shared company values. We reserve a warm welcome to the new employees who have joined the company, while to those who have left at the end of a life of work, we express our thanks and wish them a good future.

On a different institutional level, due to the specific nature of the functions assigned, we would also like to mention the commitment and active collaboration of the Board of Statutory Auditors, which we thank for its respectful and balanced contribution in ensuring harmonious governance profiles.
We sincerely thank and express our gratitude to the Bank of Italy and to all the regulatory bodies of our market, which we feel close to us, in their respective supervisory actions, for the suggestions, guidelines and observations that we listen to, demonstrating that we make use of them to improve our baking ability with a sense of "cooperativeness" and characterised by sound and prudent management.
We would also like to extend our warmest thanks to all the other authorities as well as category and trade association bodies, banks, intermediaries and all the counterparties with whom we deal on a daily basis.

This review dedicated to the positive feelings that are welcomed in our work and relationships would not be complete if we did not remember in an ideal and unique embrace the Shareholders, Customers and regular visitors of the Bank who have passed away since our last shareholders' meeting. We evoke in their remembrance and their families a memory that is at the same time an affectionate and grateful thought for having walked along together for a while.
Finally, a special thanks to you, Shareholders, present today in this room for having followed and listened to us in the presentation of our annual report, asking you to forgive us if we have sometimes emphasised some passages of our report. But we are sure we have not exaggerated: we simply said that banks are not all the same.

The Board of Directors